

**FACTORS AFFECTING PERFORMANCE OF MICRO AND SMALL FAMILY  
BUSINESS ENTERPRISES IN NAIROBI COUNTY**

**BY**

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**UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA**

**SUMMER, 2015**

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**A Research Project Report Submitted to the Chandaria School of Business in  
Partial Fulfilment of the Requirement for the Degree of Masters in Business  
Administration (MBA)**

**SUMMER 2015**

## STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than United States International University - Africa.

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

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This research project report has been presented for examination with our approval as the appointed supervisors.

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Dr.KephaNjenga

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Dean Chandaria School of Business

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## **ACKNOWLEDGEMENT**

I would like to acknowledge my supervisor for the guidance and wise counsel during the development of this thesis. I would also like to acknowledge mother who has been a pillar during this journey, friends and family for their support.

## **DEDICATION**

I dedicate this dissertation work to my family and friends. A special feeling of gratitude to my loving mother, Elizabeth Wanjiru for her encouragement and push of tenacity. Her support and prayers for success in my education is beyond imagination. She believes in striving to be the best you can ever be, never give up and success is a choice because “tough times do not last but tough people do”.

## ABSTRACT

Family owned businesses may start of as micro and grow into small, medium and large corporations if well nurtured. They play an important role in employment, income generation and wealth accumulation. These businesses are a dominant form of ownership in majority of the world economies. Small and micro family owned businesses contributed over 50% of new jobs created in the year 2005 in Kenya. The study sought to establish the factors affecting performance of micro and small family business enterprises in Nairobi County. It sought to answer the following questions: does the leadership style of the founder member influence the performance of Micro and Small family business enterprises in Nairobi County; how does succession planning affect the performance of Micro and Small family business enterprises in Nairobi County; how do the conflicting interests of various stakeholders involved in the family business influence the growth and sustainability of family businesses and how do governance structures influence the performance of Micro and Small family business enterprises in Nairobi County. This study adopted a descriptive research design. The target population consisted of employees working for MSMEs family business within the CBD which were duly registered with the Nairobi County Government by way of trading licence. This research collected primary data using questionnaires comprising of both open and closed ended in line with the objectives of the study.

The study established that the founders' leadership style affected growth and sustainability to a great extent. The respondents also reported that the management of the businesses trusted their employees and enticed them towards a common interest for the business. The study found that majority of the respondents agreed that the business founder monitored employees closely to ensure they performed their tasks and that that business developed employees with skills to take up more tasks. The respondents were neutral as to whether there was a clear plan as to the leadership and their deputies in the organization. The study revealed that leadership preparation affected growth to a moderate extent. The study found that the business was able to survive competition effectively and had an edge over its competitors that the business had been able to meet its clients' demand on time and that family members played a key role in the management of the business.

The study concluded that that it affects growth and sustainability of the family business to a moderate extent. Family members play a key role in the management of the business but had no say on who was appointed as managers in the organization. The study also concluded that family members fight for the control of the entire business and the scope of services offered by the company. This was because the governance structures provide important information relating to new policies and trade secrets but may not expose the owner to economic trends and insights on how other business pursue new approaches.

The study recommends that managers in the organization be given specialized training on how to manage the employees and also that the employees be offered relevant training that will enhance their skills in performing the tasks assigned. This study therefore recommends that business do not give sole leadership and management in all departments to family members but rather employ outsiders are the more qualified. This will not only bring impartialness in making decisions but will also reduce conflict in leadership among family members.

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## CHAPTER ONE

### 1.0 INTRODUCTION

#### 1.1 Background of the Study

Family owned businesses have been an important feature of business circles for long. They may start of as micro and grow into small, medium and large corporations if well nurtured (Colli and Rose, 2005). They play an important role in employment, income generation and wealth accumulation. These businesses are a dominant form of ownership in majority of the world economies. Several researchers and scholars have attempted to define what family businesses are. For instance, Chrisman, Chua and Litz (2003) defined a family owned business as a family business bearing components of the family involvement, family ownership, management and/or business succession.

Chua, Sharma and Chrisman (1996) define a family business as a business governed and/or managed on a substantial, potentially cross generational basis, to shape and perhaps pursue the vision of the business held by members of the same family or a small number of families. Family owned businesses bear some element of family involvement whereby the family members are involved in one way or another in the life cycle of the business. McCraw (1997) universally defined a family business as that owned, managed and governed by one or more generations of a family and/or family members and in which the values, vision and mission laid down by their founders are strictly maintained.

Family owned businesses constitute up to 80% of the businesses in the European Union, and accounts for over 50% of all people employed in the European Union (Mandl, 2013). Globally, two thirds of all enterprises are said to be family owned and/or managed (Gersick, Davis, Hampton and Lansbei, 1997). The growth of a these businesses is viewed as an important achievement in economic development given the current competitive business climate where globalization and information technology create a lot of sustainability challenges for small and micro businesses. Heck (2003) holds the view that family is an inseparable term in family business because essential family functions determine the business functions and vice versa. According to Wang and Poutziouris (2003), the stability of a family business depends to a great extent on the intergenerational relationship and communication patterns. The involvement of family is not limited to the working in the business but all family members can have substantial influence on the

firm's goals, decisions, systems and ways of interacting at family firm level (Van Den Heuvel, Van Gils and Voordeckers, 2006).

The micro and small family businesses platform is recognized as a major driver of post-industrial growth process, since they are credited with nurturing across generations, entrepreneurial talent, and loyalty to business success, long term commitment and corporate independence. Poutziouris (2001) notes that in the United States of America, researchers estimated that close to 24 million family firms provided employment to about 62% of the workforce and contributed to about 62% of the national GDP. Paisner (1999) argues that 90% of the fifteen million family businesses in the United States, only a third make it to the next generation and only 10% to the third. The study established that many family founders, especially those who worked their way up from humble beginnings resent their children enjoying the advantages they did not enjoy and believe that the children should start from the bottom of the ladder and work their way up.

Many scholars (Gersick, Davis, Hampton and Lansbei, 1997; Mandl, 2008; Wang and Poutziouris, 2003; Paisner (1999) around the globe have reviewed the subject of family owned businesses. Despite increased attention to family business research in mature economies, research on family business in emerging economies remains limited. Folke-Siebels and Knyphausen-Aufseb (2002) points out to a possible reason for this reluctance among scholars in reviewing the factors and growth of family owned businesses in developing countries. They argue that the field of family business research is quite young in developing countries compared to established fields such as strategic management and finance. This study therefore seeks to extend the depth of research and knowledge on the factors affecting performance growth and sustainability of micro and small family business enterprises in Africa, Kenya using a case of SMEs in Nairobi.

GEM, (2004) defined performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualised, operationalized and measured in different ways thus making cross-comparison difficult. Thibault et al. (2002) suggest that factors influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-

time employees as important factors in examining the performance as small scale business operators.

Micro and small sized enterprises contribute to economic development, increase household income and create jobs (Steer and Tausig, 2003). In Kenya, the small business sector has both the potential and the historic task of bringing millions of people from the survivalist level including the informal economy to the mainstream economy (Wanjohi&Mugure, 2008). Small and micro family owned businesses contributed over 50% of new jobs created in the year 2005 (Economic Survey, 2006).

Recognizing the critical role small businesses play in the Kenya economy, the Government through Kenya Vision 2030 envisages the strengthening of MSMEs to become the key industries of tomorrow by improving their productivity and innovation (Ministry of Planning, National Development & Vision 2030 [MPNDV2030], 2007).

A positive relationship has been documented between small business development and economic growth in developed countries (Harris and Gibson, 2006; Monk, 2000; Sauser, 2005). However, not much research has been conducted on this relationship in developing countries. Studies in small-business development and performance are necessary in countries like Kenya because of the dissimilarities in the process between developed and developing countries (Arinaitwe, 2002). It is also essential to understand the factors influencing small-business performance in African countries and specifically Kenya because they are significantly different from those facing developed countries. These factors include: availability of business information, access to finance, availability of managerial experience and access to infrastructure.

The International Finance Corporation (IFC) (2011) has also identified various challenges faced by MSMEs which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. These include lack of innovative capacity, lack of managerial training and experience, inadequate education and skills, technological change, poor infrastructure, poor governance, scanty market information and lack of access to credit. Considering the importance of Family SMEs in the economic development of this country, there is need to research on the factors affecting performance, growth and sustainability of micro and small family business enterprises in Nairobi.

Nairobi County is one of the most populated counties in Kenya. A good number of this population earns a living by engaging themselves in micro and small businesses which are family owned and distributed all over the county. A number of family owned businesses are also located within the Central Business District because of its centrality and business opportunities that the City presents. Few have permanent shelters while most of the businesses are either on temporary shelters or conducted by mobile traders who move from one place to another selling their products. Statistics have shown that very few of these businesses survive long enough to even reach their potential. The factors affecting performance, growth and sustainability of micro and small family business enterprises in Nairobi need to be established and strategies put in place to promote their performance.

### **1.2 Statement of the Problem**

According to Poutzioris (2000) and Wang et al., (2000), the survival rate of family businesses is deteriorating as it moves from one generation to the next. In the United States, family-owned businesses constitute 80% to 90% of all businesses. 88% of the current family business owners believe that the same family or families will control their business in five years, but succession statistics undermine this belief. Only about 30% of family and businesses survive into the second generation, 12% are still viable into the third generation, and only about 3% of all family businesses operate into the fourth generation or beyond. The statistics show a disconnection between the optimistic belief of today's family business owners and the reality of the massive failure of family companies to survive through the generations. The American Survey carried out in 2002 indicated that family business failures can essentially be traced to one factor: an unfortunate lack of family business succession planning (Astrachan, Allen, Spinelli, Wittmeyer&Glucksman, 2003).

Paige and Littrel (2002) attribute the failure of micro and small family owned businesses to poor management. Other scholars like Winter et al. (2004), argue that personal and family reasons also contribute to failure of family businesses. Danes et al. (2008), adds that resource processes like capital transformation and interpersonal relationship processes such as conflict management and communication in the firm or family may

inhibit family business growth and sustainability. Despite this, family functioning has received little attention in the field of family business (Katila, 2002; Nicholson, 2004).

The government together with other corporate bodies and NGOs, having known that this country cannot be successful without investments in the small and micro business fields; have repeatedly encouraged citizens to start small businesses in a move to ensure more job creation. However, this has had its own challenges, as past statistics indicate that three out of every five businesses fail in the first few months of operation (Kenya national bureau of statistics). In a bid to rescue the situation, there has been an engagement/participation of educated managers in the management of family businesses. Several studies have been carried out focusing on performance of SMEs.

Lerner, Brush & Hisrich (1997) conducted a study to examine individual factors influencing performance of 200 Israeli women-owned micro and small businesses. The study categorised the factors that affect their performance into 6 five perspectives, that is, motivations and goals, social learning theory (entrepreneurial socialization), network affiliation (contacts and membership in organizations); human capital (level of education, skills) and environmental influences (location, sectoral participation, and socio political variables).

Mwania, (2011) carried out a research on the effect of BiasharaBoresha Loan on Performance of Micro and Small enterprises owned by KCB Ruiru branch customers. The study established that besides BBL, there are other factors believed to have an effect on business performance including access to business information, technology and training. The study found no conclusive results on the relationship between entrepreneurs' level of education and business performance. However, the study did not consider other factors that can affect performance apart from finance.

Kinyua, (2014), did a study on factors affecting the performance of Small and Medium Enterprises in the Jua Kali Sector in Nakuru town, Kenya. Though the said studies dwelt on performance, they were done in their specific areas and covered specific objectives. The findings indicated that access to finance, management skills, macro environment factors, had the potential to positively affect performance of SMEs while Infrastructure did not significantly affect performance of SMEs in the study area. The study results also

indicated that as number of years in operations increased the performance in SMEs increased.

Mugo (2012) carried out a study to investigate factors affecting women entrepreneurs' SME businesses performance in Central Business District (CBD) of the city of Nairobi. The study found that the factors affecting performance of women entrepreneurs included; lack of entrepreneurial training and education, outdated technology on women, poor access to markets, mismanagement of resources by women, lack of management skills and fraud. The study however established finance as the major impediment affecting performance of women owned SMEs.

A lot of research has been carried out locally and internationally reviewing small and micro enterprises. Most of these research concentrate on their study areas based on their own objectives and did not focus on family business enterprises. There is scarcity of literature touching on micro and small family business enterprises. Therefore, study built on the local literature on factors that affect performance of micro and small family business enterprises.

Similar studies have focused on the challenges faced by micro and small family business enterprises but this study will concentrate on what affects their performance. This study will concentrate mainly on the factors that affect performance of micro and small family business enterprises in Nairobi County, Kenya. The scarce availability of reliable and valid data continues to be one of the key obstacles in understanding small and micro family business enterprises in Kenya. This study therefore seeks to identify factors that affect performance of micro and small family owned businesses in Kenya using a case of Nairobi County.

### **1.3 Purpose of the Study**

The study sought to establish the factors affecting performance of micro and small family business enterprises in Nairobi County.

### **1.4 Research Questions**

1.4.1 To study the influence of leadership style of the founder member on the performance of Micro and Small family business enterprises in Nairobi County.

1.4.2 To assess the effects of succession planning on the performance of Micro and Small family business enterprises in Nairobi County.

1.4.3 To identify the influence of governance structures on the performance of Micro and Small family business enterprises in Nairobi County.

## **1.5 Significance of the study**

### **1.5.1 owner/managers of family businesses**

The findings from this study will benefit owner/managers of family businesses by using the information to develop strategies for firm performance. The outcome of the study will also give insight to owners/ managers of family businesses on how to manage a succession to ensure growth and sustainability of family businesses. The study will help to identify and analyze the prevalent challenges that hinder performance of family businesses, thereby enabling mitigating measures to be initiated.

### **1.5.1 Government of Kenya**

The findings of this study will also give insight to the Government of Kenya on the factors affecting performance of MSMEs in Nairobi County and suggest ways on how to deal with these challenges. Using these insights, the County and National Government will be able to develop appropriate strategies that promote the development, growth and maturity of MSMEs.

### **1.5.3 Researchers and Academicians**

In addition, these findings will also enhance understanding of the family businesses enabling business schools to create suitable assistance programs and the government to create policies that support growth and sustainability of the family businesses.

## **1.6 Scope of the study**

The scope of this study will be family owned micro and small enterprises operating within the Central Business District of Nairobi City within Nairobi County. The study will target MSMEs trading within the CBD and have registered with the Nairobi County Government by way of trading licence. According to the records at the Nairobi City

County, there are 3187 MSMEs operating within CBD. Therefore, this study will use these registered MSMEs as the population of the study.

## **1.7 Definition of Key Terms**

### **1.7.1 Business Performance**

This is the quantitative and qualitative increase in the amount of resources owned by a business and the increase in the ability of the business to attain its goals (Simmons, 2000).

### **1.7.2 Micro and small medium enterprises**

MSMEs are often defined in terms of the size of the sub-borrower, either by the number of employees, value of assets or the company's turnover. SMEs are businesses with up to 9 employees (including sole proprietors), small enterprises have between 10 and 49 employees and medium companies have between 50 and 249 employees (MSME Act, 2012).

### **1.7.3 Succession Planning**

Succession planning is a systematic approach to: building a leadership pipeline/talent pool to ensure leadership continuity, developing potential successors in ways that best fit their strengths, identifying the best candidates for categories of positions, and concentrating resources on the talent development process yielding a greater return on investment (Chua & Chrisman, 2008).

## **1.8 Chapter Summary**

This chapter has provided the background of the study in relation to factors affecting performance of micro and small family business enterprises. It has presented the conceptual and contextual discussion of the study in relation to performance of micro and small enterprises.

The chapter has also presented the statement of the problem, purpose of the study, research questions or objectives, significance of the study where different stakeholders who will benefit from the study has been outlined. The study has also presented the scope of the study, definition of key terms in the study and the chapter summary.

Chapter two has presented the literature review on studies conducted in the past related to this study in relation to the research objectives. Chapter three reviewed the research methodology used to achieve the objectives of the study. It covered the research design, population, sampling procedure and sample size, data collection method and data analysis. Chapter four summarized the research results and findings while chapter five concentrated on discussions, conclusions and recommendations.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents previous research done on the stream of studies related to factors affecting performance of family owned businesses. To begin with, a brief overview of the field in general is presented, after which the relevant empirical studies on factors affecting performance of family owned businesses are discussed. A summary of the reviewed literature is then presented, followed finally with a discussion of the major findings relevant to this study.

#### **2.2 Leadership style of Founder on Performance**

Several leadership styles exist to assist managers and organisation leaders deal with different scenarios as they present themselves in an organisational setting. Leadership style is the general characterization of a leader's thinking, behavior and organizational environment. It can be viewed as a series of managerial attitudes, behaviors, characteristics and skills based on individual and organizational values, leadership interests and reliability of employees in different situations (Mosadeghrad, 2003). Organizational Success in achieving its goals and objectives depends on its managers and their leadership style. By using appropriate leadership styles, managers can affect the performance of their organization and the long term attainment of the vision and mission (Mosadeghrad&Yarmohammadian, 2006).

Organizational leadership is about relationship of an individual's ability to influence and be influenced by a group in the implementation of a common task (Giambatista, 2004). Leaders play an essential role in ensuring that the workforce and resources are integrated in order to achieve organizational goals. This means that the leaders influence (and are also influenced) by those who are led within an organization. Mehra, Smith, Dixon and Robertson (2006) observed that, when some organizations seek efficient ways to enable them to outperform others, a longstanding approach is to focus on the effects of leadership. It is believed that good organizational leadership is the key to success that leads to superior performance of the entity in question and hence Drucker (2001)

observed that effective organizational leadership involves thinking through the organization's mission, defining it, and establishing it, clearly and visibly.

Leadership style and the effectiveness of interactions between leaders and their subordinates are important determinants of organizational performance in any hierarchical organization. Leadership is the process or ability to influence other people to achieve predetermined goals. It is the combination of personal attributes and abilities such as vision, energy goals and even knowledge in order to create a shared future and improved performance in the organizations. Darling and Nurmi (1995) believe leadership plays a key role in achieving organizational excellence and desired business performance. Nohria *et al.* (2003) found out that leadership was required to supplement primary management practices in organizations and this is important in regard to this study because organizational leadership may influence the management and running of various affairs in the organization that directly influence performance.

In comparison to that of the founder, the motivation of the second generation family, family business leader is far different (Birley, 1986). The successor enters the firm in a lower level and works his way up through the ranks as he or she acquires knowledge of the firm (Cabrera-Suarez, Dee sea-Perez, &Carcic-Almeida, 2001). Davis and Harveston further shows that the generational shadow cast by the founder leadership style is much greater than the shadow cast by subsequent generations. As the business shifts from founder to successor authors (Bjuggren& Sund, 2005; Miller Le Breton 2006; Upton &Pelty, 2000) have attributed stagnation of family firms to lack of financial resources due to increasing demand of divided by family members.

### **2.2.1 Self Leadership (Transformational)**

Transformational leadership style is a leadership style in which the follower feels trust, admiration, loyalty and respect towards the leader, and is motivated to do more than what was originally expected to do (Bass, 1985; Katz & Kahn, 1978). The transformational leader motivates by making follower more aware of the importance of task outcomes, inducing them to transcend their own self-interest for the sake of the organization or team and activating their higher-order needs. Transformational leader encourages followers to think critically and seek new ways to approach their jobs, resulting in intellectual stimulation (Bass et al., 1994). As a result, there is an increase in their level of

performance, satisfaction, and commitment to the goals of their organization (Podsakoff, 1996). Bass (1990) proposed four behaviors or components of transformational leadership to include charisma, inspirational motivation, intellectual stimulation, and individual consideration.

Charisma, or idealized influence or attributes, is characterized by vision and a sense of mission, instilling pride in and among the group, and gaining respect and trust (Humphreys & Einstein, 2003). Charismatic behavior also induces followers to go beyond self-interest for the good of the group, providing reassurance that obstacles will be overcome, and promoting confidence in the achievement and execution. (Conger & Kanungo, 1998). Followers place an inordinate amount of confidence and trust in charismatic leaders (Howell and Avolio, 1992).

Inspirational motivation is usually a companion of charisma and is concerned with a leader setting higher standards, thus becoming a sign of reference. Bass (1985), points out followers look up to their inspirational leader as one providing emotional appeal to increase awareness and understanding of mutually desirable goals. This is characterized by the communication of high expectations, using symbols to focus efforts, and expressing important purpose in simple ways. The leader always behaves talking optimistically about the future, articulating a compelling vision for the future and providing an exciting image of organizational change (Bass & Avolio, 1994). The motivation occurs by providing meaning and challenge to the followers work; individual and team spirit are aroused and enthusiasm and optimism are displayed. The leader encourages followers to envision attractive future states, for the organization and themselves (Bass *et al*, 1997).

Intellectual stimulation provides followers with challenging new ideas and encourages them to break away from the old ways of thinking (Bass, 1985). The leader is characterized as one promoting intelligence, rationality, logical thinking, and careful problem solving. The attributes include seeking differing perspectives when solving problems, suggesting new ways of examining how to complete assignments and encouraging re-thinking of ideas that have not been questioned in the past (Bass & Avolio, 1994). The leader encourages the followers to be innovative and creative by questioning assumptions, reframing problems, and approaching old situations in new ways.

According to Yulet *al.* (2006), a self-leader permits his subordinates to participate in the process of decision making. He leads by the consent of the group rather than by use of authority. They usually practice discretion constantly and lead by example to the employees. They also value integrity and ethics in discharge of their mandate. Have zero tolerance to negativity and self-fulfilling prophecies of doubt in their champion for change. They not only set goals for the job but also for their life. They are insatiably curious and question everything, why not? They have initiative and always volunteer to be the first in any assignment. This group of leaders always surround themselves with mentors and people smarter than them.

A transformational leader is helpful in creating and supporting organizational changes. Hackman and Johnston (2005) argue that transformational leaders are persons who empower their followers, are passionate about what they do, freely interact with their employees and empower them, are creative and visionary. Transformational leadership style is important in the operational of family owned businesses. Family business leadership, concerns two areas to which every leader needs to address its forces: family and firm. The manner in which the family business leaders behave influences the forces exerted by these two areas, both of positive value. More transformational leadership in family owned businesses have higher chances of better performance and growth. Gao, Bai and Shi (2011) in their study on the effects of transformational leadership in Chinese family businesses sought to establish how family businesses should lead their family employees. They found that the leadership behaviour of Chinese family business owners is quite similar to transformational leadership style, and their transformational leadership behaviour has positive impact on family employees and general organizational performance.

### **2.2.2 Transactional Leadership**

Transactional leadership involves an exchange process that results in follower compliance with leader request but not likely to generate enthusiasm and commitment to task objective. The leader focuses on having internal actors perform the tasks required for the organization to reach its desired goals (Boehnke, 2003). The objective of the transactional leader is to ensure that the path to goal attainment is clearly understood by the internal actors, to remove potential barrier within the system, and to motivate the actors to achieve the predetermined goals (House & Aditya, 1997).

Transactional leaders display both constructive and corrective behaviors. Constructive behavior entails contingent reward, and corrective dimension imbibes management by exception. Contingent reward involves the clarification of the work required to obtain rewards and the use of incentives and contingent reward to exert influence. It considers follower expectations and offers recognition when goals are achieved. The clarification of goals and objectives and providing of recognition once goals are achieved should result in individuals and groups achieving expected levels of performance (Bass, 1985). Active management by exception refers to the leader setting the standards for compliance as well as for what constitutes ineffective performance, and may include punishing followers for non-compliance with those standards. This style of leadership implies close monitoring for deviances, mistakes, and errors and then taking corrective action as quickly as possible when they occur.

Transactional leadership seeks to maintain stability rather than promoting change within an organization through regular economic and social exchanges that achieve specific goals for both the leaders and their followers (Lussier&Achua, 2004). Transactional leaders aspire to encourage consistent implementation of strategic decisions from followers that allows them to meet agreed-upon goals (Bryant, 2003). They use rewards and punishments to promote performance, thereby making the leader-follower relationship an economic exchange transaction. Followers may be rewarded for achieving agreed-upon objectives (known as contingent reward leadership). Leaders might also choose to engage in management by exception (active/passive) where they engage in transactions that, for example, focus on mistakes or delay decisions (Barbuto, 2005).

### **2.2.3 Directive Leadership (Autocratic)**

A directive leader is one who takes all the decisions himself without consulting his subordinates (Flamholz, 1990). He demands complete loyalty and unquestioned obedience from his followers and usually they apply their own ideology. They have set goals and concrete plans and believe that everyone has to be supervised and given a task. They believe that momentum is maximized by maximizing the controls. They believe in stable environment and have no room for flexibility.

This kind of leadership style portrays the leaders as an authoritative leader who demands compliance with orders without explaining the reason behind them, uses threats and punishment to instill fear in the employees, sets goals for the organization and his/her

decisions are accepted without questioning. The leader does not have confidence in subordinates and employees and monitors them at all times, focusing on employees' mistakes rather than what they did well.

### **2.3 Success Planning on Performance**

Succession is an inevitable event in the life of a family business. The mode and the strategies employed to facilitate the trans-generational transition of ownership and control have been observed to have a significant influence on the survival and performance of family businesses (Baruch & Peiperl, 2000). Succession planning is a unique problem faced by family owned businesses (FOB). It is the explicit process by which the firm will be passed on for the family's next generation to manage and control. Successful succession of the top management is a crucial goal for these firms; without the next generation's leadership and direct management, the firm cannot survive as a family-owned firm, let alone maintain its character (Barach and Ganitsky 1995).

#### **2.2.1 Succession Management**

Baruch and Peiperl (2000) surveyed UK companies and found out that, succession management is an important characteristic of effective career management. Baruch and Peiperl categorized Succession management as active planning along with performance reviews, counseling by managers and human resource. They found out that these active planning processes were strongly associated with dynamic, open and proactive climates and were somewhat associated with organizations that relied heavily on internal labor markets.

Huang (2001) studied about succession management systems and human resource outcomes. The study sought to find out whether local firms with a more sophisticated succession plan achieved favorable human resource outcomes as opposed to organizations with fewer sophisticated plans. Huang in his findings noted that there was significant difference in human resource outcomes between companies who adopted succession planning and those who did not. These results showed that there was an important relationship between the level of sophistication with which succession plans were carried out and human resource outcomes. Huang found that line manager involvement, the credibility of succession planning staff; review and feedbacks, effective information

systems, and non-political succession criteria were some characteristics, which affected the performance levels.

Lynn (2001) studied succession while focusing on four elements which were thought to be the major elements of the succession. Lynn proposed the elements to be succession contingencies, succession antecedents, the succession event and the Succession consequences. Rothwell (2005) came up with the Seven-Pointed Star Model to achieve the systematic succession planning and management. Rothwell outlines seven steps in this model as making the commitment, assessing the present work requirements, appraising individual performance, assessing the future work requirements, assessing individual potential, closing the development gap, and evaluating the succession planning and management program.

Dingman (2006) did a case study on the servant leadership role in the succession planning process. Dingman noted that there was a positive relationship between servant leadership principles and the succession process. Krauss (2007) conducted a study on succession planning and talent management, to having recommendations to reduce workforce attrition and prepare for an aging population. The study recommended that it was important to implement a structured succession plan which distinguished the importance of establishing ownership of the succession plan and aligning the internal culture with external branding.

Fancher (2007) argued that an organizer has powerful influence on organizational processes through the culture which he or she created early on. Levitz (2008) studied succession planning and leadership development. He suggested that leadership development and succession planning must be at the core of strategic planning. Kasper investigated the impact of organizational communication in the administration of the succession planning program. As a major result, he suggested that organizations need to perform critical internal examinations of their current methods and strategies for the communication of their succession planning program (Kasper, 2008).

Lansberg (1999) described a business founder with as dominant character who controls the business and family affairs and a centralistic management in which programs of the business are due to loyalty and seniority. Kets De Vries (1996) characterized family business founder as “domineering personalities” and Dyer (1986) described a dominant

and authoritative father who makes all the important decisions where all the family members are expected to cooperate obediently. In the first generation all the power tends to be concentrated in a single individual; the founder. Along with their charismatic qualities, founders have the power to reward and punish others; they have formal authority, have certain expertise, information and connections with clients that make them indispensable.

On the other hand players in the family firm system the spouse of the founder, children, and the in-laws, non-family employees, have relatively few power bases from which to operate (Dyer 1986). During the founder tenure the employees in the family business tend to develop long term loyalties and to become “part of the family”. (Kets De Vries, 1996; Ward 1997). The family at this stage is described as gaining from emotional bond that the employees feel towards the organization and form their sense of being part of an “extended family” (Chua et al; 2003). Other authors (e.g. Bennesen, Nielsen, Perez-Gonzalez & Wolfenzon, 2007; Cuculleli & Micucci, 2008) argue that its lack of competence and skills that cause stagnation of family business after the exit of the founder.

Sonfield and Lussier (2004) points that founder driven family businesses do not plan for the succession due to the founder behaviors and attitudes. Only about 10% of all firms survive to the third generation in the same owning or managing family. Founders of family firms can be novice entrepreneurs (starting their first business), serial entrepreneurs, (several business startups consecutively) or portfolio entrepreneurs (owning firms as a portfolio), (Westhead et al, 2005). The founder can be a critical success factor not only for the social capital of a new business (Bamford et al, 2006), but also for founder older driven family firms.

Founders build and control networks and alliances in family firms. According to McConaughy and Philips (1999), founder managed firms grow more rapidly than the next generation firms. However the next generation firms are more profitable than the founder driven firms. Founders create family business values that are transferable from one generation to the other. The values represent a resource family members have accepted together. (Koiranen, 2002) Marto and Kansikas, (2007) argue that family business founders have multiple roles but their main goal is to be responsible for the family business to the family, society and other stakeholders. Founder generation family firms

pose network and alliance, families and familial social capital. Ensley and Pearson (2005) posit that the firms' social culture reflects familiness skills to handle social relationship and manage networks.

### **2.2.2 Firm Size and the Source of Succession**

Other empirical studies have examined the relationship between firm size and the source of succession has generated mixed results. Lauterbach, Vu & Weisberg (1999) in their study internal against external succession and their effect on firm performance in the US established that large corporate family-owned firms preferred external succession than to internal succession. They also found that external successions improved firm performance but internal succession did not. Helmich and Brown's (1972) in their study on successor type and organizational change in the corporate enterprise found that larger firms use more external recruiting than smaller firms.

On the other hand, Dalton and Kesner (1983) study claimed the opposite, while Schwartz and Menon (1985) on their study inside/outside succession and organizational size found no relation between the successor origin and firm size. In Dalton and Kesner's study, the firm's revenues were used to identify larger and smaller firms; those above the median were considered as "larger" firms and those below the median were SME Succession Page 8 of 29 considered as "smaller" firms (Dalton and Kesner 1983). Schwartz and Menon also used sales revenue to as the measure of the organization's size.

### **2.4 Governance Structure on Performance**

The mechanisms of governance of the SME have for object not only the protection of the contribution of the shareholders but also the transactions between the enterprise and the different stakeholders which comprises of the directors, the creditors, the salaried employee, the customers, the suppliers and the societal environment (Rosa, 2005). Governance system for many businesses assumes that leaders are restricted in their decisions and actions of external and internal disciplinary mechanisms. These mechanisms should help secure the shareholders and all stakeholders in the company (leader, State or local authorities, creditors, employees) in their agency relationships and transactions with the company (Klijn, 2008). Family owned businesses use varied

structures and systems of governance to run and manage their businesses all over the world.

According to Rachagan&Satkunasingam (2009) in the external setting of the SME family owned businesses governance structure, the market of directors plays a regulating role in the value of leader that depends of the financial achieved performance. The obstacles met by the SME are the cognitive capacities of management. The complexity of an organization grows with its size. And when this complexity passes the capacities of treatment of the information of the managers, they don't control what happened in the enterprise: the mistakes increase, the quality degrades and the growth decrease. The SME meet many obstacles which are financial in nature. When they look for financings, they don't have access in general only for the credit banking, whereas their more important competitors can inquire the financial markets (Gabrielsson, 2003).

#### **2.4.1 Internal Ownership Governance Structure**

In internal ownership governance structure, majority of the directors are shareholders (Neville, 2011). Indeed, the family SME owners benefit giving a lot of it involvement to their directors. This implies that the enterprise could use the exceptional facilities and the capacities that the owner uses in order to succeed the enterprise (Van Den Heuvel, Van Gils & Voordeckers, 2006). The board of directors represents the main organ of control, complementary to the external mechanisms. The role of the board spreads to several functions within the SME: the administration of the enterprise, regaining some roles of surveillance, control of the directors and the setting up of the enterprise strategy, the organization of relations between the enterprise and its environment, the capitation of the external facilities, the recompense the directors, dismiss them, and ratify and control the important decisions taken by the direction (Bammens, Voordeckers& Van Gils, 2011).

Zajac and Westpal (1996) further reported that another governance structure is multiple directorships which refer to the situation where directors sit on more than one board. This aspect is often discussed in the literature under directorship interlocks (Haunschild, 1993). Multiple directorships held by an executive who sits on other boards as a non-executive or by an individual who sits on more than one board as a non-executive. Such kind of governance has many benefits for the business that uses it (Richardson, 1987).

They serve as an influential source of information, provide important information relating to new policies, trade secrets, and practices among business organizations which inspires

better performance (Haunschild and Beckman, 1998). They also expose directors to economic trends and aspects of international business; provide directors with the opportunity to compare management policy and practices; provide insights into how other business pursue new approaches to business and provide them with the chance to learn different management styles and monitoring behaviour. As well, it allows directors to seek advice from others (Bacon and Brown, 1974).

This type of governance allows the directors to achieve a business scan of the latest developments in the business; economic trends and aspects of international business provide directors with the opportunity to compare management policies and practices, provide insights into how other companies pursue new approaches to business, expose directors to different management styles and monitoring behavior and allow directors to seek advice from others (Bacon and Brown, 1974). In other words, multiple directorships allow directors to achieve a ‘business scan’ of the latest developments in the business environment to enhance performance (Useem, 1984), and information gained through a mechanism is perceived as more influential and trustworthy compared to other sources (Nisbet and Ross, 1980).

In addition, they serve as a mechanism for control. Bazerman and Schoorman (1983) suggest that networks formed through multiple directorships help to enhance corporate control and effectiveness as favorable legislation could be promoted and competition reduced.

#### **2.4.2 Convergence-of-Interest Model of Corporate Governance**

The other type of structure is the ‘convergence-of-interest’ model of corporate governance which argues that there is a relationship between directors ownership of the business and performance because the greater the financial stake, the greater the costs for not maximizing shareholder wealth (Jensen and Meckling, 1976). Similarly, Fama and Jensen (1983) assert that when corporate insiders own low levels of firm equity, they have higher incentives to keep their strategies in line with the preferences of other owners since their bonding to the firm’s outcome is high. However, as ownership by corporate insiders reaches a certain point, they would allocate firm resources for their own interest regardless of the effects on outside shareholders (McConnell and Servaes, 1995).

Investigations conducted on the relationship between managerial stock ownership and firm performance show contradicting results. This study brings into account the

importance sense of feeling of ownership of a business. This tends to explain why most micro and small family owned businesses collapse after the first generation of owners who felt a strong connection to the business are dead. The generations that inherit the business lose touch with the businesses leading to their collapse.

Liang and Li (1999), basing on sample of 228 private SME in Shanghai and China, carried out a study to establish the relation between the structure of board and the performance of enterprise. The study found that the presence of outside directors(external governance) is associate positively with an elevated output of funded capitals, though most of the enterprises display a board dominated by the internal people to the organization as well as the high technology has a tendency to increase the performance.

Daily and Dollinger (1992) established that micro and small enterprises, in particular the family enterprise, possesses an individual in most of the case, the owner who takes in loads of all the process of the enterprise. These enterprises link between the ownership and performance that could be observed more easily. These authors examine the relation between the ownership structure and the growth of the sales of 186 industrial SME. The enterprises in the survey is classified in two classes, they are controlled by the family owner or professionally controlled (the director have no part of the capital). The results showed no significant difference statistically in the evolution of the sales between the two groups. However the study showed three significant issues that the familial enterprises must incorporate: the directives of clear governance, the diversification and the technological innovation. These three elements become harder when the quality of the governance is bad, and when it is superior, they are going to improve the functions of the enterprise and the well-being of the family.

The relation between managerial ownership and the performance was a centre of empiric research since Jensen and Meckling (1976) who supposed that managerial ownership is an important mechanism in order to align the interests of directors and shareholders. They considered that the managerial ownership is a mechanism of internal governance for the business. The study revealed that the managerial ownership affects the SME performance positively because the alignment of the interests of directors and shareholders reduced the costs of agency. O'Regan, Sims and Ghobadian(2005) examined the relationship between the ownership structure and the financial performance, measured as profit by employee by year, in a sample of 207 SME of electronics and mechanics in Britain. The enterprises

in the survey were classified as enterprises with directors owners or enterprises with directors no owners. The result showed that the enterprises with director owner are more competitive than the SME professionally controlled.

Hamadand Karoui (2011) carried out a study on the SMEs Governance Mechanisms Practices and Financial Performance: Case of Tunisian Industrial SMEs. The study found that the board size along with the presence of some external members have had a positive effect on the SME performance. This result highlighted the important role which played by the board of directors as a control mechanism within an SME. The study further reported that age of the director does not have a significant effect on the SME performance. This is due to the intervening of such external mechanisms as the employment market. Therefore, the SME governance appears to be influenced and characterized by a discipline exercised by the inefficient or limited markets. Consequently, the internal mechanisms are considered to have a great importance as regards the SMEs governance and the preservation of their performances. This rank is crucially important as it ensures the prevalence of efficient signs and initiative measurements of effective positive practices of governance.

## **2.5 Chapter Summary**

The purpose of this literature review was to review the various factors affecting performance of micro and small family business enterprises in Nairobi County. The chapter discussed the influence of leadership style of the founder member on the performance of micro and family owned businesses, the effects of succession planning on the performance of micro and family owned businesses, the influence of conflicting interests of various stakeholders on the performance of micro and family owned businesses and governance structures and performance of micro and family owned businesses. Perspectives of different scholars and researchers were presented so as to establish what had already been done that was relevant for the study. Chapter three provides research methodology which outlines the methods that was used to collect that data, research design and how data was analyzed.

## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology refers to the study of the general approach to inquiry in a given field. This chapter looked at the research design that was used, the population and sample size that was studied, the different sampling methods, types of data as well as the data collection methods that were employed in conducting the study. It also presented how data analysis was conducted and report written.

#### **3.2 Research Design**

Research design consists of an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). This study adopted a descriptive research design. Descriptive study is concerned with finding out the what, where and how of a phenomenon. This research design was appropriate because this study sought to build a profile on the factors affecting performance growth and sustainability of micro and small family business enterprises in Nairobi.

The researcher chose descriptive research design because it enabled the researcher to generalise the findings to a larger population. Descriptive research design allowed the researcher to collect quantitative data which can be analysed quantitatively using descriptive and inferential statistics. This study brought out in depth information on the factors affecting performance growth and sustainability of micro and small family business enterprises in Nairobi.

#### **3.3 Population and Sampling Design**

##### **3.3.1 Population**

According to Cooper and Schindler (2006), population is the total collection of elements with common observable characteristics about which some inferences can be made. The target population is that part of population which the researcher studies, analyses and draws conclusions regarding the entire population. Population refers to the entire group of individual's, events or objects having a common observable characteristic (Mugenda and

Mugenda, 2003). In this study, the target population consisted of employees working for MSMEs family business within the CBD which were duly registered with the Nairobi County Government by way of trading licence. The study targeted senior managers in the MSMEs in collecting information so as to avoid biased information since the study was on the business owners.

According to Pannucci and Wilkins (2011) ideal study population should be clearly defined, accessible, reliable, and at increased risk to develop the outcome of interest. Pannucci and Wilkins (2011) argued that to avoid selection bias the researcher need to avoid selecting respondents who may only give information that suits them. This can be a particular problem with case-control and retrospective cohort studies where exposure and outcome have already occurred at the time individuals are selected for study inclusion. Records from the Nairobi City County indicated that there were 1, 200 MSMEs operating within CBD. Therefore, this study used these registered MSMEs as the study population. One manager per MSME was selected for inclusion in the study hence the population of the study will be 1,200 employees.

### **3.3.2 Sample Design**

#### **3.3.2.1 Sample Frame**

According to Cooper and Schindler (2006), a sampling frame is a list of elements from which the sample is actually drawn and closely related to the population. In this study, the sampling frame was drawn from the 1, 200 employees of MSMEs operating within CBD. This was used so as to ensure that the sampling frame is current, complete and relevant for the attainment of the study objective.

#### **3.3.2.2 Sampling Technique**

To come up with an appropriate study sample, the study utilized stratified sampling technique where the MSMEs were classified into different business areas including food and restaurants and other non-food item businesses. The rationale behind the selection of the stratified sampling was because the businesses were evenly distributed across the Central Business District and this ensured collection of unbiased data. This helped to enhance the chances of participation among potential participants (Kothari, 2004). The

simple random technique enhances a sense of independency among participants, as they develop the feeling that they were not in any way coerced to take part in the study.

### **3.3.2.3 Sample Size**

Sample size is a smaller set of the larger population (Cooper and Schindler, 2006). Determining sample size is a very important issue for collecting an accurate result within a quantitative survey design. According to Saunders, Thornhill and Lewis (2007), no survey can ever be deemed to be free from error or provide 100% surety and error limits of less than 5% and confidence levels of higher than 95% is regarded as acceptable.

According to Mugenda and Mugenda (2003), a sample size of between 10-30% is representative enough for the population if objectively selected and the elements are more than 30. According to the County Government of Nairobi, there are about 1,200 SMEs registered and operating within the Central Business District. The study intended to use a sample size of 120 micro and small family business employees within the Nairobi CBD which were duly registered by the County Government being 10% of the population. Mugenda and Mugenda (2003) argued that if well selected, a sample of between 10-30% of the population is adequate for generalization of findings to the whole population. From these 120 senior managers in the MSMEs, an analysis of the data collected was done and conclusions drawn to make recommendations for the entire population of study.

### **3.4 Data Collection Methods**

This research collected primary data using questionnaires. The questionnaires comprised of both open and closed ended in line with the objectives of the study. A five point likert scale was used for closed ended questions. The questionnaire contained two sections each. The first section sought to establish the respondents' demographic data while the second section sought to establish the respondents' opinions on the three challenges considered in this study.

### **3.5 Research Procedures**

After development of the draft questionnaire, a pilot test was carried out with ten MSME business in the CBD to test for any inconsistencies, ambiguity and incomprehension. The pre-test participants did not participate in the actual survey to avoid pre-emption of the study at the actual area. In the process of piloting, the study ensured the rectification of

any errors of ambiguity existing in the research instrument. After the amendment of the final questionnaire, the researcher explained the purpose of the research to the farmers and sought permission to carry out the research on the given topic.

### **3.6 Data Analysis Methods**

Before processing the responses, data preparation was done on the completed questionnaires by coding, entering and cleaning the data. Data collected was analysed using descriptive statistics. The descriptive statistical tools helped in describing the data and determining the respondents' degree of agreement with the various statements under each factor. Data analysis was done using Statistical Package for Social Sciences (SPSS version 20.0) and Microsoft excel to generate quantitative reports which were presented in the form of tabulations, percentages, mean and standard deviation.

### **3.7 Chapter Summary**

Chapter three enumerated the research methodology and design. It gave a detailed analysis of the population and the sampling process that was used in collecting the research data. Simple Random sampling technique was used and the population comprised all MSME businesses in Nairobi County. This was done to ensure the results were more representative and also gave all the MSME businesses have participated. Primary data was collected from the managers and other employees of the MSME through the application of a structured questionnaire. Data analysis was done using the statistical Package for Social Sciences Version 20.0.

## CHAPTER FOUR

### 4.0 RESULTS AND FINDINGS

#### 4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study sought to investigate the factors affecting performance, growth and sustainability of micro and small family business enterprises in Nairobi. The data was gathered exclusively from questionnaires as the research instrument. The questionnaire was designed in line with the objectives of the study.

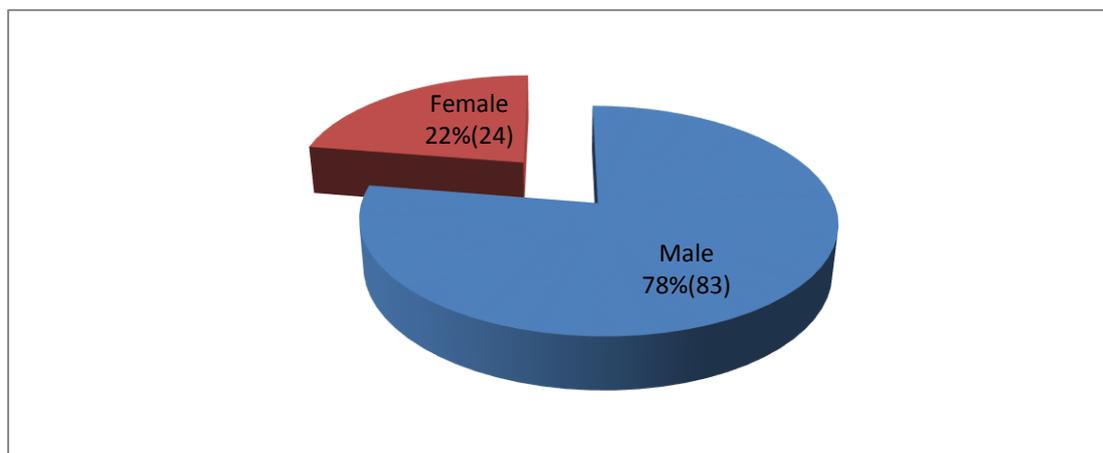
##### 4.1.1 Response Rate

The study targeted 120 micro and small family business employees within the Nairobi CBD. Out of these, 107 businesses filled in and returned their questionnaires giving a response rate of 89%. This response rate was excellent and conformed to Mugenda and Mugenda (2003) argument that for generalization of findings to the whole population the least acceptable response rate should be 50%. A response rate of above 70% is excellent. The data was analyzed using statistical package for social sciences (SPSS) version 20 and the analysis is given below.

##### 4.1.2 Demographic information

###### 4.1.2.1 Gender of the Respondents

The study sought to establish the gender of the respondents. The findings were shown in the Figure 4.1

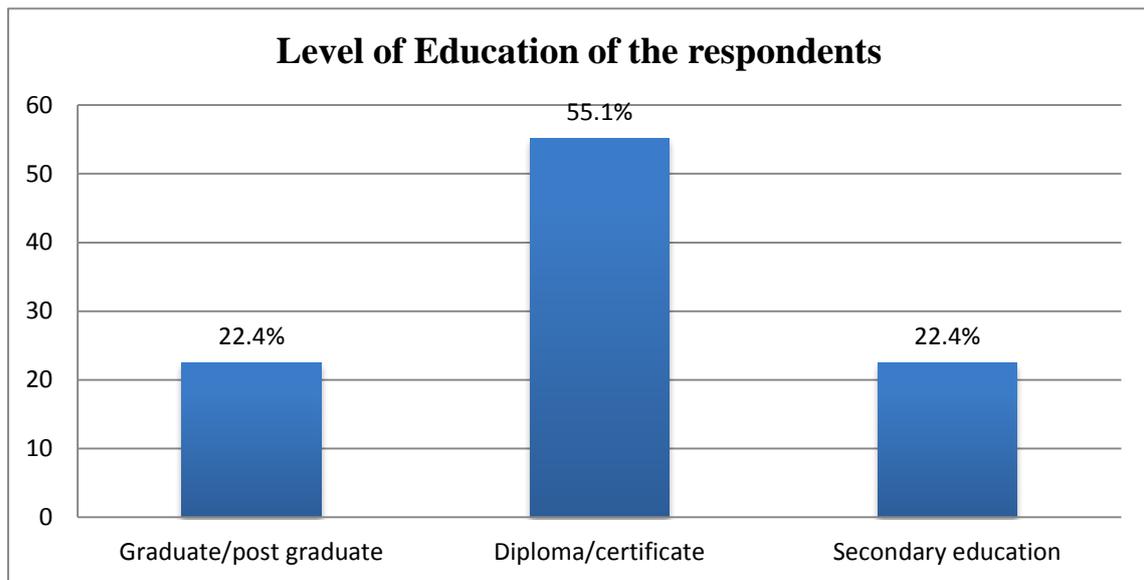


**Figure 4.1.1: Gender Distribution of the Respondents.**

The findings show that the respondents who were female were 22% (24) while those who were male were 78 % ( 83). From the findings it's evident that both males and females were involved in the management of micro and family business although males were the majority.

#### 4.1.2.2 Level of Education of the respondents

The respondents were asked their highest level of formal education the findings were represented in the Figure 4.1.2



**Figure 4.1.2: Level of education of the Respondents**

From the findings in the above figure, 55.1% (59) of the respondents were either diploma or certificate holders, followed by those who were in the category of graduate/postgraduate or secondary education holders each with a percentage of 22.4% (24). There were no respondents who were primary school leavers or those who had no formal training whatsoever.

#### 4.1.2.3 Number of years the business has been operational

The study sought to find out the number of years the business had been in operational. The finding was as indicated on Figure 4.1.3

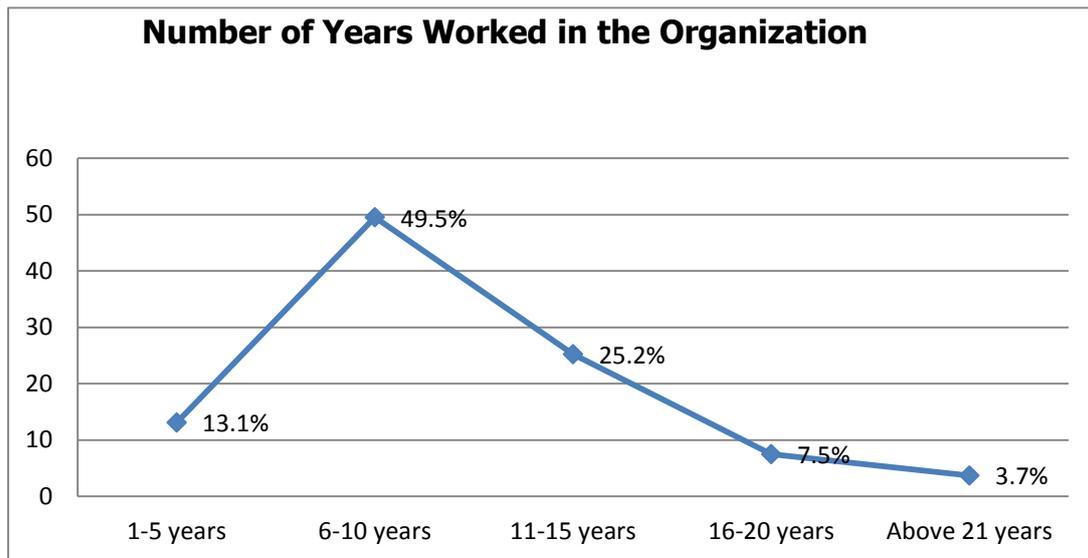


**Figure 4.1.3: Number of Years the Business has been in operational**

From the responses, 5.6% (6) of the responses said the business had been in operation for between 1-5 years, 38.3% (41) had been in operational for 6-10 years, while 27.1% (29) of the interviewed businesses had been in operation for 11-15 years. Those businesses that had been in operation for 16-20 years formed 17.8% (19) of the respondents while those that have been in operation for above 21 years were 11.2% (12).

**4.1.2.4: Number of Years Worked in the Organization.**

The study sought to establish the number of years that the respondents had worked in the organization. The findings were as shown on Figure 4.1.4

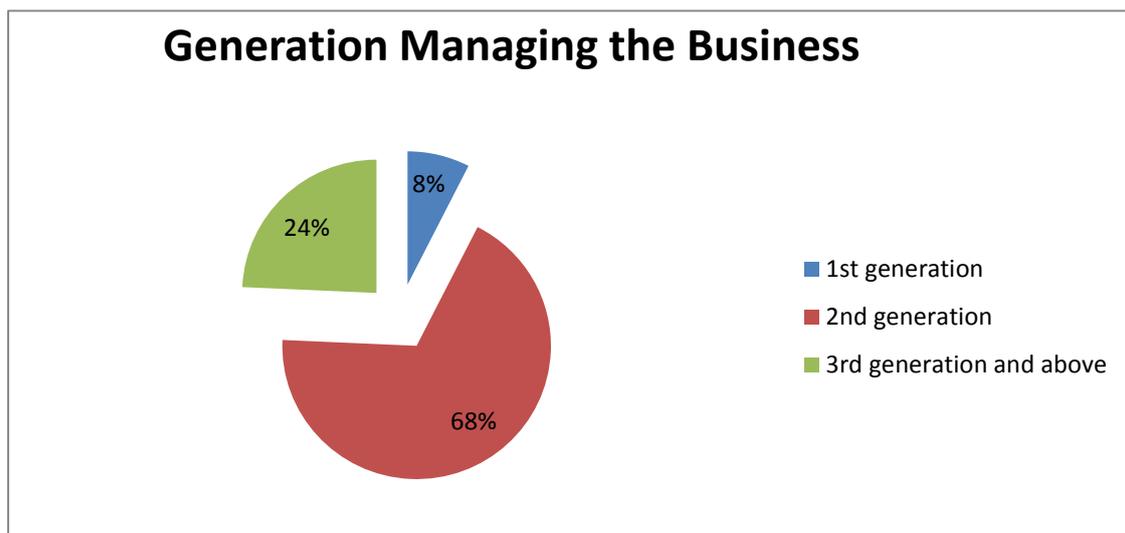


**Figure 4.1.4: Number of Years Worked in the Organization**

From the findings shown above, 13.1% (14) of the respondents had worked in their organizations 1-5 years, 49.5% (53) had worked for 6-10 years, and 25.2% (27) had worked for 11-15 years while 7.5% (8) had worked for 16-20 years. Those who had worked for above 21 years were 3.7% (4) of the respondents.

**4.1.2.5: Generation Managing the Business.**

The study sought to investigate which generation of the owners was managing the business. The responses were as shown on the Figure 4.1.5



**Figure 4.1.5: Generation Managing the Business**

From the responses majority of the respondents 68.2% (73) were in the second generation, followed by 24.3% (26) who were in the category of the third generation and the least 7.5% (8) were the first generation of their family.

#### 4.2 Influence of Founder Leadership Style

The study sought to establish how the founder leadership style influenced leadership style on growth and sustainability of the family business. The respondents were asked to rate the extent to which they agreed with the statements. The findings were as shown on Table:

**Table 4.1: Influence of Founder Leadership Style**

| <b>The founder's leadership style</b>  | <b>Mean</b> | <b>S.Dev.</b> |
|--|-------------|---------------|
| The business owner has the overall say in all business matters   | 4.252       | 0.562         |
| The business owner involves employees in the decision making   | 3.878       | 0.443         |
| The business owner has trust in employees working with him/her   | 4.084       | 0.551         |
| The business owner ability to influence employees  | 3.878       | 0.5578        |
| The founder informs employees of the importance of their duties in the attainment of organizational goals.                           | 4.065       | 0.536         |
| Business owner has enticed staff towards a common interest   | 4.102       | 0.565         |
| The business founder encourages creativity and innovation among staff for the betterment of the organization                         | 4.065       | 0.635         |
| The business founder always challenges employees to perform better   | 4.084       | 0.565         |
| The founder seeks opinions on how to solve various problems in the organization  | 4.065       | 0.536         |
| The founder hates negativity and selfness among employees  | 4.102       | 0.565         |
| Leader encourages employees to think critically and seek new ways to approach their jobs   | 4.065       | 0.536         |
| The founder seeks to maintain stability rather than promoting change within the organization.  | 4.102       | 0.565         |
| The founder makes all decisions without consulting and all he/she requires is obedience and loyalty from other member of the family. | 2.06        | 0.536         |

|  |       |       |
|--|-------|-------|
| The leader promotes intelligence, rationality, logical thinking, and careful problem solving.  | 4.102 | 0.565 |
| The leader encourages constructive behavior which entails contingent reward, and corrective dimension imbibes management by exception. | 3.065 | 0.536 |
| The business owner is more concerned about having tasks completed on time by employees   | 4.102 | 0.565 |
| Business owner corrects employees whenever things go wrong   | 4.065 | 0.536 |
| The business founder has set clear roles for all employees in attaining organizational goals   | 4.102 | 0.565 |
| The business owner uses rewards and punishments to promote performance   | 4.065 | 0.536 |
| Business owner sets organization goals alone and then employees monitored to deliver on the goals                                      | 4.102 | 0.565 |
| Business owner needs employees to comply with all his requests   | 4.065 | 0.543 |
| Business founder has not fully delegated duties to his juniors   | 4.102 | 0.565 |
| Business founder monitors employees closely to perform tasks   | 4.065 | 0.536 |

On whether the business owner has the overall say in all matters concerning the business, the responses had a mean of 4.2523 and a deviation of 0.5628. This findings show that the majority of the respondents agreed with the statement. Leaders play an essential role in ensuring that the workforce and resources are integrated in order to achieve organizational goals. A transformational leader will involve his team in decision making processes while a directive leader will make all the decisions by him. The kind of leadership style a leader uses will ultimately determine the success of the organization (Smith, Dixon and Robertson 2006).

The respondents agreed that the business owner involved employees in the decision making processes in the organization as was indicated by a mean of 3.8785 and a standard deviation of 0.4432. The finding agrees with Drucker (2001) who concluded that effective organizational leadership involves thinking through the organization's mission, defining it, and establishing it, clearly and visibly both for the leaders and employees. Leaders in various family businesses involve their employees in the decision making processes.

The statement on whether the business owner has trust in employees working with him/her scored a mean of 4.0841 with a deviation of 0.5515. This means that majority Of the respondents agreed with the statement. This findings are consistent with those of Bass (1985) who in his study concluded that transformational leadership is a style in which the followers feel trusted and thus are motivated to do more. The statement on whether the business owner has the ability to influence those working in the business scored a mean of 3.8785 with a deviation of 0.5578. This findings means that the respondents agreed on the statement. The finding agrees with Giambatista (2004) who reported that organizational leadership is about relationship of an individual's ability to influence and be influenced by a group in the implementation of a common task. Leaders play an essential role in ensuring that the workforce integrated in order to achieve organizational goals. This means that the leaders influence (and are also influenced) by those who are led within an organization.

The founder informs employees of the importance of their duties in the attainment of organizational goals scored a mean of 4.0654 with a deviation 0.5367. This reveals that majority of the respondents agreed that the founder informed employees of the importance of their duties in the attainment of organizational goals. The finding concurs with Darling and Nurmi (1995) who posited that leadership plays a key role in achieving organizational excellence and desired business performance. They further argued that it's a collective effort from the employers and employees with each of them understanding their roles and playing them. Majority of the respondents agreed that the business owner has enticed staff towards a common interest for the business as was depicted by a mean of 4.1028 with a deviation of 0.5652. The finding coincides with Katz & Kahn (1978) who reported that a transformational leader motivates by inducing them to transcend their own self-interest for the sake of the organization or team and activating their higher-order needs. This in turn makes the employees outcome oriented in that they seek to achieve the objectives of the organization through fulfilling their tasks

From the responses, majority of the respondents agreed that the business founder encourages creativity and innovation among staff for the betterment of the organization as was shown by a mean of 4.0654 with a deviation of 0.6356. The finding agrees with Bass et al. (1994) who stated that a transformational leader encourages followers to think

critically and seek new ways to approach their jobs, resulting in intellectual stimulation from employee creativity and stimulation.

Asked whether the business founder always challenges employees to perform better, the responses scored a mean of 4.0841 with a deviation of 0.5652. This showed that majority of the respondents agreed on the above statement. The finding concurs with Hackman and Johnston (2005) who argued that transformational leaders are persons who challenge their employees to perform better and to be innovative by questioning assumptions, reframing problems, and approaching old situations in new ways. This improves the performance of the employee and in turn improves the quality of service delivered by an organization.

The responses on whether the founder seeks opinions on how to solve various problems in the organization scored a mean of 4.0654 with a deviation of 0.5367. This indicated that majority of the respondents agreed that the management of the organizations they worked in empowered them by challenging them to be innovative in solving problems. The finding agrees with Hackman and Johnston (2005) who argued that this is an attribute associated with transformational leaders as they are visionary as thus in their interactions with the employees encourage them to do the same. On whether the founder hates negativity and selfness among employees, the responses had a mean of 4.1028 with a deviation of 0.5652. This finding indicates that majority of the respondents agreed on the statement. The finding coincides with Yulet *et al.* (2006) who posited that a self-leader has zero tolerance to negativity and self-fulfilling prophecies of doubt in their champion for change.

The study sought to establish whether the leader encourages employees to think critically and seek new ways to approach their jobs, majority of the respondents agreed as was indicated by a mean of 4.0654 with a deviation of 0.5367. The finding concurs with Podsakoff (1996) who reported that a transformational leader encourages his employees to think critically. As a result, there is an increase in their level of performance, satisfaction, and commitment to the goals of their organization. The respondents were asked whether the founder seeks to maintain stability rather than promoting change within the organization. Majority of the respondents agreed as was shown by a mean of 4.1028 with a deviation 0.5652. The finding coincides with Lussier & Achua, 2004 who said that transactional leadership seeks to maintain stability rather than promoting change within

an organization through regular economic and social exchanges that achieve specific goals for both the leaders and their followers.

The founder makes all decisions without consulting and all he/she requires is obedience and loyalty from other member of the family. The respondents disagreed on the statement as was shown with a mean of 2.0654 with a deviation of 0.5367. This style of leadership is used by autocratic leaders. The finding disagrees with Flamholz (1990) who described autocratic leaders as ones who do not have confidence in subordinates and employees and thus do not involve them in any consultations. This leader expects them to follow his orders without questions.

The mean on whether the leader promotes intelligence, rationality, logical thinking, and careful problem solving was 4.1028 with a deviation of 0.5652. This shows that the majority of the respondents agreed on the statement that leaders in their organisation promoted intelligence, rationality, logical thinking, and careful problem solving. The finding agrees with Bass & Avoli (1994) who showed that the promotion of these attributes by leaders encourage the employees to seek differing perspectives when solving problems, suggesting new ways of examining how to complete assignments and encouraging re-thinking of ideas that have not been questioned in the past.

Asked whether the leader encourages constructive behavior which entails contingent reward, and corrective dimension imbibes management by exception, the respondents were neutral as the responses scored a mean of 3.0654 with a deviation of 0.5367. Transactional leaders display both constructive and corrective behaviors. These findings are impartial Bass, (1985) who in his study concluded that transactional leader's constructive behavior entails contingent reward, and corrective dimension imbibes management by exception.

The statement on whether the business owner is more concerned about having tasks completed on time by employees scored a mean of 4.1028 with a deviation of 0.5652. This shows that the majority of the respondents agreed on the above statement. A transactional leader focuses on having internal actors perform the tasks required for the organization to reach its desired goals (Boehnke, 2003). Majority of the respondents agreed that the business owner corrects employees whenever things go wrong as was shown by a mean of 4.0654 with a deviation of 0.53678. Transactional leaders display both constructive

and corrective behaviors. These leaders use constructive criticism to correct their wrong doing (Bass, 1985).

The responses on whether the business founder has set clear roles for all employees in attaining organizational goals scored a mean of 4.1028 with a deviation of 0.5652. This shows that majority of the respondents agreed on the statement. According to House & Aditya (1997) the objective of the transactional leader is to ensure that the path to goal attainment is clearly understood by the internal actors, to remove potential barrier within the system, and to motivate the actors to achieve the predetermined goals.

On whether the business owner uses rewards and punishments to promote performance scored a mean of 4.0654 with a deviation of 0.5367. The findings reveal that majority of the respondents agreed on the statement. The study finding agrees with Bass (1985) who reported that there are different types of leaders who use different types of leadership styles a directive leader will, uses threats and punishment to instill fear in the employees while a transformational leader will encourage a reward system and recognizes the efforts of his employees.

The responses on whether the business owner sets organization goals alone and then employees monitored to deliver on the goals had a mean of 4.1028 with a deviation of 0.5652. This is an indication that majority of the respondents agreed on the statement. In a directive leadership setting, the leader makes all the decisions himself without involving the employees (Flamholz, 1990). Asked whether the business owner needs employees to comply with all his requests for the business, majority of the respondents agreed as was depicted by a mean of 4.0654 with a deviation of 0.5432. The finding agrees with Flamholz (1990) revealed that a directive leader demands compliance with orders without explaining the reason behind them. This kind of leader is more authoritative and does not give his employees a voice but rather expects them to follow his orders without any questions.

The respondents agreed that the business founder has not fully delegated duties to his juniors in the organization as was shown by a mean of 4.1028 with a deviation of 0.5652. The responses on whether the business founder monitors employees closely to ensure they perform their tasks had a mean of 4.0654 with a deviation of 0.5367. This means that majority of the respondents agreed. The finding concurs with Bass (1985)

who outlined the attributes of transactional leadership close monitoring for deviances, mistakes, and errors and then taking corrective action as quickly as possible when they occur. This leadership style is highly effective in reducing errors as the close monitoring ensures that the errors are addressed immediately.

#### **4.2.1: Extent to which leadership style affects Performance**

The study sought to establish the extent to which the respondents thought the founders leadership style affected performance. The responses are shown in the table 4.6

**Table 4.2: Extent to which leadership style affects performance.**

|                   | Frequency  | Percent      |
|-------------------|------------|--------------|
| Very great extent | 16         | 15.0         |
| Great extent      | 68         | 63.6         |
| Moderate extent   | 21         | 19.6         |
| Negligible extent | 2          | 1.9          |
| <b>Total</b>      | <b>107</b> | <b>100.0</b> |

From the findings majority of the respondents 63.6% (68) of the respondents said that the leadership style adopted by the organizations founders affects that performance to a great extent while 19.6% (21) said to a moderate extent. The respondents who said to a very great extent were 15% (16) of the respondents while only 1.9% (2) said to a negligible extent. The finding coincides with Mosadeghrad&Yarmohammadian (2006) who established that organizational success in achieving its goals and objectives depends on its managers and their leadership style. By using appropriate leadership styles, managers can affect the performance of their organization and the long term attainment of the vision and mission.

#### **4.3 Effects of Succession Planning**

The study sought to establish the effects of succession planning on growth and sustainability of the family business. The respondents were asked to rate the extent to which they agreed with the statements. The findings were as shown on Table 4.7

**Table 4.3: Effects of Succession Planning**

| Effects of succession planning                                      | Mean  | S. Dev. |
|---|-------|---------|
| The business has best qualified staff in each department            | 4.168 | 0.936   |
| The business develops employees with skills to take up more tasks   | 3.915 | 0.584   |
| The business has planned for the future operations in human capital | 3.635 | 0.664   |
| The business has a clear career growth channel                      | 3.579 | 0.673   |
| Senior managers in the business are given specialized training      | 3.420 | 0.659   |
| The business has planned for its future leadership                  | 3.579 | 0.673   |
| Career planning in the organization has been done                   | 3.420 | 0.659   |
| The business owner is involved in employee skills development       | 3.579 | 0.673   |
| Special skills within the organization have been identified         | 3.420 | 0.659   |
| There is a clear plan as to the leadership and their deputies       | 3.579 | 0.816   |

On whether the business has best qualified staff in each department the responses had a mean of 4.168 with a deviation of 0.936. These findings reveal that majority of the respondents' agreed on the above statement. These finding isconsistent with Huang (2001) who established that was an important relationship between the level of sophistication with which succession plans were carried out and human resource outcomes. Asked whether the business develops employees with skills to take up more tasks, the respondents agreed on the statements with a mean of 3.915 and a deviation of 0.584. The finding agrees withCuculleli&Micucci, (2008) who reported that skill development among employees of family businesses was key in determining the growth and success of the business.

The study sought to establish whether the business has planned for the future operations in terms of human capital, the responses had a mean of 3.635 with a deviation of 0.664. This was an indication that majority of the respondents agreed on the statement. The finding was consistent with Baruch and Peiperl (2000) who surveyed UK companies and found out that, succession management is an important characteristic of effective career management. This is because such measures ensures that the future leadership is mentored and trained in advance thus making the transitional period smoother with minimal losses.

Majority of the respondents agreed that the business had a clear career growth channel as the responses had a mean of 3.579 with a deviation of 0.673. Family businesses that plan for future management perform better compared to those that don't since future leaders are groomed and mentored in advance. Huang (2001) in his study on succession management and human resource outcomes concluded that the credibility of succession planning in career growth ultimately affected the performance levels of the individuals as well.

When asked whether the senior managers in the business are given specialized training, the respondents were neutral as the statement scored a mean of 3.420 with a deviation of 0.659. The finding is nonaligned with Cuculleli&Micucci, (2008) who reported that specialized training and acquiring of further skills among the leaders in family businesses was key in determining the growth and success of the business. Majority of the respondents agreed that the business has planned for its future leadership by building recruited employees. This statement had a mean of 3.579 and a deviation of 0.673. Chua &Chrisman (2008) in their study on succession planning concluded that succession planning is a systematic approach in developing potential successors in ways that best fit their strengths. The leaders are able to identify the strengths and weaknesses of current employees and thus can gauge them for their potential in future leadership.

When asked whether career planning in the organization has been done, the respondents were neutral as was shown by a mean of 3.420 and a deviation of 0.659. The finding was neutral with Baruch and Peiperl (2000) who categorized succession management as active planning along with performance reviews, counseling by managers and human resource. They further argued that this contributed greatly to effective management in the organization.

On being asked whether the business owner is involved in the skills development of the employees, the respondents agreed as was shown by a mean of 3.579 and a deviation of 0.673. The finding was fair to Cuculleli&Micucci (2008) who argued that it's the lack of competence and skills that cause stagnation of family business after the exit of the founder. This is because the employees are not mentored to develop further skills and thus do not keep up with the emerging trends.

The responses on special skills within the organization have been identified and developed further scored a mean of 3.420 with a deviation of 0.659. This findings show

that the respondents were neutral on the subject. Development of skills is vital in maintaining the quality of service offered by the organization. According Sonfield and Lussier (2004) most family businesses do not survive past the third generation due to lack of expertise of the founder.

The respondents were also neutral as to whether there was a clear plan as to the leadership and their deputies in the organization. The responses had a mean of 3.479 with a deviation of 0.816. The finding was objective to Baruch and Peiperl (2000) who found out that active planning process was strongly associated with dynamic, open and proactive organizations. These organizations performed better as opposed to those that had no clear plans for the leadership in the organization.

#### **4.3.1: Extent to which leadership preparation affects growth**

The study sought to establish the extent to which leadership affected growth. The finding was shown on Table 4.4

**Table 4.4: Extent to which leadership preparation affects growth**

|                   | Frequency  | Percent      |
|-------------------|------------|--------------|
| Very great extent | 13         | 12.1         |
| Great extent      | 33         | 30.8         |
| Moderate extent   | 56         | 52.3         |
| Little extent     | 4          | 3.7          |
| Negligible extent | 1          | 0.9          |
| <b>Total</b>      | <b>107</b> | <b>100.0</b> |

From the responses majority of the respondents 52.3% (56) said that leadership preparation affects growth to a moderate extent. 30.8% (33) said to a great extent, 12.1% (13) said to a very great extent, 3.7% (4) said to a little extent and only 0.9% (1) said to a negligible extent. The finding is impartial to Levitz (2008) who reported that succession planning and leadership development and suggested that leadership development and succession planning must be at the core of strategic planning in order to increase the growth and performance of the organization.

### 4.3.2: Number of Employees in the Last Five Years

The study sought to find out the number of employees the respondents had employed in the last five years the responses were as shown on Table 4.5

**Table 4.5: Number of employees in the last five years**

| Year/ Number of employees | 2014 |    | 2013 |    | 2012 |    | 2011 |    | 2010 |    |
|---------------------------|------|----|------|----|------|----|------|----|------|----|
|                           | %    | F  | %    | F  | %    | F  | %    | F  | %    | F  |
| Below 4                   | 25.2 | 27 | 33.6 | 36 | 50.5 | 54 | 59.8 | 64 | 67.3 | 72 |
| 5-9                       | 59.8 | 64 | 54.2 | 58 | 39.3 | 42 | 32.7 | 35 | 29   | 31 |
| 10-14                     | 9.3  | 10 | 9.3  | 10 | 8.4  | 9  | 4.7  | 5  | 1.9  | 2  |
| 15-19                     | 3.7  | 4  | 0.9  | 1  | 0    | 0  | 0.9  | 1  | 0.9  | 1  |
| 20 and above              | 1.9  | 2  | 1.9  | 2  | 1.9  | 2  | 1.9  | 2  | 0.9  | 1  |

From the responses, the study established that 25.2% (27) of the respondents had less than employees in 2014, 59.8% (64) had 5-9 employees, 9.3% (10) had 10-14 employees, 3.7%(4) had 15-19 employees and only 2% (1.9) had 20 and above employees. In 2013, 33.6(36) Below 4, 54.2(58) had 5-9 employees, 9.3(10) had 10-14 employees, 9(1) had 15-19 employees and 1.9(2) had 20 and above employees. In 2012, 50.5(54) had Below 4 employees 39.3(42) had 5-9, 8.4(9) had 10-14 employees and 1.9(2) had 20 and above employees. In 2011, 59.8(64) had less than 4 employees, 32.7(35) had 5-9 employees 4.7(5) had 10-14 employees, 0.9(1) had 1.9(2) employees and 15-19 had 20 and above employees. In 2010, 67.3(72) had less than 4 employees, 29(31) had 5-9 employees, 1.9(2) had 10-14 employees, 0.9(1) had 15-19 employees and 0.9(1) had 20 and above.

### 4.3.3: Profits in the Last Five Years

The study sought to establish the profits that the businesses had made in the last five years. The finding was as indicated on Table 4.6

**Table 4.6: Profits in the last five years.**

| Year/<br>Profits<br>generated (Ksh) | 2014 |    | 2013 |    | 2012 |    | 2011 |    | 2010 |    |
|-------------------------------------|------|----|------|----|------|----|------|----|------|----|
|                                     | %    | F  | %    | F  | %    | F  | %    | F  | %    | F  |
| Below 100,000                       | 1.9  | 2  | 0.9  | 1  | 2.8  | 3  | 5.6  | 6  | 11.2 | 12 |
| 100,001 – 200,000                   | 4.7  | 5  | 8.4  | 9  | 13.1 | 14 | 23.4 | 25 | 38.3 | 41 |
| 200,001 – 300,000                   | 23.4 | 25 | 39.3 | 42 | 49.5 | 53 | 58.9 | 63 | 41.1 | 44 |
| 300,001 – 400,000                   | 53.3 | 57 | 39.3 | 42 | 26.2 | 28 | 4.7  | 5  | 3.7  | 4  |
| Above 400, 000                      | 16.8 | 18 | 0.9  | 1  | 8.4  | 9  | 7.5  | 8  | 4.7  | 5  |

In 2014, 1.9% (2) of the respondents said that they had a profit of below 100,000, 4.7% (5) indicated that they had a profit of 100,001 – 200,000, 23.4% (25) had a profit of 200,001 – 300, 000, while majority of the respondents 53.3% (57) said that they had a profit of 300,001 – 400,000 while only 16.8% (18) of the respondents had a profit of Above 400, 000. In 2013, 0.9% (1) of the respondents indicated that they had a profit of below 100,000, those who had a profit of 100,001 – 200,000 were 8.4% (9), 39.3% (42) of the respondents indicated that they had a profit of 200,001 – 300,000, respondents who said they had a profit of 300,001 – 400,000 were 39.3% (42) while 0.9%(1) of the respondents had a profit of above 400, 000.

In 2012, 2.8% (3) of the respondents had a profit of Below 100, 000 while 13.1% (14) of the respondents said they had a profit of 100,001 – 200, 000, majority of the respondents 49.5% (53) reported that they had a profit of 200,001 – 300, 000 whereas 26.2% (28) of the respondents said that they had a profit of 300,001 – 400,000 and only 8.4% (9) of the respondents said that they had a profit of above 400, 000.

In 2011, 5.6% (6) of the respondents said they had made a profit of below 100,000, 23.4% (25) reported that they had made a profit of 100,001 – 200, 000 whereas majority of the respondents, 58.9% (63) made a profit of 200,001 – 300, 000. The respondents who made a profit of 300,001 – 400,000 were 4.7% (5) while 7.5% (8) of the respondents indicated that they had made a profit of above 400, 000. In 2010, 11.2% (12) of the respondents said they had profits of below 100,000 38.3% (41) reported that they had profits of 100,001 – 200, 000 whereas majority of the respondents, 41.1% (44) said they had profits of 200,001 – 300, 000. Those who had made profits of 300,001 – 400,000 were 3.7% (4) while 4.7% (5) of the respondents had made profits of above 400, 000.

#### 4.3.4 Asset Value in the Last Five Years

The study sought to establish the asset value of the interviewed businesses in the last five years. The finding was as shown on Table 4.7

**Table 4.7: Number of employees in the last five years**

| Year/<br>Asset<br>(Ksh) | Total<br>Value | 2014 |    | 2013 |    | 2012 |    | 2011 |    | 2010 |    |
|-------------------------|----------------|------|----|------|----|------|----|------|----|------|----|
|                         |                | %    | F  | %    | F  | %    | F  | %    | F  | %    | F  |
| Below 500,000           |                | 0    | 0  | 3.7  | 4  | 8.4  | 9  | 15   | 16 | 26.2 | 28 |
| 500,001<br>1,000,000    | –              | 13   | 14 | 18.7 | 20 | 21.5 | 23 | 26.2 | 28 | 24.3 | 26 |
| 1,000,001<br>1,500,000  | –              | 24.3 | 26 | 34.6 | 37 | 40.2 | 43 | 40.2 | 43 | 36.4 | 39 |
| 1,500,001<br>2,000,000  | –              | 39.3 | 42 | 26.2 | 28 | 13.1 | 14 | 8.4  | 9  | 5.6  | 6  |
| Above 2,000,<br>000     |                | 23.4 | 25 | 16.8 | 18 | 16.8 | 18 | 10.3 | 11 | 7.5  | 8  |

From the responses, the study established that in 2014, 13.1% (14) of the respondents had assets valued at 500,001 – 1,000,000, 24.3% (26) had assets valued at 1,000,001 – 1,500,000 whereas majority of the respondents 39.3% (42) had assets valued at 1,500,001 – 2,000,000. Those who had assets valued at above 2,000,000 were 23.4% (25). The study further found that in 2013, 3.7% (4) of the respondents had assets valued at below 500,000 with 18.7% (20) of the respondents indicating 500,001 – 1,000,000 as the value of assets they had. Majority of the respondents 34.6% (37) said they had assets valued at 1,000,001 – 1,500,000 with only 26.2% (28) of the respondents indicating 1,500,001 – 2,000,000 as the value of assets they had and 16.8% (18) indicated that they assets valued above 2,000,000.

In addition, the study established that in 2012, 8.4% (9) of the respondents had assets valued at below 500,000, 21.5% (23) of the respondents had assets valued at 500,001 – 1,000,000 whereas majority of the respondents 40.2% (43) had assets valued at 1,000,001

– 1,500,000. Those who had assets valued at 1,500,001 – 2, 000, 000 were 13.1% (14) and 16.8% (18) of the respondents said they had assets valued at above 2,000, 000. The study found that in 2011, 15% (16) of the respondents had assets valued at below 500,000, 26.2% (28) of the respondents indicated that they had assets valued at 500,001 – 1, 000, 000 whereas majority of the respondents 40.2% (43) had assets valued at 1,000,001 – 1,500,000. The respondents who had has assets valued at 1,500,001 – 2,000,000 were 8.4% (9) while 10.3% (11) of the respondents had assets valued at above 2,000, 000. The study also found that in 2010, 26.2%(28) of the respondents had assets valued at below 500,000, 24.3% (26) of the respondents had assets valued at 500,001 – 1,000,000 whereas majority of the respondents 36.4% (39) had assets valued at 1,000,001 – 1,500,000 with 5.6%(6) indicating that they had assets valued at 1,500,001 – 2,000,000 and 7.5% (8) said they had assets valued at above 2,000, 000.

#### 4.3.5 Sustainability Measures

The respondents were asked the extent to which they agree with the above statement on sustainability measures the responses were as shown on Table 4.8

**Table 4.8: Sustainability Measures**

| Sustainability Measurement   | Mean   | S.Dev   |
|--|--------|---------|
| The business is able to survive competition effectively and has an edge over its competitors | 4.2710 | 0.74316 |
| The business has been able to meet its clients’ demand on time                               | 4.0654 | 0.74316 |
| The business has employed qualified employees for various tasks                              | 4.0280 | 0.70655 |
| The business has managed to pay employee salaries on time                                    | 4.8131 | 0.35729 |
| The business has programs designed to get qualified staff for its business operations        | 3.7664 | 0.98651 |
| The business has managed to increase its office space over time                              | 3.7944 | 0.88742 |

On whether the business is able to survive competition effectively and has an edge over its competitors the responses had a mean of 4.2710 with a deviation of 0.74316. This depicts that majority of the respondents agreed. The finding differs with Poutzioris (2000) who showed that only a third of the businesses are able to survive the transition from the

founders to the third generation. This is because most of them do not keep up with the emerging trends and thus lose out to the competitors.

The statement, the business has been able to meet its clients' demand on time scored a mean of 4.0654 with a deviation of 0.74316. This implies that the majority of the respondents agreed. The finding was consistent with Grocery Manufacturers Association and Deloitte Development LLC (2009) who established that the ability of a business to compete effectively is therefore a clear indication of its sustainability level. A business that competes effectively is able to meet and exceed the demands and expectations of the customers thus gaining advantage over the competitors.

On whether the business has employed qualified employees for various tasks, the responses had a mean of 4.0280 with a deviation of 0.70655. This meant that majority of the respondents agreed on the statement. The study revealed that the business had qualified personnel contradiction the findings of Harvey and Evans (1994) who in their study highlighted lack of clear staffing plan.

From the responses on whether the business has managed to pay employee salaries on time, the statement had a mean of 4.8131 with a deviation of 0.35729. This shows that majority of the respondents strongly agreed with the above statement. Haynes and Usdin(1997) found out that one of the major conflicts in businesses was payments.

Asked whether the business has programs designed to get qualified staff for its business operations, majority of the respondents agreed as the responses had a mean of 3.7664 with a deviation of 0.98651. The finding contradicts with Harvey and Evans (1994) who in their study highlighted lack of clear staffing plan as a major source of conflict in family owned businesses.

The study sought to find out whether the business has managed to increase its office space over time, from the responses, the respondents agreed as was supported by a mean of 3.7944 with a deviation of 0.88742.

#### **4.4 Sources of Conflicts**

The study sought to find out the extent to which the respondents agreed with the above statement on sources of conflict. The findings were as indicated on Table 4.9

**Table 4.9: sources of conflict**

| Sources of conflict in stakeholders' interest   | Mean   | Std.Dev |
|---|--------|---------|
| Family members play a key role in the management of the business                              | 4.0841 | 1.26731 |
| Family members have an influence on the managers appointed in the organization                | 3.0935 | 1.11197 |
| Some family members are assigned duties in the business even when not fully qualified         | 4.0841 | 1.26731 |
| Some family members are not keen to see the business succeed                                  | 3.0935 | 1.11197 |
| Some family members entrusted with some duties in the business do not perform them adequately | 4.0841 | 1.26731 |
| Some family members are opposing the decisions made by expert staff to grow the business      | 3.0935 | 1.11197 |
| Some family members are fighting to have control of the entire business                       | 4.0841 | 1.26731 |
| Some family members disagree on the sharing of profits from the business                      | 3.0935 | 1.11197 |
| Some family members fight to change the scope of business offered by the company              | 4.0841 | 0.9876  |

Asked whether family members play a key role in the management of the business, majority of the respondent agreed as was indicated by a mean of 4.0841 with a deviation of 1.26731. The finding agrees with Habbersons and Williams (1999) who argued that a set of resources and capabilities that are distinctive to a firm as a result of family involvement is the “familiness” of the firm which is defined as “unique bundle” of resources a particular firm has because of the interaction between the family, its individual members and the business. Thus most organization will involve their family members in management so as to maintain that bond.

On whether family members have an influence on the managers appointed in the organization, the respondents were neutral with a mean of 3.0935 with a deviation of 1.11197 and indication that majority of the respondents were neutral that the need for

management control was one of the sources of conflict identified by Haynes and Usdin in their study. This may result to family members assigning roles to specific relatives since they want to solely control the business as a family (Haynes and Usdin (1997).

The study sought to establish whether some family members are assigned duties in the business even when not fully qualified, the majority of the respondents agreed as was indicated by a mean of 4.0841 and a deviation of 1.26731. Lack of a clear staffing plan and organizational chart was one of the challenges identified by Harvey and Evans (1994) that leads to conflict in family businesses. He further argued that this leads to unqualified personnel being given major positions in the organizations simply because of family relations.

The responses on whether some family members are not keen to see the business succeed had a mean of 3.0935 with a deviation of 1.11197. This findings show that the majority of the respondents were neutral on the statement. Some family members may not be interested in following a plan that was laid out for them as members of the family. This ends up having an impact on all those in the business which in turn leads to losses due to poor performance (Harvey and Evans, 1994).

Asked whether some family members entrusted with some duties in the business do not perform them adequately, the study established that majority of the respondents agreed with a mean of 4.0841 with a deviation of 1.26731 that that some family members entrusted with some duties in the business did not perform them adequately. The finding coincide with Harvey and Evans (1994) who mentioned that classic family business conflict issues lack of a clear staffing plan or organizational chart. This may lead to members of the family being assigned tasks that they are not qualified for and thus will not perform them well.

Asked whether some family members are opposing the decisions made by expert staff to grow the business, the respondents were neutral as was shown by a mean of 3.0935 with a deviation of 1.11197. Expert staff gives advice on the strategies that a business should take up and the decisions to be made. Family members more often than not will disagree on the choices and future path of the business since they have different expectations (Haynes and Usdin 1997)

The respondents were asked whether some family members are fighting to have control of the entire business, the majority of the respondents agreed as was shown by a mean of

4.0841 with a deviation of 1.26731. These findings are consistent with those of Haynes and Usdin (1997) who concluded that conflict in family businesses mostly include management, and power struggles

The responses on whether some family members disagree on the sharing of profits from the business showed that the majority of the respondents were neutral as was shown by a mean of 3.0935 and a deviation of 1.11197. These findings support those of Haynes and Usdin (1997) who established that there were conflict issues in family businesses including argument over payments of dividends versus re-investments, profits and disagreements over future direction of the company.

The responses on whether some family members fight to change the scope of business offered by the company had a mean of 4.0841 with a deviation of 0.9876. These findings reveal that majority of the respondents agreed on the statement. According to Sharma Chrisman and Chua (1997) family business conflicts, are embedded in the business system. The research further argued that the conflict will pertain to the services and management in the family business

#### **4.4.1: Extent to which Conflict Affects Growth**

The study asked the respondent the extent to which conflict affects growth. The responses were as shown on Table 4.10

**Table 4.10: Extent to which Conflict affects Growth.**

|                   | Frequency  | Percent      |
|-------------------|------------|--------------|
| Very great extent | 12         | 11.2         |
| Great extent      | 32         | 29.9         |
| Moderate extent   | 61         | 57.0         |
| Little extent     | 2          | 1.9          |
| <b>Total</b>      | <b>107</b> | <b>100.0</b> |

From the finding 57% (61) of the respondents said that conflicts affects growth to a moderate extent, 29.9% (32) said to a great extent, 11.2% (12) said to a very great extent while 1.9% (2) said to a little extent. There were no respondents who said to a negligible extent.

#### 4.5 Influence of Governance Structures on Growth

The study sought to establish the influence of governance structures on growth and sustainability of family business. The findings were as shown on Table 4.11

**Table 4.11: Influence of Governance Structures**

| Influence of governance structures  | Mean   | Std.Dev |
|---|--------|---------|
| There is a clear leadership structure in the business   | 4.3645 | 0.92545 |
| The leadership structure in the business encourages faster decision making processes  | 3.9439 | 0.69813 |
| The governance structure used provides important information relating to new policies and trade secrets from other businesses.                | 3.5421 | 0.81588 |
| The governance structure exposes the owner(s) to economic trends.   | 3.1776 | 0.75001 |
| The governance structures provide insights into how other business pursues new approaches.  | 3.2710 | 0.90668 |
| One of the family members allocates the business resources for his/her own good regardless of the effects of such decisions on other members. | 3.0748 | 0.88702 |
| The amount of each owner's proportion of the business affects their performance towards attainment of business targets.                       | 2.8318 | 0.93653 |

Asked whether there is a clear leadership structure in the business, majority of the respondents agreed as was supported by a mean of 4.3645 and a deviation of 0.92545. The finding agrees with Richardson (1987) who stated that leaders are important as they act as a guideline to the employees of any organization. Governance exposes directors to different management styles and monitoring behavior thus ensuring that the business stays afloat in line with its objectives. The study sought to establish whether the leadership structure in the business encourages faster decision making processes, the responses had a mean of 3.9439 with a deviation of 0.69813. The finding revealed that the majority of the respondents agreed on the statement. The finding concurs with Useem (1984) who argued that multiple directorships allow directors to achieve a 'business scan' of the latest developments in the business environment to enhance performance. This

wide insight of knowledge makes it easier for the management to make decisions as they have a clear insight on the happenings around them.

The mean of the statement on whether the governance structure used provides important information relating to new policies and trade secrets from other businesses was 3.5421 with a deviation of 0.81588. These shows that majority of the respondents agreed on the statement. This finding was consistent with Richardson, (1987) who in his study established that governance has many benefits among them as a source of information, provide important information relating to new policies, trade secrets, and practices among business organizations which inspires better performance.

The respondents were neutral on whether the governance structure exposes the owner(s) to economic trends as was shown by a mean of 3.1776 with a deviation of 0.75001. This finding was impartial to Bacon and Brown (1974) who found that governance allowed directors to achieve a business scan of the latest developments in the business; economic trends and aspects of international business. On whether the governance structures provide insights into how other business pursues new approaches had a mean of 3.2710 with a deviation of 0.90668. This implies that majority of the respondents were neutral on the above statement. The finding is neutral to Bacon and Brown (1974) who stated that key to staying above the competition is to have an insight on how they are managing their business, governance provides insights into how other companies pursue new approaches to business, expose directors to different management styles and monitoring behavior and allow directors to seek advice from others.

The responses on whether one of the family members allocates the business resources for his/her own good regardless of the effects of such decisions on other members had a mean of 3.0748 with a deviation of 0.88702. This implies that the majorities of the respondents were indecisive and thus were neutral on the subject. According to Fama and Jensen (1983) when owners of the business own low levels of firm equity, they have higher incentives to keep their strategies in line with the preferences of other owners since their bonding to the firm's outcome is big however when ownership may reach a certain point where they would allocate firm resources for their own interest.

The respondents were asked whether the amount of each owner's proportion of the business affects their performance towards attainment of business targets. The responses had a mean of 2.8318 with a deviation of 0.93653. This implies that majority of the

respondents disagreed on the statement. These findings contradict those of McConnell and Servaes (1995), who in his study concluded that ownership by insiders reaches a certain point where they would allocate firm resources for their own interest regardless of the effects on outside shareholders thus affecting the performance.

#### **4.5.1: Extent to which Governance Influences Growth**

The study sought to establish the extent to which governance influences growth. The finding was as shown on Table 4.12

**Table 4.12: Extent to which Governance Influences Growth**

|                   | Frequency  | Percent      |
|-------------------|------------|--------------|
| Very great extent | 15         | 14.0         |
| Great extent      | 39         | 36.4         |
| Moderate extent   | 49         | 45.8         |
| Little extent     | 4          | 3.7          |
| <b>Total</b>      | <b>107</b> | <b>100.0</b> |

From the findings 45.8% (49) of the respondents said that governance influences growth to a moderate extent, 36.4% (39) said to a great extent, 14% (15) said to a very great extent and 3.7% (4) said to a little extent.

#### **4.6 Chapter Summary**

The research has provided the findings of the research as per the respondents view. Chapter five will provide an interpretation of the findings of the data to establish the factors affecting performance of micro and small family business enterprises in Nairobi County. The researcher will use tables, charts and graphs to interpret the findings.

## **CHAPTER FIVE**

### **5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study was to investigate the factors affecting performance, growth and sustainability of micro and small family business enterprises in Nairobi

#### **5.2 Summary**

The study established that the founders' leadership style affected growth and sustainability to a great extent. The respondents agreed that the owner has the overall say in the matters concerning the business but can at times involve the employees in the decision making of the organization. From the responses it was evident that the management of the businesses trusted their employees and enticed them towards a common interest for the business. This in turn encouraged creativity and innovation among the employees. The study also established that majority of the leaders in family businesses across Nairobi have set clear roles for their employees in attaining organizational goals and constantly monitored them closely to ensure they perform their tasks. The objective of the transactional leader is to ensure that the path to goal attainment is clearly understood by the internal actors, to remove potential barrier within the system, and to motivate the actors to achieve the predetermined goals

The study found out that leadership preparation affected the growth of the company to a moderate extent as was supported by majority of the respondents. The respondents agreed that their businesses had the best qualified staff in each department. From the responses it was evident that the businesses had planned for the future operations in terms of human capital which set a clear career growth channel. However the respondents were neutral on whether senior managers in the business are given specialized training but agreed that special skills within the organization have been identified and developed further in line with the clear plan for the leadership and their deputies in the organization.

The respondents agreed that Family members play a key role in the management of the business. However the respondents were neutral on whether they had an influence on the managers appointed in the organization. The study also revealed that though some family

members had been assigned duties in the business even though they were not fully qualified, others were not keen on succeeding the business and thus did not perform the task assigned adequately. The study also established that some family members are fighting to have control of the entire business as well as change the scope of business offered by the company, this shows that conflict in family businesses is mostly in the management level as well as within power struggles

The study established that governance structures influence growth and sustainability of family businesses to a moderate extent. From the study it was evident that there were clear leadership structures in the business that encouraged faster decision making processes. The study also established that the governance structure used provides important information relating to new policies and trade secrets from other businesses however the respondents were neutral on whether it exposed the owner to economic trends. The respondents were neutral on whether the governance structures provide insights into how other business pursues new approaches and disagreed that the amount of each owner's proportion of the business affects their performance in achieving the firm's target.

### **5.3 Discussions**

#### **5.3.1 Leadership style of Founder on Performance**

Onwhether the business owner has the overall say in all matters concerning the business; the study found that the respondents agreed with a mean of 4.2523 and a deviation of 0.5628. The finding coincides with Smith, Dixon and Robertson (2006) who highlighted that leaders play an essential role in ensuring that the workforce and resources are integrated in order to achieve organizational goals. A transformational leader will involve his team in decision making processes while a directive leader will make all the decisions by him. The kind of leadership style a leader uses will ultimately determine the success of the organization.

The respondents agreed that the business owner involved employees in the decision making processes with a mean of 3.8785 and a standard deviation of 0.4432. The finding concurs with Drucker (2001) who concluded that effective organisational leadership involves thinking through the organization's mission, defining it, and establishing it,

clearly and visibly both for the leaders and employees and that leaders in various family businesses involve their employees in the decision making processes. On whether the business owner has trust in employees, the study established that the respondents agreed with a mean of 4.0841 with a deviation of 0.5515. The finding coincides with Bass (1985) who highlighted that transformational leadership is a style in which the followers feel trusted and thus are motivated to do more.

Majority of the respondents agreed that the business owner enticed staff towards a common interest for the business with a mean of 4.1028 with a deviation of 0.5652. The finding agrees with Katz & Kahn (1978) who showed that a transformational leader motivates by inducing them to transcend their own self-interest for the sake of the organization or team and activating their higher-order needs. On whether the business founder monitors employees closely to ensure they perform their tasks, the study found that majority of the respondents agreed that the business founder monitored employees closely to ensure they performed their tasks. The finding concurs with Bass (1985) who outlined the attributes of transactional leadership close monitoring for deviances, mistakes, and errors and then taking corrective action as quickly as possible when they occur. This leadership style is highly effective in reducing errors as the close monitoring ensures that the errors are addressed immediately.

On whether the business owner needs employees to comply with all his requests for the business, majority of the respondents agreed with a mean of 4.0654 with a deviation of 0.5432. The finding coincides with Flamholz (1990) revealed that a directive leader demands compliance with orders without explaining the reason behind them. This kind of leader is more authoritative and does not give his employees a voice but rather expects them to follow his orders without question. On whether the business owner uses rewards and punishments to promote performance, the study found that majority of the respondents agreed that the business owner used rewards and punishments to promote performance with a mean of 4.0654 with a deviation of 0.5367. The finding agrees with Bass (1985) who reported that there are different types of leaders who use different types of leadership styles a directive leader will, uses threats and punishment to instill fear in the employees while a transformational leader will encourages a reward system and recognizes the efforts of his employees.

On the extent to which the respondents thought the founder's leadership style affected performance, the study established that 63.6% of the respondents said that the founder's leadership style affected performance to a great extent. The finding coincides with Mosadeghrad & Yarmohammadian (2006) who highlighted that organizational success in achieving its goals and objectives depends on its managers and their leadership style. By using appropriate leadership styles, managers can affect the performance of their organization and the long term attainment of the vision and mission. The study further established that the business had best qualified staff in each department. This is consistent with Huang (2001) who established that there was an important relationship between the level of sophistication with which succession plans were carried out and human resource outcomes.

### **5.3.2 Success Planning on Performance**

On whether the business develops employees with skills to take up more tasks, the respondents agreed with a mean of 3.915 and a deviation of 0.584 that business developed employees with skills to take up more tasks. The finding agrees with Cuculleli & Micucci, (2008) who reported that skill development among employees of family businesses was paramount in determining the growth and success of the business. The study further established that the business had planned for the future operations in terms of human capital. The finding concurs with Baruch and Peiperl (2000) who surveyed UK companies and found out that, succession management is an important characteristic of effective career management. This is because such measures ensure that the future leadership is mentored and trained in advance thus making the transitional period smoother with minimal losses.

On whether the senior managers in the business are given specialized training, the respondents were neutral with a mean of 3.420 with a deviation of 0.659 that senior managers in the business being given specialized training. The finding is impartial to Cuculleli & Micucci, (2008) who reported that specialized training and acquiring of further skills among the leaders in family businesses was significant in determining the growth and success of the business. The study also established that the respondents were neutral with a mean of 3.420 and a deviation of 0.659 that career planning in the organization being done. The finding was neutral with Baruch and Peiperl (2000) who categorized succession management as active planning along with performance reviews, counseling

by managers and human resource. They further argued that this contributed greatly to effective management in the organization.

The respondents were also neutral as to whether there was a clear plan as to the leadership and their deputies in the organization. The finding was objective to Baruch and Peiperl (2000) who found out that active planning process was strongly associated with dynamic, open and proactive organizations. These organizations performed better as opposed to those that had no clear plans for the leadership in the organization. On the extent to which leadership affected growth, the study revealed that 52.3% of the respondents indicated that leadership preparation affected growth to a moderate extent. The finding is impartial to Levitz (2008) who reported that succession planning and leadership development and suggested that leadership development and succession planning must be at the core of strategic planning in order to increase the growth and performance of the organization.

On the number of employees the respondents had employed in the last five years, the study established that in 2014 and 2013, majority of the respondents had employed 5-9 employees. The study found that in 2012, 2011 and 2010, majority of the respondents had employed less than 4 employees. On the profits that the businesses had made in the last five years, the study found that in 2014 and 2013, majority of the respondents indicated that the profit business had made was Ksh 300,001 – 400,000. In 2012, 2011 and 2010, the study found that the profit business had made was Ksh 200,001 – 300,000. On the asset value of the interviewed businesses in the last five years, the study found that in 2014, majority of the respondents indicated asset value of the business was Ksh 1,500,001 – 2,000,000, in 2013, 2012, 2011 and 2010, the study reported that majority of the respondents indicated that the asset value of the business was Ksh 1,000,001 – 1,500,000.

On whether the business is able to survive competition effectively and has an edge over its competitors, the study found that majority of the respondents agreed with mean of 4.2710 with a deviation of 0.74316 that the business was able to survive competition effectively and had an edge over its competitors. The finding differs with Poutzioris (2000) who showed that only a third of the businesses are able to survive the transition from the founders to the third generation. This is because most of them do not keep up with the emerging trends and thus loose out to the competitors. On whether the business has been able to meet its clients' demand on time, the study found that the business had

been able to meet its clients' demand on time. The finding was consistent with Grocery Manufacturers Association and Deloitte Development LLC (2009) who established that the ability of a business to compete effectively is therefore a clear indication of its sustainability level. A business that competes effectively is able to meet and exceed the demands and expectations of the customers thus gaining advantage over the competitors.

On whether the business has programs designed to get qualified staff for its business operations, the study found that the business had programs designed to get qualified staff for its business operations. The finding contradicts with Harvey and Evans (1994) who in their study highlighted lack of clear staffing plan as a major source of conflict in family owned businesses.

On whether family members play a key role in the management of the business, the study found that family members played a key role in the management of the business. The finding agrees with Habbersons and Williams (1999) who argued that a set of resources and capabilities that are distinctive to a firm as a result of family involvement is the "familiness" of the firm which is defined as "unique bundle" of resources a particular firm has because of the interaction between the family, its individual members and the business. Thus most organization will involve their family members in management so as to maintain that bond.

The respondents were neutral with a mean of 3.0935 with a deviation of 1.11197 that family members had an influence on the managers appointed in the organization. The finding is impartial to Haynes and Usdin (1997) who reported that the need for management control was one of the sources of conflict which may result to family members assigning roles to specific relatives since they want to solely control the business as a family. This leads to unqualified personnel being given major positions in the organizations simply because of family relations. On whether some family members are not keen to see the business succeed, the study established that the majority of the respondents were neutral with a mean of 3.0935 with a deviation of 1.11197. The finding was neutral to Harvey and Evans (1994) who reported that some family members may not be interested in following a plan that was laid out for them as members of the family. This ends up having an impact on all those in the business which in turn leads to losses due to poor performance.

Asked whether some family members entrusted with some duties in the business do not perform them adequately, the study found that majority of the respondents agreed with a mean of 4.0841 with a deviation of 1.26731 that some family members entrusted with some duties in the business did not perform them adequately. The finding coincide with Harvey and Evans (1994) who mentioned that classic family business conflict issues lack of a clear staffing plan or organizational chart. This may lead to members of the family being assigned tasks that they are not qualified for and thus will not perform them well.

### **5.3.3 Governance Structures on Performance**

On whether there is a clear leadership structure in the business, majority of the respondents agreed with a mean of 4.3645 and a deviation of 0.92545 that whether there was a clear leadership structure in the business. The finding agrees with Richardson (1987) who stated that leaders are important as they act as a guideline to the employees of any organization. Governance exposes directors to different management styles and monitoring behavior thus ensuring that the business stays afloat in line with its objectives. The study sought to establish whether the leadership structure in the business encourages faster decision making processes, the study found that whether the leadership structure in the business encouraged faster decision making processes. The finding concurs with Useem (1984) who argued that multiple directorships allow directors to achieve a ‘business scan’ of the latest developments in the business environment to enhance performance. This wide insight of knowledge makes it easier for the management to make decisions as they have a clear insight on the happenings around them.

On whether the governance structure used provides important information relating to new policies and trade secrets from other businesses, the respondents agreed with a mean of 3.5421 and a deviation of 0.81588 that governance structure used provided important information relating to new policies and trade secrets from other businesses. The finding was consistent with Richardson, (1987) who in his study established that governance has many benefits among them as a source of information, provide important information relating to new policies, trade secrets, and practices among business organizations which inspires better performance. The study found that the respondents were neutral with mean of 3.1776 with a deviation of 0.75001 about the governance structure exposing the owner(s) to economic trends. This finding was impartial to Bacon and Brown (1974) who found that governance allowed directors to achieve a business scan of the latest

developments in the business; economic trends and aspects of international business. On the extent to which governance influences growth, the study established that 45.8% of the respondents indicated that governance influenced growth to a moderate extent.

## **5.4 Conclusions**

### **5.4.1 Leadership style of founder on Performance**

The study concluded that the business owner had the overall say in all matters concerning the business, involved employees in the decision making processes in the organization and the business owner had trust in employees working. The study further concluded that founder informed employees of the importance of their duties in the attainment of organizational goals and that the business owner had enticed staff towards a common interest for the business. The study also concluded that the business founder encouraged creativity and innovation among staff for the betterment of the organization, always challenges employees to perform better and sought opinions on how to solve various problems in the organization thereby in empowering employees by challenging them to be innovative in solving problems. The study also concluded that the leader encouraged employees to think critically and seek new ways to approach their jobs and that founder sought to maintain stability rather than promoting change within the organization. It was also concluded that the founder promoted intelligence, rationality, logical thinking and careful problem solving and that the respondents were not sure whether the leader encouraged constructive behavior which entails contingent reward, and corrective dimension imbibes management by exception. In addition, the study concluded that the business owner was more concerned about having tasks completed on time by employees and corrected employees whenever things went wrong. The study the leadership style adopted by the organizations founders affected that performance to a great extent.

### **5.4.2 Succession Planning on Performance**

On the effects of succession planning on the on growth and sustainability of the family business, the study concluded that the business had best qualified staff in each department, developed employees with skills to take up more tasks and that the business had planned for the future operations in terms of human capital since succession management is an important characteristic of effective career management. The study

further concluded that the business had a clear career growth channel and the study also concluded that the respondents were neutral on whether the senior managers in the business were given specialized training and whether career planning in the organization had been done.

It was concluded that the business had planned for its future leadership by building recruited employees and business owner was involved in the skills development of the employees. The study also concluded that the respondents were not sure whether there was a clear plan as to the leadership and their deputies in the organization and whether special skills within the organization have been identified and developed further. In additions the study concluded that leadership preparation affected growth to a moderate extent, that in 2012 and 2013, majority of the respondents had assets valued at Ksh 1,000,001 – 1,500,000.

On sustainability measures, the study concluded that the business was able to survive competition effectively and had an edge over its competitors; the business had been able to meet its clients' demand on time and the business has employed qualified employees for various tasks. The study also concluded that the business had managed to pay employee salaries on time since major conflicts in businesses was payments and the business had programs designed to get qualified staff for its business operations.

The study concluded that family members played a key role in the management of the business as resources a particular firm has depends on the interaction between the families. The study also concluded that the respondents were not sure whether family members had an influence on the managers appointed in the organization and that some family members were assigned duties in the business even when not fully qualified. In addition, it was concluded that the respondents were impartial on whether some family members were not keen to see the business succeed and also some family members were opposing the decisions made by expert staff to grow the business. Some family members entrusted with some duties in the business did not perform them adequately, the study also concluded that some family members were fighting to have control of the entire business and that some family members fought to change the scope of business offered by the company. Conflicts affected growth to a moderate extent.

### **5.4.3 Governance Structures on Performance**

On the influence of governance structures on growth and sustainability of family business, the study concluded that there was a clear leadership structure in the business as leaders act as a guideline to the employees of any organization. It was concluded that the leadership structure in the business encouraged faster decision making processes and the governance structure used provided important information relating to new policies and trade secrets from other businesses. The study concluded further that the respondents were impartial on whether the governance structure exposed the owner(s) to economic trends, one of the family members allocates the business resources for his/her own good regardless of the effects of such decisions on other members and on whether the governance structures provided insights into how other business pursues new approaches. The study also concluded that the respondents were neutral on whether the amount of each owner's proportion of the business affected their performance towards attainment of business targets. The overall conclusion was that governance influenced growth to a moderate extent.

## **5.5 Recommendations**

### **5.5.1 Recommendations of the study**

#### **5.5.1.1 Leadership style of founder on Performance**

This study recommends that the management in the organization assigns each of the employees their clear job description and the tasks expected to oversee. This will create accountability as well as close monitoring of the employees on their strengths and weaknesses in task delivery thus improving performance.

The study further recommends the leader should continuously encourage employees to think critically and seek new ways to approach their jobs since it led to an increase in employees' level of performance, satisfaction, and commitment to the goals of their organization.

#### **5.5.1.2 Succession Planning on Performance**

The study recommends that managers in the organization be given specialized training on how to manage the employees and also that the employees be offered relevant training that will enhance their skills in performing the tasks assigned.

The study recommends that it is important to implement a structured succession plan which distinguishes the importance of establishing ownership of the succession plan and aligning the internal culture with external branding.

The study further recommends that organizations should perform critical internal examinations of their current methods and strategies for the communication of their succession planning program.

This study recommends that business do not give sole leadership and management in all departments to family members but rather employ outsiders are the more qualified. This will not only bring impartialness in making decisions but will also reduce conflict in leadership among family members.

#### **5.5.1.3 Governance structures on Performance**

The study recommends that more micro and small family businesses should adopt multiple directorship structure of governance since the members provided important

information related to new policies, trade secrets and practices among business organizations which inspires better performance.

The study further recommends that micro and small family businesses should take into account the importance sense of feeling of ownership of a business since most micro and small family owned businesses collapse after the first generation of owners who felt a strong connection to the business are dead.

### **5.5.2 Recommendations for Further Studies**

The purpose of this study was to investigate the factors affecting performance, growth and sustainability of micro and small family business enterprises. The study concentrated on Nairobi alone as the center of the study. This study recommends that in the future similar studies be done countrywide so as to generalize the study on all family businesses across the country.

This study also recommends that in the future a study be conducted on factors affecting profitability in family owned business. This will enable small enterprises identify ways in which they can increase their profits which will subsequently contribute to the economy as they will raise the family's living standards.

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## APPENDICES

### APPENDIX I: COVER LETTER

United States International University – Africa (USIU-A)

Chandaria school of Business Administration

P.O Box 14634 -00800

Nairobi.

Dear Sir/ Madam

#### **RE: Graduate Research Questionnaire**

I am undertaking a project titled; “*Factors affecting performance of micro and small family business enterprises in Nairobi County*” you have been identified as one of the respondents to the questionnaire because of the expertise you possess in the succession planning sector.

In this regard I kindly request you to fill the questionnaire attached, the responses to the questions therein and any information will be purely for academic research, the purpose and the information provided will be treated with the strictest of confidence and anonymity.

Results of the study will be vital to current and future students, researchers, family owned businesses, business investors and policy developers as shown in the introductory part of the study. Your assistance and support will be highly appreciated.

In case you may want a summary of the findings of the research, I’ll not hesitate to email them to you, if you attach your contact details on the filled questionnaire or email the request to the email [maureen.mson@gmail.com](mailto:maureen.mson@gmail.com).

Thank you in advance.

Yours sincerely,

Karanja Maureen Muthoni

## APPENDIX II: QUESTIONNAIRE

Please tick as appropriate

### SECTION A: GENERAL INFORMATION

1. Please indicate your gender:  
 Male (    )      Female (    )
2. What is your highest level of Formal Education?  
 Graduate/Post-Graduate (    )      Diploma/Certificate (    )  
 Secondary Education (    )      Primary Education (    )  
 None (    )
3. For how long has the business been operational?  
 1 – 5 years (    )      6 – 10 years (    )      11 – 15 years (    )  
 16 – 20 years (    )      above 21 years (    )
4. For how long have you worked for this organization?  
 1 – 5 years (    )      6 – 10 years (    )      11 – 15 years (    )  
 16 – 20 years (    )      above 21 years (    )
5. Which generation of owner(s) is managing the business today?  
 1<sup>st</sup> generation (    )      2<sup>nd</sup> generation (    )      3<sup>rd</sup> generation and above (    )

### SECTION B: INFLUENCE OF FOUNDER LEADERSHIP STYLE ON PERFORMANCE OF THE FAMILY BUSINESS

6. Below are statements on the influence of leadership style of the founder on the performance of the family business. On a scale of 1-5 where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree, please indicate by ticking (√) the extent of your agreement with each statement

| <b>The founder's leadership style</b>  | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| The business owner has the overall say in all matters concerning the business            |   |   |   |   |   |
| The business own involves employees in the decision making processes in the organization |   |   |   |   |   |
| The business owner has trust in employees working with him/her                           |   |   |   |   |   |

|  |  |  |  |  |  |
|--|--|--|--|--|--|
| The business owner has the ability to influence those working in the business  |  |  |  |  |  |
| The founder informs employees of the importance of their duties in the attainment of organizational goals.                             |  |  |  |  |  |
| The business owner has enticed staff towards a common interest for the business  |  |  |  |  |  |
| The business founder encourages creativity and innovation among staff for the betterment of the organization                           |  |  |  |  |  |
| The business founder always challenges employees to perform better   |  |  |  |  |  |
| The founder seeks opinions on how to solve various problems in the organization  |  |  |  |  |  |
| The founder hates negativity and selfness among employees  |  |  |  |  |  |
| Leader encourages employees to think critically and seek new ways to approach their jobs   |  |  |  |  |  |
| The founder seeks to maintain stability rather than promoting change within the organization.  |  |  |  |  |  |
| The founder makes all decisions without consulting and all he/she requires is obedience and loyalty from other member of the family.   |  |  |  |  |  |
| The leader promotes intelligence, rationality, logical thinking, and careful problem solving.  |  |  |  |  |  |
| The leader encourages constructive behavior which entails contingent reward, and corrective dimension imbibes management by exception. |  |  |  |  |  |
| The business owner is more concerned about having tasks completed on time by employees   |  |  |  |  |  |
| The business owner corrects employees whenever things go wrong   |  |  |  |  |  |
| The business founder has set clear roles for all employees in attaining organizational goals   |  |  |  |  |  |
| The business owner uses rewards and punishments to promote performance   |  |  |  |  |  |

|   |  |  |  |  |  |
|---|--|--|--|--|--|
| The business owner sets organization goals alone and then employees monitored to deliver on the goals |  |  |  |  |  |
| The business owner needs employees to comply with all his requests for the business                   |  |  |  |  |  |
| The business founder has not fully delegated duties to his juniors in the organization                |  |  |  |  |  |
| The business founder monitors employees closely to ensure they perform their tasks.                   |  |  |  |  |  |

7. To what extent do you think the founder’s leadership style influences the performance of micro and small family owned businesses?

- Very great extent ( ) Great extent ( )  
Moderate extent ( ) Little extent ( )  
Negligible extent ( )

**SECTION C: EFFECTS OF SUCCESSION PLANNING ON PERFORMANCE OF THE FAMILY BUSINESS**

8. Below are statements on the effects of succession planning on the performance of the family businesses? On a scale of 1-5 where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree, please indicate by ticking (√) the extent of your agreement with each statement.

| <b>Effects of succession planning</b>  | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| The business has best qualified staff in each department                     |   |   |   |   |   |
| The business develops employees with skills to take up more tasks            |   |   |   |   |   |
| The business has planned for the future operations in terms of human capital |   |   |   |   |   |
| The business has a clear career growth channel                               |   |   |   |   |   |
| Senior managers in the business are given specialized training               |   |   |   |   |   |

|   |  |  |  |  |  |
|---|--|--|--|--|--|
| The business has planned for its future leadership by building recruited employees. |  |  |  |  |  |
| Career planning in the organization has been done                                   |  |  |  |  |  |
| The business owner is involved in the skills development of the employees           |  |  |  |  |  |
| Special skills within the organization have been identified and developed further   |  |  |  |  |  |
| There is a clear plan as to the leadership and their deputies in the organization   |  |  |  |  |  |

9. To what extent do you think that leadership preparation in the company affect the performance of the family business?

- Very great extent ( ) Great extent ( )  
Moderate extent ( ) Little extent ( )  
Negligible extent ( )

10. Please indicate the number of employees that your firm has had over the last five years.

| Year/ Number of employees | 2014 | 2013 | 2012 | 2011 | 2010 |
|---------------------------|------|------|------|------|------|
| Below 4                   |      |      |      |      |      |
| 5-9                       |      |      |      |      |      |
| 10-14                     |      |      |      |      |      |
| 15-19                     |      |      |      |      |      |
| 20 and above              |      |      |      |      |      |

11. Please indicate the range of profits generated in your business over the last five years

| Year/ Profits generated (Ksh) | 2014 | 2013 | 2012 | 2011 | 2010 |
|-------------------------------|------|------|------|------|------|
| Below 100,000                 |      |      |      |      |      |
| 100,001 – 200,000             |      |      |      |      |      |
| 200,001 – 300,000             |      |      |      |      |      |
| 300,001 – 400,000             |      |      |      |      |      |
| Above 400, 000                |      |      |      |      |      |

12. Please indicate the total value of assets for the Company

| Year/ Total Asset Value (Ksh) | 2014 | 2013 | 2012 | 2011 | 2010 |
|-------------------------------|------|------|------|------|------|
| Below 500,000                 |      |      |      |      |      |
| 500,001 – 1,000,000           |      |      |      |      |      |
| 1,000,001 – 1,500,000         |      |      |      |      |      |
| 1,500,001 – 2,000,000         |      |      |      |      |      |
| Above 2,000, 000              |      |      |      |      |      |

**SECTION D: INFLUENCE OF GOVERNANCE STRUCTURES ON  
PERFORMANCE OF FAMILY BUSINESSES.**

13. Below are statements regarding the influence of governance structures on performance of family businesses? On a scale of 1-5 where 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree, please indicate by ticking (√) the extent of your agreement with each statement

| <b>Influence of governance structures</b>   | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| There is a clear leadership structure in the business   |   |   |   |   |   |
| The leadership structure in the business encourages faster decision making processes  |   |   |   |   |   |
| The governance structure used provides important information relating to new policies and trade secrets from other businesses.                |   |   |   |   |   |
| The governance structure exposes the owner(s) to economic trends.   |   |   |   |   |   |
| The governance structures provide insights into how other business pursues new approaches.  |   |   |   |   |   |
| One of the family members allocates the business resources for his/her own good regardless of the effects of such decisions on other members. |   |   |   |   |   |
| The amount of each owner's proportion of the business affects their performance towards attainment  |   |   |   |   |   |

|                      |  |  |  |  |  |
|----------------------|--|--|--|--|--|
| of business targets. |  |  |  |  |  |
|----------------------|--|--|--|--|--|

14. To what extent do you think that governance structures influence performance of family businesses?

- Very great extent (     )    Great extent (     )  
 Moderate extent (     )    Little extent (     )  
 Negligible extent (     )

**THANK YOU**

**APPENDIX IV: RESEARCH BUDGET**

| <b>ITEM</b>                 | <b>Units</b> | <b>Price per unit</b> | <b>Budget in Ksh.</b> |
|-----------------------------|--------------|-----------------------|-----------------------|
| <b>Stationery</b>           | 6            | 500                   | 3,000                 |
| <b>Printing expenditure</b> | 500          | 5                     | 2,500                 |
| <b>Transportation</b>       |              |                       | 1,500                 |
| <b>Phone expenditure</b>    |              |                       | 1,000                 |
| <b>Miscellaneous</b>        |              |                       | 3,000                 |
| <b>Subtotal</b>             |              |                       | <b>11,000</b>         |
| <b>Final project</b>        |              |                       |                       |
| <b>Stationery</b>           | 10           | 350                   | 3,500                 |
| <b>Printing expenditure</b> | 1000         | 5                     | 5,000                 |
| <b>Transportation</b>       |              |                       | 3,000                 |
| <b>Phone expenditure</b>    |              |                       | 2,500                 |
| <b>Data collection</b>      |              |                       | 15,000                |
| <b>Miscellaneous</b>        |              |                       | 10,000                |
| <b>subtotal</b>             |              |                       | <b>39,000</b>         |
| <b>Grand Total</b>          |              |                       | <b>50,000</b>         |