FINANCIAL DECISIONS, RESOURCE CONSTRAINTS AND FINANCIAL PERFORMANCE OF FAMILY-OWNED BUSINESSES IN THE MANUFACTURING INDUSTRY IN KENYA

Evelyn N. Tipape
Doctor of Philosophy in Business Administration (Finance Option), Kenyatta University, Kenya

Dr. A. Jagongo
Accounting and Finance Department, School of Business, Kenyatta University, Kenya

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ABSTRACT

Although the interest in family-owned business research is growing rapidly, the area of financial decision making is underestimated. Despite of the fact that the vast majority of the studies into the effect of financial decisions in family firms is are focused on the capital structure, they do not give clear answers to the question of how the family businesses behave in this scope and what their true financial logic is. Additionally, the area of the investment decisions and resource constraints effects on Family-owned business performance is rather not better left uncovered. The study seeks to establish the effect financial decisions on the performance of family-owned businesses in the manufacturing industry in Kenya. The target population in this study will be all the 853 family owned businesses registered by KAM. Stratified sampling will be used to select 255 Family-owned businesses registered in KAM. This study will use both primary and secondary data. Primary data will be collected by use of questionnaires. Secondary data will be obtained from audited financial reports of the FOB manufacturing companies. The questionnaire will be subjected to overall reliability analysis of internal consistency. This will be measured using Cronbach alpha as a coefficient of internal consistency. After quantitative data is obtained through questionnaires, it will be prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keyed into statistical package for social sciences (SPSS) computer software for analysis. The choice of SPSS version 22 to other statistical software is that it is user friendly. Inferential data analysis will be done with the use of factor analysis and correlation analysis to determine the strength and the direction of the relationship between the dependent and the independent variables. A regression model will be fitted and hypothesis testing carried out using multiple regression analysis and standard F tests and t-tests. The qualitative data will be analyzed using content analysis. Data will be presented in form of graphs, tables and pie charts.

Key Words: *financial decisions, resource constraints, financial performance, family-owned businesses, manufacturing industry, Kenya*

INTRODUCTION

Financial Decisions in the FOB's

Every decision made in a business has financial implications, and any decision that involves the use of money is a corporate financial decision. Nevertheless, the financial decisions are divided into three main categories (Copeland 2005): Financing decisions, investment decisions and dividend decisions. This study will analyze the financing and investment decisions since they are applicable to FOBs studies.

Financing decisions all decisions connected with optimization of capital structure, which translates into the effective engaging the debt and equity capital as well as the internal and

external sources of capital in financing the activity of company. The optimal capital structure is understood as such a leverage ratio which ensures the biggest profitability at the lowest risk. Every entrepreneur who operates in imperfect capital markets where there are transaction costs, taxes, bankruptcy and agency costs, and each of them makes determination of optimal capital structure, has to solve the question in order to maximize the value of the company he or she owns or manages (Autukaite and Molay, 2011). Therefore, in the decision making process about financing the activities, what is very important is the cost of capital and the final rate of return, as well as the relationship between ownership and leverage (Keasey, 2015). Firms with a higher ownership concentration will have access to better conditions when issuing debt, since the block holders' commitment to the business will be seen as more reliable. But block holders have to balance the trade-off between the need for funds and the costs associated with a dilution in control (Liu and Tian, 2012).

Investment Decisions

These are decisions connected with building the appropriate portfolio of assets in the company. Due to the limited quantity of funds, it is very important to choose such investment opportunities which bring the company the best profits and thus increase its wealth (Modigliani and Miller, 1958; Myers and Majluf, 1984; Jensen, 2010; Morellec and Smith, 2007). This type of decision-making is subcategorized into long-term investment decisions which are connected with fixed and intangible assets (the capital budgeting) and the short-term investment decisions, related to the current assets (the working capital management). The capital budgeting needs to reconcile the cost of invested capital and the future cash flows with the change in money value. Therefore, it is crucial for an assessment of the effectiveness of an investment to choose the proper discount rate, predict the most probable cash flows reached by the investment project and adopt the most suitable payback period. Because all investment projects carry the risk, the effectiveness of the investment should include the premium, which is expected for taking the risk. The investment decisions have to be based on the appropriate method of assessing the effectiveness of the investment project and take into account all aspects of the investment.

Working capital management decisions relates to the allocation of funds as among cash and equivalents, receivables and inventories. Thus, the short-term financial decision is connected with trade-off between liquidity and profitability. According to Gill (2014) working capital management is one of the most important decisions that directly impact the financial performance and shareholders' wealth.

Resource Constraints

Resources as substances of approach in that gaining dominance in an aggressive marketplace is dependent on firm capability to recognize, build up, position and safe guard meticulously resources that differentiate it from its competitors (Kraaijenbrink, Spender & Groen, 2010). Katz

and Green (2009) noted that every firm owns a diverse outline of tangible and intangible resources. Barney is one of the late contributors of RBV who studied and established the existence of key firm resources for superior performance. For a manufacturing firm to have superior performance, resources and capabilities have to qualify as exceedingly valuable, rare, inimitable, and non-substitutable. Resources that are valuable add to advancing the firm's performance. Rareness creates ideal competition in view of the fact that resources in that category are possessed by fewer firms. Inimitable resources are costly to duplicate and non-substitutable, meaning that there is no alternative to accomplishing an equal function instantly available to competitors (Barney & Hesterly, 2010). Tangible resources are physical substances that an organization possesses such as facilities, raw materials and equipment. Intangible resources include corporate brand name, organizational values, networks and processes that are not included in normal managerial-accounting information. Intangible resources are more likely to generate competitive advantage and superior performance as compared to tangible resources (Kenneth, 2011).

According to Ayoade (2015), managing manufacturing operations is akin to playing symphony with people, systems and processes. As long as these elements are balanced and in harmony the operations go on smoothly and efficiently. Resources are very important assets of manufacturing operations (Bouquin, 2014). Resources can be the strongest and the weakest link to manufacturing performance. Even in a highly automated and system controlled design, manufacturing operations are heavily dependent upon personnel and infrastructure to help run and manage operations (Harmon, 2013). According to Budugan and Georgescu (2009), there are top major classes of the resources that influence performance of manufacturing firms which are financial resources and human resources. This study will establish the moderating effect of financial and human resource constraints on the financial performance of FOB's in the manufacturing industry in Kenya.

Family Owned Businesses-FOB's

Due to the fact that all of the financial decisions made in enterprise have an effect, directly or indirectly on performance and value creation. Many researchers look on this field and want to answer the question, whether the family businesses are under or over-performed. Several empirical studies have indicated that family ownership is associated with superior firm performance, both in terms of accounting and market performance measures (Kuzma 2017). Poutziouris (2015) show that the higher the involvement of the family in terms of management and governance, the higher the performance the firm appears to sustain in the long run and across generations. Wagner (2015) find that the financial performance is better in public and large family firms and Martínez and Requejo (2017) prove that family control positively affects performance, primarily when family members serve on the board and the founder is still influential. These findings stand in contrast to liquidity constrains and inefficient investment behavior that is suggested in theory.

The ubiquitous presence of family firms has led to a constantly growing research interest in the past two decades which alongside resulted in an increasing amount of research into family firm's financial decision making ((Debicki, 2009). Despite the fact that many management theorists and practitioners use the term of the family business, there is not known the one, consistent definition, which will isolate this class of enterprises from all entities operating on the market (Mazzi, 2011). Most researchers adopt their own definitions, dependent on the performance of the tests, the methodology used, the method of data acquisition, sample characteristics or the studied variables related to the environment in which the firm operates (Kuzma 2017). For example, as the family firm is understood to be a business in which:

1. In total, 10-20 percent of the shares is owned by the family (Faccio and Lang, 2002). It applies rather to public entities and the range itself depends on the country, where the firm operates, e.g. for Denmark it is about 50 percent ownership threshold (Bennedsen, 2007);

2. The family members own more than 50 percent of shares, are involved in management and have effective decision power (Di Giuli ,2011);

3. The founder or a member of his or her family is the CEO or has the real influence on the decisions, e.g. by blocking them (Anderson and Reeb, 2003); and

4. The members of the family own the shares, a minimum of two of them are engaged in the business and one has real influence on the management (PARP, 2009).

It is apparent from the above definitions, the main features of the family firms are the significant share and the control in the decision making, held by the family and its members. It makes this group of businesses to have special characteristics, different from the non-family enterprises (Astrachan, 2010). This study will adopt the definition by PARP 2009.

Financial Performance

Financial performance is firm's ability to generate resources, from its daily procedures, for a certain time period. Financial performance may also refer to the firm's ability to make good use of their resources in an effective and efficient manner for achievement of the firm's objectives and goals (Asimakopoulos, 2009). According to Vekataran and Varadarajan (2011) financial performance is the firm's ability to efficiently operate, be more profitable, to grow and survive for a long period of time.

Mwangi (2016) looks at financial performance measurement as involving the monetary measures of the outcomes of a company's strategies as well as actions. Monetary performance therefore measures a company's earnings, incomes, appreciation in value which is demonstrated by the increase in the unit's share charge (Asimakopoulos, et al., 2009). Measures of monetary act can

be categorized into two classes, that is, accounting revenues as well as investor earnings. According to Vekataran and Varadarajan (2011) monetary performance is the appropriate way of any policy. In analogy with all these definitions of performance, the monetary performance of a company can therefore be described as the result of a company's plan or an assessment of how fit a company has or is succeeding in reaching its aims. Financial performance measures include revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales (Njeru, 2012).

Management researchers prefer accounting variables; ROE, ROI, ROA. Other common measures of performance include EPS, P/E ratio NIM (Wamiori, Namusonge and Sakwa,2016). The amount of profit can be a good measure of performance of a company, as well as a promise for the company to remain a going concern in the world of business (Agha, 2014). Sales growth shows the rate of increase in a company's sales per share, based on several periodic time periods, and is considered the best gauge of how rapidly a company's core business is growing (Javed, 2012).This study will measure financial performance using net profit and sales volume.

Manufacturing Sector in Kenya

Manufacturing refers to the processing of raw materials into a final product by use of large- scale industrial production. Manufacturing firms over the world are viewed as an essential element of a healthy and vibrant economy. In Kenya, manufacturing sector makes substantial contribution to the country's economic development (Bolo, 2011). The sector has the potential to generate foreign exchange earnings through export and job creation. Empirical evidence reveals that manufacturing sector has the highest employment multiplier effect in an economy (KAM 2018). Bivens (2013) in his empirical analysis indicated that 100 jobs in the manufacturing sector supported 291 jobs in other sectors of the economy. According to (Manufacturing Institute report, 2018) in the US, $1 worth of manufactured product creates $1.34 in the rest of the economy. Kenya has the highest unemployment rate in the East African Region and stood at 11.5% in 2017(ILO report, 2017).Interventions to uplift the manufacturing sector will generate employment (KIPPRA 2017).It is the goal of the Kenya government through its Vision 2030 to increase the sector's current GDP contribution of 9% to 15% in 2022.

KAM is the representative organisation for manufacturing industries in Kenya. Established in 1959 as a private sector body, KAM provides links for cooperation, dialogue and understanding with the government by representing the views and concerns of its members to the relevant authorities. KAM promotes trade and investment and standards and encourages the formulation, enactment and administration of sound policies that facilitate a competitive business environment and reduce the cost of doing business. KAM members are categorised into 14 sectors, 12 of which are in processing and value addition while the other two offer essential services to enhance formal industry. Sub-sectors are defined by the type of raw materials companies import or the products they manufacture. The organization has five departments:

advocacy, consulting, membership, communication and finance and projects. KAM membership is made up of 40% of manufacturing value-added industries in Kenya and comprises small, medium and large enterprises. Over 80% of these are based in Nairobi; the rest are located in other major towns and regions, including Coast and Nyanza/Western provinces, and Nakuru, Eldoret, Athi River, Nyeri and Thika. This study will FOB's among the manufacturing firms based in Nairobi since they have the majority representation.

STATEMENT OF THE PROBLEM

Due to limited resources in an organization, the finance manager must make financial decisions which will lead to organization positive growth. Better financial decisions are associated with good financial performance (Gabow 2017). Chebii, Kipchumba and Wasike (2011) argue that the main reason for putting the NSE listed firms under statutory management was financial decisions. Manufacturing sector has a significant representation of family-owned businesses and there is need to study how family models affect the sector and what can be done to make the firms productive and profitable (Were 2016). Most studies on financial perform have focused on financial restructuring and not decisions (Muchiri, Muturi & Ngumi, 2016). More so many of the studies on the theme have been conducted in developed economies. These include (Hasan 2014); (Akeem , 2014) ;(Ogobe, Orinya & Kemi ,2013) ; (Umar , 2012). Soumadi and Hayajneh (2012) have focused on a similar theme as the current study by looking at leverage decisions versus performance but with a focus on other contexts of developed economies such as Bangladesh and pakistan. This creates a need for focusing on a developing economy like Kenya. Similar studies on financing decisions have focused on firms listed of the NSE. These include Muiruri,&Wepukhulu,(2018) ;Makori (2017).There is need to study financial decisions in the FOB's. Although the interest in family business research is growing rapidly, the area of financial decision making is underestimated (Kuzma, 2017) Despite of the fact that the vast majority of the studies into financial decisions in family firms is are focused on the capital structure (Burgstaller &Wagner,2015), they do not give clear answers to the question of how the family businesses behave in this scope and what their true financial logic is (Chen 2014). Additionally, the area of the investment decisions and resource constraints is rather not better left uncovered (Zellweger, Frey &Halter 2010).The purpose of this study is to establish the effect of financial decisions, resource constraints and financial performance of family-owned enterprises in the manufacturing industry in Kenya.

GENERAL OBJECTIVE

The general objective of this study is to investigate the effect of financial decisions, resource constraints on the financial performance Family-owned businesses in the manufacturing industry in Kenya.

SPECIFIC OBJECTIVES

1. To investigate the effect of working capital management decisions on the financial performance of FOB's in the manufacturing industry in Kenya.

2. To determine the effect capital structure decisions on the financial performance of FOB's in the manufacturing industry in Kenya.

3. To explore the moderating effect of financial and human resource constraints on the relationship between financial decisions and financial performance of FOB's in the manufacturing industry in Kenya.

4. To establish the interaction effect of financial decisions on the financial performance of FOB's in Kenya.

5. To test the sub-sector differences in financial decisions of the FOB's and their effect on financial performance of FOB's in the manufacturing industry in Kenya.

RESEARCH HYPOTHESES

H_1: There is no significant relationship between working capital management decisions and financial performance of FOB's in the manufacturing industry in Kenya.

H_2: There is no significant relationship between financing decisions and financial performance of FOB's in the manufacturing industry in Kenya.

H_3: There is no significant moderating effect of financial and human resource constraints in the relationship between financial decisions and financial performance of FOBs in the manufacturing industry in Kenya.

H_4: There is no signification interaction effect between working capital management decisions and financing decisions on the financial performance of FOB's in the manufacturing industry in Kenya.

H_5: There is no statistically significant sector-based differences in working capital management and financing decisions of FOB's in the manufacturing industry in Kenya.

THEORETICAL LITERATURE

Stewardship Theory

This theory was proposed by Davis, Schoorman, & Donaldson in 1997. Stewardship theory starts from the idea that individuals in a company are not predominantly self-serving but that their motives support those of the company and go beyond purely economic goals. As opposed to agency theory, which focuses on extrinsic motivation of individuals serving themselves,

stewardship theory stresses their intrinsic motivation. Agency and stewardship theories offer opposing assumptions and predictions for firm performance, and therefore have sparked an on-going debate in the family firm literature regarding their applicability. Solid arguments have been made and supported on both sides of the debate. Investigations reveal that either theory can be applicable in the unique context of family firms, thereby creating ambiguous and confounding predictions about behavior and performance.

Both agency and stewardship theories have been utilized to address the role of agents in achieving family firms' strategic goals (Chrisman, 2010). Nevertheless, these theories differ in assumptions about the agents' motivations that affect their behaviors in organizations. Agency theory is mainly concerned with conflicting interests of the principal and the agent and difficult and costly monitoring of the agent. On the other hand, stewardship theory derives from social-psychology to examine relations in organizations where members tend to be collectivists. Hence, employees who are stewards, hold common goals of the firm above their self-interests. Accordingly, the individuals' interests are aligned with the interests of the organization in a sense that "pro-organizational collectivistic behaviors have higher utility than individualistic self-serving behaviors".

Thereby, family business studies have been exploring whether family business members are agents or stewards (Chrisman 2010). Stewardship approaches to the study of family firms might be particularly relevant, as family firm members may hold family firm objectives higher than their individual objectives (Neubaum, Thomas & Craig, 2017) and demonstrate high levels of trust and unity (Madison,Halt & Anette 2015) that can lead to competitive advantages through superior performance. Consequently, family firms can "inspire greater employee care and loyalty" (Kabira & Siddik 2016).It is on this basis that this study will be anchored on the stewardship theory.

Cash Conversion Cycle Theory

The cash conversion cycle, which represents the interaction between the components of working capital and the flow of cash within a company, can be used to determine the amount of cash needed for any sales level. Gitman (1974) developed cash conversion cycle as part of operating cycle which is calculated by adding inventory period to accounts receivables period and then subtracting accounts payables from it. Its focus is on the length of time between the acquisition of raw materials and other inputs and the inflows of cash from the sale of finished goods, and represents the number of days of operation for which financing is needed. The cash conversion cycle theory is a dynamic measure of ongoing liquidity management, since it combines both balance sheet and income statement data to create a measure with a time dimension (Jose and Lancaster, 1996).

While the analysis of an individual firm‘s CCC is helpful, industry benchmarks are crucial for a company to evaluate its CCC performance and assess opportunities for improvements because the length of CCC may differ from industry to industry. Therefore the correct way is to compare a specific firm to the industry in which it operates (Hutchinson, 2007).The cash conversion cycle is used as a comprehensive measure of working capital as it shows the time lag between expenditure for the purchase of raw materials and the collection of sales of finished goods (Padachi, 2006). Day-to-day management of a firm‘s short term assets and liabilities plays an important role in the success of the firm. Firms with growing long term prospects and healthy bottom lines do not remain solvent without good liquidity management (Jose and Lancaster, 1996).

This theory is relevant to the study because it directly affects the liquidity and profitability of the company. It deals with current assets and current liabilities. Since every corporate organization is extremely concerned about how to sustain and improve profitability, hence they have to keep an eye on the factors affecting the profitability. This study holds that the liquidity position of a business will influence its working capital management decisions thereby affecting the financial performance of the business.

Working Capital Management Theories

Modern theories offer two alternative strategies of working capital management, that is, conservative working capital management policy and aggressive working capital management policy. The literature contains an extensive debate on the risk/return trade-off among different working capital policies (Gitman, 2005; Moyer et al., 2005; Brigham & Ehrhardt, 2004). While more aggressive working capital policies are associated with higher returns and risk, conservative working capital policies offer both lower risk and returns (Gardner et al., 1986; Weinraub & Visscher, 1998). Walker (1964) pioneered an effort to develop a theory of working capital management through empirical testing of the risk-return trade-off of working capital management and formulated three propositions. The first proposition was that, a company that wishes to reduce its risk to a minimum should employ equity capital alone to finance working capital management. The second proposition was that the risk-return-tradeoff is affected by both the debt equity ratio and the debt maturity period while the third proposition was that the use of a portfolio of debt instruments with differing maturity periods would reduce the risk. This study sought to determine the effect of working capital management decisions on the financial performance of FOB’s.

Financing Decisions Theories

In understanding financing decisions of family owned businesses, this study will be anchored on two theories; Trade- off theory of capital structure and Pecking order theory. Theoretical literature in the light of the financing decisions (capital structure decisions) of FOB’s is

inconclusive. When family businesses consider using external sources of financing, leverage remains by far the most preferred funding option for family firms (Burgstaller & Wagner, 2015; Croci, Doukas, & Gonenc, 2011; Koropp, Grichnik & Kellermanns, 2013). Review of literature reveals that it still remains inconclusive on the level of debt used in family firms. This is no surprise, since, according to González, Guzmán, Pomp, and Trujillo (2013), Schmid (2013),and Burgstaller and Wagner (2015), a trade-off needs to be made in family firms between retention of control, which favors the use of debt financing over external equity, and risk aversion, which stimulates the company to adopt more cautious attitudes toward debt. These nontraditional, behavioral aspects illustrate the complexity of the leverage decision in family firms. Therefore, this study will adopt two theories; Trade-off theory and Pecking order theory in understanding the capital structure decisions of FOBs. Indeed, there is no universal theory of capital structure but rather guidelines from established theory that is available to the financial manager to interpret (Myers 2001).

Trade-off Theory

The trade-off theory states that the capital structure of a company is determined by the trade-off between the costs and benefits of using debt financing (Kraus and Litzenberger (1973): Trade off theory of capital structure.) Firms operate at their optimal leverage ratio by trading off between costs and benefits of leverage (Kraus and Litzenberger, 1973). The static trade-off model states that value maximizing firms chooses the target debt/equity ratio that maximises firm value by minimizing the costs of prevailing market imperfections, such as taxes, bankruptcy costs, and agency costs. The trade-off theory attempts to incorporate the costs of financial distress into the capital structure decision. Trade-off theory was developed by relaxing the assumptions for taxes and bankruptcy costs. The use of debt entails both benefits and costs for the firms. Debt has a tax advantage over equity, because interest payments on debt are tax deductible, while dividend and retained earnings are taxed. On the other hand, debt creates the possibility of costly bankruptcy.

According to the static trade-off theory, the optimal leverage ratio for a firm is determined by the trade-off between the tax benefits of debt and the expected costs of bankruptcy. Dynamic aspects enter the model through the consideration of adjustment costs (Fischer, 1989), which induce an additional trade-off between costs of deviating from the targeted capital structure and the costs of adjusting toward it. Thus, deviations from the target debt ratio are only gradually corrected over time (Frank and Goyal, 2007). Unlike the static trade-off theory, which posts that the optimal leverage ratio is determined by a single period trade-off between the tax benefits of debt and the expected costs of bankruptcy, dynamic trade-off models incorporate additional factors, such as optimality of financing choice in subsequent periods, transaction costs and asymmetries in taxation.

Unlike the static trade-off theory which assumes that actual and target (optimal) debt ratios are identical, dynamic capital structure theory acknowledges that the two are different; random

shocks can push firms off the target and firms must move back to the optimal level. The dynamic trade-off theory postulates the importance of the influence of financial flexibility and capital market accessibility both for determining target leverage and adjustment to target leverage.

A major objective of Family owned firms is connected to the long-term orientation and the maintenance of independence and control (Blanco-Mazagatos, 2007). In case internal funds are exhausted, a trade-off emerges, as firms may have to weigh the pursuit of value- and growth-enhancing investments against the possibility of losing or diluting control (Ellul, 2009; Wu et al., 2007). Debt solves this problem, "as long as the firm faces no financial distress" (Ellul, 2009). As debt is nonvoting, it helps to maintain the family's voting power (Harris and Raviv, 1991; Jensen and Meckling, 1976; Stulz, 1988). The desire to maintain control may therefore be indicative of higher leverage (termed the "control-motivation hypothesis" by Ellul, 2009) but then induces higher financial risk as well (Wu, 2007).

On the other hand, several authors, such as Ampenberger (2013) and Schmid (2013), argue that family owned firms may avoid debt out of control considerations if there is increased monitoring and control enforced by creditors, even and especially within tight bank – customer relationships. The relevance of such arguments, however, depends on the type and state of the family firm. First, larger and listed firms may opt for non-voting equity (with lower leverage resulting), but SMEs typically face the trade-off between debt finance and no investment nonetheless. This study will investigate the unlisted FOB's and seek to establish the trade- off involved and the effects on financial performance of FOB's.

Pecking Order Theory

The theory asserts that asymmetric information costs are the key drivers of firms' financing choices Donaldson (1961), Myers (1984) and Myers and Majluf (1984).The pecking order theory is able to explain the negative inverse relationship between profitability and debt ratio within an industry. According to the pecking order theory, several implications arise: First, a firm may not have a target capital structure. Rather a firm's capital structure is as a result of a series of short-term financing choices viewed over the long-term. Second, highly profitable firms make less use of debt. As a profitable firm is most likely to have large retained earnings, its need for external financing is limited or minimal. Third, firms prefer financial capacity. As the pecking order theory is based on the costs of obtaining financing, it stands to reason that the marginal costs of financing of new projects does not become an issue if the financial capacity were available in advance to fund future projects. Firms will be able to make use of funds immediately available to pursue opportunities when they arise rather than waste time and cost in approaching the capital markets. However management must exercise caution as excess availability of cash can lead to temptation for investing in projects that do not necessarily add value to the firm.

Fourth, the pecking order theory assumes that management behavior and actions are in the best interests of existing shareholders and any equity issues are due to current equity being overvalued and such value is to be transferred to existing shareholders upon the new issue (Myers, 2001). The assumptions of the pecking order are applicable to family owned firms as they would prefer financing decisions that do not dilute their control (Blanco-Mazagatos et. al., 2007). Due to asymmetric information, family owned firms favor internal funds and prefer debt to external equity ,in case internal funds are exhausted (Burgstaller & Wagner, 2015). It is on this basis that this study is anchored on the pecking order theory.

Resource Constraints

How a manufacturing firm controls its key resources will determine its performance (Kraaijenbrink, Spender & Groen, 2010). Resource Based theory (RBT) analyzes and interprets internal resources of the organizations and emphasizes resources and capabilities in formulating strategy to achieve sustainable competitive advantages. According to RBT, not all the resources of firm will be strategic and hence, sources of competitive advantage. Resources that are valuable, rare, inimitable and non- substitutable (Barney, 1991) make it possible for businesses to develop and maintain competitive advantages, to utilize these resources and competitive advantages for superior performance (Collis and Montgomery, 1995; Grant, 1991; Wernerfelt, 1984).

Resources may be considered as inputs that enable firms to carry out their activities. Internal resources and capabilities determine strategic choices made by firms while competing in their external business environment. The RBT emphasizes internal resources and capabilities of firm in formulating strategy to achieve sustainable competitive advantages in the marketplace. Internal resources and capabilities determine strategic choices made by firms while competing in its external business environment. Firm's abilities also allow some firms to add value in customer value chain, develop new products or expand in new marketplace.

The RBT focuses on the concept of difficult-to-imitate attributes of the firm as sources of superior performance and competitive advantage (Barney, 1986; Hamel and Prahalad, 1996). According to RBT, an organization can be considered as a collection of physical resources, human resources and organizational resources (Barney, 1991; Amit and Shoemaker, 1993). Barney 1991 classifies resources into tangible and intangible. Tangible resources include; financial, physical, technological and organizational. Intangible resources include human, innovation, reputational. This study will focus on the financial and human resources as the key resources influencing financial performance of FOBs. Barney (1991), identifies the capabilities under these two resources. Financial resources capabilities are ability to generate internal funds and ability to raise external capital. Human resource capabilities are managerial talents and organizational culture. This study holds that the financial and human resources available in FOB's will affect their financial performance.

Free Cash Flow Theory

The Free Cash Flow Theory by Jensen (1986) presuppose that managers mount up cash so as to augment the amount of resources they can be in command of and to get unrestricted authority over the investment decisions of the firm. Hence, managers fancy to cling to more cash and soaring amounts of investment in working capital to lessen the investment risk of the firm so as to reduce the likelihood of insolvency and consign excess import to deterrent motivation of holding cash (Opler et al., 1999). Amassing of cash and having a bulky collection of liquidity accessible when wanted throughout the working capital cycle decreases the anxiety on the managers to execute their responsibilities efficiently and permits them to select projects that make them contented however may not necessarily keep shareholders pleased (Drobetz, Gruninger & Hirschvogl, 2010). Moreover, the managers are not subject to scrutiny of the capital markets when funding new projects internally because they do not have to get new funds externally, which could as well be very costly (Ferreira & Vilela, 2004). The implication of this theory in this study is that FOB's that build up cash flow will have positive financial performance.

EMPIRICAL LITERATURE

Effect of Working Capital Management Decisions on Financial Performance

The Nurein (2014) study sought to determine the impact of working capital management on corporate performance and the influence of financial constraints on the relationship between corporate performance and working capital management of Malaysian listed firms in Bursa Malaysia. The data for this study was retrieved from the DataStream, consisting of 215 firms for the period 2008-2012. This study also finds that firms' financial constraint is significant and is positively related to working capital management and corporate performance. These findings indicate that managing an efficient and effective working capital as impact on corporate performance and firms with less financial constraints achieve better corporate performance than firms with high financial constraints. This study suggests that for a firm to achieve a better performance cum maximizing shareholder's value, it must achieve a better working capital with a longer net trade cycle (NTC) as well as meeting its short-term obligations.

Wilson (2013) studied the effect of working capital management on the performance of manufacturing firms has attracted the attention of researchers in different countries of the world in recent times. This research expands the horizon of knowledge in this area by shedding more light on working capital management as measured by the cash conversion cycle (CCC), and how the individual components of the CCC influence the profitability of world leading beer brewery firms (Wilson, 2013). Multiple regression equations were applied to a cross sectional time series data of five world leading beer brewery firms after ensuring that the data are stationary and co-integrated. The outcome of the analysis clearly pinpoints that working capital management as

represented by the cash conversion cycle, sales growth and lesser debtors' collection period impacts on beer brewery firms' performance.

Hampus (2012) sought to establish the relationship between working capital management and profitability by investigating how it is affected by different company characteristics. A quantitative method was applied with philosophical stances in objectivism and positivism and deductive theory was used to approach the subject. From the theoretical framework, five hypotheses were established and statistically tested in order to answer our research question. The first hypothesis was formulated to confirm previous research, while the remaining two aimed at providing both a theoretical and practical contribution to existing knowledge. This was tested in a cross-sectional study on the Swedish wholesale industry, covering a sample of 1,485 companies. The companies were segmented by size and whether they were listed or not. By using correlation and regression analyses, the relationship between Working Capital Management and profitability is compared between the different company groups. The conclusion drawn from the study is that there is a positive relationship between the Cash Conversion Cycle and profitability, inconsistent with previous research. However, strong significant results indicated that smaller firms are returning a higher profit, regardless the level of Cash Conversion Cycle (Hampus, 2012).

Deloof (2013) investigated the relationship between working capital management and firm profitability of Belgian firms, where he studied 1009 large Belgian non-financial firms for the period of 1992 to 1996. Using correlation and regression tests he found a significant negative relationship between gross operating income and the number of days accounts receivables, inventories and accounts payable of Belgian firms. On the basis of these results he suggested thatmanagers could create value for their shareholders by reducing the number of day‘s accounts receivable and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.

Padachi (2010) examined the trends in working capital management and its impact on firm‘s performance. The results proved that a high investment in inventories and receivables is associated with lower profitability. Further, Padachi (2010) showed that inventory days and cash conversion cycle had positive relation with profitability. On the other hand, account receivables days and accounts payable days correlated negatively with profitability. A study on value added, productivity and performance of few selected companies in Sri Lanka with the sample of financial companies listed under the Colombo Stock Exchange (CSE) reveals that, profit before tax per employee and value added per rupee of fixed asset is positively correlated and labor cost to sales and gross profit is also positively correlated. Further the labor cost to value added is correlated with gross profit and value added per rupee of fixed asset and no relationship was found between the rest of the productivity and performance measures (Velnampy, 2011).

Nyakundi (2013) studied working capital management policies among the public companies in Kenya. From a sample of 30 companies quoted at the NSE covering the period from 2008 –2012, the study concluded that most companies practiced the aggressive WCM policy. No significant differences were noted between the WCM policies across the five sectors. Further there were no significant differences in return on equity among companies that practice different WCM policies. From a simple regression analysis he found no relationship between the WCM policies and return on equity.

Effect of Capital Structure Decisions on Financial Performance

Karani (2014) studied the effect of capital structure decisions on the financial performance of firms in the Energy and petroleum sectors listed in the NSE. The study used a descriptive survey design .Energy and petroleum firms listed in the NSE formed the population of this study and was considered as a representative of other firms in Kenya. The study population consisted of five firms listed in the NSE. The whole population of firms listed on the Energy and petroleum sector was considered for the study. Secondary data on capital structure decisions on financial performance of firms listed under energy and petroleum sector at the Nairobi securities exchange was collected for the study period of 2004 to 2014. Data was analyzed using regression analysis. Analyzed data was presented using tables. Confidence interval of 95% was used by the researcher. The findings indicate that debt ratio had an effect on the financial performance of the firms in the Energy and petroleum sector.

Nadeem (2013) conducted a study to investigate whether capital structure affects the performance of non-financial firms in Pakistan. Panel econometric techniques namely pooled ordinary least squares (OLS), fixed effects, and random effects were used to investigate the impact of capital structure on performance of non-financial firms listed on the Karachi Stock Exchange Pakistan during 2004-2009.Empirical results indicated that all measures of capital structure (i.e. total debt ratio, long and short-term debt ratio) are negatively related to return on assets. A negative relationship between capital structure and performance indicates that agency issues may lead the firms to use higher than appropriate levels of debt in their capital structure.

Haron (2016) investigated the dynamic aspects in the capital structure decisions of firms in Indonesia. The study offered an extension to the existing literature on Indonesia via a dynamic model, including the existence of target capital structure, the influencing factors, the speed of adjustments and the supporting theories to explain the findings. This study used a dynamic partial adjustment model estimated based on a generalized method of moments. The study findings revealed that Indonesian firms do practice target capital structure and are influenced by firm-specific factors like profitability, business risk, firm size, liquidity and share price performance due to time-varying factors. A rapid adjustment toward target leverage was detected, thus supporting the existence of the dynamic trade-off theory (TOT). The pecking order theory (POT) was found to have significant influence, particularly after the new reformation of

financing policy, where retained earnings are also preferred as a source of financing apart from merely external financing through bank loans. There are also traces of market timing influences where firms also seem to time their equity issuance.

Ezeoha (2011) conducted a study to determine the degree of uniformity that exists between a firm's capital structure and industry financing patterns in Nigeria. The described study made use of fixed effects panel regression techniques. The dataset, covered the period 1990- 2006.A sample size of 71 non- financial firms quoted in the Nigerian Stock Exchange was selected. Findings revealed that Firms/industries that are more profitable have less proportion of debt, and those that have a higher level of asset tangibility use more long- term finances.

Thiele (2017) investigated how owner families and the firm's identity as a family firm affect capital structure decisions revealing that family firms have significantly higher overall and long-term debt levels compared to their non-family counterparts. The paper used panel data from 2010 to 2014, which combined financial and structural data on 691 large private German companies. The econometric approach used is a random-effect and tobit panel regression using different dependent variables relating to debt. The study results revealed that family firms have significantly higher overall and long-term debt levels compared to their non-family counterparts. Contrary to the extant literature, tangibility is not significantly related to debt in the context of family firms and the hypothesized higher usage of trade credits by family-owned businesses could not be supported.

Kuzma (2017) examined the status and trends in the field of financial decision-making process in family firms suggesting that family firms have natural advantage in investing in long-run projects, due to lower information asymmetry between managers and investors. The purpose of the paper was to examine the status, trends and potential future research areas in the field of financial decision-making process in family firms. The bibliometric indicators and methods were applied in order to describe the publication activity and to analyze the contents of the articles. The material examined were journals included in the SCOPUS, SAGE and EBSCO database and the peer-reviewed articles, which contained in their titles, keywords or abstracts with a combination of phrases “family firms,” “family business” or “family enterprise” with “financial decision” or one of the subcategories: capital structure, investment decision, capital budgeting, working capital management or dividend policy. The study covered the period from 2000 to 2016.Study finding revealed that the area of financial decision making in family owned firms was underestimated. Further, majority of the studies into financial decisions in family firms was focused on the capital structure, and did not give clear answers to the question of how the family businesses behave in this scope and what their true financial logic is. Additionally, the area of the investment decisions and dividend policy is rather not better left uncovered.

Effect of Resource Constraints on Financial Performance

Kihara & Kariithi (2017) conducted a study to establish how resource constraints and ICT affect the performance of manufacturing in Kenya. The study adopted a descriptive design to explain the interaction between the determinant variables and performance of manufacturing firms in Kenya. The study targeted employees of registered pharmaceutical manufacturers in Nairobi County. Primary data was collected using structured questionnaires. A sample size of 252 pharmaceutical companies was selected. The data was then analyzed by use of SPSS V 21. The study found that resource constraints affected performance of Pharmaceutical manufacturing industry in Kenya greatly. The study agreed on the facts that strong personnel enhanced quality of services of the manufacturing firm. Further the study agreed on the fact that adequate financial resources could help the manufacturing firm to acquire large market.

Altaf & Ahmad (2019) examines the impact of financial constraints on working capital financing–performance relationship on non-finance companies in India. The study found that less financially constrained firms can finance greater proportion of working capital using short-term debt, and hence perform better. Laghari & Chengang (2019) investigated the relationship between financial constraints and corporate performance of Chinese listed firms over the period 2005–2015.Findings reveal that the optimal working capital level of financially constrained firms is relatively lower due to high cost of external capital and debt rationing and hence financial performance is low. Xu and Zang (2018) Studied the effect of resource constraints on the performance of listed entrepreneurial firms in China. Study findings showed that financial and human resource constraints are positively related performance of the entrepreneurial firms.

RESEARCH FINDINGS

A review of previous research has shown that, in the real world, financial decisions matter. The importance given to family business financial decisions has been demonstrated through EU policies. Financial decisions are not only one of the top areas in family business research but is also a growing area. Availability of sufficient financial and human resources is of critical importance for the family firm's survival and growth. Investment decisions and financing decisions are key financial decisions that influence firms' financial performance. Empirical literature on financial decisions and financial performance of family owned manufacturing firms especially in the Kenyan context is limited, and this study aims to fill in this contextual gap in literature.

CONCLUSION

The perpetuation of the world economy is rooted in the long-term sustainability of the FOB's. Globally FOB's provide support 50% of the population by providing employment. This paper concludes that previous research on the performance of FOB's have focused on financial

restructuring and not decisions. Studies on financial decisions of FOB's have focused on capital structure and governance decisions and have left investment decisions and the effects of resource constraints on the financial performance of FOB's uncovered. In addition, studies on financing decisions have been conducted in developed economies. This paper alludes that there is need to conduct empirical research on the financial decisions of FOB's in the manufacturing sector in Kenya and fill in the existing contextual and conceptual gaps in literature. The Manufacturing sector in Kenya has a significant representation of FOB's and there is need to conduct an empirical study so as to find solutions on how to make the businesses more productive and profitable.

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