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INFLUENCE OF FIRM CHARACTERISTICS ON PERFORMANCE OF LAW FIRMS IN KENYA

[1]Nyaberi, Justry P. Lumumba, [2]Dr. Machuki Vincent N. PhD,
[3]Prof. Martin Ogutu, PhD, [4]Prof. Njihia James Muranga, PhD.

[1,2,3,4] School of Business, University of Nairobi

P. O. Box P.O Box 30197-00100 Nairobi, Kenya

Abstract: **Explaining and often predicting organizational performance is a primary research objective in the field of strategic management that need to be addressed because performance improvement is at the heart of strategic management. The study conceptualized a relationship between firm characteristics and performance of law firms in Kenya. Firm characteristics have been posited to influence performance. However, there is observed lack of consensus with regard to this position, hence the need for more empirical explanation. The study was guided by resource based theory, the institutional theory and industrial organizational theory. Through a cross-sectional descriptive survey, data was obtained using a semi-structured questionnaire. The questionnaire was administered to a sample of 379 law firms spread across the country out of which 368 were filled and returned, representing a response rate of 97.09 percent. Hypotheses were tested using both simple and multivariate regression analysis. The findings show that overall, firm characteristics have a statistically significant influence on performance of law firms in Kenya. Managers will use the findings of this study to monitor the crucial performance drivers in their law firms with regard to firm characteristics. Based on the limitations of the study, areas for further research have been suggested. Future directions in other sectors like SMEs as well as large firms in sectors like the manufacturing sector using same conceptualization of variables. Further research has been suggested using a longitudinal survey in the context on same variables and performance indicators.**

Keywords: **Firm Characteristics, Performance, Law Firms, Law Society of Kenya.**

1. INTRODUCTION

Organizational performance is the primary concern in practice and research of strategic management (March & Sutton, 1997). Organizations in a competitive environment work to outwit, outsmart, outmaneuver as well as outperform their rivals (Lefort, McMurray & Tesvic, 2015). This means an organization which sets out unique features, characteristics, patterns and processes may outperform others. Firms' characteristics influence on organizational performance may be subject to the industry in which the organization operates (Kamasak, 2011).

This study was anchored on the Resource Based theory institutional theory, and the Industrial organizations economics theory (Bain, 1951). Institutional theorists postulate that structures, schemes, rules, norms and routines become established as authoritative guidelines for social behavior and combined in particular patterns may lead to performance. Further, Budiman, Lin, & Singham (2009) theorize that if an organization is to perform well , its structures, strategies, systems, shared values, skills, staff as well as styles need to be aligned and mutually reinforcing. The industrial organization theory which informs the structure-conduct-performance (SCP) paradigm, (Bain, 1951) suggests that the industry structure in which an organization operates influences the conduct of the firms which in turn influences performance. The SCP paradigm has an equivalent of the Environment-Strategy-Performance (ESP) paradigm which as such is anchored in the organization strategy theory.

The competitive environment for law firms globally has been in a state of flux in recent years largely informed by the choice of strategy, partner versus firm interests as well as firm size in terms of the number of lawyers. In Kenya, the legal profession has seen an increase in law firms in the recent past (LSK, 2015). The law firms exhibit different characteristics such as shared values, norms, systems and structures which are likely to have an influence on their performance. Further, the legal profession industry has been rife with stiff competition. This has necessitated the continued crafting of strategies to enable each of them survive or thrive (LSK, 2015).

Different firm characteristics have been found to have varied impact on performance. This notwithstanding, crafting the right strategy is important in maximizing the combination of the characteristics. Nonetheless, occurrences with the industry in which an organization operates could have a bearing on the relationship between the firm characteristics and the strategy which would eventually influence organizational performance (Galbreath & Galvin, 2008).

2. STATEMENT OF THE PROBLEM

The primary research objective in the field of strategic management is aimed at explaining and predicting organizational performance (March & Sutton, 1997). Firm characteristics have been found to influence better performance. Law firms in Kenya operate in the legal profession as an industry constituted as a sole proprietorship or partnership. This industry is guided by rules and regulations that inform their conduct. However, different firms which can be pure partnership or limited partnership are characterized by different attributes including size, ownership structure, age and even the services they render. There is variation in organizational performance across the industry. While some law firms have been performing well, others have found it difficult to operate in the industry leading to their dissolution and in some cases debarment (LSK, 2015). The law firms are faced with a myriad of challenges, key among them are the emergence and the entry of foreign law firms necessitating adoption of strategic management practices within the industry (Brock, Yaffe & Dembovsky, 2006).

Conceptually, the debate on the influence of firms characteristics on organizational performance is inconclusive given that empirical studies have yielded inconsistent results ranging from negative to positive (Kisengo & Kombo, 2012). Similarly a study by Lauterbach and Vaninsky (1999) in Israel established that firm ownership structure significantly influences firm performance. Contextually, several studies of how firm characteristics influence organizational performance have been done. Umukoro (2009) sought to establish influence of management characteristics of the banking industry in Nigeria. Additionally, the study by Kiganane, Bwisa and Kihoro (2012) sought to establish how firm characteristics influence financial performance of mobile phone service firms in Kenya. Globally, strategic management research in the legal profession is rare. Few of these studies are conceptual reviews of literature on globalization of the legal profession. The legal profession in Kenya continues to grow and the industry faces a myriad of managerial challenges. However, very little strategic management research is documented in the industry.

Contextually, the law firms in Kenya have received little empirical studies in the area of strategic management. These are the gaps that this study sought to address by answering the question as to what is the influence of firm characteristics on organizational performance of Law firms in Kenya.

3. OBJECTIVE OF THE STUDY

The main objective of this study was to determine the influence of firm characteristics on performance of law firms in Kenya.

4. LITERATURE REVIEW

There is a relationship between internal firm factors and performance (Galbreath et al., 2008). Firm size is one of the most acknowledged determinants of a firm's profits. However, other studies established inconsistent findings. For instance study by Combs (2005) did not find significant relationship between size (Measured as number of employees) and performance; Lefort et al, (2015) suggested a positive relationship exists. Bigger firms are presumed to be more efficient. Firm age is another important characteristic with impact on organizational performance.

Researchers (Teece, Disano & Shuen, 1997) argue that the probability of firm growth, firm failure and variability of growth decreases with age. Other characteristics with impact on performance include capital intensity and ownership structure. Mukhopadhyay & Amrikhalikhali, (2010) contend that the characteristics of firm have a direct bearing on its organizational performance and vice versa. While firm characteristics may have a direct influence on performance, they

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also would impact on the choice of strategy employed by the organization. This notwithstanding, the industry in which an organization operates could influence the relationship between firm characteristics and the strategy chosen and thus performance. Research is equally inconclusive on which characteristics of firms lead to superior performance. It could thus be postulated that firm characteristics have an influence on organizational performance.

Brock et al, (2006) presents three generic strategies for professional service firms in general, based on whether the firms derived competitive advantage primarily through client relationships, selling solutions or expertise at problem solving. Firms are described as bundles of tangible and intangible resources and strategy selection is based on the careful evaluation of these resources. The strategic goal of the firm, then, is to develop and deploy a combination of resources that competitors cannot imitate or directly purchase in the factor markets (Barney, 1991). If this goal is achieved, performance advantages are subsequently built and sustained. Thus, in attempting to explain performance variation, researchers should directly investigate a firm's characteristics.

The quest to understand the determinants of performance has created a bifurcated view. On one side of the debate are the structural characteristics of industries. On the other side of the debate are firm-specific resources. However, in recent years, the nature of competition and the shifting of economic conditions have led to increased challenges of the assumptions upon which industry structure theories have been built. In today's business environment, arguments suggest that structural characteristics of industries are becoming less relevant determinants of performance while firm resources are becoming the basis upon which firms compete. Literature has exposed various conceptual gaps among the relationship of firm characteristics and organizational performance. Key among them is the contradicting and inconsistent results hence the need for this study.

5. RESEARCH METHODOLOGY

The study was a descriptive cross sectional survey. Descriptive cross sectional surveys are types of research designs where data is be collected across a number of organizations at one point in time. These studies are carried out once and represent a snap shot of one point in time. The target population of this study consisted of all Law firms in Kenya as at 30th December 2015. According to the Law Society of Kenya (2015) there were 7132 law firms in Kenya, practicing in various counties. These law firms practice in different areas of law.

For this study, the sample size for such cross sectional survey was determined according to three factors (Kate, 2006). These are the estimated percentage prevalence of the population of interest-10%, the desired level of confidence and the acceptable margin of error. In a study involving a simple stratified random sample, as indicated by (Yamane 1967), where the sample size had an error of 5% with a confidence coefficient of 95%, the sample size required can be calculated according to the following for formula below.

$n= N / [1 + N (e)^{2}]$

$n= 7,132 / [1 + 7,132*0.05^{2}]$

n= 379

Where:

N= Target Population

n=required size

e= margin of error at 5% (standard value of 0.05)

Table 3.1: Sample Size

Strata	Target population	Percentage	Sample size
47 counties in Kenya	7132 law firms	100	379 law firms

Source: LSK, (2015). For the full target population and sample size refer to Appendix ii.

The study applied computer to generate random numbers in order to obtain sample size that is applicable to draw conclusions since high population was involved. This study collected primary data. The data was largely quantitative in nature. The data was collected using a semi structured questionnaire. Tests of statistical assumptions tested for regression assumptions to establish if the data met the normality, linearity, independence, homogeneity and collinearity assumptions in this study. Multiple regression was used to test the relationship between two variables. To test the influence of firm characteristics on organizational performance, the following general model was used:

$P_1 = \beta_{01} + \beta_1 X_1 + \varepsilon_1$…………………………..(i)

Where,

P = Performance, β_0 , β_{11} are coefficients

X_1 = Firm Characteristics, $\varepsilon 1$= error term.

6. RESEARCH FINDINGS AND DISCUSSIONS

The study determined the influence of firm characteristics on performance of law firms in Kenya under the hypothesis that *Firm characteristics have a statistically significant influence on performance of Law Firms in Kenya* a simple linear regression analysis. The results of the regression analysis are presented in Table 1.

Table 1: Influence of Firm Characteristics on Organizational Performance

a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Firm characteristics	.439[a]	.192	.190	.61573

b) ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
Firm characteristics	Regression	33.041	1	33.041	87.150	.000[b]
	Residual	138.760	366	.379		
	Total	171.800	367			

c) Combined coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
((Constant)	1.568	.164		9.533	.000
Firm characteristics	.468	.050	.439	9.335	.000

a. Dependent Variable: Performance

b. Predictors: (Constant), Firm characteristics

The results indicate that there is a relatively moderate association between firm characteristics and organizational performance (R=.439). The coefficient of determination R^2 =.192 implies that firm characteristics explains 19.2% of the variation in organizational performance. The other variables not included in this study explain the remaining 80.8%. This result shows a strong influence of firm characteristics on organizational performance. The overall model was statistically significant (F = 87.150, P-value < 0.05). The results of the beta coefficient showed that a unit increase in firm characteristics will cause a 0.468 unit increase in organizational performance (B=.468, t=9.335, $p<0.05$) suggesting that the influence of firm characteristics on organizational performance was statistically significant. This implies firm characteristics are a good predictor of performance of law firms in Kenya. The findings, thus, were sufficient to support the influence of firm characteristics on organizational performance; therefore hypothesis ($H_{1)}$ was supported.

The regression equation can be written as follows:

Y = 1.568+ .468FC

Where Y = Organizational Performance, FC= Firm characteristics

The findings are in line with several studies both locally and international context. For instance Kaguri, (2012) found that firm characteristics had strong positive relationship on financial performance of life insurance companies in Kenya. Kisengo and Kombo (2012) also revealed that firm characteristics have a significant positive effect on performance of MFIs. Lauterbach and Vaninsky, (1999) also found that firm characteristics Ownership Structure were found to have positive significant relationship with firm performance.

7. CONCLUSION AND RECOMMENDATION

The study found that firm characteristics dimensions significantly influence financial performance with ownership structure and firm resources having a higher statistical influence as against size and age of the firm. The study also found a relatively moderate and positive relationship between firm characteristics dimensions and customer focus. It was found that ownership structure and firm resources were more significantly influencing customer focus as opposed to age and size of the firm.

The results showed that size and firm resources were the major determinants of internal processes having shown more significant influence as opposed to ownership structure and age of the firm. In finding the influence of firm characteristics on learning and growth, the study found firm resources and ownership structure having a more statistically significant influence as against size and the age of the firm. Further the study found that age, size and resources are key in determining the influence of firm characteristics on corporate social responsibility and environmental impact respectively. The findings therefore imply that firm characteristics are important in fostering performance of law firms in Kenya with a special focus on ownership structure and firm resources.

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