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THE CORPORATE GROWTH STRATEGIES ADOPTED BY LOCAL FAMILY BUSINESSES IN THE MANUFACTURING SECTOR IN NAIROBI COUNTY, KENYA

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ABSTRACT: *Family businesses contribute significantly to the growth of any nation. Many multinational corporations started as family businesses and so there is need to ensure family businesses continue to grow. The continued existence and growth of the businesses depend on the strategies that are in place and one of the key concerns for a family business is to retain the entrepreneurial spirit across generations and overcome retardation or avoid demise as the business grows.The business vision needs to be developed, implemented and changed by successive generations to accommodate growth and give a sense of ownership to the business. Family businesses have the potential to grow and become multinationals. A good example is Mabati Rolling Mills which started in 1961 in Nairobi's industrial area by the Chandaria family and is today a global player. This family business has propelled upwards due to the growth strategies they have continued to adopt.Mabati Rolling Mills has over the years adopted various growth strategies such as mergers, exporting, new product development, modernization, product differentiation and innovation and market research. These growth strategies have led to the growth and expansion of the company.*

KEYWORDS: Family business, Growth strategy, Manufacturing.Mabati Rolling Mills

INTRODUCTION AND BACKGROUND

The words "strategies", "plans", "policies" and "objectives" are used interchangeably by many. Mintzberg (1994) defines strategy as "a plan, or something equivalent – a direction, a guide or course of action into the future, a path to get from here to there", and as "a pattern, that is, consistency in behaviour over time". The Greek origin of the term strategy, *strategia* means the art of war. In military terms, strategy refers to "the important plan". Strategic planning for family-owned businesses differs from planning for other types of companies largely because the family firm must incorporate family issues into its thinking. Family concerns and preferences can influence the choice of business strategy and often make the family reluctant to embrace more formal goal-oriented discussions and decisions.

Further, family considerations can limit the strategic aggressiveness of the family firm. While research revealed several reasons for this hesitation among family businesses, it also pointed to the critical need for strategic planning and the special benefits to those who undertake it. For instance, according to early scholars such as Chandler (1962), strategy is the determination of the basic goals and objectives of a firm and the adoption of courses of action including the allocation of resources necessary for carrying out these goals.

Despite the importance of family businesses very little research has been undertaken on how strategy is shaped in family business (Chua, Chrisman & Sharma, 2003). The key defining characteristic of the family firm, that it is family owned and controlled implies that the issue of succession and the firms strategy are intertwined (Brockhaus, 1994). This means that a

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successful family business implies both successful strategy and successful succession. According to Murray (2003) intergenerational succession raises the challenge of passing on the strategic advantages of family control while avoiding disadvantages and dysfunctional dynamics. Different types of growth strategies are available to a firm and every firm has to develop its own growth strategy according to its own characteristics and environment. According to Ansoff (1965) the main growth strategies available to a firm include; Integration (Horizontal and Vertical-forward or backward), Diversification (Related and Unrelated); New Product Development, Modernisation/New Technology and Internationalization.

Integration may be either Vertical or Horizontal. Vertical integration may be backward or forward. Backward integration involves moving toward the input of the present product and is aimed at moving lower on the production processes so that the firm is able to supply its own raw materials or basic components. According to Thomas (2010), backward integration refers to the firm diversifying closer to the sources of raw materials in the stages of production allowing a firm to control the quality of the supplies being purchased. Forward integration on the other hand refers to the firm entering into the business of distributing or selling of present product and moving upwards in the production/distribution process towards the consumer. It occurs when a firm moves closer to the consumer in terms of production stages allowing a firm more control of how its products are sold. The firm may also set up its own retail outlets for the sale of its own product. Horizontal integration occurs when a firm adds parallel new products to the existing product line or enters a parallel product market in addition to the existing product line. It may also occur when a firm combines with a competing firm.

The main purpose of diversification is to allow the firm to grow by diversifying into new businesses by developing new products for new markets(Walton,2007).There are two basic diversification strategies related and unrelated(Hunger &Wheelen,2009).New-product development shapes the company's future.. A company can add new products through acquisition or development. The acquisition route can be either through the company buying other companies, acquiring patents from other companies, or buying a license or franchise from another company. The development route can take two forms where the company can develop new products in its own laboratories or contract with independent researchers or new-product-development firms to develop specific new products.

Modernisation involves upgradation of technology to increase production, improve quality and to reduce wastages and cost of production.Internationalization occurs when a firm expands its business activities such as Research and Development, Production and Selling into international markets (Hollensen, 2007).The fundamental reasons for firms to go international can either be proactive or reactive. Once a firm has decided to internationalise it may focus on different ways to enter a foreign market often varying by targeted country.Kotler et al.. (2005) and Deresky (2005) argue that management needs to consider their entry strategies as each strategy involves more commitment and risk but also more control and potential profits. Various entry and ownership strategies are available to firms including exporting, licensing, franchising, mergers, acquisitions, amalgamations, joint ventures, strategic alliances/contract manufacturing and fully owned subsidiary.

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Objective of the Study

The objective of this study was to determine the corporate growth strategies adopted by family businesses in the manufacturing sector in Nairobi County,Kenya

Importance of the study

Family businesses employ a significant number of the population in Kenya. They also contribute significantly to the Gross Domestic Product of the country. One of the Vision 2030 objectives is to create new jobs and continued existence and growth of family businesses is therefore critical to help achieve this objective. This study should contribute valuable knowledge to the field of family business in general. The study is expected to add knowledge on this subject and form a useful material for reference to other researchers and readers in general.The study should also influence the management practices of family businesses in Kenya. The use of such specific knowledge will improve the quality of the management of family businesses making succession planning successful.

METHODOLOGY

Research Design

This study was conducted through descriptive census survey. Descriptive studies attempt to obtain a complete and accurate description of a situation or event. In general a descriptive design is commonly used to describe a phenomenon or characteristic associated with a subject, estimate proportions of a population that have these characteristics and discover associations among different variables (Saunders, Lewis &Thornhill, 2007).The design was selected for this study because it would allow the researcher to do an in depth analysis of how succession planning affects corporate growth strategy among the local family businesses in the manufacturing sector in Nairobi. The design also gave information that could be generalized. Descriptive approach has enough provision for protection of bias and maximized reliability (Kothari, 2004)

Population and Sampling

Target Population

The target population consisted of 97 local manufacturing family businesses. This population was identified through a preliminary survey done from a list provided by Kenya Association of Manufacturers (KAM) in the Kenya Manufacturers and Exporters directory 2013 .

Sample

A census study was conducted since the population was relatively small. This is a survey where the entire target population was taken into account

Data Collection

Instrumentation

A questionnaire was used as the main data collection tool. The selection of this tool was guided by the nature of data to be collected and by the objective of the study. The researcher was mainly concerned with views, opinions, feelings, attitudes and perceptions and such information can be best collected through the use of questionnaires. The questionnaire was used since the study was concerned with variables that could not be directly observed and the

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target population was also largely literate and unlikely to have difficulties responding to the questionnaire items.

RESULTS AND DISCUSSION

Response rate

The target population was ninety seven family owned businesses in the manufacturing industry in Nairobi County. The study was a census and therefore 97 (100%) questionnaires were administered to the family owned businesses in the manufacturing industry in Nairobi. A total of 65 completed questionnaires were returned while 32 questionnaires were not received even after follow-up. Consequently, the response rate was 67.0%. Mugenda and Mugenda (2003), and Saunders, Lewis &Thornhill., (2007) have argued that a response rate of 50 per cent is adequate, a response rate of 60 per cent is good, and a response rate of 70 per cent is very good. Sixty seven per cent response rate was therefore appropriate for drawing conclusion of this study.

Corporate Growth Strategy

Growth strategies adopted by family businesses in the manufacturing sector were assessed using twenty two measures and all were subjected to one sample t-test. The relevant findings are presented in Table 1. The growth strategies embraced to a greater extent were: Organization distributes /sells own products (forward integration) (mean score = 4.338); Upgrading technology to improve quality (mean score = 4.231); Upgrading technology to reduce wastage and cost of production(modernization) (mean score = 4.169); and Upgrading technology to increase production (mean score = 4.125). The least adopted growth strategies were merging with another company to form a new company (mean score = 1.308); Allowing other firms to use their knowledge, processes and trademarks (mean score = 1.431); and Organization merging with a competing firm (mean score = 1.462). The overall degree of family businesses in the manufacturing sector to adopt corporate growth strategies was low at a mean score of 2.669. The performance ratings of the individual measures are summarised in

Table 1

Table 1: Growth Strategies in the Family Businesses

Growth Strategies Measures	N	Mean	Std. Error Mean	t	Sig. (2-tailed)
Organization supplies own raw materials and basic concepts	65	2.631	.188	13.988	.000
Organization distributes /sells own products	65	4.338	.130	33.314	.000
Organization has own retail outlets	65	2.277	.198	11.502	.000
Adding new products to existing product lines	65	3.754	.171	21.915	.000
Organization has entered a parallel product market	65	3.031	.194	15.654	.000
Organization has combined with a competing firm	65	1.462	.141	10.400	.000
Introduction of other business related to present business	65	2.723	.205	13.276	.000
Introduction of other business not related to present business	65	1.800	.157	11.473	.000
Substantially modified an existing product	65	3.554	.175	20.255	.000
Developed a new product connected to existing product line	65	3.415	.190	17.999	.000

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Upgrading technology to increase production	64	4.125	.140	29.469	.000
Upgrading technology to improve quality	65	4.231	.127	33.204	.000
Upgrading technology to reduce wastage and cost of production	65	4.169	.136	30.617	.000
Selling products to other countries	65	3.908	.136	28.640	.000
Allowing other firms to use their knowledge, processes and trademarks	65	1.431	.133	10.732	.000
Contractual agreement with other firms to allow use of brand name, patent and property	65	1.631	.163	9.977	.000
Business arrangement with another firm to enable pooling of resources	65	2.046	.193	10.605	.000
Combined with another company to form a new company	65	1.308	.109	11.946	.000
Purchased another company	65	1.508	.155	9.712	.000
Arrangement with another company to share resources for undertaking specific project	65	1.631	.151	10.784	.000
Contracted another company to manufacture their products	65	1.508	.141	10.723	.000
100% ownership of subsidiary in another country	65	2.246	.219	10.242	.000
Overall mean score= 2.669 T-test for equality of means: test value=0 (Ho: there is no difference expected between the means, at α=0.05 (2-tailed); Reject Ho if p-value $\leq \alpha$, otherwise fail to reject Ho if p-value > α					

Source: Research Data (2014)

The one sample t-test for equality of means results presented on Table 1 indicate that mean scores of growth strategies measures differed significantly from one family business to another, with the highest difference noted in the organization distributing /selling own products (t-value = 33.314, $p < 0.05$) followed by upgrading technology to improve quality (t-value = 33.204, $p < 0.05$). The lowest difference was reported in purchasing another company (t-value = 9.712, $p < 0.05$) and Contractual agreement with other firms to allow use of brand name, patent and property (t-value = 9.977, $p < 0.05$).

Drivers of Growth Strategies

Growth strategies were measured with items and all were entered into factor analysis after confirming factorability using KMO and Bartlett's Test. The Bartlett's test of sphericity was statistically significant and the Kaiser-Meyer-Olkin measure of sampling adequacy was 0.615, above the recommended 0.5 as shown in Table 2.

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.615
Bartlett's Test of Sphericity	Approx. Chi-Square	743.620
	df	231
	Sig.	.000

Source: Research Data (2014)

The results of factor analysis are presented in Tables 3 and 4. Seven factors were extracted based on Eigenvalues of above 1, and collectively accounted to 72.59% of the variance in underlying construct. Factor 1 had four dominant loadings (Upgrading technology to improve quality; Upgrading technology to reduce wastage and cost of production; Upgrading

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technology to increase production; Organisation distributes /sells own products) which together accounted for 26.52% of the variance in the growth strategies and was labelled technology strategy. Factor 2 had three dominant loadings (Contracted another company to manufacture their products; Combined with another company to form a new company; Purchased another company) which a accounted for 12.67% of the variance in the construct under study and was labelled expansion strategy. Factor 3 had two dominant loadings which together accounted from 8.97% of the variance (Adding new products to existing product lines; Organisation has entered a parallel product market) and was labelled product strategy. Factor 4 had three dominant loadings (Substantially modified an existing product; Developed a new product connected to existing product line; Organisation supplies own raw materials and basic concepts) which together accounted 7.96% of the variance in the underlying construct and was thus labelled product development strategy. Factor 5 had two dominant loadings which accounted for 6.58% of the variance in the construct under study (Organisation has combined with a competing firm; allowing other firms to use their knowledge, processes and trademarks). Factor 6 had one dominant loading on selling products to other countries and was labelled export strategy while Factor 7 had one loading on introduction of other business not related to present business.

Table 3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.834	26.516	26.516	5.834	26.516	26.516	3.126	14.209	14.209
2	2.787	12.670	39.186	2.787	12.670	39.186	2.963	13.466	27.675
3	1.973	8.969	48.155	1.973	8.969	48.155	2.628	11.947	39.622
4	1.751	7.959	56.114	1.751	7.959	56.114	1.986	9.026	48.648
5	1.447	6.575	62.689	1.447	6.575	62.689	1.853	8.424	57.072
6	1.136	5.165	67.854	1.136	5.165	67.854	1.803	8.195	65.268
7	1.042	4.736	72.590	1.042	4.736	72.590	1.611	7.322	72.590
8	.983	4.470	77.060						
9	.812	3.690	80.750						
10	.790	3.590	84.340						
11	.604	2.747	87.087						
12	.499	2.267	89.354						
13	.470	2.135	91.489						
14	.340	1.543	93.032						
15	.320	1.457	94.489						
16	.310	1.408	95.896						
17	.246	1.118	97.014						
18	.231	1.050	98.064						
19	.171	.776	98.839						
20	.126	.571	99.410						
21	.088	.401	99.812						
22	.041	.188	100.000						

Source: Research Data (2014)

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Table 4: Rotated Component Matrix

	Component						
	1	2	3	4	5	6	7
Organisation supplies own raw materials and basic concepts	.313			-.629			
Organisation distributes /sells own products	.702				.333		
Organisation has own retail outlets			.538		.445		
Adding new products to existing product lines	.317		.790				
Organisation has entered a parallel product market			.769				
Organisation has combined with a competing firm		.372			.741		
Introduction of other business related to present business			.519	.519			
Introduction of other business not related to present business			.333				-.630
Substantially modified an existing product				.812	.330		
Developed a new product connected to existing product line	.309			.645			
Upgrading technology to increase production	.800		.322				
Upgrading technology to improve quality	.860						
Upgrading technology to reduce wastage and cost of production	.847						
Selling products to other countries	.344					.674	
Allowing other firms to use their knowledge, processes and trademarks					.672		
Contractual agreement with other firms to allow use of brand name, patent and property			.483		.367		.445
Business arrangement with another firm to enable pooling of resources		.310				.366	.487
Combined with another company to form a new company		.845					
Purchased another company		.781					
Arrangement with another company to share resources for undertaking specific project							.681
Contracted another company to manufacture their products		.895					
100% ownership of subsidiary in another country						.765	

Source: Research Data (2014)

Adoption of Growth Strategies

It emerged from the study that the family businesses adopted various growth strategies .The reasons given for adopting various growth strategies in the family businesses in the manufacturing sector in Nairobi County are varied and highly individualized. Attaining international manufacturing standards prompted adoption of growth strategies. This was in terms of WHO prequalification of products and need to comply with WHO manufacturing standards. Sourcing for cheaper raw materials was a factor considered in the adoption of growth strategies and expressed with statements such as "better collaborations to source products at a reduced cost; importing raw materials from abroad; and supplying own raw material is moderately cheap". Production improvement in terms of efficiency and effectiveness, thereby increasing the tonnage (production capacity) and minimize wastage.

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Likewise product improvement in terms of modification and quality steered adoption of relevant growth strategies. The organizations expressed the need to appoint distributors to distribute the end products to the consumers as a reason for the adopted growth strategy. However, some organizations expressed concern on disloyalty of the distributors and the cost of distribution, and consequently preferred to directly distribute the products. The need to gain competitive advantage over the competitors necessitated adoption of innovative growth strategies. This was expressed in terms such as "Maintaining a competitive edge; Continue being market leaders; Remain afloat; Maintain position and reputation; Gain control in the market; new products to keep ahead of competition; Shield against competition; and Price differentiation strategy". In addition to being competitive, the family businesses in the manufacturing sector adopted growth strategies to increase market share and returns and was expressed in terms of market growth, reach the mass market, Maintain current level of operations and market share. To sum it all, profit maximization was considered a major reason for embracing growth strategies. Customer interest was also considered in the adoption of the growth strategies. Hence, there was need to maintain good relationship with customers, meet customer demand/preference, give quality service to customers, serve more customers, and above all, ensure customer satisfaction. Risk reduction, catering for expenses when current products are not performing, Economic constraints, jobs creation and retention were also given as reasons for embracing the growth strategies.

Challenges of internationalization of family businesses

The study sought to explore the challenges encountered by the family businesses in the manufacturing sector in their effort to expand their business activities into the international markets. The themes identified are presented in Table 5

Table 5: Internationalization Challenges

Theme	Challenges
Family factors	• Loss of control of family business • Lack of common vision, goals and consensus of the family members; • Fear of relocating to a new country • Fear of failure • Fear of taking financial risk • Fear of losing family business. • Lack of knowledge and experience on international business
Government regulations and political environment	• Stringent legal procedures of ownership in some countries • Company registration bottlenecks • Legal proceedings • High government levy, • Government policies and tariff imposed by foreign countries • Insecurity
Management factors	• Lack of knowledge and experience (exposure) to run international business • Slow decision making and Poor transitions during takeovers • Limited Manpower • lack of trained personnel for developing new market • Distance and time factors hinder coordination projects
Financial factors	• Limited capital and resources
Market factors	• Lack of market research to identify market needs • Price fluctuation in the market • High competition
Cultural factors	• Language barrier • Working culture differences • Culture, customs and religious beliefs of target market

Source: Research Data (2014)

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CONCLUSION

The study revealed internationalization as the least adopted growth strategy by the family businesses. Most of the family businesses engaged in exporting as their internationalization strategy avoiding the more risky internationalization growth strategies. The dominant growth strategies adopted by the family businesses were distribution and selling of own products and upgrading of technology to increase production, improve quality and reduce wastage. Overall the extent of adoption of growth strategies in family businesses was low at a mean score of 2.669.The findings also revealed that family businesses had varied and highly individualised reasons for adopting various growth strategies. They also experienced different challenges in the internationalization process. The challenges emerging from the study included family factors, government regulations, political environment, management, financial, market and cultural factors.. Further we can conclude from the findings that very few family businesses have adopted growth strategies hence the need for them to have and implement strategic growth plans. They also need to internationalize and take advantage of the global market to grow.

RECOMMENDATIONS

Family businesses should consider other internationalization growth strategies such as licensing, franchising, joint venture, strategic alliances and mergers for more growth.

DIRECTION FOR FURTHER RESEARCH

The researcher offers the following direction to future researchers. Since the study was conducted in Nairobi County and considered the manufacturing firms only, other studies involving family firms in other counties and sectors could be done.

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