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**FACTORS AFFECTING GROWTH OF MICRO AND SMALL FAMILY BUSINESS  
ENTERPRISES: A CASE OF NAIROBI CENTRAL BUSINESS DISTRICT.**

**BY**

**FREDRICK MURATHE MAINA**

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT FOR THE AWARD  
OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**STRATHMORE UNIVERSITY**

**NAIROBI KENYA**

**JUNE, 2016**

## DECLARATION

This thesis is my original work and has not been submitted for any other degree of this or any other university or institution of learning

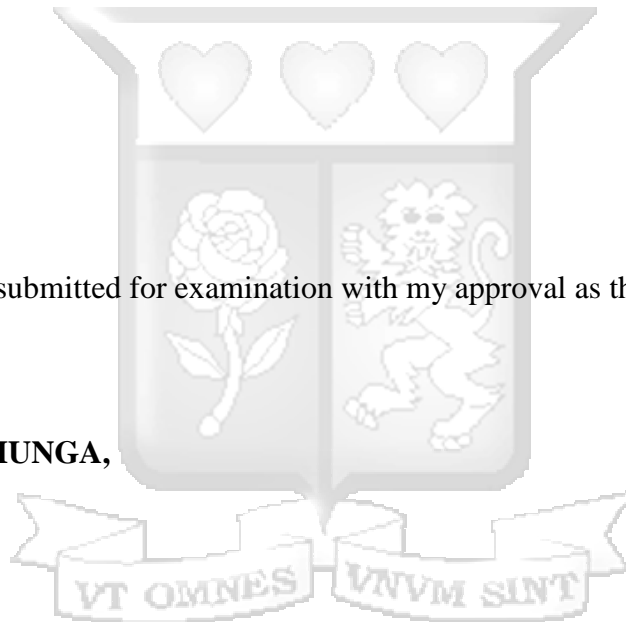
**FREDRICK MURATHE,**

Signed..... Date.....

This thesis has been submitted for examination with my approval as the University supervisor

**DR. HAZEL GACHUNGA,**

Senior Lecturer



Signed..... Date.....

## DEDICATION

I dedicate this research thesis to my loving wife and our wonderful children. Their encouragement and support propelled me to achieve my goal.



## ACKNOWLEDGMENT

I would like to thank the Director, lecturers and the entire faculty of Strathmore Business School who provided quality teaching, guidance and valuable assistance in the project supervision and report writing. This success wouldn't have been achieved without my family members, colleagues in the business program, thank you for your support in the entire course program. My appreciation and acknowledgement to Dr Hazel Gachunga, defense team and external examiner; thank you all for the objective feedback, supervision and valuable guidance. These provided a professional outlook for my Project.



## TABLE OF CONTENTS

<b>JUNE, 2016</b> .....	<b>I</b>
<b>DECLARATION</b> .....	<b>II</b>
<b>DEDICATION</b> .....	<b>III</b>
<b>ACKNOWLEDGMENT</b> .....	<b>IV</b>
<b>TABLE OF CONTENTS</b> .....	<b>V</b>
<b>LIST OF TABLES</b> .....	<b>VIII</b>
<b>LIST OF FIGURES</b> .....	<b>IX</b>
<b>ABSTRACT</b> .....	<b>X</b>
<b>DEFINITION OF KEY TERMS</b> .....	<b>XI</b>
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the Study .....	1
1.2 Problem Statement .....	4
1.3 Research Objectives.....	5
1.3.1 Specific Objectives.....	5
1.4 Research Questions.....	6
1.5 Scope of the Study .....	6
1.6 Significance of the study.....	7
1.7 Limitations of the study .....	7
<b>CHAPTER TWO</b> .....	<b>9</b>
<b>LITERATURE REVIEW</b> .....	<b>9</b>
2.1 Introduction.....	9
2.2 Theoretical Foundation .....	9
2.2.1 Theory of growth of a firm .....	9
2.2.2 Leadership Theory .....	10
2.2.3 Succession Planning and Management Theory .....	12
2.2.4 Agency Theory .....	12
2.3 Empirical Review.....	14
2.3.1 Transformational leadership and growth of MSFBs. ....	14
2.3.2 Succession Planning .....	16
2.7 Family Business Conflicts .....	19
2.8 Governance Structures .....	21
2.9 Research Gap .....	25
2.10 Summary .....	26
<b>CHAPTER THREE:</b> .....	<b>28</b>
<b>RESEARCH DESIGN AND METHODOLOGY</b> .....	<b>28</b>

3.1 Introduction.....	28
3.2 Research Design.....	28
3.3 Population of the Study.....	28
3.4 Sample Size.....	29
3.5 Sampling Design and Techniques.....	29
3.6 Data Collection Methods .....	30
3.7 Data Analysis and Presentation .....	30
3.8 Ethical Issues .....	31
3.9 Summary .....	31
<b>CHAPTER FOUR.....</b>	<b>32</b>
<b>DATA ANALYSIS AND INTERPRETATION.....</b>	<b>32</b>
4.1 Introduction.....	32
4.1.1 Response Rate .....	32
4.2 Reliability and Validity.....	32
4.3 Demographic information.....	33
4.3.1 Respondents Gender.....	33
4.3.2 Level of Education of the respondents .....	34
4.3.3 Number of years the business has been operational.....	34
4.3.4 Number of Years Worked in the Organization. ....	35
4.4: Leadership Style on Growth of MSFBs.....	36
4.5 Succession Planning and Growth MSFBs. ....	40
4.6 Business Conflicts and Growth of Micro and small Family owned Businesses .....	42
4.7 Governance Structures on Growth of Micro and Small Family Owned Businesses. ....	44
Introduction .....	48
Succession Planning and Growth of MSFBs .....	51
Influence of business conflicts on growth of family owned MSFBs .....	52
Influence of Governance Structures on Growth of MSFBs in Nairobi County .....	53
Analytical Model Generation.....	55
<b>CHAPTER FIVE .....</b>	<b>57</b>
<b>SUMMARY AND DISCUSSION OF FINDINGS .....</b>	<b>57</b>
5.1 Summary of the Findings.....	57
5.2 Discussion of Findings.....	57
5.2.1 Leadership and Growth of MSFBs.....	58
5.2.2 Succession planning on growth of the family business.....	59
5.2.3 Business Conflicts on Growth of MSFBs .....	60
5.2.4 Governance structures on Growth of Business. ....	61
<b>CHAPTER SIX .....</b>	<b>62</b>
<b>CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>62</b>
6.1 Introduction.....	62
6.2: Conclusions.....	62

6.2.1 Leadership Style .....	62
6.2.2 Succession Planning .....	62
6.2.3 Business Conflict.....	63
6.2.4 Governance Structures.....	63
6.3 Recommendations.....	63
6.4 Study Limitations and Suggestions.....	64
<b>REFERENCES.....</b>	<b>65</b>
<b>APPENDICES.....</b>	<b>75</b>
<b>APPENDIX 1: INTRODUCTION LETTER .....</b>	<b>75</b>
<b>APPENDIX II: QUESTIONNAIRE .....</b>	<b>76</b>



## LIST OF TABLES

<b>Table 4.1</b>	<b>Reliability and Validity</b> .....	<b>33</b>
Table 4.2	Respondents Gender Distribution .....	34
Table 4.3	Level of Education of the respondents .....	34
Table 4.4	Number of years the business has been operational .....	35
Table 4.5	Number of years worked in organization .....	36
Table 4.6	Extent to which leadership style affect growth .....	38
Table 4.7	Effects of leadership style on growth of Micro and Small Family Business .....	40
Table 4.8	Effects of succession planning on growth of MSFB's .....	41
Table 4.9	Effect of Business Conflicts on growth of MSFB's .....	43
Table 4.9.1	Business Conflicts and Growth of MSFB's .....	43
Table 4.9.2	Effect of Governance Structures on Growth of MSFB's .....	45
Table 4.9.3	Influence of Governance Structures on Growth of Micro and Small family business .....	46
Table 4.9.4	Growth measures .....	47
Table 4.9.5	Indicators of Growth .....	47
Table 4.9.6	Correlation Results for the Relationship between leadership style and growth of the MSFB's .....	50
Table 4.9.7	Results of Regression Analysis for the Relationship between leadership style and growth of the MSFB's .....	51
Table 4.9.8	Regression Analysis Results for the Relationship between Succession planning and Growth MSFB's .....	52
Table 4.9.9	Regression Analysis Results for the Effect of Business conflict on growth of family owned MSFB's .....	53
Table 4.10	Regression Analysis Results for the Relationship between Governance structures growth of family owned MSFB's .....	54
Table 4.11	Multiple linear regression .....	55

## LIST OF FIGURES

Figure 2.9 Conceptual Framework .....24



## ABSTRACT

The realization of Vision 2030 and industrialization process is dependent on the contribution of family business in terms of mobilization of resources towards investments activities that generates income, wealth and employment in the Nation. The transformation of MSFB to competitive business operations and growth faces fundamental challenges ranging from legal, statutory, market, managerial and operational factors that are detrimental to their success and growth. 200 MSFB operating Under Nairobi County Government located in Koinange, Moi Avenue and Luthuli streets were the target population. 67 Business enterprises were sampled using Yemeh (1967) formula and quantitative data collected, coded, sorted and presented in tables and analyzed through descriptive and inferential statistics. The analysis was presented according to the main variables of the study which were; leadership style, succession planning, family conflicts and governance structures. In the analysis both descriptive statistics and inferential statistics were used and the hypotheses tested. Regression analysis was further carried out for the dependent variable against independent variables using SPSS Version 19 and hypotheses test carried out. The finding established that the independent variables had a significant influence on the dependent variable as indicated on the regression model. Leadership was seen as the epitome foundation under which succession planning, management structures were built and developed for the business growth among the MSFB operations. Leadership style affected growth of business to a great extent. Leadership style significantly influenced growth ( $\beta = 0.591$ ,  $P = 0.002$ ), Succession planning significantly influenced growth ( $\beta = 0.64$ ,  $P = 0.002$ ), business conflicts significantly influenced growth ( $\beta = 0.66$ ,  $P = 0.000$ ), Governance structures significantly influenced growth ( $\beta = 0.57$ ,  $P = 0.004$ ). On effects of succession, the study concluded that it affected growth of the family business to a moderate extent. The study recommended that the management should accord specialized training to employees and facilitate succession planning. Governance structures in terms of recruitment and operational management to be adhered to manage business conflicts. Future studies are recommended on: Factors affecting profitability in family owned business, an assessment of competitive strategies on family businesses and impacts of education on entrepreneurial activities. Objectivity, suspicion and withdrawal of respondents were among others, limiting factors in the study.

## DEFINITION OF KEY TERMS

**MSFBs:** Micro and small family businesses are often defined in terms of size based on number of employees or value of assets. Family businesses are those with one or more family members from across the generations taking part in their control and management. Micro enterprises are businesses with up to 9 employees, Small enterprises have between 10 and 49 employees while medium enterprises have between 50 and 249 employees (Msme Act, 2012).

**Growth of Firms:** Growth characterized by increasing sales, maximizing profits or increasing market share while incorporating internal expansion by integrating intergenerational, environmental, legal and competitive growth (KPMG, 2012).

**Leadership Style:** A style of providing direction during implementation of plans and strategies through motivating and influencing employees in realization of organizational objectives (Marcel, 2010).

**Succession Planning:** Succession planning is a process of identifying and developing internal people with the potential to fill key business leadership positions in the company. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available (Carney, 2011).

**Conflict Resolutions:** conceptualized methods and processes involved in facilitating the peaceful ending of conflict and retribution arising among business stakeholders in family business (Anderson, 2012)..

**Governance Structures:** A processes of governing by a government through market, network, family, tribe, formal, informal organization or territory through laws, norms, procedures, policies power or language that provides guidelines in business operations and management. This increases accountability and responsibility in organizations (Brunninge, 2013).

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Different scholars have defined “business growth.” from different perspectives. For practitioners, growth is a more complex phenomenon with a strong emphasis on internal development which differs from the simplified conceptualization of growth used in empirical studies. Growth has various connotations. It can be defined in terms of revenue generation, value addition, and expansion in terms of volume of the business. It can also be measured in the form of qualitative features like market position, quality of product, and goodwill of the customers (Hampton, 2009). Business growth is a vital indicator of a flourishing enterprise. There are many factors like characteristics of the enterprise, access to resources like finance, and manpower which affect the growth of the enterprise and differentiate it from a non-growing enterprise (Davis, 2010).

Family business Chrisman (2013) is business units bearing components of the family involvement, ownership, management and business succession. These are businesses that substantially operate to pursue family visions and are very important features of business in developing economies. Family Business Survey by Price Waterhouse Cooper (2012) continues to be resourceful profitable and has strength and opportunity for transformation especially through strong values, long term decision making and commitment. They may start off as micro and grow into small, medium and large corporations if well nurtured (Colli and Rose, 2010). Family owned businesses accounts for 80% of the businesses in the European Union, and 50% of employment in the European Union (Mandl, 2013). They play an important role in employment, income generation and wealth accumulation. Globally, two thirds of all enterprises are said to be family owned and/or managed (Hampton and Lansbei, 2009).

The growth of 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 growth challenges for small and micro businesses. Heck (2012) holds the view that family is an inseparable term in family business because

essential family functions determine the business functions and vice versa. Stability of a family business Wang and Poutziouris (2010) depends on 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 Auker and Werbal, 2010). 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.

United States of America researchers Poutziouris (2011) 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. Forbes (2014) established 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. Some scholars (Mandl, 2011; Wang and Poutziouris, 2010; Van Auker and Werbal, 2015; Paisner (2009) have reviewed the subject of family owned businesses. Some factors have been cited to affect growth of SMEs. World Bank (2008) suggested that better financial access for SMEs contributes to economic growth, reduced income inequality and enhances expansion. Klepper (2010) on his part argued that firm size is found to be negatively related to growth. Jovanovic (2010) argued that small firms have lower survival rates than larger enterprises. Education is also another factor that impact positively on growth of firms as argued by (King and McGrath, 2012). According to King and McGrath (2012) those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments. Despite increased attention to family business research in mature economies, research on family business in emerging economies remains limited. Folke-Siebels and Knyphausen-Aufseb (2012) points out to a possible reason for this reluctance among scholars in reviewing the factors affecting 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. Although studies as highlighted have determined general factors affecting growth of SMEs, there is scanty information of the specific factors affecting the growth of Family owned small and micro-

enterprises. In this regard the study therefore delved into assessing the factors that affect the growth of family owned enterprises which are; leadership style, succession planning, family conflicts and governance structures. These factors were highlighted by PWC report (2012) as mainly affecting family owned businesses in Kenya. The main focus of the study was to determine the extent to which these factors affected the growth of family owned small and micro-enterprises in Nairobi's CBD. MSFB play a critical role in Kenyan economy GoK (2013) and the Government through Kenya Vision 2030 envisages the strengthening of MSFBs to become the key industries of tomorrow by improving their productivity and innovation. Major contributions of MSFB are in economic development, income generation and creation of job opportunity (Davis, 2010). 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 and Mugure, 2008). Small and micro family owned businesses contributed over 50% of new jobs created in the year 2005. MSFBs face unique challenges, which affect their growth and profitability and hence diminish their ability to contribute effectively to sustainable development. The situation even gets worse when the MSFBs is a family owned as is the case with a majority of MSFBs in Kenya. The International Finance Corporation IFC (2011) identified various challenges facing MSFBs including 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.

Nairobi County is one of the most populated counties in Kenya. A good number of this population earns a living through 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 of micro and small family business enterprises in Nairobi need to be established and strategies put in place to promote their performance.

## 1.2 Problem Statement

The information provided by the above background analysis from the global, sub Saharan and Kenyan perspective, and the literature review in chapter two, reveals that growth of family-owned businesses is affected by a myriad of factors. Family owned enterprises in Kenya have difficulties in setting up and continuous growth due to issues pertinent to the manner in which such enterprises are run. According to PWC (2013) family businesses are characterized by a high deteriorating survival rates and they specifically requires effective negotiation of three key tipping points which are scale, skills and succession. Due to this aspect of family businesses researchers must adequately address the concerns to facilitate transformation of MSBF into larger corporations and successful industries. Poor management, legal and statutory requirements, inaccessibility to credit facilities, inadequate structures, poor leadership and succession planning contributes to the failure of micro and small family owned businesses to grow into corporate organizations (Codjia, 2012).

In family-owned businesses there is often a smaller pool of talent on which to draw, complicating emotional factors in the incumbent-successor relationship, and complex social ties with the family (Miller, 2013). According to the Kenya National Bureau of Statistics, (2009); three out of five businesses fail within the first few months of engagement. Data on the Micro, Small and Medium Enterprises sector in Kenya is scarce. The National Small and Medium Enterprises Baseline Survey provides comprehensive and reliable information but it has not been updated since 1999 and does not contain information on growth for Small and family businesses..

One of the most central problems facing family-owned businesses is the ability to ensure competent family leadership across the generations. Only one third of family businesses survive into the second generation, and only about 10% to 15% make it into the third generation according to a study by (Birley, 2008). Poor successions are often the source of the problem (Miller, 2013).

Resource processes, capital transformation Dane (2010) and interpersonal relationship processes such as conflict management and governance structures have inhibited family business growth. In family-owned businesses there are a few people in either the business or the family with any experience of when and how succession should be dealt with, as this

issue is a rare event for the family firm occurring only once for each generation (Fox 2011). Consequently one of the most pressing problems for the family-owned business is planning to pass control of the business to the next generation Kuratko (2013), with succession a problematic and neglected issue in many family business (Bachkaniwala et al, 2011). Succession planning is an explicit process by which the firm will be transferred to the family's next generation.

Despite these challenges family functioning has received little attention Katila (2012) in the field of family business leading to lower growth and productivity (Nicholson, 2014). Poor management and business conflict Paige and Link (2012) have contributed to downfall. As a result few MSFBs grow to the level of corporate enterprises. Contribution of MSFB Paige and Lint (2012) requires major and proactive interventions and research in integrated leadership, succession planning, solutions to business conflicts and formation of governance structures towards this transformation. Management of family affairs through structural reforms will facilitate the effective and efficient operations of MSBF leading to growth of business ventures. The above study problem has been informed by some information and knowledge gaps that were identified in the literature review as described in the next chapter. Although the factors affecting growth of family owned businesses have been widely highlighted in various researches as outlined in the background, little has been done determine the extent to which these factors affect the growth of family owned enterprises in Kenya. Determining the factors that affect the growth of the family owned businesses will help the business owners in putting up proper governance structures and planning proper succession procedures which will help the business to spur consistent growth. This study seeks to fill the apparent gap in literature by conducting a research to investigate factors affecting growth of MSFB enterprises in Nairobi County.

### **1.3 Research Objectives**

The main objective of the study was to investigate factors affecting growth of MSFB enterprises in Nairobi County, a case of Central Business District.

#### **1.3.1 Specific Objectives**

The study was guided by the following specific objectives:

- i. To examine the effect of leadership style on the growth of Small and Micro family business in Nairobi county, a case of Central Business District
- ii. To establish the effect of succession planning on the growth of Small and Micro family business in Nairobi county, a case of Central Business District
- iii. To investigate how family conflicts affect growth of small and Micro family business in Nairobi county, a case of Central Business District
- iv. To determine the effect of governance structures on growth of Small and Micro family business in Nairobi county, a case of Central Business District

#### **1.4 Research Questions**

- i. What is the effect of leadership style on the growth of Small and Micro family business in Nairobi County, a case of Central Business District?
- ii. What is the effect of succession planning on the growth of Small and Micro family business in Nairobi County, a case of Central Business District?
- iii. How do family conflicts affect growth of small and Micro family business in Nairobi County, a case of Central Business District?
- iv. What is the effect of governance structures on growth of Small and Micro family business in Nairobi County, a case of Central Business District?

#### **1.5 Scope of the Study**

The study focused on four variables mainly leadership style, succession planning, conflict resolutions and governance structures leaving certain concepts like financial access and their effects on business growth. Licensed enterprises registered under Nairobi county and operating within Luthuli Street, Koinange street and Moi Avenue were the targeted group.

## **1.6 Significance of the study**

This study is expected to be of great value to the MSFB in Kenya. These enterprises will benefit from the findings as the study will highlight the factors affecting the growth of such businesses with a local focus in Nairobi Kenya.

The findings of this study will be of significance importance to various stakeholders directly and indirectly. The results of this study would help the stakeholder like financial institutions in formulating sensitive offers specific for MSFB in Kenya. Knowledge of the factors affecting growth of MSFB will act as a guide to making the policies that will take care of family businesses to help them spur greater growth and create employment for more people in the economy.

Policy makers and business managers are interested in understanding the barriers to business and consequently providing solutions through policy analysis. Management and owners of family businesses would develop and improve capacity building in terms of structures, training and leadership development to improve productivity. National Government and Nairobi county government are interested in creation of awareness and development of conducive business environment that facilitate growth and income generation through taxation and licensing. The role of family business in entrepreneurship will be greatly enhanced by developing a template and roadmap in management.

The study findings will also be of significance to future researchers in this and related areas as literature review and new topic idea generation. The findings will further provoke research in the area of entrepreneurial issues in family circles because its findings will contribute knowledge on how family conflicts affect growth of businesses. Finally, it will open avenue for exploration of other viable sources of information on family issues in entrepreneurship.

## **1.7 Limitations of the study**

Objectivity, hostility, suspicion, maturation and withdrawal of the respondents were limiting factors to the research due to the sensitivity of information since the research could be viewed as competition between, revenue authority agents and Nairobi county Permit agents. Research permit and introduction letter from Strathmore University was availed to the

research assistants who displayed them before data collection. Questionnaire was precise, confidentiality and anonymity was observed so that many respondents were covered. The researcher also explained that the research was for academic purposes and confidentiality could be maintained hence reducing the level of hostility among the respondents.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The chapter presents previous theoretical and empirical literatures that underpin the research constructs, concepts and variables. These are later utilized in developing conceptual framework with measured indicators together with a summary of reviewed literature and knowledge gap justifying the need for undertaking the necessary research.

#### 2.2 Theoretical Foundation

This study was based on four theories with each independent variable having its corresponding theory. The following theories guided this study: theory of the growth of the firm, leadership theory, succession planning and management theory, and agency theory as shown below.

##### 2.2.1 Theory of growth of a firm

Theory of growth of a firm Penrose (1959) expressed the vital role of resources, management leadership style and control measures as the key components towards growth of a firm. The accustomed resources will shape the productive services management is capable of rendering. The experience of management, leadership styles, formulation of strategies will effectively determine growth rate. The dynamic interaction will determine how MSFBs take advantage of opportunities and turn them to business ventures that will earn revenue, facilitate expansion and growth. Competencies, capabilities, learning and development of the family business are the pivotal and epitome of organizational success and growth. The foundation of this approach is embedded on the managerial skills in making proactive decisions during the organizational routines, knowledge creation that are critical to the ability of a firm to grow.

Strategic thinking, entrepreneurship, knowledge creation, customer focus and innovation during business operations will be of value addition to the MSFBs and it is the dominant framework in business strategy that organizations have utilized in gaining competitive

advantage. Change management, human resources practices Hopkins (1959) are important administrative restraints that requires affirmative action's to facilitate growth of firms to the corporate and industrialized levels. The growth process is, therefore, dynamically constrained with multivariate factors inhibiting the growth and organizations must take advantage of opportunities within their environment subjects to the accustomed operations, management experience to facilitate growth concept in their respective organizations.

Productive opportunity of the firm ,economies of scale, inherited resources and direction of expansions are some of the multivariate factors that MSFBS owners capitalizes to the detriment of their competitors. Access of intelligent market information in terms of customer's preference and tastes, product knowledge is what makes the difference in a perfect market competition.

### **2.2.2 Leadership Theory**

Transformational leadership Bass (1985) is the type of leadership that transforms follower's perceptions, aspirations, expectations, values and influences employees towards the achievement of organizational success. A leader is a person who creates an inspiring vision of the future, motivates and inspires people to engage with that vision, manages delivery of the vision, coaches and builds an effective team to achieve the vision. Leadership is the process and the skills required to perform the roles of leaders.

The critical components explaining the psychological mechanisms Burns (1978) under which transformational leadership operates includes idealized influence, inspirational motivation, individualized consideration and intellectual stimulation. Organizations can make positive difference through multifactor leadership questionnaire and assessing how the social transactional Susanne (2013) of the audience are affected in terms of perception, attitudes, beliefs, work experience and the entire productivity. Transformational leadership is the backbone under which MSFB can startup, grow and remains sustainable since this type of leadership are characterized by influencing ideas Hershey (2000) that is innovative, creative and goal oriented to organizational performance.

This visionary approach will facilitate the formation of business structures covering procedures in operations, customer focus, business re-engineering processes, succession planning, disaster management and recovery strategies that are currently lacking in family

business. The epitome of successful roadmap in sustainable business growth and development requires strategic leadership that formulates unique and viable operational modules with adequate implementation plans and structural controls. Transformational leaders organize resources, motivate and communicate teams adequately towards the achievement of organizational goals. Development of operationally and technically sound structures will provide the theoretical frameworks under which succession thrives (Susanne, 2013).

This leadership Simone (2011) which is inspirational and motivational creates personalized attention to follower's needs, welfares and concerns Paul (2013) through effective communication, mutual understanding, consultative environment that improves followers and organizational productivity. Socialization and considerations towards social demographic factors Varun (2004) creates a very committed and cohesive group that can sustainably support the continuation of family strategies into the unforeseeable future. The pro-activeness from managers and business owners Ali *at al* (2013) through delegation of duties gender sensitivity, mentorship programs, creates confidence; sense of belonging will enhance commitment, retention levels of employees during economic difficulties.

Transformational leadership uses power and influence to get right things done by using result oriented rather than activity based options with the flexibility of organization learning Bernard (2010) and developing to meet future challenges. Positional expert and referent power are very vital in business management. Transformational managers derive personal power by being experts in their jobs Bass (1985) and this will highly influence followers to implement the organizational strategies and objectives that are instrumental for growth and development. Therefore, it focuses on designing tasks, creativity, reward structures and relationship building among various stakeholders Social Demographic Factors (2012) in the business support and systems. The creation of a highly developed, motivating environment enhances appropriate productivity favorable to MSFB growth. Family business leaders demonstrate and communicate the visions to the audience through management by objectives in a psychological mechanism and measurement of efficacy full of transformational characteristics.

### **2.2.3 Succession Planning and Management Theory**

This theory was fronted by Rothwell (2005) in which he posits that an effective succession planning and management effort is that which is capable of building talent from within and ensures leadership continuity. He contends that it is imperative for organizations to establish formalized succession planning as part of organizational strategic and management tools. Based on his theory, Rothwell suggests that systemic succession planning and management can be attained by following his seven-pointed star model that consists of the following steps: (1) making commitment towards succession planning and management, (2) assessing present work and people requirements, (3) appraising individual performance, (4) assessing future work and people requirements, (5) assessing future individual potential, (6) closing the development gap, and (7) evaluating the subsequent succession development program. This theory was relevant in the study since as revealed in the background analysis, the growth of family owned businesses are majorly affected by poor succession planning within the governance structures. This theory will inform the study in determining the extent in which succession planning affects growth of family owned businesses in Kenya.

### **2.2.4 Agency Theory**

The agency theory was propounded by Eisenhardt (1989) and is concerned with analyzing and resolving problems that occur in the relationship between principals (owners or shareholders) and their agents or top management (Blair, 2009). The theory rests on the assumption that the role of organizations is to maximize the wealth of their owners or shareholders (Blair, 2009). It has been pointed out that separation of control from ownership implies that professional managers manage a firm on behalf of the firm's owners. Conflicts arise when a firm's owners perceive the professional managers not to be managing the firm in the best interests of the owners.

The agency theory holds that most businesses operate under conditions of incomplete information and uncertainty. Such conditions expose businesses to two agency problems namely adverse selection and moral hazard. Adverse selection occurs when a principal cannot ascertain whether an agent accurately represents his or her ability to do the work for which he or she is paid to do. On the other hand, moral hazard is a condition under which a principal cannot be sure if an agent has put forth maximal effort (Eisenhardt, 1989).

Proponents of the agency theory opine that a firm's top management becomes more powerful when the firm's stock is widely held and the board of directors is composed of people who know little of the firm. The theory suggests that a firm's top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by the top management (Mallin, 2010). Wheelen and Hunger (2012) argue that problems arise in corporations because agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation.

If, in the beginning, Jensen and Meckling (2008) considered the firm as a nexus of contracts, associating the firm and the entire group of resource contributors (the team of productive inputs, including external investors), their limited objective of explaining the capital structure led them to construct a more simplified model taking into consideration only two agency relationships.

The agency theory is relevant to this study since its governance approach focuses on professionalising family businesses to be run by professionals aside from the owners. The creation of shareholder value involves the discipline of the managers. The financial model constitutes the principal foundation for debates regarding the remunerations of managers and directors, the role, the composition of the board of directors, the measure of performance assured by the financial market, freedom of expression and the protection of small investors. This predominant model, inspired directly by the Anglo-Saxon large public corporation, has however greatly evolved, influenced by the concentration of equity capital in the non Anglo-Saxon countries and by the considerable spoliation of small investors by the dominating shareholders. Originally focused on the manager, the attention was moved to the dominating shareholders who would take advantage of their position to appropriate the major part of the rent. In a sense, the financial model is more concerned today with the dominating conflict between dominating shareholders/small investors rather than the conflicts between managers/shareholders (La Porta, 2010). It is therefore clear that the agency theory is relevant to this study since it lays out how the venture capitalist and the medium enterprises should interact and safeguard their partnership.

## **2.3 Empirical Review**

### **2.3.1 Transformational leadership and growth of MSFBs.**

Leadership Mosadeghrad (2013) is the general characterization of skills based on individual and organization values in the managerial attitudes, behavior and interactions with various stakeholders in different situations. Good organizational leadership Drucker (2010) is the key Success that leads to superior performance against predetermined goals, strategies and objectives (Mosadeghrad and Yarmohammadian, 2010). The appropriate managerial leadership, extent of influence during implementation process Giambatista (2004) and the integration process of the available constrained resources Mehra, Smith, Dixon and Robertson (2011) is the effective interaction and driving factor in achieving organizational mission and vision. Leading is complementing management functions in terms of influencing team members through visionary approach ,effective communication and motivating followers. Prior research has examined various factors to explain the growth of firms, but the role of the leadership style of CEO has not been studied. Understanding relationships between growth, leadership styles, business strategies, and management systems should provide clues on how the growth paths of fast track firms differ from those of low growth firms. This informs the first objective of this study which is to determine the influence of leadership style on growth of the family owned businesses.

Management is about planning, organizing, analyzing problems, building and using management systems, prudently allocating resources, and providing performance feedback. This creates operating efficiency,controls, effectiveness , goal directedness and ehnanace performance of the organization. MSFB requires governance structures and transformational leadership approach for an effective management that is sustainable to future generations. Transformational leadership instills trust, loyalty and respect among team members with an eventual increase in productivity necessary for organizational growth (Bass, 1985).

Transformational leaders create a strategic vision, communicate that vision through framing and use of metaphor, model the vision by “walking the talk” and acting consistently, and build commitment towards the vision (Avolio 2009 and McShane and Von Glinow 2010).

This view suggests that transformational leadership will result in high levels of cohesion, commitment, trust, motivation, and performance in these new organizational environments. Previous empirical research and Meta analyses have indicated that transformational leadership has a positive effect on individual performance and organizational outcomes (Howell and Hall-Merenda, 2009).

Leaders motivate through management by objectives and allocation of task with proper guidelines and procedures guiding the completion of various tasks. Employees are eventually introduced to important tasks and they develop critical thinking resulting into intellectual simulations Bass (1994) during execution of tasks eventually enhancing productivity and growth of the business. Ultimately levels of performance, satisfaction, and commitment to the goals of their organization are improved (Podsakoff, 1996). Components of transformational leadership includes charisma, inspirational motivation, intellectual stimulation, and individual consideration, these have improved the admiration, imitation of leadership style in the general management functions (Bass, 1990).

The extent to which organizational leaders influence organizational performance has become fundamental to business scholars in trying to understand why some organizations would do well while others with similar opportunities and resources, fail. One of the issues that this study seeks to address is to ascertain whether leaders impact on the organizational performance. Sanders (2004) argued that leadership especially in senior positions has an important impact on performance at all levels. Benard (2009) asserted that top leaders are responsible for formulating collective purpose that binds participants in an organization. From this perspective, the study will be looking to establish whether the top leadership in the Catholic Church has an effect on the optimization of return for assets within their jurisdiction.

On the structure of the organization, the top most leadership according to Schein (2012) has a duty to create an atmosphere for the required course of action for the any organization. According to Cohen (2010) the top leadership has a role in defining the direction of an organization in times of environmental changes. Rosen (2007) argued that such plans need to be in the mission, vision, core values and objectives of the organization in order to have a substantial impact on an organization's return of assets.

Participatory decisions Yul (2014) According to) results to consent among the groups rather than authority and this encourage the practice of discretionary approach in management of organizational approach. The ultimate results will lead to growth with a lot of individual initiative and volunteerism in taking responsibilities and assignments. Creating and supporting organizational changes Hackman and Johnston (2015) and empowerment of employees remains the transformational leadership behavior required by managers in the MSBF enterprises and in particularly the behavioral aspects of family members involved in the daily business operations as this positively Gao, Bai and Shi (2011) improves performance and growth.

Leadership therefore supplements primary management practices Nohria, (2003) in organizations in terms of influencing the management and running of various affairs and the founders need to effectively motivate generational family members through training ,development mentorship and succession processes Bjuggren and Sund, (2013); Miller Le Breton (2010) to ensure successive implementation of family business strategies and facilitate successive and growth.

Numerous studies have reported positive relationships between transformational leadership and outcomes at the individual level and firm levels (Avolio 2009 and Kirkpatrick & Locke 2011). Most recently, many empirical studies have reported that transformational leadership has a positive impact on firm growth (Avolio 2009 Jung & Sosik 2012 MacKenzie 2010 and Walumbwa 2012). In support of the purpose of the current study, a number of comparative studies (Waldman Ramirez House and Puranam 2011) have also reported that transformational leadership behaviors are more positively related to subordinate effectiveness in a variety of organizational settings than are transactional behaviors.

### **2.3.2 Succession Planning**

Succession planning is a process of identifying and developing internal people with the potential experience to assume business leadership positions in the company. Effective succession is concerned with building a series of feeder groups in the leadership progression of organizations (Noel, 2011). Succession-management process remains the underlying fundamental philosophy in family business. Founder's leadership's culture and talent mindset

must proactively facilitate management functions in the succession plans. Micro and Small family enterprises are not adequately prepared for their business succession Canadian Federation of Independent Business survey (2009) and this according to the survey have put the organizations into very precarious conditions. Succession-planning initiatives remain a stubborn problem and this consequently has fallen short of expectations (Corporate Leadership Council, 2010).

Succession management Baruch and Peiperl (2010) effectively shapes development and management has categorized succession management as an active planning along with performance reviews, mentorship, training and development of employees. The process is actively and strongly associated with dynamic, open and proactive climates were organizations relies heavily on internal labor markets like family businesses. Succession management in sophisticated planning environment Huang (2011) has achieved favorable human resource outcomes compared to other organizations with fewer sophisticated plans. Organizations have experienced significant in terms of involvement, credibility of succession planning, review and feedbacks, effective information systems, non-political succession criteria and this has positively affected the performance levels.

Major elements of succession according to Lynn (2011) includes contingencies, antecedents, events and the consequences and these are the guiding criteria that are used to shape succession and influence performances in organizations. Succession elements and modeling criteria especially commitment, job assessing, performance appraisals and individuals potential as argued by Rothwell (2005) have consistently formed the basis of evaluating generational leadership in organizations. The positive correlation between servant leadership and succession planning has extended beyond talent management to reduced work attrition and increase the preparedness for an aging population (Dingman 2006).

A structured succession plan distinguishes between ownership and the alignment of external and powerful branding Fancher (2007) that influences organizational processes, structures, systems, relationship for desired growth. Succession planning and leadership development according to Levitz (2008) remains core strategies on impacting on organizational and communicating critical succession planning and this cements arguments by Kasper (2008) on the future existence of family business. Business founder's dominant character controls the

business and family affairs with a centralistic management in which programs of the business are due to loyalty and seniority (Lansberg, 2009). The domineering personalities described a dominant and authoritative father who makes all the important decisions where all the family members are expected to cooperate obediently (Dyer, 1986).

In small firms it is generally the entrepreneur who is solely responsible for the management of human resource (Matlay, 2012). Often because small firms cannot justify full-time human resource professionals due to limited size and resources and still many entrepreneurs do not perceive Human Resource Management in small firm as a very sophisticated process requiring specialist (Pearson et al, 2013). While being small, this task will not present much of a problem for most entrepreneurs. However Mazzarol (2013) states that when a firm grows and it's number of employees increase the complexity of Human Resource Management deepen.

The founder can be a critical success factor not only for the social capital of a new business but also for the controlled networks and alliances in family business operations (Bamford et al, 2006). Next generational may be profitable than the founder driven firms because of the transferrable values from generation to generations. Integrated leadership performing multiple roles serving family, society and other stakeholders pose networks and alliance, families and familial social capital that provides favorable sustainable operations (Koiranen, 2002, Marto and Kansikas, 2007). Ensley and Pearson (2010) posit that the firms' social cultural aspects promotes family social relationship and networks creating business exit planning that are value and transactional enhancement critical for success (Les, 2011).

Various studies have been done in regard to succession planning in family owned businesses. Longenecker and Schoen (2009) proposed a model for parent-child succession in the leadership of the family-owned firm that involves a long-term, diachronic process of socialization through seven stages, beginning in childhood. Rosenblatt et al. (2010) argue that a prerequisite for a smooth succession is the ability and willingness of family members to criticize each other tactfully and accept this criticism without becoming extensively defensive.

Empirical studies that have examined the relationship between firm size and the source of succession have generated mixed results. Lauterbach et al. (2009) concluded that large

corporate family-owned firms in the USA prefer external succession to internal succession. They also found that external successions improved firm performance but internal succession did not. Helmich and Brown's (2010) study concluded that larger firms use more external recruiting than smaller firms. On the other hand, Dalton and Kesner's (2009) study claimed the opposite, while Schwartz and Menon (2008) found no relationship 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 considered as 'smaller' firms (Dalton and Kesner, 2011). Schwartz and Menon (2009) also used sales revenue as a measure of the organization's size.

Matthews et al. (2009) specify a general leadership succession model that includes the process by which the parent/leader and child/successor evaluate each other and themselves through a cognitive categorization process. This has been cited by Matthews et al. (2009) as a pre-requisite for growth of family owned businesses.

## **2.7 Family Business Conflicts**

Business business conflicts refers to internal and external friction and opposition resulting from actual or perceived differences and incompatibilities in operations. Conflicts arises between family members, customers, competitors and regulatory authorities. Fundamental causes of conflict arises from Management and power struggles, appropriation of incomes, disagreements over future direction of the company, severance pay disputes, misunderstandings, competition for limited resources and personality problem (Haynes and Usdin, 2011).

Interpersonal dynamics, including conflict and disagreement among family members, has been a major focus of family firm research (Sonfield and Lussier 2012). Morris et al. (2011) found that the relationship within the family has the single greatest impact on successful succession between generations of family businesses. Other researcher s also studied conflict (Davis and Harveston, 2011). Thus, conflict and disagreement about management decisions is included as a variable influencing family business succession for this study.

Competition for limited resources, divergent issues and organizational structures are significant elements of conflicts leading to poor productivity and strained growth in family

business (Harvey 2010). Content issues, identity issues and process issues. Gordon and Nicholson (2008) dominate conflicts debate in family business with prepositions like negotiations and mediations floated as solutions mechanism.

Negative attributes of conflicts are avoidance, immobility, violence, inertia, and maintenance of the status quo. However, conflict has the ability to foster creativity, higher thinking, better listening skills and change. These, in turn, provide management with the tools for significant improvement. Classic family business conflicts like succession results to in fighting for control of certain positions and this impact negatively in functioning and operations of the business.

Approaches to resolving family business conflicts according to Prince (2010) include litigation, binding arbitration and mediation. Litigation is costly, time consuming and psychological and results to negative family relationship. Mediation typically helps parties search for a mutually acceptable solution (Coleman and Marcus, 2011). The mediator's objectives are based on a cooperative orientation to conflict and the process has improved social skills that are vital towards improving future relationships (Deutsch, et al, 2009).

In family business conflicts, relationships are embedded in a system of family dynamics and a business system. It is difficult to separate the two components; familial relationships and business relationships (Sharma Chrisman and Chua, 2010). Family relationships have long, deep, emotional histories. When conflicts arise, trust is often the first 'casualty'; as conflict escalates trust decreases and distrust increases (Deutsch, et al; 2006). This distrust can impact the parties' ability to act cooperatively together in order to work through conflict.

Successful organizations generally deal with conflict in a positive, proactive manner. Superior conflict management skills can develop into a core competence, enabling organizations to gain a continuing competitive advantage in its industry. If operating units focus their response to internal conflicts towards finding creative, productive solutions, the organization will function at an accelerated level of efficiency

## 2.8 Governance Structures

Governance structures refers to fundamental guidelines on interactions and relationships that controls, determines processes and systems defining organizational operations and activities. Governance structures create trusts, confidence, accountability and transparency in business practices in the eyes of stakeholders.

All family governance structures and institutions require a certain degree of formalization if they are to function well. When these families adopt policies on the family's approach to the business and for governing the business, they will formalize these efforts with documents that will differ depending on their ownership stage of the business. Normally, in the earlier stages when the company is governed by the founder or his/her children, many aspects of family and business governance are informal. Efforts to formalize will mostly relate to the business itself (Richardson, 2011). Disclosure of policies, processes and organizational culture is the key to reporting and addressing issues on growth. Family enterprises regardless of size has a unique mix of personal dynamics that may interfere with business strategy, ownership, decision making and with aging, succession and power issues can create cascading concerns. Little structures is extremely helpful when discussing sensitive issues such as ownership shares, rights and responsibilities, the competence of family-member managers, and agreeing on a strategy that is best for both the business and the family (Ward, 2014).

Creating governance structure in business means that the management who more often than not in a family-owned business are the same as the owners of the business will be accountable to other people. Ward (2014) note that governance in a family-owned business is often focused on establishing productive, procedural engagement across the system unlike in a conventional business where governance often focuses on establishing boundaries and defining the separation of decision-making powers.

Family business governance requires a holistic perspective that incorporates Williamson's framework, (2010) which includes legitimacy, authority, family councils, boards of directors and non-family managers such that commercial and social aspects of all stakeholders are incorporated. Family structures must be built on mutual agreement fundamental foundations with clear vision, mission, business strategy and goals, succession plans and ownership

structures with sustainable benefits. Diversity, transparency, systems and public engagement are key characteristics of decision making necessary for core growth requirements in management of family business.

Richardson (2011) cements the contribution of influential policies, business secrets information among business organizations as strategically important in growth and in inspiration of better performance (Haunschild and Beckman, 2010). They also expose directors to economic trends, aspects of international business and provide directors with the opportunity to share and learn through comparison of management policy and practices (Bacon and Brown, 2012).

Governance through association and membership exposes family business directors to leadership styles, management approaches and practical experience that are shared within a particular industry that contributes to competitive advantage (Bacon and Brown, 2012). Directorships facilitates business scan according to Useem, (2014), and information gained through a mechanism is perceived as more influential and trustworthy (Ross, 2011) compared to other sources. In addition, they serve as a mechanism for corporate control and effectiveness with favorable legislation promoting favorable competition for growth.

Convergence structures of corporate governance provide relationship between ownership of the business and performance, (Jensen and Meckling, 2011).The financial stake through equity provides peculiar expectations on the organizational performance to the shareholders in terms of dividends and capital growth. The structures must therefore support business growth and development through maximization of shareholders wealth. Similarly, 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 (Jensen, 2011). 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, 2010). Investigations conducted on the relationship between managerial stock ownership and firm performance show contradicting results.

The family aspect is what differentiates family businesses from their counterpart non-family businesses. As a consequence, the family plays a crucial role in the governance of these

businesses (McConnell, 2010). When the family is still at its initial founder(s) stage, very few family governance issues may be apparent as most decisions are taken by the founder(s) and the family voice will be still unified. Over time, as the family goes through the next stages of its lifecycle, newer generations and more members join the family business. This implies different ideas and opinions on how the business should be run and how its strategies are set. It becomes mandatory, then a clear family governance structure that will bring discipline among family members, prevent potential conflicts, and ensure the continuity of the family's business should be established (Meckling, 2011). This study brings into account the important sense of feeling of ownership of a business.



**Figure 2.9 Conceptual Framework**

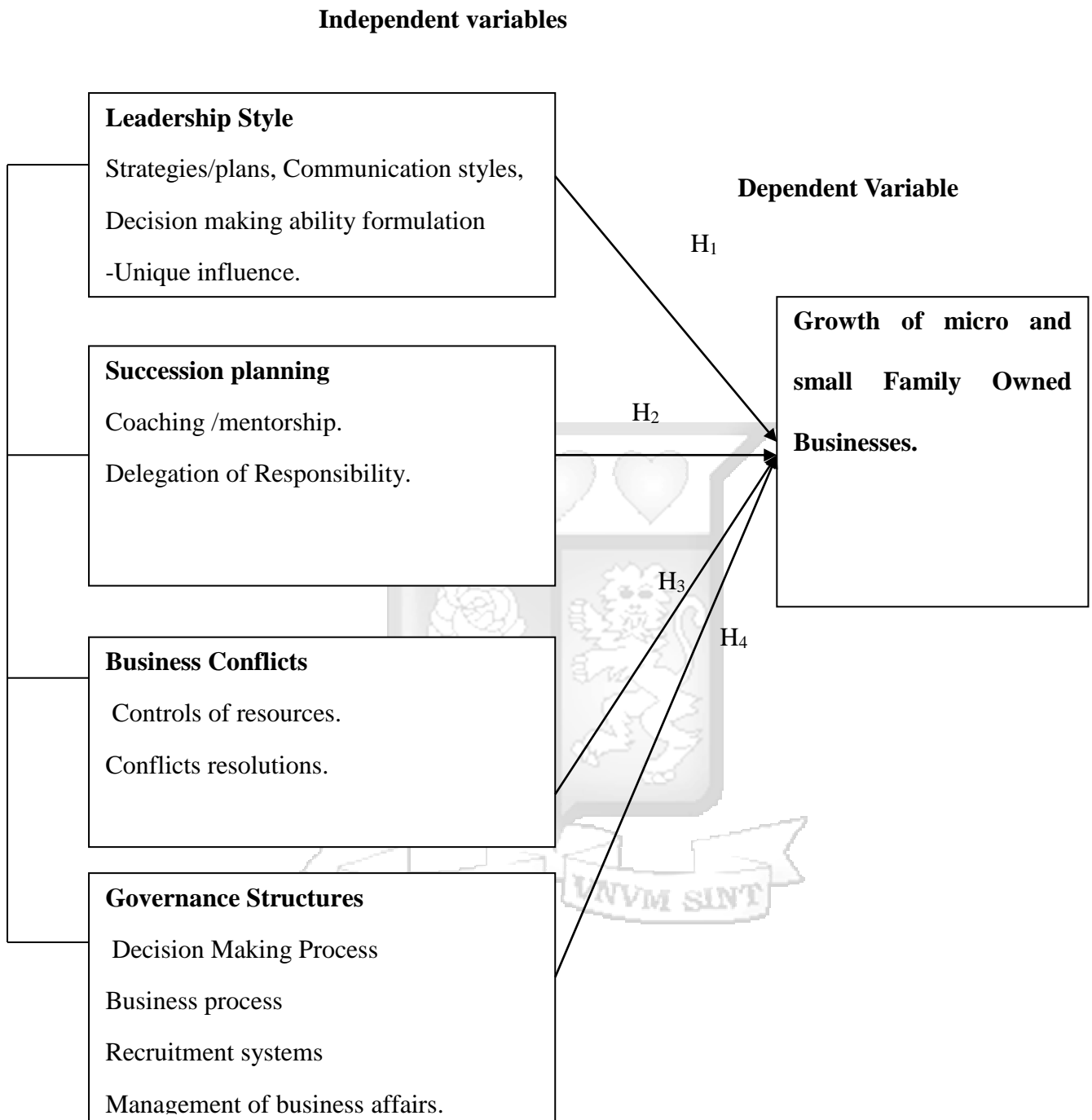


Figure 1: Conceptual framework

Source, (Author, 2016)

The study tested the following hypothesis:

### **Hypothesis 1**

H<sub>1</sub>: The leadership style has an effect on the growth of micro and small family owned businesses.

### **Hypothesis 2**

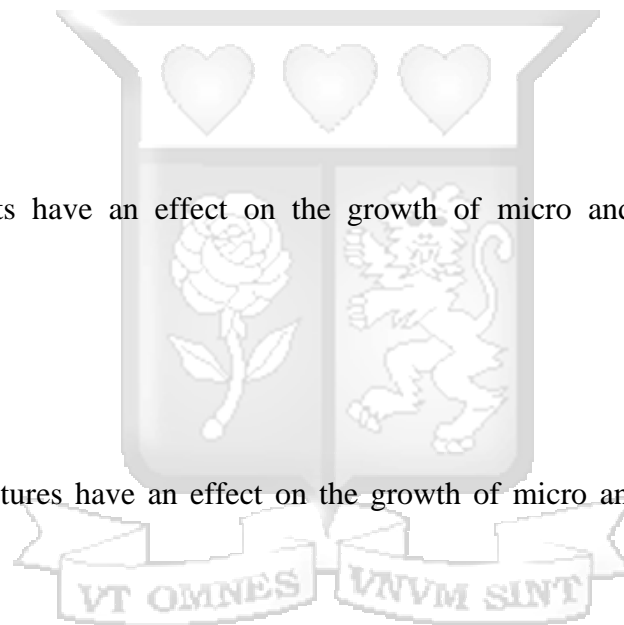
H<sub>1</sub>: Succession Planning has an effect on the growth of micro and small family owned businesses.

### **Hypothesis 3**

H<sub>1</sub>: Business conflicts have an effect on the growth of micro and small family owned businesses.

### **Hypothesis 4**

H<sub>1</sub>: Governance structures have an effect on the growth of micro and small family owned businesses.



## **2.9 Research Gap**

Micro and Small Family businesses have been studied in different context and various aspects in business management have been typically addressed ranging from comparison of motivational leadership Benzing and Chu (2009) to the impacts of generational change McPherson (2010) in business management, growth requires management intervention in terms of efforts towards creation of structural reforms ,business conflict management and the transformational leadership approach that is still sufficiently lacking in small business enterprises.

Memba (2011) carried out a study on the role of transformational leadership on growth of Small and medium enterprises. The study recommended that the impact of transformational leadership style must be studied as an aspect of growth of family businesses. This study seeks to fill the gap as identified above. McConnell (2010) also recommended that a study must be carried out to find out the role of governance structures on growth of small and medium enterprises while Clarke (2014) in his areas of further study suggested a study on the role of succession planning on growth of family owned enterprises. This study seeks to fill the gaps shown. Further Shaw (2009) suggested that family conflicts is an important aspect of family owned businesses. This study therefore would like to find out whether family conflicts have an effect on the growth of family owned businesses in Kenya focusing attention on businesses operating in the Nairobi's CBD.

### **2.10 Summary**

Theoretical foundation underpinning the variables and the empirical review on leadership, Succession planning, business conflicts management and organizational structures have been reviewed taking considerations their effects on growth. Conceptual framework with indicators on various variables showing the relationship between the dependent and independent variables was illustrated diagrammatically. McPherson (2010) studied business succession practices in South Asian family and investigated how leadership, Entrepreneurial and management skills played an integral role in terms of structures and processes required for an effective and efficient management of resources. Decision making aspects of managers is very important in competitive environment in terms of evaluation of alternatives, risk management and market development.

Transformational leadership will proactively develop a cohesive team that is motivated towards the achievement of organizational strategies. Employee loyalty will facilitate growth even during economic challenges facing the business and this will safeguard family business secrets from the competitors. Succession planning must be utilized to ensure proper generational involvement in business affairs. Leadership approach must be aimed at creating promotional opportunities, coaching programs that facilitate succession during retirement and this will enhance skills development required for growth purposes.

Business conflicts must be addressed within the acceptable frameworks of the business set up. Adequate and open communication especially with stakeholders is very fruitful in management of conflicts. Organizational structures in terms of policies, systems, procedures that controls operations and management for the sake of growth.



## **CHAPTER THREE:**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

The chapter contains research design, target population, sample size, sampling technique derived from the target population, instrumentation, data analysis, presentation and ethical consideration during the research process.

#### **3.2 Research Design**

Research design Kothari (2004), is the mental framework that shapes research procedure. Descriptive research design was used and this factored both quantitative and qualitative aspects of the study and the analysis utilised descriptive and inferential statistics. According to Creswell (2009), descriptive survey designs are used in preliminary and exploratory studies, to allow researchers to gather information, summarize, present data, and interpret it for the purpose of clarification.

Also according to Gupta (2010), descriptive survey design involves large numbers of persons, and describes population characteristics by the selection of unbiased sample. It involves using questionnaires and sometimes interview tests, and generalizing the results of the sample to the population from which it is drawn. In this study, descriptive survey design was used to obtain information from a sample of medium enterprises in Kenya. Descriptive survey design is flexible enough to provide opportunity for considering different aspects of a problem under study (Kothari, 2009). This design is further appropriate for this study since Howell (2010) note that descriptive survey research is intended to produce statistical information about the aspects of the research issue (in this case growth of MSFBs) that may interest relevant stake holders.

#### **3.3 Population of the Study**

Population refers to the entire group of individual's Mugenda & Mugenda (2003) having a common observable characteristic. According to the Nairobi CBD Business Community Association, there were 200 licensed businesses entities operating in the target streets which

were Koinange, Moi Avenue and Luthuli Street with monthly income of ksh (100,000 - 200,000) with 5 employees and below. The targeted population represented both the lower and upper class in business society. This statistics were availed by the Nairobi County Government business licensing department (Nairobi County Licensing Dept, 2013).

### 3.4 Sample Size

Based on the Yamane’s formula, 67 employees of the Micro and Small Enterprises of the licensed enterprises formed the sample size from which inferences from the population were drawn. Yamane (1967) statistical formula was used to derive the sample size from the business enterprises operating in the three streets (Koinange, Moi Avenue and Luthuli Streets)

$$n = \frac{N}{1 + (N) * (E * E)}$$

n –sample size, N -Size of population, E – 0.1, at 90% confidence level.

$$n = \frac{200}{1 + 200(0.1 * 0.1)}; n = 67$$

### 3.5 Sampling Design and Techniques

Sampling is the process (Saunders, Lewis and Thornhill, 2003) of selecting a number of individuals for a study from the larger group referred to as the population. Stratified sampling was further utilized for proportional allocation as shown in Table 3.1 below. Simple random sampling was used to distribute the questionnaires.

**Table 3.1 Sample size**

	Population	Strata
Koinange Street	40	13
Moi Avenue	60	20
Luthuli Street	100	34
<b>Total</b>	<b>200</b>	<b>67</b>

### **3.6 Data Collection Methods**

According to Ngechu (2009) there are many methods of data collection. The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results (Kamau, 2010). The study adopted a questionnaire to collect the data. Primary data was collected through self-administered questionnaire and face-to-face standardized interview schedules. The intended data was collected from the business employees January, February and March 2015. With the assistance of a field research coordinator, a self-administered instrument in print format was physically handed to each respondent. Respondents were instructed not to put any personal identifiers on the questionnaire. Follow up of respondents was carried out by ten research assistants who were recruited, trained and assigned to collect completed questionnaires. The field research coordinator and the author supervised and ensured appropriate random sampling and good data collection. Each enterprise had one respondent preferably a senior employee or manager. Business owners were interviewed and the qualitative responses incorporated in conclusion.

### **3.7 Data Analysis and Presentation**

The data from the questionnaires and interviews schedules was coded and the response on each item put into specific main themes. The quantitative data obtained from these research instruments was analyzed by use of descriptive statistics (frequencies and statistics) and inferential statistics. Descriptive statistics in form of frequencies, means and standard deviations were utilized to present results.

Multiple regression analysis was used to determine whether the group of factors proposed together will predict growth of the family owned enterprises as per the developed model. The analysis was carried out using Statistical Package for Social Sciences (SPSS) version 19. Howell (2010) observes that SPSS offers extensive data handling capabilities and numerous statistical analysis routines that can analyze small to very large amounts of data statistics. The software was found to be the most appropriate for this study because of its ability to model observable and latent variables under both normal and non-normal distributions. It was used to generate generalized linear regression model results, a technique which is appropriate for

modelling the dependence of a continuous variable on fixed factors and covariates together with interactions.

The data from the questionnaire was checked for incompleteness, inconsistencies and mistakes. Descriptive statistics techniques were used to describe the distribution of scores. Descriptive Statistics techniques were also used to produce data such as mean, standard deviation, frequencies and percentages.

Descriptive statistics were also analyzed using the likert scale ranging from 1 –5. Decision Rule for the likert questions was based on measuring the perception of the respondents on various orientations using selected items. Every variable was measured using the likert scale in all the items ranging from 1-5. Where: 5- strongly agree, 4- agree, 3- neutral, 2- disagree, 1- strongly disagree. A mid-point 3 was taken to be a neutral point on the measured items. Any mean that were more than 3 showed strong agreement while means of less than 3 showed strong disagreement.

Inferential statistics techniques were used to test the various hypotheses. Pearson's product moment correlation and simple regression analysis were the statistical methods used to test hypotheses for the variables. These statistical measures have successfully been used by other researchers in other similar studies. These researchers were such as Kandie (2009), and Kidombo (2007).

### **3.8 Ethical Issues**

Confidentiality was maintained, anonymity and voluntary consent was achieved before data collection. Introductory letter from the University and research permit were obtained and the purpose of the study explained to the respondents before any engagement with the respondents. Research language was used and caution was maintained to avoid any psychological harm, abusive or disrespectful language.

### **3.9 Summary**

The chapter disclosed in detail research design, target population, sample size, sampling design and techniques, types and sources of data, data collection, analysis, presentation and ethics.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

The chapter analyses interpret and present the findings. The chapter contains respondent's rate, reliability and validity and demographic characteristics. The respondent's responses on variables were captured and presented using tables, charts and bar graphs.

##### 4.1.1 Response Rate

A response rate of 80% ( $n = 54$ ) from the sample size of 67 was recorded, the success rate was viewed as excellent and this was consistent with (Mugenda & Mugenda 2003) preferred response rate of 50%. The rate was due to personalized follow up on the questionnaires by the researcher. A response rate of above 80% is excellent and can be used to conclude the findings.

##### 4.2 Reliability and Validity

Construct validity was measured by testing theoretical frameworks, the instruments tied to concepts and theoretical assumptions (Nachmias & Nachmias, 2008). Cronach's alpha of all the variables was estimated and showed a strong reliability as the instruments had a coefficient reliability of 0.7 implying that the instruments were accurate for data collection.

**Table 4. 1 Reliability and Validity**

Variable/Construct description	Item Means	Item Standard deviations	Coefficient Alpha Reliability
Leadership style	6.9	6.1	0.789
Effects of succession planning	5.2	2.4	0.796
Business conflicts	5.9	2.9	0.774
Organization Structures	4.9	2.0	0.766

Source: Field Data (2013)

The table above shows the factors affecting growth of micro and small family business enterprises in Nairobi County's CBD. Leadership styles ( $\alpha=0.789$ ), followed by effects of succession planning ( $\alpha=0.796$ ), Sources of conflicts ( $\alpha=0.774$ ) and Influence of organizational structures ( $\alpha=0.766$ ). This illustrates that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.6. Gliem and Gliem (2003) confirm the Alpha value threshold as 0.6, which formed the study's benchmark.

### **4.3 Demographic information**

The respondent's demographic characteristics were tested and the following recorded according to various sub-headings.

#### **4.3.1 Respondents Gender**

Gender distribution was captured as follows, 37% (20) female, while male respondents were 63% (34) indicating that most family business and entrepreneurship activities in Kenya were managed by male. Majority of the businesses are both owned and run by men because of the risks taking attitude and culture orientation according to (Anderson, 2011). Women took family responsibilities and spent much of their time in the formal employment and household duties compared to men.

**Table 4.2: Respondents Gender Distribution**

	Frequency	Percent
Male	34	63
Female	20	37
Total	54	100

#### **4.3.2 Level of Education of the respondents**

48% (26) of the respondents had Diplomas/certificate qualifications, 33% (18) had Secondary certificate qualifications while 19% (10) had Graduates/Post Graduates qualifications. From the responses, majority of the respondents are not in the highest level of education supporting the findings of Mullen (2005) that effective leadership is about influence of the people and not management experience.

**Table 4.3: Level of education of the Respondents.**

	Frequency	Percent
Graduate/post graduate	10	19
Diploma/certificate	26	48
Secondary education	18	33
Total	54	100

#### **4.3.3 Number of years the business has been operational**

The study sought to find out the number of years the business had been operational. The responses are shown in the figure below.

**Table 4.4: Number of Years the Business has been in operational.**

	Frequency	Percent
1-2 years	10	18
3-4years	15	28
5-10years	14	26
Above 10 years	15	28
Total	54	100

From the responses, 54% (29) businesses had operated for over 5yrs, indicating that there is generational succession in business management and growth. These businesses had expanded, in terms of , operational size and number of employees. These businesses were being managed by 2nd generation who are able to provide effective management and leadership style to propel the business into success. The study also found that 46% (25) of the businesses had operated for less than 5 years. Majority of these business 50 % were managed by the founders, they showed more growth compared with those managed by 2<sup>nd</sup> generation which might be attributed to poor leadership and organizational structures.

The study findings are similar to findings by Colli (2008) who found that family businesses have been in existence for the longest time and have different life spans. According to Koironen (2007) family businesses values are transferrable to generations enabling easy succession.

#### **4.3.4 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 are shown in the table below

**Table 4.5: Number of Years Worked in the Organization**

	Frequency	Percent
1-2 years	14	26
3-4 years	10	19
5-10years	10	19
Above 10 years	20	36
Total	54	100.0

From the findings shown above, 55% (30) of the respondents had worked for the organization for more than 5yrs, governance structures, leadership style and succession planning contributed to this statistics. The employees were more motivated, had good relationship with the owners of the enterprises. 45% (34) had worked for less than 5yrs, lack of clear succession, poor leadership and inadequate succession planning were highlighted as some of the reasons causing the response.

According to Koiranen et al. (2007) business founders created businesses with the vision of passing it on to future generations. However the transition from one generation to the other is systematic as one needs to understand and gain experience in the management thus the respondents had different experience levels in working in managerial level of the businesses.

#### **4.4: Leadership Style on Growth of MSFBs**

From the findings majority of the respondents 70% (48) of the respondents were of the opinion that leadership style greatly affected growth of family business enterprises, 20% (11) of the respondents confirmed that Leadership had moderate effect on growth of MSFBs. The findings were consistent with Mosadeghrad and Yarmohammadian (2006) conclusion that organizational success in achieving its goals and objectives depends on its manager's ability to influence employees and followers on the realization of the strategies.

Aspects of leadership in terms of creativity ,innovation in service provision was tested againsts growth MSFBs. Leadership style ultimately determined the success of the organization as described by the attributes of the leaders. These sentiments were confirmed by (Smith, Dixon and Robertson 2006).

It is evidently clear that success is heavily dependent on the attributes of the owner in terms of vision and strategy for realization of the organizational goals. Drucker (2001) 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. This argument is consistent with the findings of the respondents in all the three streets assessed as leadership requires that visionary objectives are set and appropriate strategies communicated to employees, tasks and responsibility set and a cohesive team created ,performance measured and rewards initiated.



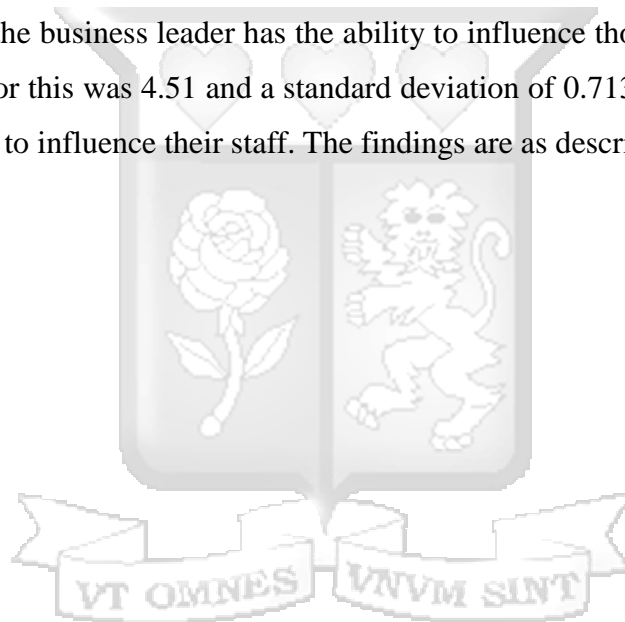
**Table 4.6: Extent to which leadership style affects growth**

	<i>Frequency</i>	<i>Percent</i>
Very great extent	18	33
Great extent	20	37
Moderate extent	11	20
Negligible extent	5	10
Total	54	100.0

According to the study, majority of the respondents 70% (48) of the respondents were of the opinion that leadership style greatly affected growth of business enterprises, 20% (11) of the respondents confirmed that Leadership had moderate effect on growth of the family owned enterprises.

The study found it important to measure the impact of the leadership style on growth. To be able to follow up and foresee the effect of leadership style on growth, appropriate measurements were conducted. The measurements were done using seven items reflecting the effect of the leadership style on the growth of the enterprises. The first item asked respondents to rate if, the business leader had the overall say in all the matters concerning the business. The mean score on this item was 4.32 and a standard deviation of 0.620. This means that the majority of the businesses, the owners had almost full control of the businesses they run. The second item sought to establish if the business leader involved employees in decision making of the processes in the organization. The mean obtained for this item was 4.34 with a standard deviation of 0.538. This showed that the majority of the respondents believed that business leaders gave employees a chance to make decisions on running the business. The third item sought to establish if the leader encouraged creativity and innovation among staff for the betterment of the organization. The mean obtained for this item was 4.58 and a standard deviation of 0.573. This shows that the majority of the leaders of the businesses encouraged innovation and creativity among employees. The fourth

item sought to establish whether the business leader entices staff towards the common interest for the business. This item had a mean score of 4.48 and a standard deviation of 0.629. This too meant that the majority of the respondents reported that the business leaders enticed the staff towards a common interest. The fifth item under leadership style sought to establish if the business leader is more concerned in having tasks completed on time by employees. The mean score for this item was 4.44 and had a standard deviation of 0.673. This meant that the majority too reported that the leaders are concerned in having tasks completed in time. The sixth item sought to determine whether the business leader seeks opinions on how to solve various problems in the organization, the findings were a mean of 3.11 and a standard deviation of 0.0984. This meant that the business leaders moderately sought opinions on how to solve various problems facing their organization. The seventh item sought to establish if the business leader has the ability to influence those working for him or her. The mean score for this was 4.51 and a standard deviation of 0.713. This showed that the leaders had the ability to influence their staff. The findings are as described in the table 4.8.



**Table 4.7: Effects of leadership style on growth of Micro and small Family Businesses**

<b>Effects of leadership style on growth of MSFBs</b>	<b>Mean</b>	<b>Std Deviation</b>
The business leader has the overall say in all the matters concerning the business	4.32	0.62
The business leader involved employees in decision making of the processes in the organization	4.34	0.538
The leader encourages creativity and innovation among staff for the betterment of the organization	4.58	0.573
The business leader entices staff towards the common interest for the business	4.48	0.629
The business leader is more concerned in having tasks completed on time by employees	4.44	0.673
The business leader seeks opinions on how to solve various problems in the organization	3.11	0.0984
The business leader has the ability to influence those working for him or her	4.51	0.713

#### **4.5 Succession Planning and Growth MSFBs.**

Effects of succession planning on growth of MSFBs were assessed and findings captured as shown in the table 4.8 below.

### Succession planning on Growth of MSFBs

The study sought to assess the effect of succession planning on growth of family owned enterprises. The succession planning was done using 10 items and results of the means and standard deviations recorded as shown in the table 4.8 below

**Table 4.8 Effects of succession planning on Growth of MSFBs**

Effect of Succession planning on growth of MSFBs	Mean	Std Deviation
The business develops employees with skills to take up more tasks	4.02	0.654
The business has qualified staff in all departments	3.78	1.045
There is a clear plan as to leadership and their deputies	4.04	0.832
Special skills within the organization are identified and developed further	4.05	0.908
The business has planned for future operations in terms of human capital	3.82	0.952
Seniors managers are given specialized training	4.08	0.888
The business has plans and prepares for future leadership by developing the employees with leadership responsibilities.	3.92	0.955
Career Planning in the organization is done	4.02	0.869
The business has been able to survive competition effectively and has an edge over competitors	4.07	0.918
The business has been able to meet client demand	3.82	1.101
The business has been able to pay staff salaries on time	4.08	0.888
The business has been able to increase its office space over time	3.635	0.936

Succession planning was measured based on the following items as shown in table 4.8: if the business develops employees with skills to take up more tasks, if the business has qualified staff in all departments, there is a clear plan as to leadership and their deputies, special skills within the organization are identified and developed further, the business has planned for future operations in terms of human capital, seniors managers are given specialized training, the business has plans and prepares for future leadership by developing the employees with leadership responsibilities, if career planning in the organization is done, if the business has been able to survive competition effectively and has an edge over competitors, if the business has been able to meet client demand and if the business has been able to pay staff salaries on time. The mean scores obtained for the above items were 4.02, 3.78, 4.04, 4.05, 3.82, 4.08, 3.92, 4.02, 4.07, 3.82 and 4.08. The standard deviations were 0.654, 1.045, 0.832, 0.908, 0.952, 0.888, 0.955, 0.869, 0.918 and 1.101 respectively. The majority thus indicated that the businesses emphasized on succession planning.

These findings are consistent with those of Cuculleli and Micucci (2008) who concluded that skill development among employees of family businesses was key in determining the growth and success of the business. Baruch and Peiperl (2010) on succession management confirmed effective career management as a measure that the future leadership is mentored and trained in advance thus making the transitional period smoother with minimal losses. 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) cemented this proposition 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 individual and ultimately growth of the enterprise.

#### **4.6 Business Conflicts and Growth of Micro and small Family owned Businesses**

The study asked the respondent the extent to which conflict affects growth. The responses are shown in the table below. From the finding 18% (9) of the respondents said that conflicts affects growth to a moderate extent, 50% (27) said to a great extent, 30% (16) said to a very great extent while 2% (2) said to a little extent.

**Table 4.9: Effect of Business Conflicts on Growth of MSFBs**

	<i>Frequency</i>	<i>Percent</i>
Very great extent	16	30
Great extent	27	50
Moderate extent	9	18
Negligible extent	2	2.0
Total	54	100.0

There were few respondents who said to a negligible extent. Sharma Chrisman and Chua (1997) concluded that business and family conflicts affects the services and management in the family business negatively since they are embedded in the business system. If conflict is not resolved within the business it will hinder the growth of the business. The study also assessed the various items that define the nature of business conflicts in family owned businesses in Nairobi. The means and standard deviations for the analysis is as shown in the table 4.9.1.

**Table 4.9.1: Business Conflicts and Growth of MSFBs**

<b>Items for Business conflicts</b>	Mean	Std Deviation
Some family members fight to have control of the business	4.32	0.62
Family members disagree on sharing of profits from the business	4.34	0.538
Some family members oppose decision made by experts	4.58	0.573
Some family members assigned duties are not qualified	3.48	0.629
Family members influence the recruitment of staff in the	4.44	0.673

organization.		
There are clear procedures and policies of solving	3.61	0.421
Some family members fight to change the scope of the business	3.96	0.122

From the above table 4.9.1, seven items were used to measure effects of business conflicts on growth of micro and small we family business. The first item asked respondents to rate if, some family members fought to have control of the business. The mean score on this item was 4.32 and a standard deviation of 0.620. This means that the reported firms have had business conflicts emanating from the need to control business among family members. The second item sought to establish if family members disagreed on sharing of profits from the business. The mean obtained for this item was 4.34 with a standard deviation of 0.538. This showed that the majority of the respondents agreed that sharing of profit was a source of conflict among family members owning the businesses. The third item sought to establish if some family members opposed decision made by experts. The mean obtained for this item was 4.58 and a standard deviation of 0.573. This shows that majority of the family members opposed opinions from experts. The fourth item sought to establish whether some family members were assigned duties that they were not qualified for. This item had a mean score of 3.48 and a standard deviation of 0.629. This meant that a moderate number of the businesses had family members working in the businesses who are not qualified. The last item sought to establish if the there are clear procedures and policies of solving. The mean score for this item was 3.61 and had a standard deviation of 0.673. This means that the only a few businesses had policies of solving business conflicts.

#### **4.7 Governance Structures on Growth of Micro and Small Family Owned Businesses.**

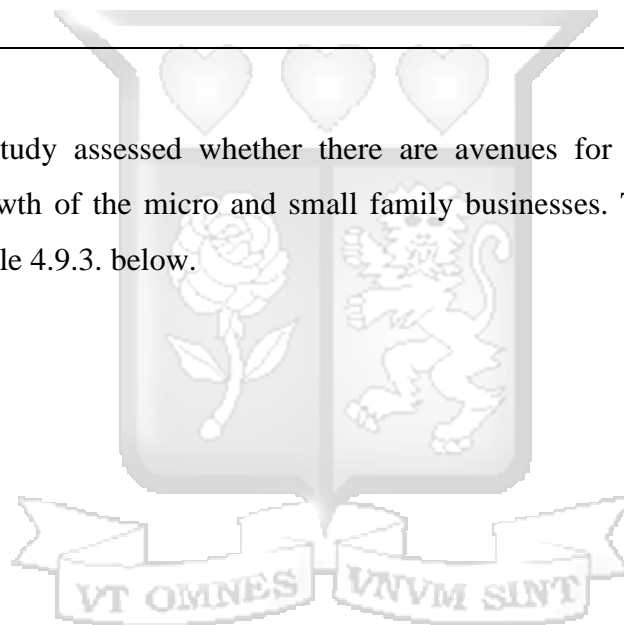
Effects of governance structures on growth of micro and small family businesses were tested and recorded on the table below. From the findings 37%(30) were of the opinion that organizational structures influenced growth to a very great extent, 28% (15) moderately affected growth while 17% (9) had little effect on growth of the family business. Company's

management (Bacon and Brown, 2011) cemented that prudence management of any business requires structures for effective management.

**Table 4.9.2: Effect of Governance Structures on Growth of MSFBs**

	Frequency	Percent
Very great extent	30	55
Great extent	15	28
Moderate extent	9	17
Total	54	100

Other items in the study assessed whether there are avenues for ensuring existence of structures for the growth of the micro and small family businesses. The data on these was presented as in the table 4.9.3. below.



**Table 4.9.3: Influence of Governance Structures on Growth of Micro and Small family businesses.**

<b>Influence of governance structures</b>	<b>Mean</b>	<b>Std.Dev</b>
There is a clear leadership structure in the business	4.15	0.747
The governance structure used provides important information relating to new policies and trade secrets.	4.03	0.863
The governance structure provides insight into how other business pursues new approaches	4.07	0.799
The governance structure exposes the leader to the economic trends	4.07	1.069
The governance structure encourages faster decision making processes	3.67	0.747
The amount of each owners proportion of the business affect growth	3.92	0.342
There is a clear policy on human resources management	3.54	0.456
The business obeys all statutory requirement	3.23	0.211

The study applied seven line items to measure influence of Governance structures on growth of MSFBs. From table 4.9.3, the first item was to establish if there is there is a clear leadership structure in the business. The mean score achieved was 4.15 with a standard deviation of 0.747. This means that a very good majority of firms have a clear leadership structure. The mean score on whether the governance structure provided insight into how other business pursues new approaches was 4.03 while the standard deviation was 0.863. This meant that a very good majority of the respondents also reported that the businesses had governance structure that provided insight into how other business pursued new approaches. The opinion on whether the governance structure exposed the leader to new economic trends had a mean score of 4.07 with a standard deviation of 1.069. This meant that a very good majority too reported that the governance structure exposes the leader to the economic trends.

However, the standard deviation on this item was 1.069 and this shows that respondents differed widely on this item. The score on the opinion as to whether the governance structure encourages faster decision making processes was 3.67 and a standard deviation of 0.747. This shows that the respondents were moderate on this item and thus only a few agreed that the structure allowed easy decision making. The last three items assessed whether; the amount of each owner proportion of the business affected growth, there is a clear policy on human resources management and whether the business obeyed all statutory requirements, the means for these were 3.92, 3.54 and 3.23 respectively. This shows that respondents were moderate on the extent to which these items influenced growth.

**Table 4.9.4. Growth Measures**

<b>Growth Measurement</b>	<b>Mean</b>	<b>S. Dev</b>
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

### Table 4.9.5. Indicators of Growth

To measure the growth of the businesses, the study assessed the trends in terms of the number of businesses with a varied range of number of employees as shown in the table 4.9.5.

Years/No of Employees	2014	2013	2012
20 and above	24	20	21
15-19	20	15	9
10-14	10	15	12
5-9		2	8
Below 4		2	4

As Table 4.9.5 indicates, the number of companies with less than 20 employees and above increased from 21 in 2012 to 24 in 2014. Similarly, the number of firms with 15-19 employees increased from 9 in 2012 to 20 in 2014. The number of firms with number of employees less than 4 also decreased from 4 to none by end of 2014. This shows that the businesses were growing over time. This finding is in conformity with the studies by the United States Small Business Administration (2010) which has used employee's number growth as a key indicator of small business growth and overall performance.

### Introduction

This section presents the results of tests of hypotheses and quantitative analysis and interpretations of the relationships amongst the various variables of the study. Linear and multiple regression analysis were used to test the relationships between the variables.

### Decision Rule

$$d.f = n - 1 = 40 - 1 = 39$$

$$t\text{-critical} = 1.686$$

Decision rule: reject  $H_0$  (null hypothesis) if  $t$  – calculated  $< 1.686$

Accept alternative hypothesis when  $t$  calculated is  $> 1.686$

### Model Specification

In order to achieve the objective of investigating the relationship between the independent variables and the dependent variable, the study deployed the following multiple linear regression model as follows:

$Y = f(X_{1i} + X_{2i} + X_{3i} + X_{4i} + \epsilon)$  where,  $Y$  is the variable being predicted while  $X_{1i}, \dots, X_{4i}$ , are the predictor variables.

Model I

Growth of MSFBs =  $f_1$  (Leadership Style  $X_1$ )

$$Y = f(X_1)$$

Model II

Growth of MSFBs =  $f_2$  (Succession Planning;  $X_2$ )

$$Y = f(X_2)$$

Model III

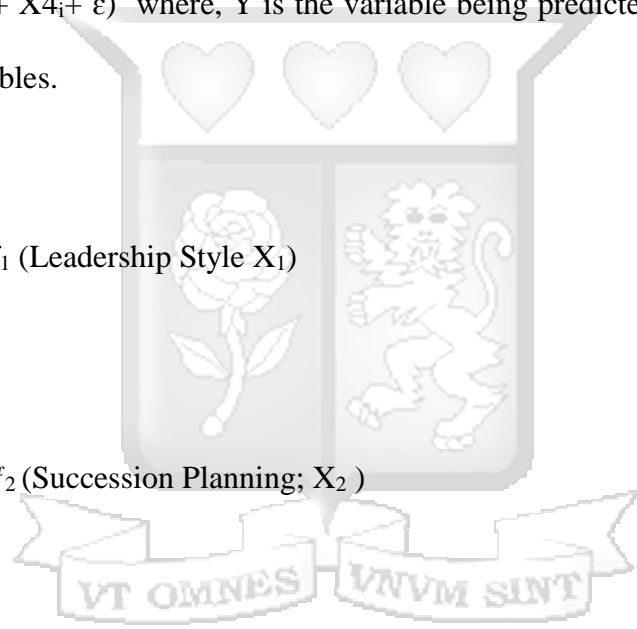
Growth of MSFBs =  $f_3$  (Business conflict)

$$Y = f(X_3)$$

Model IV

Growth of MSFBs =  $f_4$  (Governance Structures)

$$Y = f(X_4).$$



## Hypothesis 1

H<sub>1</sub>: The leadership style has an effect on the growth of family owned MSFBs.

Data used to test this hypothesis was collected using items in Section II of the questionnaire. These items were the indicators of the influence of leadership style on the growth of the MSFBs. Items indicated growth on indicators like number of employees .

**Table 4.9.6: Correlation Results for the Relationship between leadership style and growth of the MSFBs**

<b>Variables</b>	<b>Pearson correlation coefficient</b>
Relationship between leadership style	0.630
And growth of MSFBs	

P < 0.01

Pearson's' Product moment correlation statistical technique was used to test the significance of the relationship between leadership style and growth. The Pearson's Product Moment Correlation co-efficient for leadership style showed a strong positive relationship with growth of MSFBs ( $r = 0.630$ ,  $P < 0.01$ ). Simple regression analysis was also used to measure this relationship as shown in table 4.9.7. The correlation analysis was used in testing if a relationship exists while regression analysis was used for establishing the nature of the relationship.

**Table 4.9.7: Results of Regression Analysis for the Relationship between leadership style and growth of the MSFBs**

Model	Unstandardized		Standardized		
	Coefficients		Coefficients		
	B	Std Error	Beta ( $\beta$ )	T statistic	P-value
(Constant)	0.63	0.830		2.333	0.021
Leadership Style	0.972	0.265	0.591	2.233	0.02

Dependent Variable: growth of MSFBs

t-critical = 1.686

The regression results presented in Table 4.9.7.above show that leadership style explains 59.1 percent of variation in growth of family owned MSFBs in Nairobi County (t= 2.333, P< 0.05). Thus the t-calculated value is greater than t-critical and the P-value is statistically significant. As a result conclusion can be made that leadership style influences growth of family owned MSFBs in Nairobi County. We accept the alternative hypothesis that there is a significant relationship between leadership style and growth and of family owned MSFBs in Nairobi county.

## Succession Planning and Growth of MSFBs

### Hypothesis 2

H<sub>1</sub>: Succession Planning has an effect on the growth of Micro and small family Businesses.

**Table 4.9.8: Regression Analysis Results for the Relationship between Succession Planning and Growth of MSFBs**

Model	Unstandardized		Standardized		
	Coefficients		Coefficients		
	B	Std Error	Beta ( $\beta$ )	T statistic	P-value
(Constant)	0.63	0.163		3.87	0.000
Succession planning	0.39	0.14	0.66	4.714	0.000

Predictors: (Constant), growth in asset value.

Dependent Variable: growth of enterprises, t-critical = 1.671

From the table 4.9.8, there exists a positive linear relationship between the predictor and outcome variable,  $t = 4.714$ ,  $\beta = 0.66$ ,  $p = 0.000$ . The findings indicate that the t-calculated value (4.714) is greater than t-critical (1.671) and the P-value is statistically significant.

**H<sub>2</sub>:** Succession Planning has an effect on the growth of micro and small Family businesses. There is a significant influence of Succession Planning on the growth of MSFBs in Nairobi County.

### **Influence of business conflicts on growth of family owned MSFBs**

The following hypothesis was derived from this objective, the reviewed literature and the conceptual framework. .

#### **Hypothesis 3(H<sub>3</sub>)**

H<sub>1</sub>: Business conflicts have an effect on the growth of micro and small family owned businesses.

**Table 4.9.9: Regression Analysis Results for the Effect of business conflict on growth of family owned MSFBs**

Model	Unstandardized		Standardized		
	Coefficients		Coefficients		
	B	Std Error	Beta ( $\beta$ )	T	P-value
			statistic		
(Constant)	0.63	0.238		2.65	0.000
Business conflicts	0.05	0.12	0.57	4.75	0.004

Dependent Variable: growth of MSMEs, t-critical = 1.671

From the above table 4.9.9., there was a positive linear relationship between the predictor and outcome variable,  $t = 4.75$ ,  $\beta = 0.57$ ,  $p = 0.004$ . The findings indicate that the t-calculated value (4.75) is greater than t-critical (1.671) and the P-value is statistically significant.

***H<sub>3</sub>: Business conflicts have an effect on the growth of family owned MSFBs.***

There is a significant influence of the business conflicts on the growth of MSFBs in Nairobi County.

### **Hypothesis 3**

H<sub>1</sub>: Business conflicts have an effect on the growth of family owned MSFBs.

### **Influence of Governance Structures on Growth of MSFBs in Nairobi County**

The following hypothesis was derived from this objective, the reviewed literature and the conceptual framework.

### **Hypothesis 4(H<sub>4</sub>)**

H<sub>1</sub>: Governance structures have an effect on the growth of family owned MSFBs

**Table 4.10: Regression Analysis Results for the Relationship between Governance Structures Growth of family owned MSFBs**

Model	Unstandardized		Standardized		
	Coefficients		Coefficients		
	B	Std Error	Beta ( $\beta$ )	T statistic	P-value
(Constant)	0.63	0.051		12.27	0.000
Governance structures	0.368	0.24	0.64	2.63	0.002

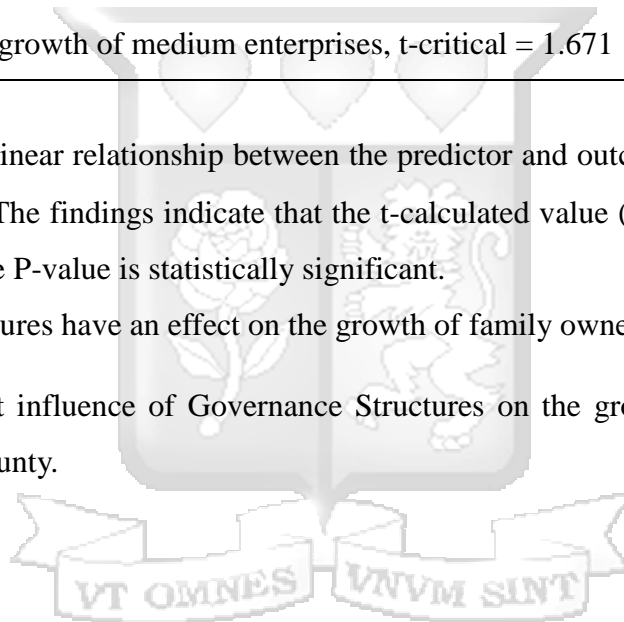
Predictors: (Constant), governance.

Dependent Variable: growth of medium enterprises, t-critical = 1.671

There was a positive linear relationship between the predictor and outcome variable,  $t = 2.63$ ,  $\beta = 0.640$ ,  $p = 0.002$ . The findings indicate that the t-calculated value (2.63) is greater than t-critical (1.671) and the P-value is statistically significant.

**H<sub>1</sub>:** Governance structures have an effect on the growth of family owned MSFBs

There is a significant influence of Governance Structures on the growth of family owned MSFBs in Nairobi County.



## Analytical Model Generation

**Table 4.11: Multiple linear regression**

Constant	un-standardized		Standardized	T	P	F
	Coefficients		Coefficients			
	Beta $\beta$	Std. Error	Beta $\beta$			
Constant	0.63	0.27		2.33	0.021	
Leadership Style	0.28	0.265	0.59	2.23	0.020	2.16
Succession planning	0.33	0.24	0.64	2.67	0.002	2.30
Business conflict	0.19	0.14	0.66	4.71	0.000	
Governance Structures	0.04	0.12	0.57	4.75	0.004	1.62

From table 4.11, the study results shows that business conflict amongst the four explanatory variables was more significant with a beta value of 0.66 while leadership style, succession planning, and governance structures had beta value of 0.59, 0.64, and 0.57 respectively.

The bigger the difference of  $t$ -calculated and  $t$ -critical (it can be either positive or negative), the bigger the evidence against the null hypothesis that there is no significant difference. The closer  $t$  is to 0, the more likely there isn't a significant difference. If the P-value is less than 0.05 ( $p < 0.05$ ), the decision rule is that we reject the null hypothesis since there are significant differences between the variables we are comparing.

The study results show that Business conflicts amongst the four explanatory variables was more significant in influencing the growth of the MSFBs. All the p-values for the variables were less than 0.05 which indicates that they are statistically significant in explaining the growth in business enterprises.

$\beta_0$  is the autonomous components which are growth enhancement strategies that are not influenced by the independent variables considered in the study. It also gives the Y intercept of our curve. From the table 4.11 on multiple linear regression,  $\beta_0 = 0.63$

$\beta_1$  is the coefficient of proportionality which tells the variation to which leadership style causes on growth of the MSFBs. From the table 4.11 on multiple linear regression,  $\beta_1 = 0.59$

$\beta_2$  is the coefficient of proportionality which tells the variation to which succession planning causes on growth of the MSFBs in Nairobi. From the table 4.11 on multiple linear regression,  $\beta_2 = 0.64$

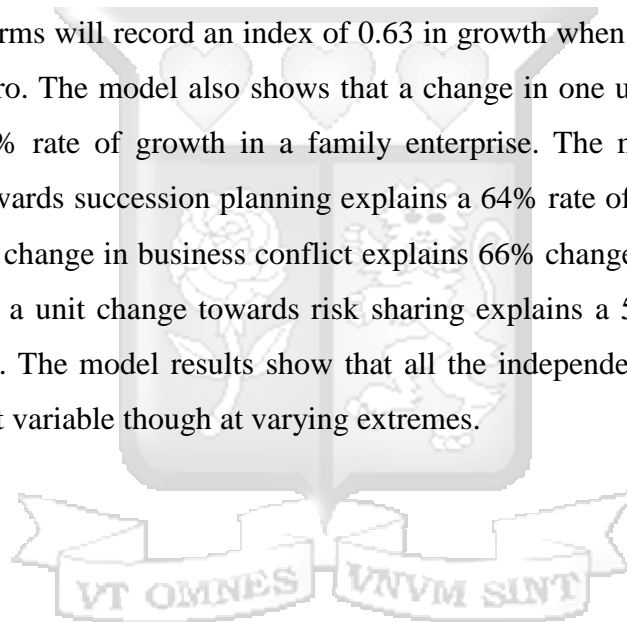
$\beta_3$  is the coefficient of proportionality which tells the variation to which business conflict causes on growth MSFBs in Nairobi. From the table 4.11 on multiple linear regression,  $\beta_3 = 0.66$

$\beta_4$  is the coefficient of proportionality which tells the variation to which governance structures causes on growth MSFBs in Nairobi. From the table 4.13 on multiple linear regression,  $\beta_4 = 0.57$

The model is then generated as follows;

$$Y = 0.63 + 0.59X_1 + 0.64 X_2 + 0.66 X_3 + 0.57 X_4 + e$$

From the model the firms will record an index of 0.63 in growth when coefficients for all the other variables are zero. The model also shows that a change in one unit towards leadership style will lead to 59% rate of growth in a family enterprise. The model also indicates a change in one unit towards succession planning explains a 64% rate of growth for the family run enterprises, a unit change in business conflict explains 66% change in rate of growth in a family run enterprise, a unit change towards risk sharing explains a 57% of growth for the family run businesses. The model results show that all the independent variables positively affected the dependent variable though at varying extremes.



## CHAPTER FIVE

### SUMMARY AND DISCUSSION OF FINDINGS

#### 5.1 Summary of the Findings

Summary of the findings were organized according to leadership, succession planning, business conflicts and organizational structures variables. These findings were supported by literature review .The qualitative and quantitative data aspects were integrated to generate a better summary.

#### 5.2 Discussion of Findings

Most of the MSFBSs had been in existence for between six and ten years, clear indication of experience in business management very vital for family business growth. However only 6% had existed for between one and five years standing at only six percent. This contradicts earlier literature such as Paisner (1999) who argued that out of 90% of the family businesses; in the United States only a third makes it to the next generation .The study also shows that the businesses that had been in existence longer also had managers who had worked longer in the businesses.

Another interesting finding was that of most businesses were being managed by the second generation. At 68%, the second generation managers had a very high rating compared to the 7.5% of the first generation and 24.3% of the third generation .This is interesting because based on earlier literature, first generation managed businesses grow more rapidly than the second generation managed business though the latter are more profitable than the first generation.( McConaughy and Philips., 2009). The high number of the second generation firms could be attributed to the influx of youthful managers driven by the new government support policies of empowering the youth and women.

### 5.2.1 Leadership and Growth of MSFBs

On leadership styles most respondents agreed that most founder leaders had the overall say in the business. Most founder leaders as argued by Hansberg (2009) exhibit dominant character and control the business with a centralistic management in which the programs of the businesses are due to loyalty and seniority. In the first generation driven businesses, all the power seems to be concentrated on a single individual; the founder. Most founders have charismatic qualities. They have information and connection with clients that make them indispensable.

According to the findings of the study, leadership style explains 59.1 percent of variation in growth of MSFBs in Nairobi. This indicated that a change in one unit in leadership style would result in 59% growth of the MSFBs. This finding is supported by similar finding by Cook (2010) who observed that proper strategy formulation depends on the leadership philosophy.

The study established that the founders' leadership style affected , growth to a great extent. This is indicated by the changes in number of employees and value of assets and the ability to withstand competition and remain relevant in the market as indicated by the respondents in the MSFBS under study. According to Smith, Dixon and Robertson (2006), the kind of leadership style a leader uses will ultimately determine the success of the organization. The respondents agreed that the owner had the overall say in the matters concerning the business but could at times involve the employees in the decision making of the organization. From the responses it was evident that the management in 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 (Bass 1985). The study also established that majority of the leaders in family businesses across Nairobi had set clear roles for their employees in attaining organizational goals and constantly monitored them closely to ensure they performed their tasks. According to House and 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 barriers within the system, and to motivate the actors to achieve the predetermined goals.

Giambatista (2004) attributed that organizational leadership is about influencing the team towards the realization of the set objectives. Leaders play an essential role in ensuring that the workforce is 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.

Transformational leaders encourage followers to think critically and seek new ways to approach their jobs, resulting in intellectual stimulation from employee creativity and stimulation. (Bass et al., 1994) .This view was well cemented by the respondents with the mean and standard deviation above. Hackman and Johnston (2009) 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.

### **5.2.2 Succession planning on growth of the family business**

On succession planning the highest influencing factors to growth are presence of qualified staff in all departments, planning for future operations in terms of human capital and career planning in the organization. These were indicated by high means from the study findings of 4.02, 4.04 and 4.08 respectively. According to the study succession planning explains 64% of variation in growth of small and medium enterprises owned by families in Kenya which was a fairly prevalent factor. This meant that a change in one unit of succession planning resulted in 64% growth for the small and medium enterprises. This finding is supported by a similar finding in a study by the European family businesses Association (2011) who also established that firms with proper succession planning report a high growth in sales as compared to other firms. The result reveals that succession planning leads to growth on sales of the firms that use these funds. This agrees with Cuculleli and Micucci (2008) who concluded that skill development among employees of family businesses was key in determining the growth and success of the business.

Strategic Leadership also influenced succession planning. Levitz (2008) studied succession planning and leadership development and suggested that leadership development and succession planning must be at the core of strategic planning for proper performance. Respondents agreed on skill development through mentorship programs, a view much

supported by (Cuculleli and Micucci, 2008). 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 were given specialized training but agreed that special skills within the organization were identified and developed further in line with the clear plan for the leadership and their deputies in the organization. Baruch and Peiperl (2000) found out that active planning enabled the organization to perform better as opposed to those that had no clear plans for the leadership in the organization.

### **5.2.3 Business Conflicts on Growth of MSFBs**

On sources of conflicts in family businesses, the study found that many respondents agreed with the lead conflicts questions of family members fighting for control of the entire business, family members being assigned duties that they were not qualified for and family members opposing expert advice from non-family members. Sharing of profits was also featured prominently as a source of conflict. Haynes and Usdin (2009) identified the need for management control as one of the sources of family business conflicts. From table 4.91 the findings indicate conclusively that conflicts affect growth to a moderate extent. According to the findings of the study, business conflicts explain 66 percent of variation in growth of small and medium enterprises owned by families in Kenya. This shows that a unit change in the occurrence of business conflict informs a 66% change in growth of the Small and Micro enterprises in Nairobi.

Business conflicts affected growth to a moderate extent followed by those who said to a great extent (Chrisman and Chua, 2010). The respondents agreed that Family members play a key role in the management of the business. Conflicts of interests, allocation of responsibilities and sharing of resources were matter of concern in family business management. The study also established that some family members fight to have control of the entire business as well as change the scope of business supporting Haynes and Usdin, (1997), who concluded that conflict in family businesses mostly include management, and power struggles.

#### **5.2.4 Governance structures on Growth of Business.**

On the effect of Governance structures on growth, majority of the respondents indicated clear leadership structure in the business encouraged faster decisions making processes. From the study, businesses with clear leadership structures also had better profits and had been longer in the business operations. These were the businesses driven by the second generation managers. The study also showed a significant agreement with the statement that governance structures provided insight into how other businesses pursued new approaches. This could be interpreted as recognition by the younger second generation managers that multiple directorships exposes the directors to different leadership styles and monitoring behaviour thus ensuring that businesses stays afloat in line with their objectives (Richardson, 2011). Useem, (2013) also urged that multiple directorship enhanced business performance by using a wider insight of knowledge.

According to the findings of the study, governance structures explain 57 percent of variation in growth of MSFBs in Nairobi. This had an implication that a change in one unit in organizational structures would result in 57% growth of MSFBs. This finding was similar to Zong (2009) who found that SME managers develop governance practices with a more proactive, but less formal, approach that drives the effects of growth.

Governance structures influenced growth of family businesses to a moderate extent. From the study it was evident that there were clear leadership structures in most of the businesses under study. Most businesses encouraged faster decision making processes (Useem, 2011). The study also established that the governance structure used provided important information relating to new policies and trade secrets from other businesses. The respondents were neutral on whether the governance structures provided insights into how other business pursued new approaches and disagreed that the amount of each owner's proportion of the business affected their performance towards attainment of business targets. (Bacon and Brown, 2012).

## **CHAPTER SIX**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **6.1 Introduction**

The chapter gives the conclusions and recommendations based on the study objectives. The objectives of this study were to investigate the factors affecting growth of micro and small family business enterprises in Nairobi's Central Business District.

#### **6.2: Conclusions**

##### **6.2.1 Leadership Style**

The leadership style affects Growth of MSFBs to a great extent. The study concluded that majority of the leaders in family businesses across Nairobi, have the overall say in matters concerning the business but trust the employees thus involve them in making decisions and have set clear roles for their employees in attaining organizational goals. These attributes indicate a dominant character of transformational leadership style. The researcher also concluded that transformational leadership is dominant in second generation management while transactional and authoritative leadership style is dominant in first generation management.

This further explains why the second generation management firms were more profitable than the first generation managed firms. The first generation firms however grew more rapidly because the dominant transactional and authoritative characteristic of the founder contributed to unconditional attainment of set goals.

##### **6.2.2 Succession Planning**

On effects of succession planning, the study concluded that it affects growth of the family business to a moderate extent. The businesses hire the best qualified staff in every department and leaders develop their skills further by assigning them more tasks. The businesses also planned for the future operations in terms of human capital.

### **6.2.3 Business Conflict**

From the study it was concluded that conflict affected Growth of MSFBs 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 organizations. The study also concluded that family members fight for the control of the entire business and the scope of services offered by the company.

### **6.2.4 Governance Structures**

From the study it was of the conclusion that governance structures influences growth of the family business to a moderate extent. This was because the governance structures provide important information relating to new policies and trade secrets and may also expose the owner to economic trends and insights on how other businesses pursue new approaches.

### **6.3 Recommendations**

From the study on leadership style, majority of the respondents agreed that the business founders do not fully delegate duties to their juniors in the organization be they children or non family employees. The study findings have an implication that the management in the organization needs to assign each employee clear job description and the tasks expected to be overseen. This would create accountability as well as close monitoring of the employees on their strengths and weaknesses in task delivery thus improving performance which leads to growth of the family businesses. The study also recommends that managers in the organizations be given specialized training on how to manage the employees and also the employees be offered relevant training that would enhance their skills in performing the tasks assigned.

From the study findings, it was evident that that some family members are given leadership roles which they are not fully qualified for and thus could not perform the tasks adequately. This study therefore recommends that businesses do not give sole leadership and management in all departments to family members but rather employ outsiders where expertise is required. This will not only bring impartialness in making decisions but would also reduce conflict in leadership among family members.

Family businesses should engage in formal strategic planning and use outside boards and consultants to make strategic decisions. They should also develop formal written succession plans for smooth business succession. Family businesses should also consider making use of family councils to deal with succession issues.

As governments struggle to create jobs, family business firms are often seen as an easy way to service this objective. This study recommends, however, that campaigns to encourage more people to become entrepreneurs are important. There needs to be a government regulation policy to encourage family run businesses to adopt a recruitment policy that attracts non-family members into the business operations. Effecting rapid organizational growth is demanding and often requires significant professional social capital. Therefore, it is important to get the right people to run the firms.

Since entrepreneurship policies tend to be general, unfocused, and emphasize numbers rather than quality, this study recommends enhancing the economic impact of entrepreneurship policies through broad-based measures which address multiple aspects of policy design, implementation, and monitoring; at the levels of the individual, firm, sector, and society.

#### **6.4 Study Limitations and Suggestions**

Inevitably, this study suffers from some weaknesses including: low response rate, descriptive study design, and the lack of control over the dynamic nature of the environment. Furthermore the study's reliance on the responses of one internal informant (one employee of the family business) may lead to cognitive and subjective bias. To this end, future research may consider the adoption of a combined method of comprehensive, multiple face-to-face interviews, survey and in-depth case studies to generate data among different stakeholders in the family owned Businesses. Although one can assume that the attributes/factors that have received high endorsement in this study will be considered important in other parts of the world, another limitation of this study is that the sample was collected from One County of the whole country in Kenya. This prompts need to conduct similar studies in other areas in Kenya. The study was also limited in scope in regard to issues affecting growth of family owned business. In this regard the study recommended the following for future studies; Factors affecting profitability in family owned business, an assessment of competitive strategies on family businesses and impacts of education on entrepreneurial activities.

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## APPENDICES

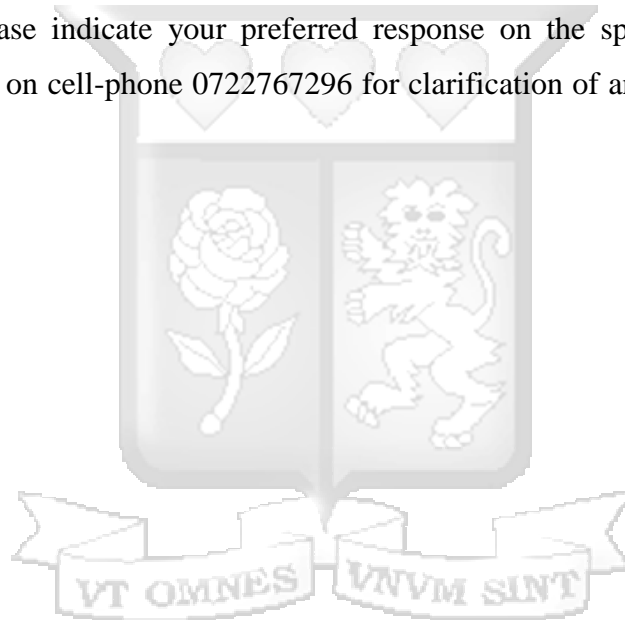
### Appendix 1: Introduction Letter

My name is Fredrick Murathe Maina. I am conducting a research on factors affecting the growth of micro and small family businesses in Nairobi County for my MBA thesis at Strathmore business School, Strathmore university. To help me collect data on the same, kindly respond as objectively as possible to the attached questionnaire. I assure you that the information provided will be treated in confidentiality and only used for the purpose of academic affairs. Please indicate your preferred response on the space provided. Do not hesitate to contact me on cell-phone 0722767296 for clarification of any issue. Thank you in advance.

Yours Faithfully

Fredrick M .Maina

Mobile 0722767296



## Appendix II: Questionnaire

### SECTION A: DEMOGRAPHIC CHARACTERISTICS.

Please indicate your gender:

Male ( ) Female ( )

What is your highest level of Formal Education?

Graduate/Post-Graduate ( ) Diploma/Certificate ( )

Secondary Education ( ) Primary Education ( )

For how long have you worked for this organization?

1 – 5 years ( ) 6 – 10 years ( ) 11 – 15 years ( )

– 20 years ( ) above 21 years ( )

Business Characteristics

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 ( )

For how long has the business been operational?

1 – 5 years ( ) 6 – 10 years ( ) 11 – 15 years ( )

– 20 years ( ) above 21 years ( )

### SECTION B: LEADERSHIP STYLE ON GROWTH OF MSFBs

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 on growth.

	1	2	3	4	5
The business leader has the overall say in all the matters concerning the business					
The business leader involved employees in decision making of the processes in the organization					
The leader encourages creativity and innovation among staff for the betterment of the organization					
The business leader entices staff towards the common interest for the business					
The business leader is more concerned in having tasks completed on time by employees					
The business leader seeks opinions on how to solve various problems in the organization					
The business leader has the ability to influence those working for him or her					

To what extent do you think leadership style has affected growth of your business?

Very great extent	
Great extent	
Moderate extent	

Select the most significance element of leadership that has led to one of the growth elements to the company.....

How leadership skills can be further enhanced to improve competition and turnover of the MSFBs.....

**SECTION C: SUCCESSION PLANNING ON GROWTH OF MSFBs**

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.

	1	2	3	4	5
The business develops employees with skills to take up more tasks					
The business has qualified staff in all departments					
There is a clear plan as to leadership and their deputies					
Special skills within the organization are identified and developed further					
The business has planned for future operations in terms of human capital					
Seniors managers are given specialized training					
The business has plans and prepares for future leadership by developing the employees with leadership responsibilities.					
Career Planning is the organization is done					
The business has been able to survive competition effectively and has an edge over competitors					
The business has been able to meet client demand					
The business has been able to pay staff salaries on time					
The business has been able to increase its office space over time					

To what extent do you think succession planning has affected growth of your business?

Very great extent	
Great extent	
Moderate extent	

In your opinion explain how coaching and mentorship can be of value to operational success

.....

Highlight the most important elements of succession and how it has led to the growth in size of employees and their performance.....

**SECTION D: BUSINESS CONFLICT AND GROWTH OF MSFBs.**

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.

	1	2	3	4	5
Some family members fight to have control of the business					
Family members disagree on sharing of profits from the business					
Some family members oppose decision made by experts					
Some family members assigned duties are not qualified					
Family members influence the recruitment of staff in the organization.					
There are clear procedures and policies of solving					
Some family members fight to change the scope of the business					

To what extent do you think business conflicts has affected growth of your business?

Very great extent	
Great extent	
Moderate extent	

In your opinion lists other the most significant aspects of conflicts and how it might affect business growth of MSBF.....

Lists other ways in which business conflicts can be resolved in family business set up.....

**SECTION E: GOVERNANCE STRUCTURES ON GROWTH OF MSFBs**

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.

	1	2	3	4	5
There is a clear leadership structure in the business					
The governance structure used provides important information relating to new policies and trade secrets.					
The governance structure provides insight into how other business pursues new approaches					
The governance structure exposes the leader to the economic trends					
The governance structure encourages faster decision making processes					

The amount of each owner proportion of the business affect growth					
There is a clear policy on human resources management					
The business obeys all statutory requirement					

To what extent do you think governance structures have affected growth of your business?

Very great extent	
Great extent	
Moderate extent	

In your opining lists other regulatory structures that might affects business growth.....

In what other ways could Governance structures be improved to positively influence growth.....

**SECTION F: MEASUREMENT OF GROWTH**

Years/No of Employees	2014	2013	2012
20 and above			
15-19			
10-14			
5-9			
Below 4			

<b>Growth Factors</b>	Strongly disagree	disagree	Neutral	agree	strongly agree
The business is able to survive competition effectively and has an edge over its competitors					
The business has been able to meet its clients' demand on time					
The business has employed qualified employees for various tasks					
The business has managed to pay employee salaries on time					
The business has programs designed to get qualified staff for its business operations					
The business has managed to increase its office space over time					