

**Challenges Hindering Sustainability of Small and Medium Family Enterprises**

**After the Exit of the Founders in Kenya**

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**A Thesis Submitted in Partial Fulfillment for the Degree of Doctor of Philosophy in  
Entrepreneurship in the Jomo Kenyatta University of Agriculture and Technology**

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## DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

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**DEDICATION**

To my entire family for their support and patience.

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My gratitudes go to the Almighty God for His mercies and for bringing me this far.

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## **LIST OF ABBREVIATIONS & ACRONYMS**

<b>ANOVA</b>	Analysis Of Variance
<b>CBD</b>	Central Business District
<b>CBS/CEG/KREP</b>	Central Bureau of Statistics, Centre for Economic Growth, K-Rep Holdings
<b>CEO</b>	Chief Executive Officer
<b>CSF</b>	Critical Success Factor
<b>EI</b>	Emotional Intelligence
<b>FB</b>	Family Business
<b>F-PEC</b>	Family Power Experience & Culture
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>HR</b>	Human Resource
<b>HRM</b>	Human Resource Management
<b>IPO</b>	Initial Public Offering
<b>IQ</b>	Intelligence Quotient
<b>KASMEs</b>	Kenya Alliance of Small and Medium Enterprises
<b>MSEs</b>	Micro and Small Enterprises
<b>MSMEs</b>	Micro, Small and Medium Enterprises
<b>NFBS</b>	National Family Business Survey

<b>RoK</b>	Republic of Kenya
<b>SMEs</b>	Small and Medium Enterprises
<b>SMFEs</b>	Small and Medium family Enterprises
<b>SPSS</b>	Statistical Package of Social Sciences
<b>UK</b>	United Kingdom
<b>USA</b>	United States of America
<b>VIF</b>	Variance Inflation Factor

## **ABSTRACT**

Small and medium enterprises are a vital economic base for any economy as they have the ability to create employment. A family enterprise is an enterprise that is influenced by two or more family members through their participation, ownership, strategic preference or culture. Most enterprises start as family enterprises. Empirical studies show that as vital as they are, family enterprises have very low survival rate. This study sought to investigate the challenges that hinder sustainability of small and medium family enterprises (SMFEs) after the exit of the founders in Kenya. Specifically, the study looked at managerial skills, entrepreneurial skills, human resource management skills, individual behaviour and succession planning.

The study used a mixed research design of exploratory, descriptive survey, ex-post facto and quantitative designs. Stratified random sampling was applied stratifying the population into trade, manufacturing and service strata. The list of licensed small and medium enterprises from Nairobi city council and Thika municipality served as the sampling frame. A sample of 247 enterprises was randomly selected from the strata. A preliminary study found out that SMFEs constitute 74.6% of all the SMEs in Kenya.

Data was analyzed using Statistical Package of Social Sciences (SPSS) version 19 as a tool of analysis. Linear regression relationship curves were developed showing positive relationship between all independent variables and the dependent variable. The study found out that there is strong positive influence on sustainability of SMFEs after the exit of the founders attributable to a unit of change on all independent variables namely managerial skills, entrepreneurial skills, human resource management, skills succession plan and individual behaviour. The principal confidant has a negative influence on sustainability of an SMFE after the exit of the founder.

The study recommended that leaders and owners of SMFEs require managerial, entrepreneurial, HRM skills and succession plan to effectively lead the enterprises to long term sustainability. Their individual behaviours also influence the sustainability of the same enterprises.

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

#### **1.1 Background Information**

This study explored the challenges hindering the sustainability of Small and Medium Family Enterprises (SMFEs henceforth) after the exit of the founders in Kenya. Empirical studies show that most successful family enterprises do not survive beyond the second generation after the exit of the founders (Astrachan & Dean, 2009; Chua, Chrisman, & Steier, 2003; Poza, 2004).

A startling statistic uncovered by the Canadian Federation of Independent Business in its 2005 survey of family owned Small and Medium Enterprises (SMEs henceforth) was that only 16 percent of the respondents had a succession plan for their family members (Johnson, 2009). Professional and business advisers to SMEs frequently cite instances in which the parents in the SMFEs have not given their children and presumptive successors any substantial information about the inner workings of the company, even though the children are well into adulthood. Astrachan and Dean (2009) notes that the American Family Business Survey report of 1996 carried out in U.S.A. shows that, more than one in three junior-generation family business members have no knowledge of their senior generation's transfer plans. This leaves the children, and the company, vulnerable if the owner dies or becomes incapacitated or ill. The family members lack sufficient knowledge and experience to manage the SMFEs effectively and suddenly looming

crises emerge (Salagnicoff, 2010). Parental secrecy often alienates the very children that the parents are counting on to succeed them (Safi, 2007). Poor succession plans combined with avoidance of family-conflict issues often leaves festering disagreements among siblings that might have arisen as early as childhood (Sorenson, 2005). If the SMFE leader is suddenly gone, there may be no one with sufficient authority or objective decision-making capability to resolve disputes over ownership or leadership, and the company is not likely to survive.

Globally, Small and Medium Enterprises (SMEs) contribute heavily to the various economies. The contributions range from employment creation to large proportions of the Gross Domestic Product (GDP). To demonstrate this importance, Prasad (2004) gives data on contribution of SMEs in various economic aggregates in different countries as summarized in Table 1.1 (Appendix IV, page 299).

Some countries cluster enterprises according to the invested capital and assets. Examples of such countries are India, Pakistan, Philippines and Taiwan. Others on sales revenue like Mexico and Portugal (Prasad, 2004). Kenya clusters them according to the number of employees (RoK, 1992). The challenges hindering the sustainability of these enterprises in Kenya are the subject of this study.

Moore, Petty, Palich and Longenecker (2008) observe that one way of entering into entrepreneurship is through family enterprises. Most family enterprises start as sole proprietorships. Others start as partnerships and others as private companies, with spouses as directors or sometimes with children as the additional directors. Swanepoel (2004) defines family enterprises as those influenced by family members through their participation, ownership, strategic preference and culture. Moore *et al.* (2008) define a family enterprise as one owned by two or more members of the same family where they operate together or in succession. Family enterprises are defined as businesses in which ownership and/or policymaking are dominated by members of an emotional kinship group (Carsrud, 2004). They differ from other businesses in that ownership and/or control overlap with family membership (Harvey & Evans, 2004) as all major operating decisions and plans for leadership succession are influenced by family members in management positions or on the board (Handler, 2009). Astrakhan, Klein and Smyrniotis (2007) observe that due to the complexity of the family enterprises, a standardized measure of the impact of the family on outcomes such as success, failure, strategy and operations should be developed. They then developed F-PEC (F-Family; P-Power; E-Experience; C-Culture) scale for continuous assessment of family influence in enterprise decisions. F-PEC comprises three variables for measurement; power, experience and culture.

Family enterprises, like other business concerns, pose leadership, management and succession challenges that normally require a unique approach to their solutions (Dunemann & Barrett, 2004). For family business to survive, there is always a pertinent need for leadership, good managerial skills, human resource management and a succession strategy that envisions the exit of founders; or others, who at one time or another, reached the helm of company leadership and authority - company politics notwithstanding. Bennedsen, Perez-Gonzalez, Nielsen and Wolfenzon (2006) have the view that when family members work together, emotions may interfere with business decisions; conflicts may arise as relatives see the business from different perspectives. Ward (2004) writes that those who are silent partners, stockholders and directors are likely to judge capital expenditures, growth and other critical matters primarily in terms of money. Those engaged in daily operations are more likely to be concerned about production and sales figures and personnel matters. Obviously, there is potential for conflict. In some family companies, daily operations are hampered by conflict; in others, the challenge is normally a high turnover rate among nonfamily employees. Growth also may be a dilemma if some relatives are reluctant to plow profits back into the business. Poza and Maheshwari (2010) say that conflict in the business can also be aggravated by family members who have little talent for money or business – the offspring of company founders who lack business acumen or in-laws who must be employed without regard of their ability or the enterprise’s needs. The manager of a family-owned enterprise faces

the same challenges as the owner-manager of any small firm. However, the job of a family enterprise manager may be complicated by relatives who must be reconciled to working together in a business (Ward, 2004).

### **Importance of Family Enterprises**

Bowman (2006) observes that about 90 percent of all U.S. businesses are family owned or controlled and that they range from micro to large enterprises. They generate about half of the country's Gross National Product (GNP) and half the total wages paid. Timmons and Spinelli (2007) summarized the effect of family businesses in some countries in Table 1.2 (Appendix V, page 300). In addition, Astrachan and Dean (2009) note that family firms have long been the backbone of both worldwide and American enterprise with between 65% and 80% of worldwide businesses in this category.

Efforts to obtain information for Kenya on family enterprises were fruitless. Kenya is a free economy and it would be logical to assume that family enterprises generate 75 percent of GDP as given by Poza (2004) in Table 1.3 (Appendix VI, page 301) under category of "other countries." This implies that in the year 2008 where the informal sector generated Kshs. 806,170 million of GDP at market price, the family sector generated (75%) Kshs. 604,627 million. Similarly, in the year 2009, the family enterprises generated Kshs. 618,939 million (RoK, 2009; RoK, 2010). These are no mean figures and should be of great concern to all stakeholders in this sector.

As shown in the preceding pages, family enterprises are a vital force in any economy. The unfortunate thing is that this vital force has very low survival rate. Bowman (2006) observes that less than one third of family businesses survive the transition from first to second generation ownership and of those that do, about half do not survive the transition from second to third generation ownership. Poza (2004) states that 85% of all family businesses fail within the first five years of operation and among those that survive, only 30% are successfully transferred to the second generation of the founding family owners. A mere 30% of family businesses survive past the first generation (Dyer & Whetten, 2006), and only 10% to 15% of these survive to a third generation (Astrachan *et al.*, 2007).

### **Small and Medium Enterprises in Kenya**

Small and Medium Enterprises (SMEs) are an important economic base to any country as they are a great source of employment creation (McCormick, 2004). The National Baseline Survey, Central Bureau of Statistics, Centre for Economic Growth, K-Rep Holdings (CBS/CEG/KREP, 1999) notes that the growth of enterprises from micro to small, small to medium and then medium to large means, employment creation, increase in revenue and capital base. The economic impact of SMEs can be measured by their contribution to output, employment, income, investment, exports and other economic indicators (Prasad, 2004). According to Kenya's Economic Survey 2008 (RoK, 2008), out of the total new jobs created, Micro, Small and Medium Enterprises (MSMEs)

created 426.9 thousand (89.9%) new jobs out of a total of 474.8 thousand new jobs created in 2007 in Kenya. In 2008 MSMEs created 433.5 thousand (79.9%) new jobs out of 543.3 thousand new jobs created in Kenya (Economic Survey, 2009). In the same year the sector contributed Kshs 806,170 million of GDP which is 59% of total GDP (RoK, 2009). The Kenya Economic Survey 2010 (RoK, 2010) notes that this same sector generated 390.4 thousand new jobs which translate into 87.6% of the total jobs generated in 2009.

Most countries, Kenya included, cluster Small and medium Enterprises based on employment (Prasad, 2004). Sessional Paper No. 2 of 1992 and National Baseline Survey of 1999, cluster enterprises in the following order: Micro Enterprises, 1-9 employees; Small Enterprises, 10-49 employees; Medium Enterprises, 50-99 employees; Large Enterprises, 100 and above (RoK, 1992; CBS/CEG/KREP, 1999).

Advantages for SMEs are various, including: the encouragement of entrepreneurship; the greater likelihood that SMEs will utilize labour intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; SME development can encourage the process of both inter and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises (Longenecker, Moore & Petty, 2003).

## **1.2 Statement of the Problem**

The foregoing information in the introduction and background reveals the importance of small and medium enterprises (SMEs) on basis of employment creation and heavy contribution towards Gross Domestic Production (GDP) in all nations (Timmons & Spinelli, 2007; Poza, 2004). The literature review in chapter two also shows that family enterprises comprise 70% to 80% of all enterprises in all free economies (Timmons & Spinelli, 2007; Bowman, 2006; Poza, 2004).

As vital as they are, family enterprises have very low survival rate. Less than one third of family businesses survive the transition from first to second generation ownership and of those that do, about half do not survive the transition from second to third generation ownership (Bowman, 2006). Eighty-five per cent (85%) of all family businesses fail within the first five years of operation and among those that survive; only 30% are successfully transferred to the second generation of the founding family owners (Poza, 2004).

More often than not, we hear of families making applications in court to bar other family members from running or interfering with the running of family businesses. To quote a few: (a) Parts of the world outside Kenya; Leger Robic Lawyers report (1992) in Montreal Canada, reported on the trademarks court of appeal judgment in Gucci case

where Paolo Gucci had been taken to court by family members over the use of his surname “Gucci” as he had quit the family business as a result of disagreement. The family business Guccio Gucci, S.p.A. had registered ‘GUCCI’ trademark on its products which had been designed by Paolo Gucci; Another case was reported in the Wine Spectator Magazine of Virginia Minnesota on 17<sup>th</sup> May 2008 pp7 concerning Robert Mondavi family wine business dispute, <http://www.winespectator.com> retrieved on 3<sup>rd</sup> March 2010; Bina Udeshi Free Press Journal of 24<sup>th</sup> July 2004 in Gujarat, India reported on the dispute of the Ambani family which owned Reliance Company of India. This dispute led to the split of the company between Ambani’s sons - Mukesh and Anil. (b) In Kenya: *The East African Standard of Thursday 16<sup>th</sup> March 2008 pp9*, quoted a popular politician’s family in court over succession issues; Joseph Kanyotu’s family members, making an application in court over a dispute on the spy master’s business empire – *The East African Standard Tuesday 29<sup>th</sup> September 2009 pp1 and pp7*; The court judgment on Kirima’s dispute and his son over Kshs. 750 million business management – *Daily Nation, Friday 18<sup>th</sup> December 2009*. Other Kirima family disputes were also reported in subsequent daily issues until his death in January, 2011.

Why do members of a family take disputes to courts of law threatening to split these enterprises or leading to eventual death of the same? The literature review in chapter two shows that most of the studies conducted on family enterprises are on large enterprises

and have been conducted in the developed and developing countries outside Africa; save for a case study on a Greek family business in Bloemfontein, South Africa (Buuren, 2008).

Kenyan family micro, small and medium enterprises contribute heavily to the GDP. Yet, there are little or no empirical studies on this important sector of the economy. It is therefore imperative to scientifically explore the actual situation on how to shield this important sector and this study embarks to fill this gap. The challenges hindering sustainability of small and medium family enterprises after the exit of the founders in Kenya is the subject of this study.

### **1.3 Objectives**

#### **1.3.1 General Objective**

To investigate the challenges hindering the sustainability of Small and Medium Family Enterprises (SMFEs) after the exit of the founders in Kenya.

#### **1.3.2 Specific Objectives**

1. To investigate the influence of managerial skills on sustainability of SMFEs after the exit of the founders.

2. To establish the effect of entrepreneurial skills on sustainability of SMFEs after the exit of the founders.
3. To explore the influence of individual behaviours on sustainability of SMFEs after the exit of the founders.
4. To investigate the effect of human resource management skills on the sustainability of SMFEs after the exit of the founders.
5. To establish if succession plans have any effect on sustainability of SMFEs after the exit of the founders.

#### **1.4 Research Questions**

1. Do managerial skills influence the sustainability of SMFEs after the exit of the founders?
2. What is the influence of entrepreneurial skills to the sustainability of SMFEs after the exit of the founders?
3. How do individual behaviours influence the sustainability of SMFEs after the exit of the founders?
4. Do human resource management skills have any effect on the sustainability of SMFEs after the exit of the founders?
5. Does succession plan affect the sustainability of SMFEs after the exit of the founders?

### **1.5 Justification of the Study**

The findings of this study will be of particular importance to various sectors. The various scholars and other researchers interested in small and medium enterprises will benefit from the findings of this study. The findings will add to the already existing body of knowledge in this field. Particularly the study will benefit the following:

Entrepreneurs: Entrepreneurs both potential and existing will benefit from the findings of this study as they will use them in preparing for the long-term survival of their enterprises. The succeeding entrepreneurs would also benefit from the success of their enterprises.

The policy makers: The governments and other relevant institutions will utilize the knowledge gained from this study in assisting the entrepreneurs by designing relevant courses for training them. The policies formulated would also be aimed at helping family businesses survive for a long time as they serve as important economic bases in employment creation.

Financial institutions: The financial institutions will reduce the risk rating of the family enterprises that have sound leadership and succession plan in place as they will be assured of long term survival of the enterprises.

Researchers and scholars: The study will make empirical contribution to the field of enterprise management in general and particularly to the management of small and medium family enterprises.

## **1.6 Scope**

The study covered small and medium family enterprises in Nairobi's industrial area along Enterprise Road (and adjoining roads) and Thika town's light industrial area. These areas have both urban and rural populations and have also enterprises managed by people of all races of the global population. The areas are also composed of entrepreneurs in the three clusters (manufacturing, trade and services) of interest to this study and, geographically the area is manageable within the limitations of the study. The findings can therefore, be inferred to other populations globally. Extending the study to other areas would result into replication.

## **1.7 Limitations**

The main limitation experienced in this study was that most leaders of family enterprises consider some pieces of information as confidential and did not want to reveal everything. This limitation was minimized by the observation of non-verbal behaviour of the respondents and making informed conclusions on some of the issues. The study was not able to cover a large geographical area due to financial limitations.

## **1.8 Operational Definition of Terms**

### *Conceptual Framework*

A Conceptual framework is a hypothesized model identifying the concepts under study and their relationship. The conceptual framework diagram helps a reader to easily and quickly see the proposed relationships (Neuman, 2006).

### *Entrepreneurial Skills*

These are the skills that complement the ability of the entrepreneur to analyze situations, opportunities and environments and assist the entrepreneur/manager to organize, manage and assume the risks and rewards of a business or enterprise (Kuratko, 2007).

### *Exit/Harvest Strategy*

It is the method by which a venture capitalist or business owner intends to get out of an investment that he or she has made in the past (MacKillop, 2009).

### *Family Business Founder*

A Founder is an individual who, either by her or himself or in concert with others starts a new company from scratch; if there are multiple founders of a given business, they can be referred to as either founders or cofounders (Lansberg, 2002).

### *Family Business Leader*

A family leader is someone who has a vision for the family business and is able to communicate it (Sorenson, 2005).

### *Family Business Succession*

Family business succession is the passing of the leadership baton from the founder-owner to a family or non-family successor (Marisetty, Ramachandran & Jha, 2008).

### *Family Enterprises*

A family business refers to a company where the voting majority is in the hands of the controlling family (25% and above); including the founder(s) who intend to pass the business on to their descendants (Neubauer & Lank, 2008).

### *Individual Behaviour*

Individual behaviour refers to an intention to behave in a certain way toward someone or something motivated by situational characteristics, personal perceptions and abilities, social influences; cultural, religious and family values (Kirchhoff, 2004).

### *Management*

The attainment of enterprises goals in an effective and efficient manner achieved through planning, organizing, leading and controlling the enterprises resources (Smit & Cronje, Breebaart, Old, Swanepoel & Memue, 2008).

### *Managerial Skills*

The work needs of different organizations and enterprises require the different skills in managers to handle the business environment and to make it successful in the market (Swanepoel, 2004).

### *Mentorship*

Guiding and supporting the work and development of a new or less-experienced enterprise family member(s) (Aronoff & Ward, 1992).

### *Model*

Nachmias and Nachmias (2008) define a model as a concept which is closely related to the idea of theory as systematic conceptual organization.

### *Non-family Executive*

A person employed by a family business, as an executive, and is neither a blood relative nor related to the owning family by marriage or adoption (Schultz, 2003).

### *Principal Confidant*

A person close to the family enterprise leader, who adherently advises that leader and ensures that important and classified information is kept confidential (Harwood, 2006).

### *Succession*

The succession process is the transfer of leadership, ownership or control from one family member to another (Birch, 2008).

### *Succession Planning*

Succession planning is the process of pinpointing key needs for leadership and intellectual talent throughout the organization over time and preparing individuals for present and future work responsibilities (Dunemann & Barret, 2004).

### *Sustainability*

Sustainability is keeping something going on over time or continuously. It can also be defined as strengthening or supporting someone or something physically or mentally (Bookchin, 2007).

### *Theoretical Framework*

Theoretical framework is the systematic combination of taxonomies, conceptual frameworks, descriptions, explanations, and predictions in a manner that provides structure for a complete explanation of empirical phenomena (Nachmias & Nachmias, 2008).

### *Variables*

Kumar (2005) defines a variable as an empirical property that can take two or more values and can change in quantity or quality.

## **CHAPTER TWO**

## **2.0 LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews literature by various scholars in the area of family enterprises. It reviews how and why family enterprises succeed and the challenges they face during the course of their operations. The chapter aims to present the gaps in the literature requiring investigation and the development of a research model and research questions.

The chapter is divided into three main parts. The first part covers the theoretical review on management, entrepreneurship, individual behaviour, human resource management and succession planning leading to the development of the conceptual framework guiding this study. The second part deals with the secondary research in accordance with the variables of this study. The third part deals with empirical studies carried out in the past and in accordance with the variables presented in the research model, the critique and the research gaps.

### **2.2 Theoretical Review**

A theory is a set of interrelated constructs (concepts), definitions and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting phenomena (Camp, 2010). Jennings (2004) further observes that a construct is defined in terms of other constructs by conceptual

definitions. Cooper and Schindler (2008) view a theory as a set of systematic interrelated concepts, definitions, and propositions that are advanced to explain and predict phenomena (facts). This theoretical review explores other scholars' theories about management, entrepreneurship, individual behaviour, human resource management and succession planning leading to the development of the conceptual framework to guide the study.

### **2.2.1 Management Theories**

Entrepreneurs manage their enterprises through their employees and other resources. Management theories are concepts that entrepreneurs can use to effectively propel their enterprises achieve their goals and objectives.

#### *Contingency Theory*

Wren (2005) observes that the contingency theory is a class of behavioural theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. Several contingency approaches were developed concurrently in the late 1960s. The authors of these theories argued that Marx Weber's bureaucracy and Fredrick Taylor's scientific management theories had failed as they neglected environmental influences and that there is not one best way to manage an

enterprise (Azjen, 2005). These influences shape the individual behaviour in a certain situation while managing SMFEs.

Contingency theory is about the need to achieve fit between what the enterprise is and wants to become (its strategy, culture, goals, technology, staff and external environment) and what it does; how it is structured and the processes, procedures and practices it puts into effect (Purcell, Kinnie, Hutchinson, Rayton & Swart, 2007). Rue & Byars (2004) argue that the contingency theory is an extension of humanistic theories where classical theories assumed universal view in managing enterprises; that is, whatever worked for one enterprise could work for another. The contingency theory states that there is no universal principle to be found in the management of enterprises but one learns about management by experiencing a large number of case problem situations and determines what will work for every situation (Wren, 2005). Mentoring and inducting successors of family enterprises help them acquire the necessary skills in this regard.

Founders of small and medium family enterprises can use the contingency theory to effectively plan for future success and sustainability of their enterprises. They can align their strategies with the environment to achieve strategic fits for the enterprises (Peters, 2002).

*Systems Theory*

Hartman (2010) notes that, the systems theory provides a leader with a tool for analyzing organizational dynamics without providing a specific theory about how an organization should be managed. Hartman (2010) further observes that with the recognition of systems theory, all organizations consist of processing inputs and outputs with internal and external systems and subsystems is helpful in providing a functional overview of any organization.

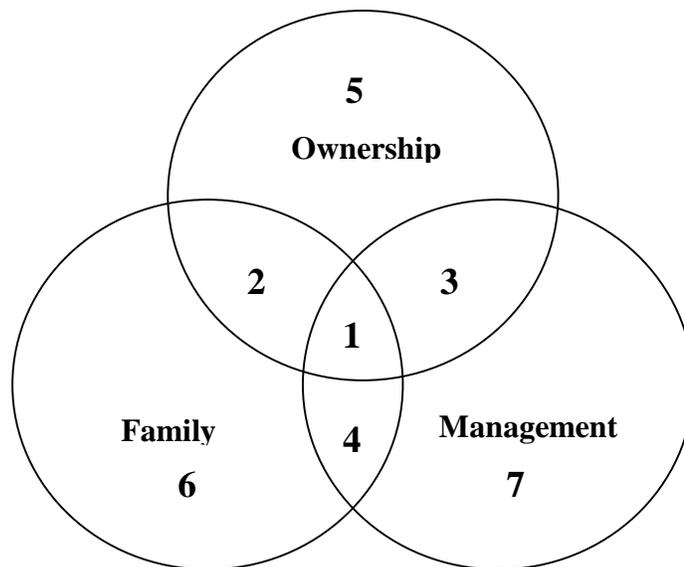
Smit and Cronje (2002) observe that a system is a collection of parts unified to accomplish an overall goal. If one part of the system is removed, the nature of the system is changed as well. The effect of systems theory in management is that managers look at the organization from a broader perspective. Systems theory has a new perspective for managers to interpret patterns and events in the workplace. They recognize the various parts of the organization, and, in particular, the interrelations of the parts, e.g. the coordination of central administration with its programs, supervisors with workers, etc. In the traditional management practices, managers typically took one part and focused on it, they then moved all attention to another part. The problem was that an organization could, e.g. have a wonderful central administration and wonderful set of teachers, but the departments didn't synchronize at all (Rue & Byars, 2004).

In the systems theory approach, the family enterprise comprises three overlapping, interacting and interdependent subsystems of family system, management system and ownership system (Gardiner, 2010). The degree, into which every system overlaps each other, indicates the degree of influence a system has over the business. This overlapping is clearly shown in the model below (Figure 2.1). According to Poza (2004) in the systems theory, any individual within a family business can be categorized into seven categories. The overlap of the categories is clear in the model and the details of the categories are as follows: (1) A family member who neither owns nor is employed by the business. (2) Non-family member who are owners of the business. (3) Non-family employee of the business with no ownership. (4) Family member with ownership but are not employed by the business. (5) Non-family business employees who are owners. (6) Family members employed by the business but have no ownership. (7) Family members employed by the business who are owners.

Founders and other stakeholders of small and medium family enterprises require considering the interacting subsystems in a family enterprise, as summarized in the model (Figure 2.1) whenever they make important decisions concerning succession and sustainability of these enterprises. The systems theory is important in guiding the decision makers in such a case. The above instigated the first research questions:

### **Research Question One**

*Do managerial skills influence the sustainability of SMFEs after the exit of the founders?*



**Figure 2.1: The Systems Theory Model of Family Business (Poza, 2004)**

#### **2.2.2 Entrepreneurship Theories**

Kuratko and Hodgetts (2008) define entrepreneurship theories as verifiable and logically coherent formulations of relationships, or underlying principles that either explain entrepreneurship, predict entrepreneurial activities, or provide normative guidance. Early scholars like Joseph Schumpeter, Marx Weber, David McClelland and others looked at entrepreneurship from hypothesizing several theories among them;

psychological, sociological and economic theories. Schumpeter and McClelland were the main proponents of the psychological theories which looked at the individual characteristics of entrepreneurs which made them different from other people. Marx Weber and others, proponed sociological theories of entrepreneurship, and they hypothesized that the social environment under which an entrepreneur lived in, shaped a person to become an entrepreneur. Proponents of economic theories were Adam Smith and Richard Cantillon in the 17<sup>th</sup> and 18<sup>th</sup> centuries that saw entrepreneurs as people of 'creative destruction' for economic growth (McClelland, 1965; Weber, 1958; Schumpeter, 1928; Holt, 2002; Dollinger, 1995).

### *Psychological Theories*

Psychological or personal theory brings out the difference in individuals' attitudes. According to these theories, the difference in attitudes (i.e. the internal attitudes) and the ability to judge and forecast the situation lead a man to become a successful entrepreneur (Holt, 2002).

Ward (2004) observes that, perhaps the first and certainly, the most important theory of Entrepreneurship's psychological roots was put forward in early 1960's by David McClelland, who found that certain kinds of people, including and especially those who become entrepreneurs have a high need for achievement, high need for affiliation, and high need for power.

High need for achievement (N-ach) is the desire to do well, not so much for the sake of social recognition or prestige but for the sake of an inner feeling of personal accomplishment. McClelland proposes that people with high N-ach have: strong desire to solve problems on their own; enjoy setting goals and achieving them through their own efforts; like receiving feedback on how well they are doing; are highly motivated; are likely to take calculated risks and like autonomy (McClelland, 1972).

McClelland noted that these are formed during middle childhood. However, McClelland's theory faced criticism as it failed to discuss competence and ignored the influence of external environment. High need for affiliation (N-aff) is characterized by a desire to belong, an enjoyment of teamwork, a concern about interpersonal relationships, and a need to reduce uncertainty (McClelland, 1965).

High Need for Power (N-p) is characterized by a drive to control and influence the others, a need to win arguments, and a need to persuade and prevail on others. According to McClelland, the presence of these motives or drives in an individual indicates a predisposition to behave in certain ways. Therefore, from a manager's perspective, recognizing which need is dominant in any particular individual affects the way in which that person can be motivated (Dollinger, 2008).

Specifically, achievement motivation is defined as a non-conscious concern for achieving excellence through individual efforts. Such individuals set challenging goals for themselves, assume personal responsibility for goal accomplishment, are highly persistent in the pursuit of these goals, take calculated risks to achieve the goals, and actively collect and use information for purposes of feedback (Weightman, 2008). High achievement motivated managers are also strongly inclined to be personally involved in performing their organizational tasks. However, they may also be reluctant to delegate authority and responsibility. Thus, high achievement motivation may be expected to result in poor performance of high-level executives in large organizations.

Locus of Control; there are two types of people: Those with External locus of control believe that what happens to them is a result of fate, chance, luck, or forces beyond their control; those with internal locus of control believe that for the most part, the future is in their control through their own effort (Shane, 2003).

Risk taking propensity; new venture creation involves taking risk and financing of such a venture is called risk capital. McClelland and Everett Hagan ascribes 'The inculcation of the achievement motive is associated to child rearing practices which stress; standard of excellence, material warmth, self reliance training and low father dominance are formed during childhood and produced by reasonably high standards of excellence imposed at a time when the child can attain them', i.e. a willingness (McClelland, 1972).

Shane (2003) notes that there are several ideas as to why someone becomes an entrepreneur, some of which belong to the psychological theories of entrepreneurship, which basically suggests that there are a number of psychological traits possessed by the entrepreneur which allow him or her to undertake such a task. The following are the psychological traits noted by Shane (2003): (a) there is a leader, the entrepreneur, who is the driving force behind economic events. (b) Inside the mind of this entrepreneur is a vision of a future state that is preferred to the present state. (c) Through a semiconscious process of intuition and insight, rooted in experience, the entrepreneur develops this vision and a strategy of how to implement it. (d) This vision is promoted diligently and passionately by the entrepreneur. The job for many provides a feeling of being “alive” or the satisfaction of serving society. (e) The strategy is deliberate and the overall vision is clear, however details may be malleable, incomplete, and emergent. (f) Entrepreneurial strategies tend to go along with simple centralized organizational structures that respond quickly to the entrepreneur's directives. (g) Entrepreneurial strategies tend to be used in niche markets that have not been noticed by the large industry leaders.

### *Sociological Approach*

This approach tries to explain the social conditions from which entrepreneurs emerge and the social factors that influence the decision (Osborne, 1991). Weber and others hypothesized that the adoring entrepreneurial energies are generated by the adoption of

exogenously supplied religious beliefs (Weber, 1946). For the faithful, these beliefs, both in their direct implications for practical conduct and in the entrained anxiety to generate signs of favorable predestination, produce intensive exertion in occupational pursuit (Weber, 1958). The occupational pursuit is the systematic ordering of means to ends, and the accumulation of productive assets. Can these entrepreneurial theories contribute to sustainability of small and family enterprises after the exit of the founders? These triggered the second research question:

### **Research Question Two**

*What is the influence of entrepreneurial skills to the sustainability of SMFEs after the exit of the founders?*

### **2.2.3 Human Resource Management Theories**

#### *Human Capital Theory*

Human capital theory explains entrepreneurial outcomes of an individual's knowledge to the economic value to a firm (Becker, 1964). Education provides a source of human capital because it enables individuals to gain explicit knowledge necessary for task performance. The family business must ensure that the successor obtains knowledge to manage the family business from formal education and training to enhance job performance (Grobler, Warmich, Carrell, Elbert & Hartfield, 2002).

Gist (2007) states that human resource management practices that enhance the successor's human capital also enhance post succession performance. Additionally, functional knowledge in day-to-day business operations that is obtained through executive developments seminars, workshops and conferences that are organized by universities, vendors, etc provide the basis for building occupational and industry-specific human capital, which enhances the successor's job performance (Tesluk & Jacobs, 2008). Hambrick (2007) notes that, more human capital enables the successor to acquire greater know-how to face the executive job demands of carrying heavy loads, operating under great pressure and making hundreds of quick effective decisions in the day-to-day operations as well as to set the strategic direction for the firm.

### *Motivation Theory*

The feasibility and success of succession is dependent on the motivation of the successor to assume the leadership role in the family business (DeNoble, Ehrlich & Singh, 2007). Bandura (2003) notes that motivation as the person's level of self-efficacy, which is the judgment of one's capability to accomplish a certain level of performance or achieve a desired outcome (Bandura, 2003). Self-efficacy determines how much effort people will spend on a task and how long they will persist with it, which determines the successor's level of diligence in managing a complex and multifaceted family business. Bandura

(2003) further notes that, an individual's level of self-efficacy is affected by his/her past experiences of specific performance accomplishments.

Gist (2007) observes that the learning effect gained from and the successes achieved through prolonged work experience; from repeating the execution of routines or specific behaviours build a person's level of confidence, which enhance self-efficacy. Therefore, providing the successor with incremental work experience in many business-related areas to build his/her capabilities, execute specific tasks, confront challenges and overcome obstacles, enhance self-efficacy to function effectively when he/she takes over the family business. Armstrong, Pecotich and Mills (2003) observe that, in entrepreneurship studies, work experience is a proxy for competence and is therefore expected to have positive impact on work performance. The foregoing triggered the third and fourth research questions:

### **Research Question Three**

*How do individual behaviours influence the sustainability of SMFEs after the exit of the founders?*

### **Research Question Four**

*Do human resource management skills have any effect on the sustainability of SMFEs after the exit of the founders?*

#### **2.2.4 Succession Planning**

##### *Theory of Planned Behaviour*

The theory of planned behaviour states that one way to formalize a plan for the succession process is to create a succession plan (Armstrong *et al.*, 2003) Sharma, Chrisman and Chua (2003) observe that succession planning in family business is the deliberate and formal process that facilitates the transfer of management control to a family member, which helps in the transition process as it preserves organizational memory. Dyck, Mauws, Starke and Mischke (2002) suggest that formalized plan includes establishing specific sequence, timing, technique and communication criteria for selecting and training a successor, determining how the succession will be achieved, developing a vision or strategic plan for the company after succession, defining the role of the departing incumbent and communicating the decision to key stakeholders. Irrespective of the specific steps that are developed in a succession plan, positive outcomes are derived from succession planning which is derived from the theory of planned behaviour, which states that an individual's intention to perform a given behaviour predicts and explains that behaviour (Ajzen, 2005).

Ajzen (2005) advocates that, the theory of planned behaviour increases the likelihood that the succession event will occur smoothly because the theory postulates three determinants of intention that will lead to behaviour. The three determinants are: (a) by

developing a succession plan, the attitude towards the transition will be favourable. (b) By developing a succession plan, the degree of perceived social pressure to perform transition is increased. (c) Developing a succession plan helps in determining the incumbent think through obstacles that may hinder the event, which enables him/her develop plans to overcome such difficulties, therefore enhancing his/her degree of perceived behavioural control over the transition event.

### *Procedural Justice Theory*

The procedural justice theory ensures a smooth transition, that is, the process of selecting the succession candidates and their treatment should be fair (Gist, 2007). Greenberg (1990) suggests that procedural theory focuses on the fairness of the “means” used to achieve the outcomes or the fairness of the processes that pertain to how decisions are made. Fairness of the procedure and fairness in the interpersonal treatment of succession candidates build trust and enhance closer and more open exchange relationships among the stakeholders and also produces obligations for the successor as well as those candidates who are not selected for the job to remain loyal and committed the organization (Croponzano, Rupp, Mohler & Schminke, (2004).

Procedural justice theory affects an individual’s sense of fairness in two different ways: by giving an individual decision control and process control (Thibaut & Walker, 2006).

Barr (2004) state that, decision control involves the degree to which individuals have actual influence over the decision made. Process control on the other hand, involves the degree to which a procedure gives those affected by a decision an opportunity to express their views or provide inputs on how decisions should be made enabling them to have an indirect means of decision control (Sten, 2006). Through voice, stakeholders indicate views on how succession process should be implemented as well as their preferred choice among the succession candidates. In allowing family members or other stakeholders an opportunity to participate in the process of selecting a successor, the incumbent demonstrates that he/she is concerned about their view points and also wins their support because the process helps them attain higher-order needs, such as self-expression, respect, independence and equality (Miller, 1989).

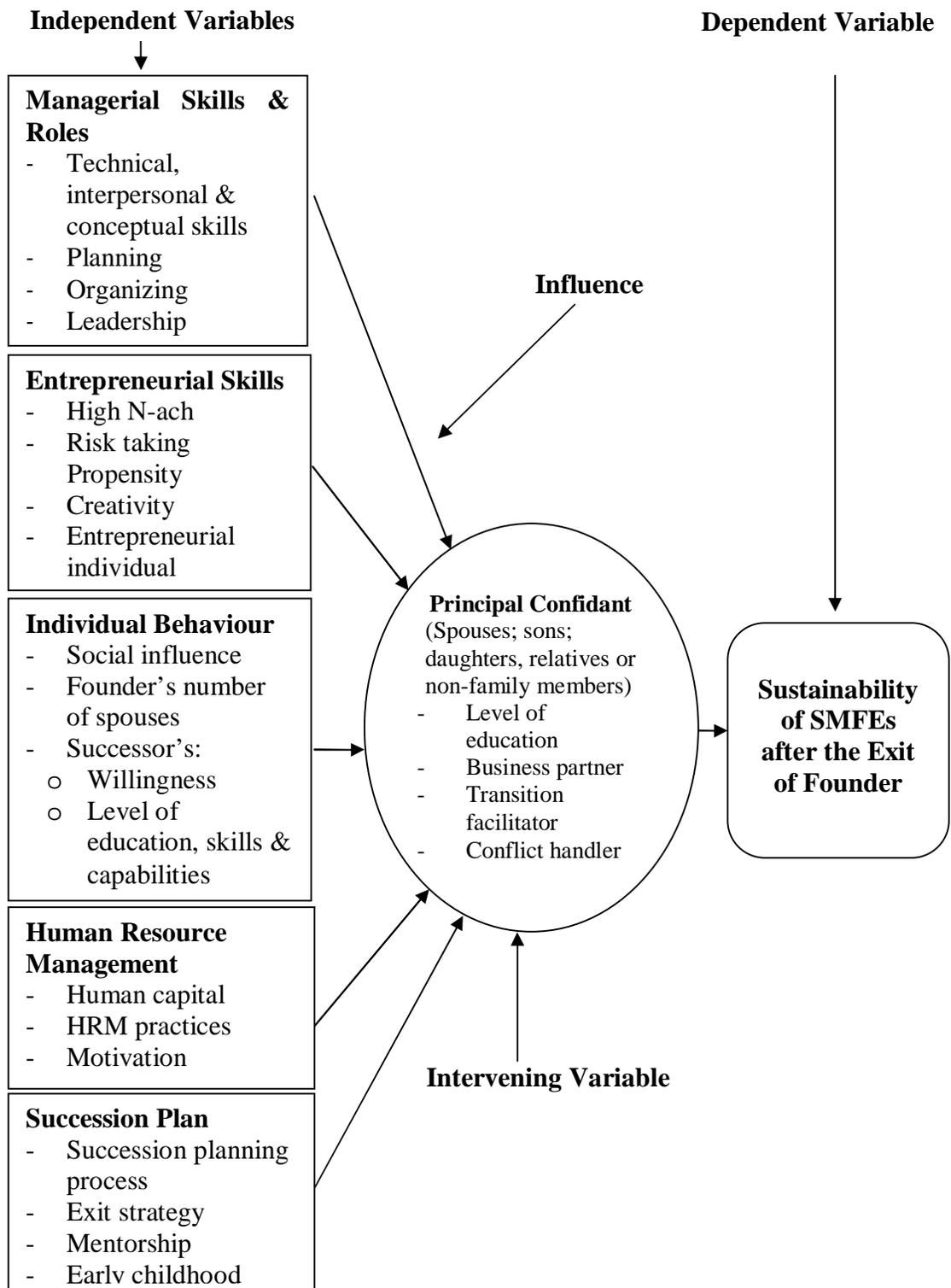
A mechanism to enhance procedural fairness is the use of formal and informal family or stakeholder get-together as means to candid and open communications, which enhance personal emotions, family relations, and the smoothness of transition (Fox, Nilakant & Hamilton, 1996). Other mechanisms include use of a board of advisers to be populated by outside directors, or at least a family council, to shift the decision making from a single person to the group (Osborne, 1991). How far can succession planning influence sustainability of an SMFE after the exit of the founder? These motivated research question five.

### **Research Question Five**

*Does succession plan affect the sustainability of SMFEs after the exit of the founders?*

### **2.3 Conceptual Framework**

A conceptual framework is a graphical or diagrammatic representation of the relationship between variables in a study (Borg, Gall & Gall, 2005). It helps the researcher to see the proposed relationship between the variables easily and quickly. A conceptual framework's proposition summarizes behaviours and provides explanations and predictions for the majority number of empirical observations (Cooper & Schindler, 2008). Descriptive categories are placed in a broad structure of explicit propositions or statement of relationships between empirical properties to be tested for acceptance or rejection (Nachmias & Nachmias, 2008). Figure 2.2 (page 35) represents this study's conceptual framework derived from the theoretical review above.



**Figure 2.2: Conceptual Framework Model**

## **2.4 Secondary Research**

### **2.4.1 Management**

Boone and Kurtz (1999) define management as the process of achieving enterprises objectives through people and other resources. This means that management has a lot to do with enterprises human and other resources. Smit and Cronje (2002) define management as the attainment of enterprises goals in an effective and efficient manner achieved through planning, organizing, leading and controlling the enterprises resources. Management is a form of work that involves coordinating an organization's resources - land, labour, and capital – toward accomplishing organizational objectives (Rue & Byars, 2004).

Rue and Byars (2004) further discuss five functions of management: Planning is deciding what objectives to pursue during a future period and what to do to achieve those objectives; Organizing is grouping of activities, assigning activities, and providing the authority necessary to carry out the activities; Staffing is determining human resource needs and recruiting, selecting, training, and developing human resources; Leading is directing and channeling human behaviour toward the accomplishment of objectives; Controlling is measuring performance against objectives, determining the cause of deviations, and taking corrective action where necessary. A person would

become a wonderful business leader/founder if he/she learns great leadership qualities and core values from God's own masterpiece - the family (Piramal, 1999).

### *Planning*

A plan is a blueprint specifying the resource allocations, schedules and other actions necessary for attaining goals. Planning is the act of determining the organizations goals and the means of achieving them (Daft, 2004). A goal is a desired future state that the organization attempts to realize. In order to plan effectively, managers need a sound knowledge, the relevant skills, and the right value orientation to apply the planning principles successfully.

Planning is not only important to SMFEs but also to any organization. Jesus taught His disciples the value of planning – “Suppose one of you wants to build a tower; will he not first sit down and estimate the cost to see if he has enough money to complete it? ...” (The Holy Bible, (NIV), 2010, Luke 14:26-33). Effective family business planning will help a manager to set a clear vision and assist with getting all of the family behind you (Graves & Thomas, 2006). Balancing the needs of a business and the family that controls it, might seem like an overwhelming task, unless the challenges are tackled with a clear-headed plan. Randel and John (2001) observe that, an approach of mapping out the strategies and structures is needed to make a family business run smoothly. In so

doing, family conflict, executive succession, ownership schemes and a host of other issues that can make or break a family business are addressed. Randel and John (2002) further note that proper strategic plans are practical and applicable methods of striking a balance between the needs of business and the needs of family.

Strategic plans help family members with different levels of business expertise understand some of the most powerful thinking about strategic planning so they could participate in spirited discussions about the future of their family firm's strategy (Higginson, 2008). Strategic planning is accessible to all the family members in the family enterprise while retaining the power of the analytical tools that are at its heart. Dana (2008) notes that family businesses constitute 70% or more of companies in every free market society and are among the most vibrant competitors in every industry. However, they face unique challenges that if left unattended, will jeopardize the success and sustainability of the business and the family. Examples of challenges are such as resolving family fairness disputes, separating family socialism from business meritocracy, hiring and managing children or siblings, compensating family members, planning the exit strategy of the owners or creating effective and sustainable governance patterns. The Holy Quran teaches the Muslims to be strategists and planners in their affairs. It shows this in a number of ways: through the stories of the prophets, the law of

Allah in nature, and in praising the people of vision and foresight (The Holy Quran, Surah Taha, 1946: Verses 25-32).

### *Organizing*

Organizing is the process of creating a structure for the organization that enables its people to work effectively towards its vision, mission, and goals (Greenberg, 1990). Organizing is an indispensable function in the management process. Plans devised and strategies formulated will never become reality if human and other resources are not properly deployed and the relevant activities suitably coordinated (Wanous, 1972).

The first stage of organizing process involves outlining the tasks and activities to complete in order to achieve the organizational goals. Once the tasks and activities are outlined, jobs must be designed and assigned to employees within the organization. In a family enterprise, worker relationships between individual family members, non-family members and workgroups should be clearly defined (Nanus, 1992).

The next step of organizing is to develop an organizational design that will support the strategic, tactical, and operational plans of the organization. Distelberg and Sorenson (2009) suggest that developing an organizational design entails grouping the organizational members into work units, developing an integrating mechanism to

coordinate the efforts of both family members and non-family members, and determining the extent to which decision making in the organization is centralized or decentralized (the locus of decision making).

Finally a control mechanism should be put in place to ensure that the chosen organization structure does indeed enable the organization to attain its mission and goals and maintains a conducive environment for all the employees in the family enterprises.

The organizing process should be guided by certain organizing principles to ensure that the structure is sound (Daft, 1994). The principles of organization should guide managers in the organizing process of the family enterprise. These principles will also eliminate the issue of conflict and inflict discipline among the family members who at one time feel that they are not answerable to anyone as they are part and parcel of the family enterprise.

Croponzano *et al.* (2001) observe that having a unity of command and direction means that each employee, whether a family or a non-family employee, should report to only one supervisor. Reporting to more than one supervisor can be very confusing to employees as supervisors may focus on different aspects of the work (Gardiner, 2010); a chain of command (the scalar principle) which states that a clear, unbroken chain of

command should link every employee with someone at a higher level, all the way to the top of the organization (Gist, 2007); span of control (span of management) which refers to the number of subordinates reporting to a manager (Lansberg, 2002) i.e. it is humanly possible for a manager to deal with only a certain number of employees since the fewer the employees supervised, the smaller or narrower the span of control (Gardiner, 2010); division of work whereby employees have specialized job can then be grouped together in a section or department (Miller, 1989); standardization, the process of developing uniform practices that employees are to follow in doing their jobs with the purpose of developing a certain level of conformity (Gardiner, 2010); coordination which means that all departments, sections and individuals within the organization should work together to accomplish the strategic, tactical, and operational goals the organization.

### *Leadership*

Daft (2004) defines leadership as the use of influence to motivate people to achieve a firm's goals. Leading is creating a shared culture and values, communicating goals to human resources in the whole enterprises and infusing the said human resources with the desire to perform highly. It involves motivating the entire firm's human resources. Rue and Byars (2004) define leadership as the ability to influence people willingly, follow one's guidance or adhere to one's decisions. A leader is one who obtains followers and influences them in setting and achieving objectives. Smit and Cronje (2002) define

leadership as human (symbolic) communication, which modifies the attitudes and behaviours of others in order to meet group goals and needs.

Johnson (2009) observes that a family enterprise, just like any other enterprise, should have a vision, a mission statement, core values and goals. It should also have a structure in place for effective decision making. It should equally have clear strategies and plan of action to achieve these goals. Wren (2005) states that, the family business leadership should foster good communication among family members and with non-family employees and should also provide for orderly succession. He further states that, these factors are the most important in counteracting the strong emotions that can arise. At home, responsibilities and rights are different than at work and this should be kept in mind at all times.

Relationships, language, and attitudes are subjective. The roles are also traditionally defined. At work the relationship is different; it could be boss-employee relationship. Job descriptions and specifications must be well defined and all concerned must stick to them per the success of the enterprise (Bolman & Deal, 2007). Conflicts and problems arising at home should not be taken to the workplace (Hackman & Johnson, 2009). This is easier said than done as it calls for a lot of discipline, yet it is very important as it conveys the message to all, that, business goals come first. The individual leader of a

family enterprise must recognize the emotional dimension and make the necessary objective decisions to ensure smooth functioning of the enterprise. The leader must carefully exercise the role of a conflict handler (Groshong, 2008).

The challenge of leadership in a family enterprise is to keep the emotions of family members from interfering with an enterprise's smooth operations (Heasley, 2005). Employees may also be tempted to take sides and base decisions on the family tensions. They should be made to understand that their interests are best served by a profitable enterprise and not by allegiance to particular family members. This can be best communicated to all by the leaders' behaviour. The leader must not take sides among the family members but disallow them to affect the business. The leaders who demonstrate respect for the family and understanding of the difference communicate the message to non-family employees that they should not play politics (Kennestone, 2006).

Leadership is particularly important in family business. The family firms differ from other businesses in that, family firms may have non-performance oriented goals that take precedence over the goals of growth and profitability (Chua, Chrisman, & Steier, 2003). This comparative ambiguity in goals and objectives complicates the leadership process within the family firm because leaders have to consider multiple factors beyond firm performance. Compared to non-family firms, family firms may have a more centralized

decision-making process, less formalized systems, more intimate communication, and a more long-term approach (Morris *et al.*, 2007), they also exhibit a greater potential for sustained conflict among involved actors. Finally, the issue of succession is far more important for family firms than non-family firms. Family business leaders should view succession as integral to the survival of the firm.

The Critical Success Factors (CSF) that affect the outcome of the leadership/ownership transition are numerous. With regard to the satisfaction dimension, the “incumbent’s propensity to step aside,” the “successor’s willingness to take over,” the “agreement among family members to maintain family involvement,” the “acceptance of individual roles,” and “succession planning” are quite significant (Sharma, Chrisman & Chua, 2003).

Leaders and founders of SMFEs should utilize the resources and strengths within their enterprises to achieve superior competitive advantage over their competitors. Swanepoel (2004) gives the following competitive advantages of family enterprises over the others: Family enterprises are not encumbered by demanding stock-holders who insist on dictating operating strategy; family members are willing to sacrifice short-term profits for long-term gain; research shows that family members are more productive than other employees; family enterprises are more flexible to respond to challenges and

opportunities in an unrestricted manner; owners of family enterprises can convey an image of stability, providing continuity for both customers and employees; family enterprises have a greater resilience in hard times as family members are willing to plough back profits; there is less bureaucracy and impersonality resulting to greater flexibility and quicker decision making process; family members enjoy financial benefits leading to possibilities of great success.

Hackman and Johnson (2009) view leadership as a fundamental element of human condition. Swanepoel (2004) observes that a founder of a family business does not only have the mandate to build institutions of governance but also to manage the transfer of power. Doyle and Smith (2004) give the following elements that influence successful leadership in family enterprises:

*Communication Skills:* Communication is paramount in managing family businesses. A manager needs information for decision making. Ability to disseminate and receive information is therefore an important tool for a manager (Dana, 2008). Stech (2003) observes that it is not only verbal communication, but the manager should be able to distinguish non-verbal signals, mood and feelings to filter the right information.

Effective communication is the key to resolving most family business problems, asserts Michaud (2009), especially in matters concerning who takes the company over when the

current leader retires, who is responsible for what duties, and how to leave work at the office and not take it home. Michaud (2009) offers strategies, such as regular meetings and behavioral process analyses, and then tells how to apply these concepts with minimal effort. Regular family meetings facilitated by competent professionals, if necessary, to communicate the plans and seek necessary feedback (Coopers, 2009) are important in the sustainability of the family enterprise. Feedback is necessary so that the family business owner can focus the family members on the reasons for the plan and to help them understand and accept it.

Leadership effectiveness depends on his/her willingness to interact with others on developing effective communication skills. Hackman and Johnson (2009) observe that leaders who engage in skillful communication are more likely to influence others. Leaders use thinking and reasoning skills to solve problems, set goals, negotiate, argue shape public opinion adapt to cultural differences and organize and deliver effective presentations (Schultz, 2003).

*Integrity:* Heasley (2005) observes that one of the most important things a leader must remember is that his or her actions, and not words, set the modus operandi for the team. Good leadership demands commitment to, and demonstration of, ethical practices. Creating standards for ethical behaviour for oneself and living by these standards, as

well as rewarding those who exemplify these practices, are responsibilities of project leaders. Leadership motivated by self-interest does not serve the well being of the team. Leadership based on integrity represents nothing less than a set of values others share, behaviour consistent with values and dedication to honesty with self and team members. In other words the leader “walks the talk” and in the process earns trust (Boone & Kurtz, 2009).

Hackman and Johnson (2009) observe that ethics provide the basic rules or parameters for conducting any activity in an “acceptable” manner. The founder’s/leader’s ethical nature of decision making and handling conflicts among the family members as well as employees is quite demanding. A founder/leader must develop a good ethical process that will be acceptable to all family members and the non-family staff as well.

*Credibility:* Heifetz (2004) observes that credibility is the foundation for successful influence because the success or failure of a particular influence strategy ultimately depends on the credibility of the influencer. Peters (2002) define a leader’s credibility as the cornerstone of corporate performance and global competitiveness.

A family leader should possess good elements of credibility. Hackman and Johnson (2009) find competence, trustworthiness and dynamism as the most significant elements

of credibility. Competence refers to the knowledge of the topic at hand, intelligence, expertise, skill or good judgment. A leader must provide the skills that the organization needs at a particular time. Trustworthiness and honesty is rated as the most important leader quality and the most influential public opinion. Dynamism is the perceptions of a source's confidence, activity, and assertiveness (Pieper, 2007). Dynamic leaders communicate confidence in their visions for the future prosperity.

Zaccaro, Kemp and Bader (2004) observe that a negative incident can undo the goodwill built by a leader with employees in the organization. Therefore, a family leader should exercise a higher degree of credibility.

*Delegation:* Hartman (2010) notes that delegation is the leadership style that promotes the sharing of responsibility and the exercise of continual consultation and has the following characteristics: (i) The leader seeks consultation on all major issues and decisions. (ii) The leader effectively delegates tasks to subordinates and gives them full control and responsibility for those tasks. (iii) The leader welcomes feedback on the results of initiatives and the work environment. (iv) The leader encourages others to become leaders and be involved in leadership development.

*Crisis leadership:* A crisis is any major unpredictable event that has the potential to damage an organization and, in extreme cases, threaten its survival (Hackman & Johnson, 2009). Successful family leaders must recognize and meet the challenges and demands by shifting communication strategies as the crisis develops. Leaders should plan for such eventualities and put in place tentative plans to manage them (pro-active management) rather than reacting after they have happened (re-active management) (Smit & Cronje, 2002).

*Emotional Intelligence (EI):* Armstrong (2007) defines emotional intelligence as the ability to assess, manage, and make use of one's feelings in the workplace. Researchers have thoroughly shown that EI is far more important to work success than rational Intelligence Quotient (IQ) or technical skills. Smit and Cronje (2002) note that, the emotional competencies that differentiate superior from average performers are; Self awareness, Self management, Social awareness and Relationship management. They farther explain these variables as follows: Self Awareness; emotional self-awareness entails knowing what one feels. This means that one can sense, articulate, and reflect on one's emotional states and the way they affect one's performance. This enables individuals to realize their own strengths and weaknesses. Individuals with an accurate self-awareness competence will be aware of their abilities and limitations, they will seek feedback, and they will learn from their mistakes where they can make improvement.

Self-Management; emotional self-management is the ability to regulate distressing affects like anxiety and anger and to inhibit emotional impulsivity. Signs of this competence include still being effective in stressful situations or being able to deal with hostility without reacting. Self-management also produces trustworthiness; letting others know one's values and principles, intentions and feelings and acting in ways that are consistent with them. Self management also fosters conscientious adaptability, an achievement drive and initiative (Cronje *et al.*, 2008).

Social-Awareness; social awareness is manifested in three competencies: Empathy, Social orientation and Organizational awareness. The empathy gives people an astute awareness of others' emotions, concerns and needs. The empathetic person can read emotional currents, such as tone of voice or facial expression. The sensitivity is critical for superior job performance wherever the focus is on interactions with other people-entrepreneurs. (e.g. in diverse workforce situations). Empathy competence allows the reading people accurately to avoid stereotyping. Social awareness also plays a key role in service competence which is the ability to identify clients' unstated needs and concerns. Organizational awareness refers to the ability to read the currents of emotions and political dynamics in groups (Berry, 2003).

Relationship Management (Social Skills); this entails the ability to attune ourselves to or influence, the emotions of another person. It refers to essential social skills such as: developing others, managing emotions effectively in other people, creating an atmosphere of openness, creating clear lines of communication, managing conflict, inspiring others to work towards the organizations vision, managing change, building networks and managing teamwork (Hackman & Johnson, 2009).

*Aspects to Consider in Effective Family Enterprise Leadership;* Ward (2004) used an approach to evaluate the evolution of family business from the perspectives of ownership and management. Davis and Taguiri (2008) developed a model that presents the various interactions that occur in family businesses consisting of three interrelated concepts, namely business, ownership and family as three subsystems that integrate over time, which they called the Three-Circle model. This model was transformed by Gersick, Davis, Hampton and Lansberg (1999) to formulate their Developmental Model that combines the elements of the Three-Circle model with the various stages of development in family businesses proposed by them (Gersick *et al.*, 1999). This model (Figure 2.3 on page 54) provides a comprehensive and integrated framework to evaluate the interaction between the life-cycle of the family business, the family itself, and ownership aspects.

The model consists of three dimensions: family development, ownership development and business development. Family development comprises various stages of development ranging from the initial stage of the young family to the next generation starting to enter the business (where the two generations are working together) to eventually a phase where the founder family member hands the business over completely. The ownership development dimension stages starts where the owner is in total control of the business and takes all decisions unilaterally (controlling owner). It then evolves to a phase where siblings enter the business and shares decision making with the founder, (sibling partnership). The final phase is one where extended family members and/or private individuals are introduced to the management of the firm, and decision making effectively becomes a shared phenomenon between family and non direct family members; cousin consortium (Gersick *et al.*, 1999).

### *Control*

Controlling is the process whereby management ensures that actual activities fit in with the predetermined goals and planned activities (Daft, 2004). The aim of control is to keep deviations from planned activities and performance levels to a minimum so that the mission and goals of the organization can be achieved with as few problems as possible (Peters, 2002). Therefore, control performs the following tasks: regulates task management in that it correlates actions with plans; guides execution of plans; measures

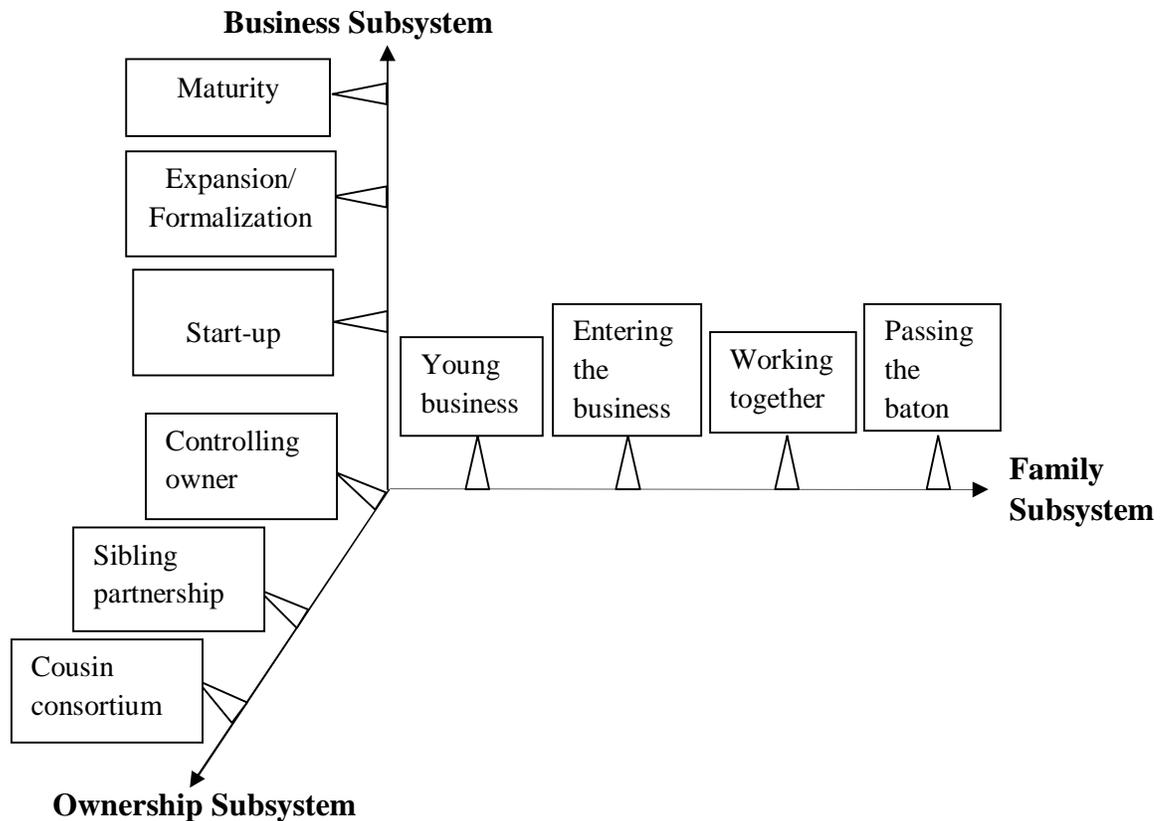
the performance of the whole organization; supervises and measures the progress that has been made towards attaining a particular goal (Taguiri, & Davis, 2002).

Control is a continuous process and is interwoven with planning, organizing and leading. It is the final stage in the process because it evaluates the management effort; the knowledge, experience, information, and facts acquired and collected during the control process become the most important inputs in the next round of planning to keep the management process on course. Management formulates plans and uses the control process to monitor the progress of the plan (Papulova & Mokros, 2007).

The control system informs management of the following: activities are proceeding according to plan- the existing plan to continue; things are not proceeding according to plan- the existing plan to be adjusted; the situation has changed- a new plan must be devised (Miller, 1989).

A control process is necessary in any family enterprise for the following reasons: it is exercised to ensure that all activities at all levels of the organization are in accordance with the organization's goals; it is applied to ensure that the organization's resources are deployed in such a way that it reaches its goals; control usually results in better quality; it enables management to cope with change and uncertainty; plays a major role in

complexity of organizations; necessitates the organization to remain competitive; facilitates delegation and teamwork (Poza, Alfred & Maheshwari, 2010).



**Figure 2.3: The Three Dimensional Family Enterprise Development Model (Gersick *et al.*, 1999)**

Antonites and Swanepoel (2005) observe that if one is a good entrepreneur, he/she is not usually a good manager, if he/she lacks managerial skills and experience. Boone and Kurtz (2009) observe that managers at every level in the management pyramid must exercise three basic types of skills: technical skills, human and conceptual skills.

Longenecker *et al.* (2003) observe that, there are many skills required by managers but the most basic for effective management include: Conceptual skills; Interpersonal (Human) Skills and; Technical skills. Though the degree of each skill necessary at different levels of an organization may vary, all managers must possess skills in each of these important areas to perform effectively (Moore *et al.*, 2008).

Conceptual skills are the cognitive ability to see the enterprise as a whole and the relationship among its parts (Smit & Cronje, 2002). It involves the leader's/founder's thinking, information processing, and planning abilities. It involves knowing where one's department fits into the total organization and how the organization fits into the industry, the community, and the broader business and social environment. Conceptual skill is the ability to think strategically. Conceptual skills are needed by all managers in a family enterprise but are especially more important for family enterprise leaders at the top to strategically plan for their enterprises. They must perceive significant elements in a situation and broad, conceptual patterns (Daft, 2004).

As family enterprises leaders/managers move up the hierarchy, they must develop the conceptual skills (Stodgill, 2008). Many of the responsibilities of top family leaders/managers, such as decision making, resource allocation and innovation, require a broad view.

Interpersonal skills are also referred to as human skills (Yulk, 2006). Yulk (2006) further notes that this is the leader/founder's ability to work with and through other people and to work effectively as a family group member. Interpersonal skills embrace the way a family leader/founder relates with other people, including the ability to motivate, facilitate, coordinate, lead, communicate, and resolve conflicts (Pieper, 2007). This skill enables a family leader/manager to allow other family and non-family subordinates to express themselves. A family leader/manager with interpersonal skills communicates effectively and likes other people and is liked by them. He/she does not take people for granted (Wright, 2006).

Effective family enterprise leaders/managers are cheerleaders, facilitators, coaches and nurturers. They build through people. Effective human skills enable family enterprise leaders to unleash subordinates energy and help them grow as future successors (Sorenson, 2006).

Technical skills refer to the understanding of a proficiency in the performance of specific tasks. Technical skills include mastery of the methods, techniques and equipment involved in specific functions such as engineering, manufacturing or finance. They also include specialized knowledge, analytical ability, and the competent use of tools and techniques to solve problems in that specific discipline (Rue & Byars, 2004).

Daft (2004) notes that many managers get promoted to their first management job by having excellent technical skills. However, technical skills become less important than interpersonal skills and conceptual skills as managers move up the hierarchy. Entrepreneurs and founders of small and medium family enterprises should have some technical skills in their field so as to effectively manage their enterprises.

### **2.4.2 Entrepreneurship**

The word entrepreneur comes from the word '*entreprendre*' a French word meaning 'one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods' (Shane, 2003). The term came into being from the work of Richard Cantillon in 1755 but entrepreneurship as a discipline was ignored and came into being in 1970s (Holt, 2002; Dollinger, 2008).

Entrepreneurship borrows concepts and theories from economics, psychology, anthropology, management, sociology, and religion (Hisrich, Peters & Shepherd, 2005). Economists see entrepreneurs as agents of economic growth: Ely and Hess (1893) saw entrepreneurs as people who combine factors of production for economic growth; Mr. Say (1803-1815) linked growth of England with entrepreneurs; Kumar (2005) describes an entrepreneur "as a person who combines factors of production in optimum proportions in order to maximize returns as well as taking tentative risks;" Schumpeter

(1946) saw entrepreneurs as people who see disequilibrium and who cause equilibrium; Adam (1776) described entrepreneur as “an individual who undertook the formation of an organization for commercial purposes” (Bird, 2009; Holt, 2002; Dollinger 2008; Timmons & Spinelli, 2007).

Schumpeter (1911-1949), from the sociological perspective saw “Entrepreneurs as movers of society who had the joy of creating private industries and as means of transforming and improving society” (Bird, 2009).

Kirchhorff (2004) describes an entrepreneur as a combination of innovative thinker and doer: “He or she sees an opportunity for a new product, service, new approach, new policy or a novel way of solving an old problem,” and subsequently, the entrepreneur does something about it. The implementation of the results of innovative thinking is often what truly distinguishes the entrepreneur from the non-entrepreneur (McElwee, 2006). An entrepreneur’s proactive tendencies, seeks to have an impact on the existing system (with an idea or service) (Bird 2009), for example, by using his or her ability to recognize and develop the commercial application of technological advance. It is exactly this thinking-doing combination that gives entrepreneurial efforts that extra special appeal

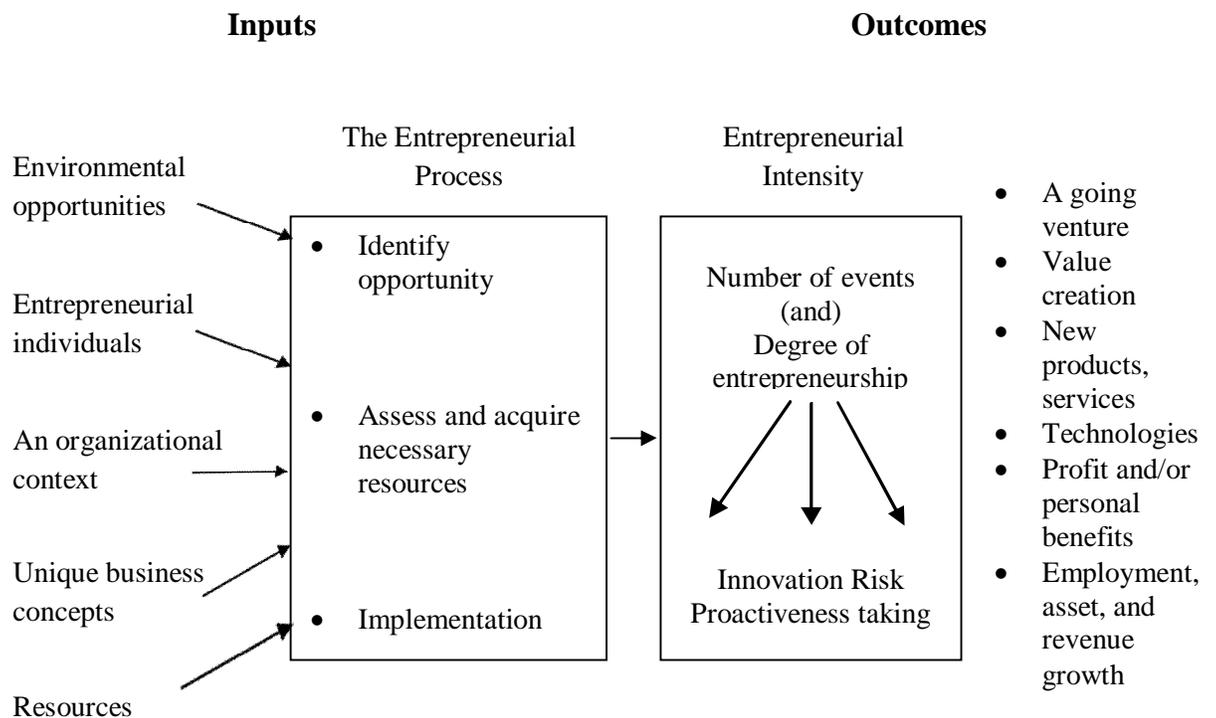
### *Entrepreneurial Process*

Longenecker *et al.* (2003) define entrepreneurship as the dynamic process of creating incremental wealth. This wealth is created by individuals who assume the major risks in terms of equity, time and career commitment of providing value for some product or service. The product may or may not be new or unique but value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources. Entrepreneurial process also includes openness to new information and people, motivation, making independent and self directed decisions, the ability to see opportunities in a rapidly changing and uncertain environment, persistence, the motivation to achieve, technical know-how, personal integrity, taking ownership and being accountable, the capacity to manage and organize as well specific categories of cultural characteristics (Johnson, 2008).

Morris *et al.* (1994) give the entrepreneurship process in the model on page 60. The model is built around the concepts of inputs to the entrepreneurial process and the outcomes from the entrepreneurial process. The input component identifies five key elements that contribute to the process: environmental opportunities (demographic change), entrepreneurial individuals (the person who assumes personal responsibility for conceptualizing and implementing a new venture), an organizational context (could range from a sole proprietorship run out of the entrepreneur's home to an autonomous

business unit within a large corporation) and wide range of financial and nonfinancial resources (required on an ongoing basis). On the outcome component, the process can result in any number of entrepreneurial events and can produce events that vary considerably in terms of how entrepreneurial they are (Morris *et al.*, 1994).

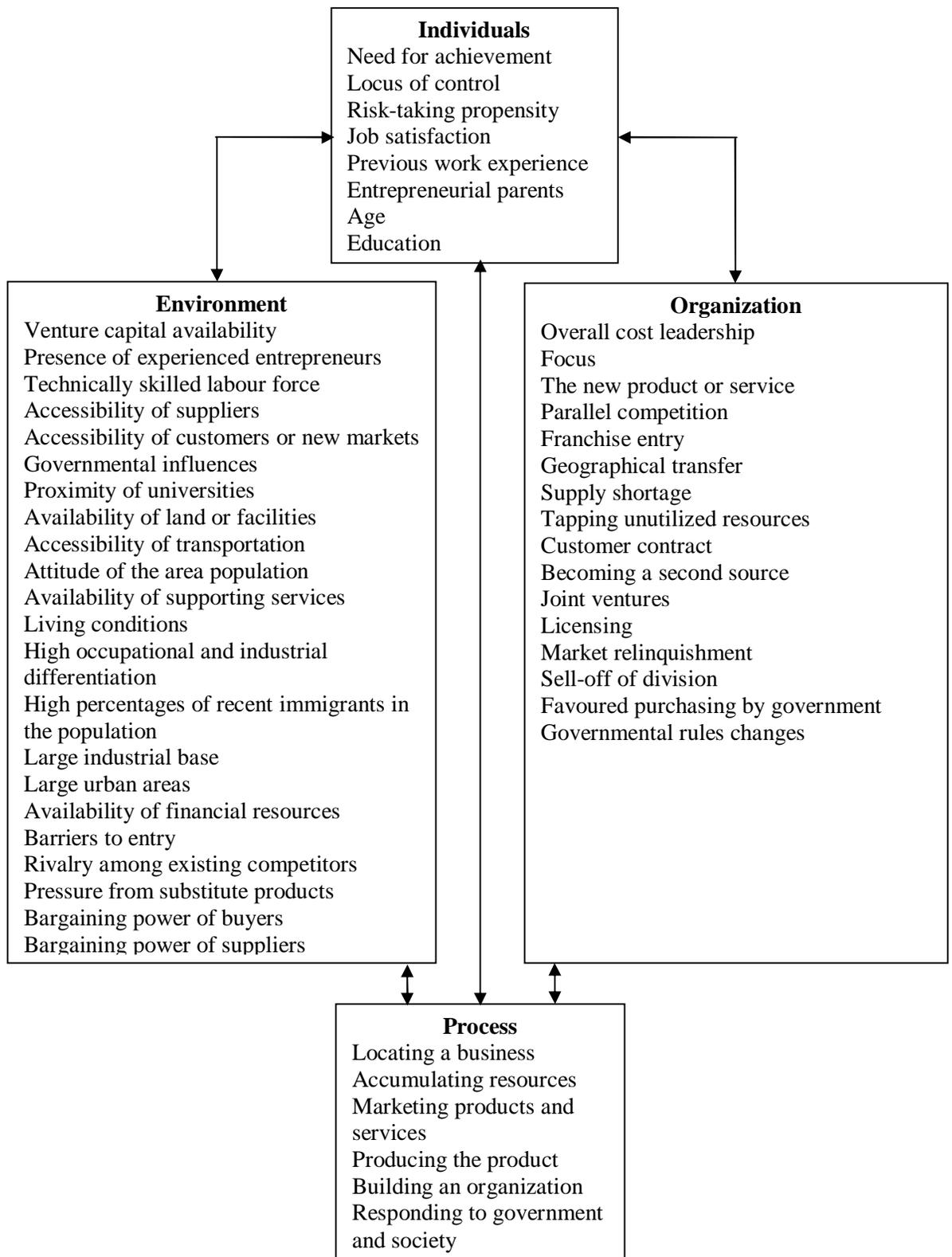
Independent entrepreneurial actions provide the impetus needed to explore business opportunities, bring forth business concepts, and carry them through to completion (Bird, 2009; McMullen & Shepherd, 2006). The environment provides to the entrepreneur a number of resources and all that is required is for the entrepreneur to note an opportunity, combine these resources optimally, process them and the outcome will be a profitable venture creating employment and value addition to the entrepreneur and the community (Kuratko & Hodgetts, 2008). Figure 2.5 (Variables in New Venture Creation on page 62) explains these relationships.



**Figure 2.4: An Integrative Model of Entrepreneurial Inputs and Outcomes**

**(Adopted from Morris *et al.*, 1994)**

Bird (2009) further observes that one of the fundamental reasons for the fascination with entrepreneurs seems to centre round why and how they spot new business opportunities. An entrepreneurial opportunity invariably involves the development of some new idea that most others overlook. In the context of environmental change, those with entrepreneurial intentions (Hisrich, Peters & Shepherd, 2005) and (cognitive) orientation (Holt, 2002) often see new opportunities where most others are concerned with protecting themselves from emerging threats and changes resulting from uncertainty.



**Figure 2.5: Variables in New-Venture Creation (Gartner, 1985)**

### *Entrepreneurial Skills*

Entrepreneurship is the creation of an innovative economic organization (or network of organizations) for the purpose of gain or growth under conditions of risk and uncertainty (Dollinger, 2008). Timmons and Spinneli (2007) define entrepreneurship as a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach, and leadership balanced. According to Schumpeter (1942), entrepreneurship is the central figure of the development process because the entrepreneur in the modern complex economic world can create opportunities for production technology, by expanding or discovering new market, new product, new source of resources, etc.

Moore *et al.* (2008) define an entrepreneur as an individual who discovers market needs and launches new firms to meet these needs. Kuratko and Hodgetts (2008) define entrepreneurs as individuals who recognize opportunities while others see chaos or confusion and are aggressive catalysts for change within the marketplace. Entrepreneurship is more than the mere act of enterprise creation. Enterprise creation is an important facet in entrepreneurship, but the characteristics of seeking opportunity, taking risks beyond security and having the vigour to push an idea through to reality make people with an important mindset (Holt, 2002).

In more recent times, the term entrepreneurship has been extended to include elements not necessarily related to enterprise formation. Activities like conceptualization of entrepreneurship are a specific mindset resulting in entrepreneurial initiatives like social entrepreneurship, political entrepreneurship and knowledge entrepreneurship. For the purpose of this study, all active owner managers of enterprises are considered as entrepreneurs.

Entrepreneurs have different characteristics from other people. Investors intending to finance entrepreneurial ventures try to measure the commitment of entrepreneurs by for example willingness to mortgage their houses, take a cut in pay, sacrifice family time and reduce their standards of living (Dawood, 2008).

### *Entrepreneurial Dimensions*

Bird (2009) and Dollinger (2008) note that to understand entrepreneurship, one can look at three dimensions whose interactions make each venture unique. These three dimensions are: individuals, environments and organizations.

Individual: The role that individuals play in entrepreneurship is undeniable. Each individual's psychological, sociological, and demographic characteristics contribute to or detract from his or her abilities to be an entrepreneur. Personal experience,

knowledge, education and training are the accumulated human resources that the founder contributes to the enterprise (Dollinger, 2008). The personal integrity of the entrepreneur and the way the entrepreneur and the new venture are viewed by others is captured in the reputation of the firm. The risk profile of the entrepreneur determines the initial configuration of the venture (Pil & Macduffie, 2006), for example, financing, product offerings and staffing. Frequently the entrepreneur is not alone even though we speak of other people, other business people, and other entrepreneurs. These contacts are personal resources that help them acquire additional resources and start their businesses (Smit & Cronje, 2002). So it is true that “who you know” and “who knows you” are sometimes very valuable resources in new venture creation.

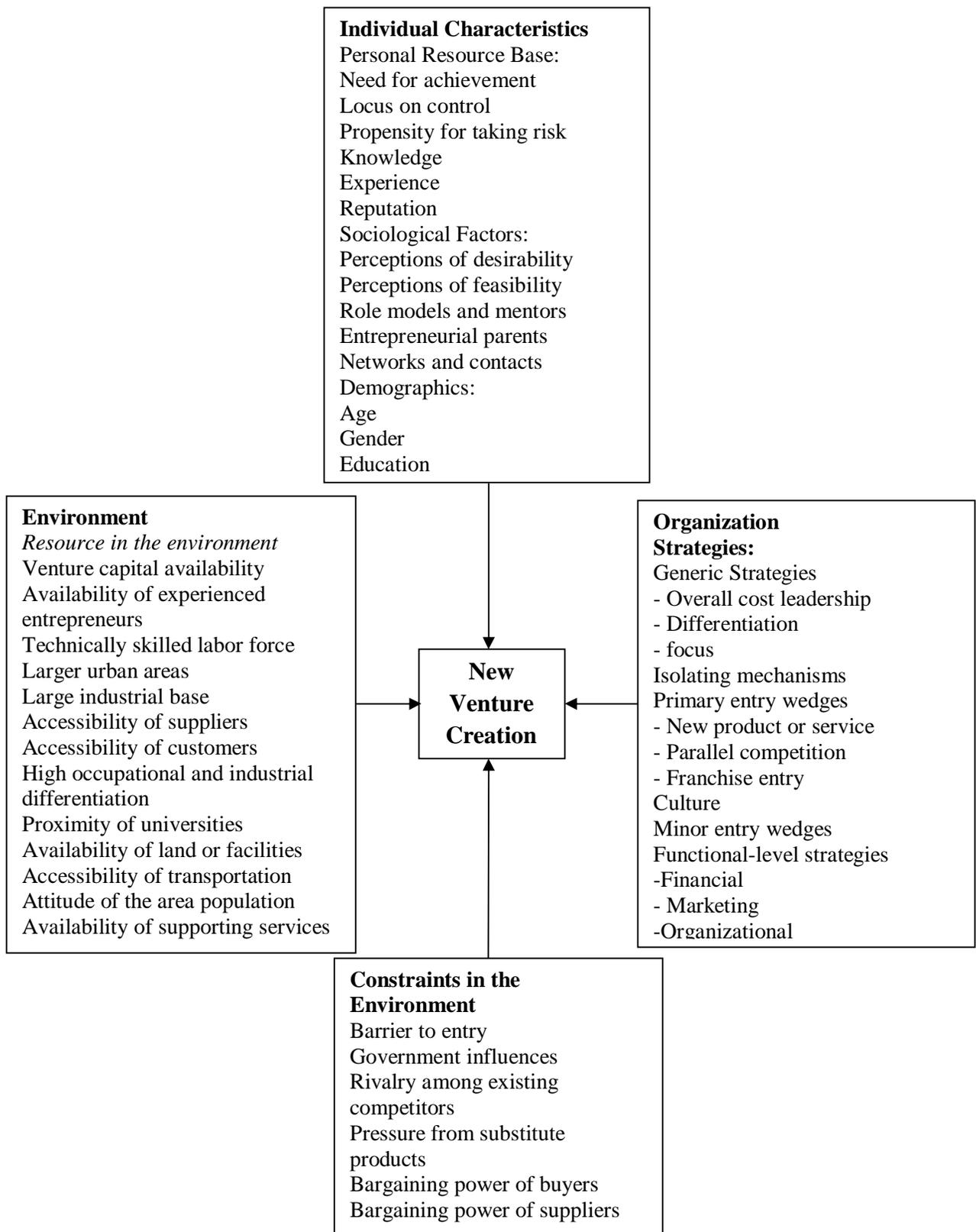
Environment: The environment poses both opportunities and threats for new venture creation. The opportunities come mostly in the form of resources, money, people, and technology. The entrepreneurial challenge is to acquire resources from the environment, combines them with other possessed resources and configures them into a successful venture. The threats, or constraints, imposed by the environment are those inherent in any competitive market place (Hisrich, Peters & Shepherd, 2005). The entrepreneur can overcome these constraints, or protect against their worst effects, by designing strategies that effectively and efficiently combine the firm’s resources to give it a competitive advantage over its competition. The key elements of the environment are the

government and politics, the economy, technology (i.e. innovation and invention), socio-demographics, and the ecosystem (Kuratko & Hodgets, 2008). Since the environment is characterized by change, uncertainty and complexity, the entrepreneur must continuously monitor events and trends and make adjustments to their organizations and strategies in order to remain competitive in the market place.

Organizations: The result of nearly all entrepreneurial start-ups is the creation of a new organization. The organization has a form and structure. It has a strategy that enables it to penetrate or create a market (entry wedges) and protect its position (Isolating mechanisms). It possesses resources that it transforms into value for its customers (Hisrich, Peters & Shepherd, 2005). But an organization can be even more than this. An organization is made up of people who have skills and talents, values and beliefs, and maybe recognition that by working together they can create something special (Bird, 2009). The organization can have a culture that supports high performance, high quality, and high ethical conduct. This is something that is quite rare and difficult to achieve, and because of its rarity, a culture can be a source of competitive advantage. Figure 2.6 below summarizes the important elements.

Smith (1960) as in Bird (2009) gives alternative ways to types of entrepreneurs. For the purpose of this study, two are of interest.

- a) Craftsman entrepreneur: Smith (1960) observes that such entrepreneurs are of blue colour origin, they have narrow low- technology work experience, they are mechanical genius, their business contacts are on plant floor, they have a reputation in the industry and they are 'marginal' people who neither identifies with the management nor with labour unions.
- b) Opportunistic entrepreneur: Smith (1960) further classifies these people as of middle class origin, well educated, they have a variety of work experience, may have been in high ranking in employment, they have contacts with top management, they have a reputation across industries and they identify with management. This study will try to establish the above facts.



**Figure 2.6: A Framework for Entrepreneurship (Adopted from Dollinger, 1995)**

### **2.4.3 Individual Behaviour**

Individual behaviour is the element of personality's ethics in secondary traits such as communications skills and positive thinking (Wright, 2006). Individual character influences an entrepreneur's behaviour. Individual behaviour refers to an intention to behave in a certain way toward someone or something (Kirchhoff, 2004). A successful transition of a small or medium family business largely depends on the individual behavior of both the founder and the successor. Individual behavior may be influenced by the founder's social influence, number of spouses, successor's willingness, capability and level of education (Le Breton-Miller & Miller, 2006). Entrepreneurs and small business owner/managers wield great influence in determining the ethical philosophies of their business enterprises. Weightman (2008) observes that employees often follow the lead of the owner in executing their duties and attending to their responsibilities, so it is incumbent on the owner to establish a work environment that embraces moral standards of behavior.

Establishing a statement of organizational values, for example, can provide family and non-family employees and the company as a whole with a specific framework of expected behavior. Statements of organizational values offer employees, business associates, and the larger community alike a consistent portrait of the company's operating principles - why it exists, what it believes, and how it intends to act to make

sure that its activities dovetail with its professed beliefs (John, 2009). Active reviews of strategic plans and objectives can also be undertaken to make certain that they are not in conflict with the company's basic ethical standards. Wanous (1972) observes that business owners and managers should review standard operating procedures and performance measurements within the company to ensure that they are not structured in a way that encourages unethical behavior.

In addition and most importantly, business owners and managers lead by example. If a business owner treats employees, customers, and competitors in a fair and honest manner - and suitably penalizes those who do not perform in a similar fashion - he or she is far more likely to have an ethical work force of which he or she can be proud. William (2005) asserts that it is perfectly possible to make a decent living without compromising the integrity of the company or the individual. Relatively, apart from the issue of rightness and wrongness, the fact is that ethical behavior in business serves the individual and the enterprise much better in the long run.

Indeed, ethical family enterprises have a competitive advantage over their competitors (William, 1996). Cohen and Greenfield (2007) argue that consumers are used to buying products despite how they feel about the companies that sell them. Thereby, a values

leased company will earn the kind of customer loyalty most corporations only dream of - because it appeals to its customers on the basis of more than a product.

Additionally, the successor's relation with the past" affects the outcome of the succession. More specifically, the approaches from the successor's point of view to be avoided are: a too strong attachment to the past, a wholesale rejection of it, and an incongruous blending of present and past (Miller, Le Bretton-Miller, & Scholnick, 2008).

### ***Social Influence***

The term social influence is used to refer to interactions between the individuals and environment. The variables in the environment include the community culture, norms and values, beliefs as well as family goals, values, systems and strategies (Barr, 2004). To understand family business health, one must understand the values and goals that guide that family's, business, and ownership systems, as well as the overall family business system as it presents an inclusive definition of family and business based on systems membership (Berry, 2003).

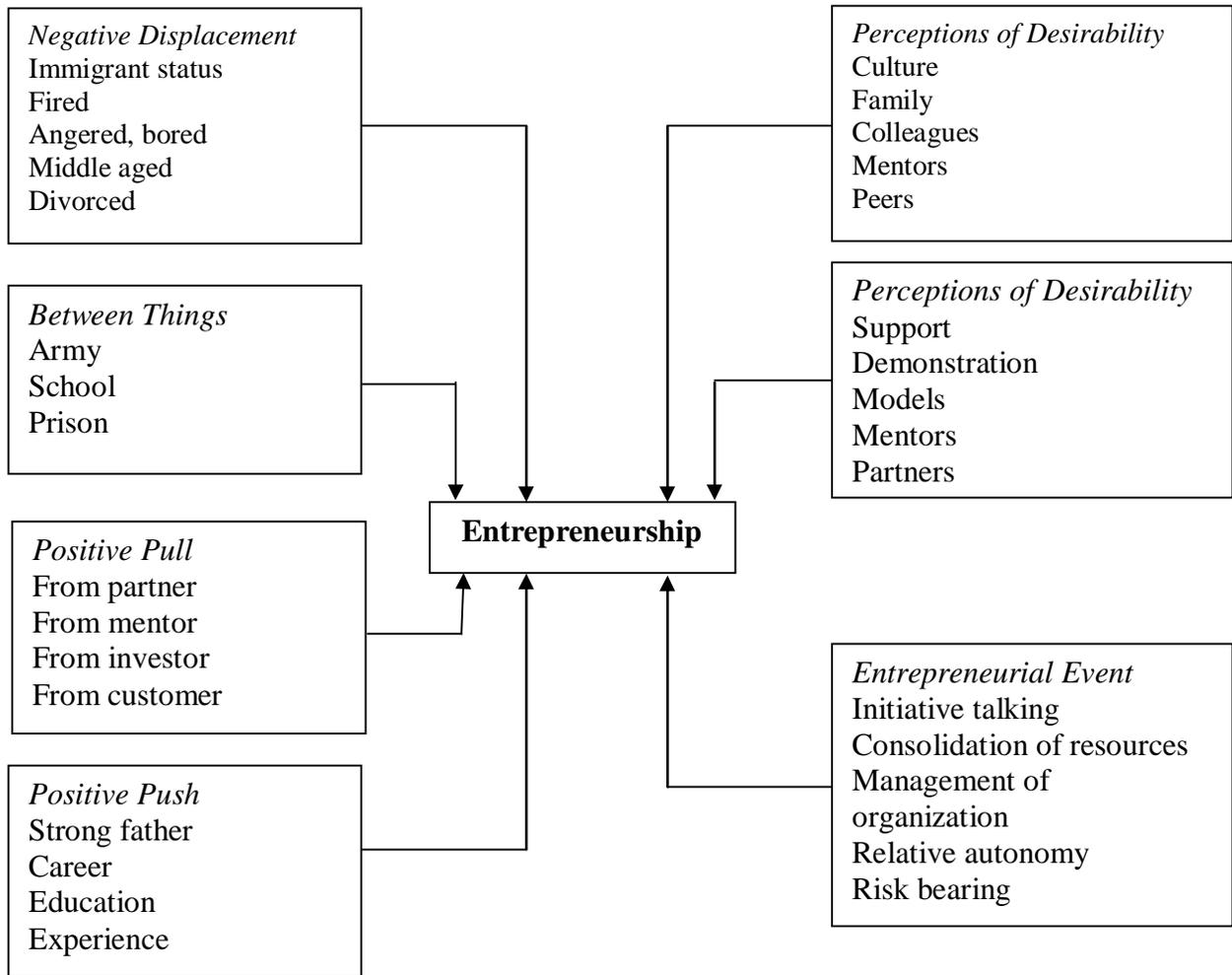
The sociological approach tries to explain the social conditions from which entrepreneurs emerge and the social factors that influence the decision. A sociological

model is presented in Figure 2.7. It depicts the decision to become an entrepreneur as a function of two factors: the impetus of the momentum factors and the situational factors (Dollinger, 2008).

Having an extensive social influence is a valuable asset, which can help an entrepreneur obtain access to information (e.g., performance of potential successors,) as well as resources (e.g. finance from family and non-family members) (Fafchamps, 2006). However social influence may be too expensive due to indifferences among the family members, or may systematically exclude or provide unequal access to resources for marginalized entrepreneurs such as women (Portes & Landolt, 2006). Social influences may be deeply rooted in societal traditions, making them difficult for outsiders to gain entrepreneurial opportunities.

**Impetus of Entrepreneurship**

**Situational Characteristics**



**Figure 2.7: The supply of Entrepreneurship (Adopted From Dollinger, 2008)**

The idea that a culture based on strong family ties may sometimes impede economic development is not new. A strong culturally predetermined family values may place restraints on the development of capitalist economic activities, which require a more

individualistic form of entrepreneurship and the absence of nepotism (Weber, 1904). Nepotism is generally seen as a negative trait in a family firm (Lee, Lim, & Lim, 2003). Indeed, in some cases, nepotism can be detrimental to both family and business (Dumas, 2003; Schulze, Lubatkin, & Dino, 2003). But in other situations, nepotism may have positive attributes and positive consequences such as increased levels of trust, communication, and continuity (Piramal, 2009; Rubenson & Gupta, 2006; Stech, 2003; Whitener, Brodt & Korsgaard, 2008). As in many other contexts, family influence is likely to be neither inherently bad nor good.

In addition, family-owned businesses typically have a set of shared traditions and values that are rooted in the history of the firm. Depending on how they are viewed, deeply rooted traditions and values can be a positive or a negative influence. In a changing world, family businesses can honour their traditions if they realize they can be guides to selecting the best course of action when there is a recognized need for change (Sorenson, 2006). It makes sense to honour traditions and trust them; they have survived because they have helped the family business prosper. It doesn't make sense to let traditions stand in the way of progress and change. Traditions themselves have evolved and changed over time. In fact, the best time to reaffirm the family business's tradition is when it is threatened or appears to conflict with the future prosperity of the business.

### *Founder's Number of Spouses*

In a polygamous marriage relationship, and in most cases, there does not exist an egalitarian relationship. This is a relationship in which partners share decision making and assign roles based on choice rather than traditional beliefs about gender (Augustine & Adelman, 2010). In a polygamous relationship, wives are normally expected to be subservient to their husbands. It would therefore be difficult for a husband of more than one spouse to impart motivation by conformity required for successful succession of the family business to their wives because society will have assigned them roles which limit their ability to portray behavior required to perform the tasks of the husband.

It also goes without argument that different spouses of one husband mostly expect to be assigned equal roles and be treated equally by their husband. This therefore gives ground for conflict in the event that one should be required to assume the role of the husband should he reach the point of exit from the family enterprise. On the other hand, women typically face asymmetrical rights and obligations limiting their labour mobility and burdening them with disproportionate household responsibilities (Downing & Daniels, 2002). One econometric study based on Guatemalan data suggests that the high marginal value of home time for women during certain periods of their lives is the principal constraint to growth of female-owned firms (Kevane & Wydick, 2004). In some countries, women face relatively greater problems with innumeracy, illiteracy, and a

lack of business skills (ILO, 1999). In addition, women commonly have unequal access to markets. It is therefore important for polygamous founders of SMFEs to put in place succession mechanisms in place to avoid such conflicts.

#### *Successor's Willingness*

The necessity to employ a non-family executive can be caused by the state of the family or by the family business itself. An increasing number of family business owners are facing the problem of having no successor in general or no family member who is willing, qualified, or accepted (Chua *et al.*, 2003). There has to be a willingness of the successor to succeed the founder. This willingness acts as a motivator for the new generation member to participate in the enterprise.

#### *Successor's Level of Education, Skills and Capabilities*

Most empirical evidence indeed suggests that firms with better-educated owners and managers are more efficient (Burki & Terrell, 2008) and tend to grow more quickly (Woodruff, 2009). Capability can be greatly influenced by a person's intelligence, physical ability and level of education. Though there is little one can do about intelligence and physical ability, a compliant level of education can be achieved with time and proper planning by the founder in grooming his successor. However even this depends on the willingness of the potential successor.

Successful transition may not be adversely hindered by lack of capability in the successor unless the founder did not take time to develop his/her successor (Graves & Thomas, 2006). Competency of successors can be ensured through developing their ability through training or redesigning the tasks to fit their abilities.

Family enterprises may not provide opportunities that fit all family members' strengths. The current generation but more importantly the next generation may have strengths not applicable to the business (Le Breton-Miller & Miller, 2006). To illustrate; two children of the founder may have limited mechanical, financial management and marketing skills and interests - the very keys to success in the next generation of the business. However, they do have outstanding carpentry and masonry skills. However, these skills fail to provide a strong pool of talent for facing the next generation's problems. Family businesses typically provide limited career growth opportunities for family members and employees given the small number of top managers and only one to three levels of management.

#### **2.4.4 Human Resource Management**

Grobler *et al.*, (2002) define human resource management as a strategic and coherent management of people working in an enterprise who individually contribute towards the achievement of the enterprises goals. Entrepreneurs manage their enterprises through

their employees and other resources. Human resource management consists of creating the conditions that allow people to do their best on behalf of the enterprise. Creating right conditions is a matter of motivating people, both individually and on an organizational scale. Creating the right conditions involves specific skills that can be taught (Wren, 2005). A business would become successful if it has a good thread of dedicated family members. The founder/entrepreneur wanting to succeed in business should be able to motivate the employees so that the enterprise goals may be achieved. Therefore, determining human resource practices and policies in family business requires special attention.

### *Motivation Skills*

Moore *et al.* (2008) define motivation as goal-directed forces that organize and give direction to tension caused by unsatisfied needs. A family enterprise leader should put good investigation while applying motivation skills in the business in order to make the working environment successful. Robbins and Judge (2007) recognize programs as motivators, and identify five principles that contribute to the success of an employee incentive program: recognition of employees' individual differences, and clear identification of behavior deemed worthy of recognition; allowing employees to participate; linking rewards to performance; rewarding of nominators; and visibility of the recognition process

Motivation is a concern of factors that influence people to behave in certain ways (Grobler *et al.*, 2002). An explanation of motivation is a person's level of self-efficacy, which is the judgment of one's capability to accomplish a certain level of performance or achieve a desired outcome (Bird, 2009). There are three components of motivation namely: Direction – this refers to what a person is trying to do; Effort – refers to how hard a person is trying; Persistence – refers to how long a person keeps on trying (Aronolff & Ward, 2004). A family enterprise leader/founder should aim at taking the course of action that will lead to the attainment of the enterprise's goals and a valued reward that will satisfy the needs of the employees.

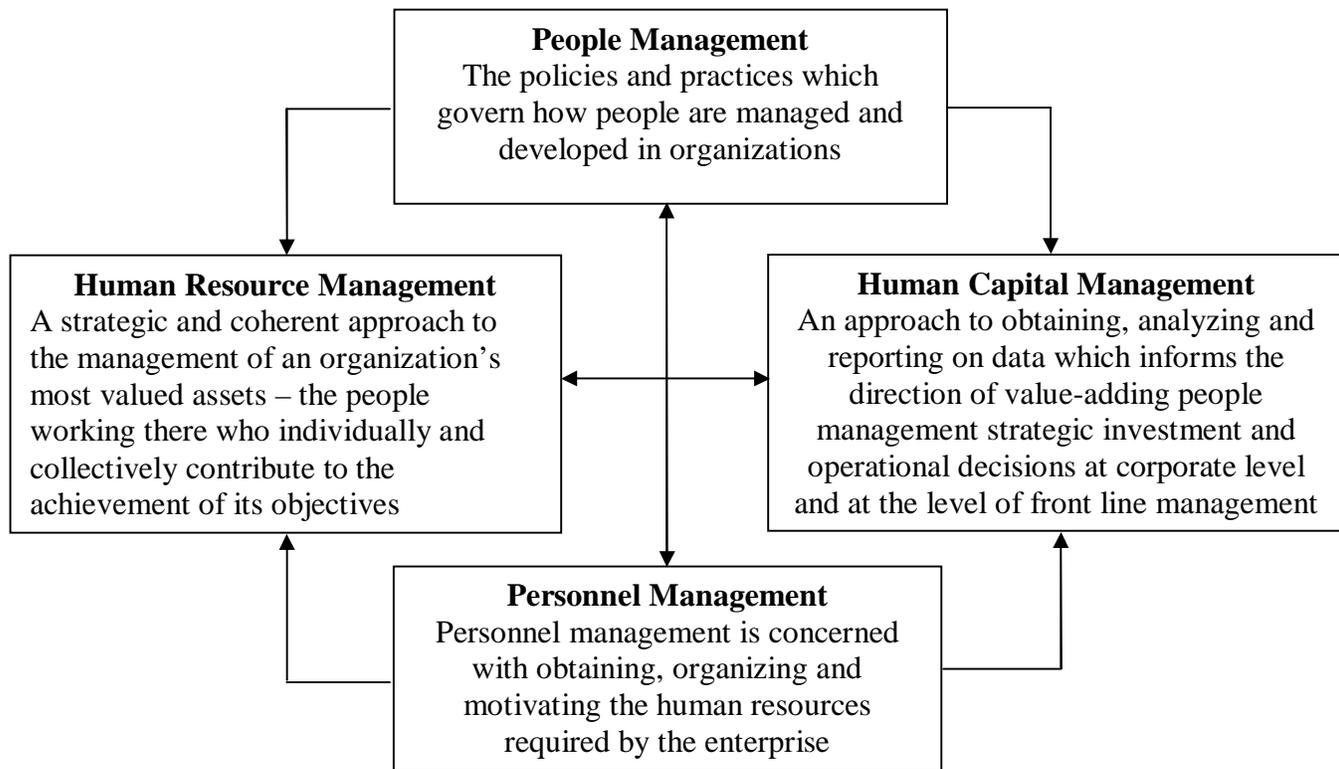
An employee performance appraisal is a process (often combining both written and oral elements) whereby management evaluates and provides feedback on employee job performance, including steps to improve or redirect activities as needed. A performance standard is a management-approved expression of the performance threshold(s), requirement(s), or expectation(s) that must be met to be appraised at a particular level of performance (Yulk, 2006). Documenting performance provides a basis for pay increases and promotions (Myers, 2003). Appraisals are also important to help staff members improve their performance and as an avenue by which they can be rewarded or recognized for a job well done.

The goals of an appraisal system are: To improve the company's productivity; To make informed personnel decisions regarding promotion, job changes, and termination; To identify what is required to perform a job (goals and responsibilities of the job); To assess an employee's performance against these goals; To work to improve the employee's performance by naming specific areas for improvement, developing a plan aimed at improving these areas, supporting the employee's efforts at improvement via feedback and assistance, and ensuring the employee's involvement and commitment to improving her performance (Olson, 2002).

On the other hand, employee training helps ensure that enterprise personnel know how to perform their duties according to industry best practices. When employees know how to perform the results are higher quality products (Grobler *et al.*, 2002). In order for employees to perform their jobs well and under the policies of the enterprise, it is important to give them the information and tools they need to be responsible, productive team members. Employee training is an excellent way to do this in a group or individual setting. Some of the benefits of training include improved skills, reduced costs, reduced liability, increased morale, higher sales volumes and improved productivity (Gist, 2007).

### *Managing People*

Managing people, commonly referred to as human resource management is the most challenging and most important as human resource is the most important resource in any organization. This is because this resource mobilizes all the other resources in that organization. Armstrong (2010) summarizes relationships in managing people as having the following elements: people management, human resource management, human capital management and personnel management as summarized in the model below (Figure 2.8). Founders and leaders of small and medium family enterprises can emulate the model for effective people management ensuring success of their enterprises.



**Figure 2.8: Relationships between Aspects of People Management (Armstrong, 2010)**

*HRM Practices*

For employees who belong to the same family as the owner and managers, there is less professional HRM practices required to align the interests of managers and employees.

This may also hold for employees who are not related to the owner and/or managers, to

the extent that family-owned enterprises are able to create an organizational culture where all employees feel they belong to the same family (Pollak, 2005).

Often, and especially in younger family businesses, family is the major (often sole) provider of labour. Family members are often hired based on blood ties, not on managerial skills or merit. However, it is not always the case that employees are loyal towards the family and/or perform well. In the case of a relative not performing well, other family entrepreneur/managers may be more reluctant to take action than against a nonperforming non-relative for fear of damaging family relations, even if it is bad for the business. Schulze, Lubatkin, and Dino (2003) refer to this latter phenomenon as an altruism problem: a situation where the owner/manager, by attempting to help other family members, unintentionally and/or indirectly encourages them to shirk their duties. Nevertheless, such altruism, although leading to negative performance, does not necessarily change the impact of family firm governance on the types of monitoring devices used (Gomez-Mejia, Nunez-Nickel & Gutierrez, 2004).

Family firms have less of a need to monitor agents in the firm, especially when they are from the same family. Even if their performance is appraised, the basis for rewarding family employees is less likely to be related solely on their performance, and thus makes a professional compensation system also unnecessary.

### *Conflict Management*

Family dynamics make family businesses different from non-family businesses (Sharma, Chrisman, & Chua, 2003). Family dynamics permeate the business and mix with the business and organizational dynamics giving family businesses many of their distinct characteristics. As a consequence, family dynamics also affect the way strategy is built and implemented in the business (Brunninge, Nordqvist & Wiklund, 2007). Among the many distinct family characteristics that may affect and alter the strategy process are long-term family relationships fostering trust, commitment and accountability. Families are different and so are their dynamics resulting in different implications for business strategy and behavior (Kellermanns, Eddleston, Barnett, & Pearson, 2008; Steier, 2004).

A better approach in conflict management is establishing a mediator. The conflict management process is more apt to succeed if stakeholders have respect for the mediator's integrity, impartiality, and ability (Winslade & Monk, 2003). Respect for the mediator is important, so the family members and the non-family members will be on their best behavior, an important element in successful negotiation, although not always the case in family enterprises that over-familiarity with an inside mediator may negate this “best behavior” effect. All parties should be informed of exceptions to the confidentiality rule ahead of time. Any sharing of information based on the exceptions needs to be done on a need-to-know basis to minimize giving out information that could

hurt one or both of the parties. Non-family employees may be less hesitant to speak out when assured of confidentiality. Sometimes conflicts involve personal issues.

separate meeting between the mediator and each family member before the family members are brought together in a joint session. Zahra (1996) argues that a mediator should offer the non-family members the opportunity for regular caucusing (a meeting away from the other family members) any time they feel a need for it. It is important that owner/managers control is emphasized throughout the process. Participants should not agree on something just for the sake of agreement. If there are yet unmet needs, these should be brought up. Sometimes, a few changes in a potential solution can make the difference between an agreement that will fail or succeed. While there are hundreds of factors that can affect the successful resolution of a conflict, the pre-caucus is one of the pillars of conflict management. It is especially useful when dealing with deep-seated interpersonal conflict management and mediation (Winslade & Monk, 2003).

#### **2.4.5 Succession Planning**

Bennedsen *et al.* (2006) observe that for most family and closely held businesses, planning for succession is the toughest and most critical challenge they face. Yet succession planning can also be a great opportunity to maximize opportunities and create a multi-generational institution that embodies the founder's mission and values

long after he is gone. Managing succession planning in the family company requires focus on the four key departments present in any business of any size: administration and finance, operations and customer fulfillment, sales, and marketing. When we think of management succession planning, we're not talking about who will own shares or assets in the future; we're talking about who's going to do the dirty, thankless, and countless tasks which make the family business an asset worth preserving (Birch, 2008).

The succession process is “the transfer of leadership, ownership or control from one family member to another” (Anderson, 2007). The basic stakeholders in the transition process are similarly identified as: the incumbent founder, the successor, and the other family members (Handler, 1989). Family business succession is the passing of the leadership baton from the founder-owner to a family or non-family successor. There is a difference between management succession (transferring business leadership) and ownership (transferring business ownership) succession, though at times both may happen simultaneously. Birch (2008) observes that the loss of a business owner through death, retirement or disability is a major blow to a small business under any circumstances. If there is not a small business succession plan in place, particularly in a family enterprise the death can be devastating to the company and the heirs to the estate. Estate taxes alone can deplete crucial cash from the business. Voting control may be scattered among heirs and conflicts in points of view can impede the enterprise’s

operation and growth (Dana, 2008). Without a plan, there may not be anyone available who is readily able to take on the responsibilities of running the company. A successful enterprise, the result of hard work and financial investment can be damaged or destroyed by the lack of a succession plan.

When planning for succession process in a family business, a family council should be formed. A family council is a system that encourages family involvement and communications (Sciascia, Mazzola, Astrachan & Pieper, 2009). It allows for a regular meeting where family members can voice their opinions and plan for the future in a structured way. Ultimately a more organized and strengthened family will emerge. Children gain a better understanding of the opportunities in the business, learn about managing resources, and inherit values and traditions. Conflicts can be discussed and settled (Simon, 2009).

Max Weber, the German sociologist, was among the first scholars to identify the importance of having the founder of an enterprise turn over power to a successor who could solidify the administrative structures required for the continued development of the enterprise. He referred to this process as the institutionalization of charisma and saw it as one of the greatest challenges of leadership (Weber, 1946).

Gersick *et al.* (1999) say that in Small and Medium Family Enterprises the problem of succession and continuity acquires an even greater significance. The liquidation of an SMFE constitutes a lot not only to the family (loss of assets) but also the employees and the surrounding community whose economic well-being depends on the survival of the business. A succession process cannot be complete until the transition from one leader to the next has actually taken place.

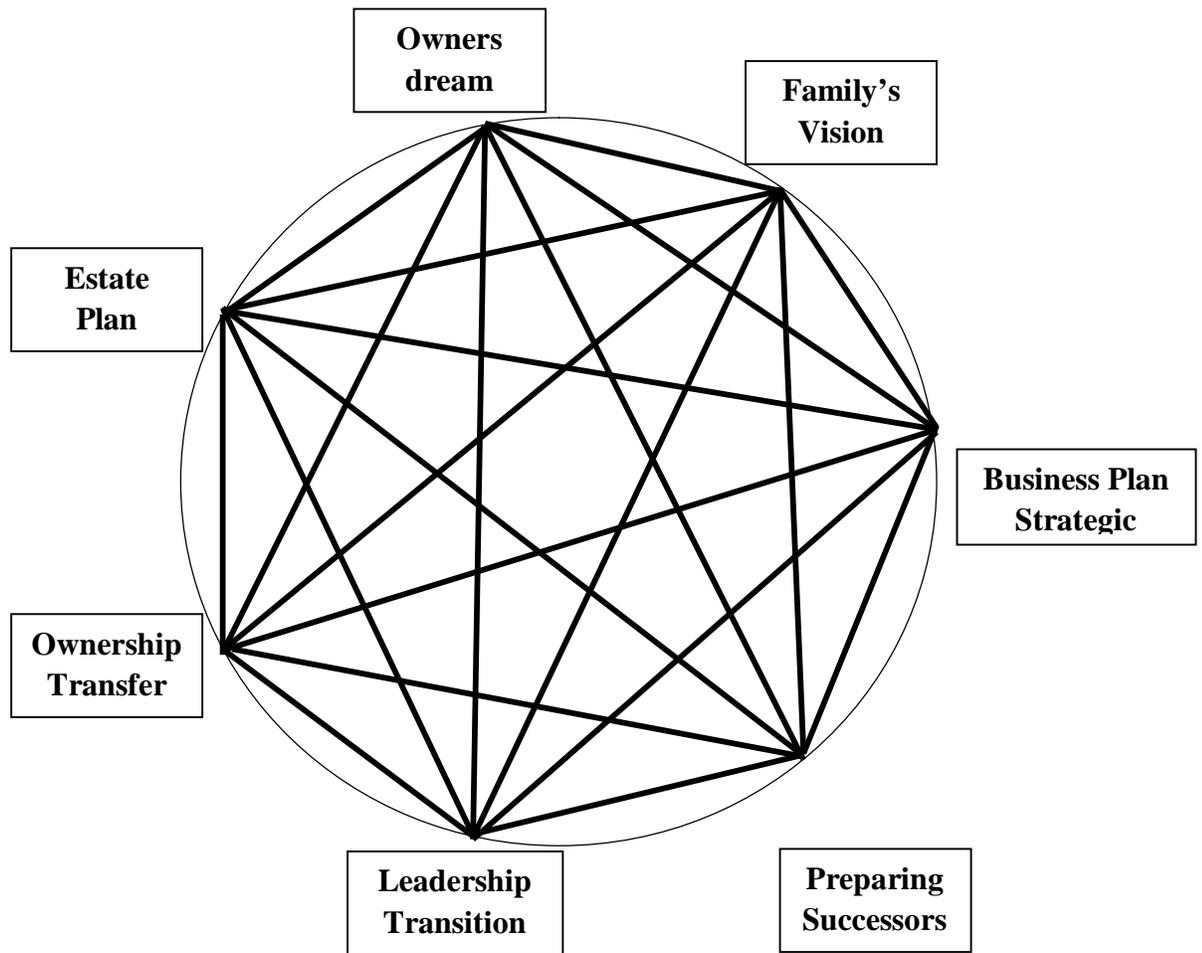
Kennestone (2006) observes that, how a family business gets from here to there requires forethought, tact, and the ability to ease the fears of those affected by the change of leadership. Both the outgoing leader/founder/CEO and successor will have to be deeply involved during this stage of the process. Founders of family businesses should also want to consider the fact that some of the worst leaders in history were chosen by birth, rather than merit (Augustine & Adelman, 2010). Therefore, it may be important for business owners to develop standards for family members to work in the business or to take over leadership of the family business (Groshong, 2008).

Gersick *et al.* (1999) observe that succession planning is the process of pinpointing key needs for leadership and intellectual talent throughout the organization over time and preparing individuals for present and future work responsibilities. Gersick *et al.* (1999) discussed that a family business succession planning involves: business strategic

planning; preparing successors; leadership transition; ownership transfer and estate planning

According to Sharma, Chrisman & Chua (2003) successful succession is more likely when predecessor and successor characteristics are more similar in terms of style and competencies. Sten (2006) further argues that although such characteristics are not measured in the present study, it may be that indirectly, those bound by family ties may be similar in relevant ways. Morris *et al.* (1997), for instance, find that the number of years the successor worked in the firm has a positive relationship with the smoothness of the succession. Family to family transfers may represent a special case where the insider not only learns from work experience but also from absorbing information and benefiting from the reputation and networks of the predecessor through family ties.

Figure 2.9 shows the elements of interrelationships in a succession as owner's dream, family's vision, business strategic plan, estate plan, preparing successors, ownership transfer and leadership transition. The interrelationships form an intricate web that may complicate the process if not thoroughly contemplated. It also requires delicate balancing taking into consideration the family emotional bank (Gersick *et al.*, 1999).



**Figure 2.9: The Succession Planning Process (Adopted from Gersick *et al.*, 1999)**

Korman (1999) and Gersick *et al.* (1999) note that when preparing for a succession plan, the founder needs to ask himself/herself some questions to guide the process. A set of such questions is in Appendix III (page 298).

### *Exit Strategy*

Exit strategy refers to the way in which high impact family enterprise owners may extricate themselves from their business at the appropriate time (Bowman, 2006). A thorough, written exit plan is one of the most important components of a successful family business exit strategy (Cohn, 2005). It examines the major succession concerns of high impact leader/founder, including an analysis of leader's/founder's options regarding to whom to sell the company and suggestions for building an effective succession advisory team. In addition, current and former leader/founder of high impact family enterprises share their succession experiences, offering advice concerning a variety of aspects of the succession process. Dawood (2008) notes that if something happens to a business leader/founder and a succession plan is not in place, it can create the same type of chaos, turmoil, and fighting that often occurs when a family member dies without a will in place. Leadership may be placed in the wrong hands, unnecessary tax consequences may be incurred, crisis planning would be necessary during a time of emotional strain, and family members may fight over roles, money, and authority (Korman, 2008).

Determining your exit strategy is an important part of startup leadership and succession planning. Whether a leader/founder plans to run the company himself/herself for the long term or build and sell like a serial entrepreneur, how a family leader/founder plans

and runs the business should be influenced by that goal (MacKillop, 2009). He/she should consider the options and look into the details now so that he/she does not run into problems when the family is ready to move on. Dawood (2008) gives the following as the benefits of a good exit plan: it maximizes business value; leaves an “intentional” legacy; minimizes taxes; controls how and when you leave; provides a written plan to follow and measure; allows employee succession and harmony. Dunemann and Barret (2004) give various ways of exiting the family business; sale to outsiders, sale to partners, family succession, transfer to employees and Initial Public Offering (IPO).

Sale to outsiders: This strategy involves selling the business to someone outside of the family for example an interested buyer. There may be strategic buyers in your industry interested in synergy and market opportunities with your company. Sometimes your commercial banker can put you in touch with qualified local, or national, financial buyers interested in a well-run, closely held company with growth potential and a solid earnings history. In either case, having a competent management team who will stay on will add value to the transaction.

Sale to partners: Some startup family enterprise and partnerships are established with the intention of one partner buying out the others once the business is up and running. In any family enterprise partnership situation, it is critical for all members to hammer out the

what-if details and include them in writing in the Operating Agreement (MacKillop, 2009). It is important for partners to discuss what will happen if one partner wants to sell his ownership - will the other partner(s) have the first right to purchase? How much notice must a partner give? If they sell to an outsider, do the remaining partners have the right to approve the sale? How will the share of ownership be valued? If your exit strategy is to sell your share to your partners, it is critical that you make a plan for doing so before the business is launched.

Family succession: This strategy involves transferring ownership to another family member (usually the next generation). This can be a complex process and requires in-depth planning. A succession plan is the key to the continuation of businesses into additional generations. Agreement must be reached among family members of different generations in order create a successful plan. While it may be difficult to plan and make concessions, all parties will be more prepared for succession when it occurs. Creating a method for smooth and controlled succession greatly improves the chances that a business will be one of the thirty per centum that see a subsequent generation in control (Birch, 2008).

Transfer to employees: Key employees may be the best buyers, especially if they work as a team and can take on the responsibilities of ownership; after all, they already know

the company. They can often get financing for a complete or partial purchase. Structuring the transaction to include consulting and other consideration for the seller can make this a win-win for both parties (Cohn, 2005).

Initial Public Offering (IPO): An Initial Public Offering (IPO) - is the first sale of stock by a private company to the public. IPOs are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. Most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value (Birch, 2008). While not suitable for all small businesses, the IPO can be a viable exit strategy. Taking your company public can be extremely profitable. However, depending on how the IPO is structured, you may or may not be able to withdraw any of your capital at the time as new shareholders may want to see all the money raised by the IPO be used to expand the business (Cohn, 2005).

### *Mentorship*

Aronoff *and* Ward (2002) suggests that, effective leaders should understand that growing organizations, that are healthy and efficient, demand the consistent and planned development of new leaders. Bourdieu (2006) observes that, with so many employees

from the “baby boomer generation,” ready for retirement, this has important implications for all professional organizations as it relates to leadership development, succession planning, and organizational knowledge extension. Birch (2008) identifies three keys to smooth business transitions. They include preparing and training heirs for leadership responsibilities, creating and maintaining strong-stable family relationships, and adequate prior planning on the part of current management in terms of legal, financial, and accounting issues.

### *Early Childhood*

Early childhood is the period of life when humans are most dependent on secure, responsive relationships with others (adults, siblings and peers), not just to ensure their survival, but also their emotional security, social integration and cognitive and cultural competencies. A healthy cognitive and emotional development in the early years translates into tangible economic returns. Early interventions yield higher returns as a preventive measure compared with remedial services later in life. Policies that seek to remedy deficits incurred in the early years are much more costly than initial investments in the early years (World Bank, 1998).

McClelland (1965) describes how parents who provide a nurturing, supportive, yet challenging environment in the home develop children who have high need for

achievement. He has long argued that such a need is essential for entrepreneurial activity to take place. Dyer and Whetten (2006) indicates that entrepreneurs often come from homes where the father or mother was self-employed. McClelland (1972) notes that N-ach characteristics are formed during middle childhood and are produced by reasonably high standard of excellence imposed at a time when the child can attain them without interference and a real emotional pleasure in his achievements short of over protection and indulgence (McClelland, 1965).

Parental role models seem to encourage entrepreneurial behavior (Zahra, 2003). In the entrepreneurial careers, many of the family-based entrepreneurs have family responsibilities at a young age and are given opportunities by the family to engage in entrepreneurial activities. In most cases family members become entrepreneurs out of necessity to help the family financially; in other cases the parents are interested in providing opportunities to help their children develop their skills and learn to accept responsibility (Davis & Taguri, 2008). Such parenting provides these children with the skills, values, and confidence they need to embark on an entrepreneurial career and as a result mould them as future successors of the family business.

## **2.5 Role of Principal Confidant**

A principal confidant is the most important person to whom the secrets or classified information of an entity/entrepreneur/owner is confided in or entrusted to (Aronoff & Ward, 2004). A principal confidant is also related to a fiduciary who is someone who has undertaken to act for and on behalf of another in a particular matter in circumstances which give rise to a relationship of trust and confidence (Augustine & Adelman, 2010). A business that revolves around the constant involvement of the family business leader will be difficult to pass on. Getting a business to effectively rely on a team of managers is often the solution. That way, a principal confidant to the founder can step in and become a team leader, rather than the one with all the answers.

Sometimes differences at an organizational level, personality or self-esteem among the family members in a disagreement require the participation of a third party (Zahra, 2003). Transforming the business owner's role from one of a dominant, single leader to that of team leader is hard enough (Bennedsen *et al.*, 2006). The principal confidant helps in this. An equally significant challenge may be transforming the management group into a collaborative team. Managers' energies may need to be refocused on both joint and independent decision-making (instead of following the boss's orders), managing successfully with distributed authority, and keeping the owner feeling confident that everyone is on the same page and moving in the same direction. Providing

strategic direction, with goals and action initiatives, is a very powerful tool in this regard. It helps to mitigate what we see as a common mistake: giving distributed authority for making independent decisions without the direction to make good ones where a close person to the leader helps by influencing the leader in this strategic direction (Bennedsen *et al.*, 2006).

Establishing an enterprise policy is also a good way to provide direction, and CEOs preparing for succession can greatly assist the process—with the help of the family, board, and key non-family leaders—by transforming their internal philosophies and rules for making decisions into broadly understood policies (Bennis, 2008).

### **2.5.1 The Spouse, Son or Daughter**

Sten (2006) argues that an implicit and sometimes explicit assumption, to successful ownership transfer means the business remains within the family ownership, and that giving up family ownership represents failure. Selling a business to non-family members implies failure of the family-owned firm.

#### ***Spouse***

The entrepreneur's spouse in a family business has unique opportunities to contribute to both the business and the family. These opportunities can vary based on circumstances

and talents, and can change over time – but smart family businesses capitalize on this “secret weapon” to help achieve family and business goals (Levitt, 2004).

Poza (2004) recognizes a spouse as a key, though often invisible role in most family controlled corporations. Behind most stories of successful, stressful and troubled generational transitions, there are spouses (Johnson, 2009). Lansberg (2002) identifies a family spouse as being an additional system that can be created and used in an effort to unify all other systems within the family enterprise and to clarify business and family issues. Swanepoel (2004) identifies the CEO spouse as central to leadership succession and continuity in family-controlled companies. Swanepoel (2004) further notes the following spouse’s unique roles: steward of the family; facilitator of communication and touchstone of emotional intelligence in family relations.

An enterprise owned and managed by a family is a special organization from whose “specialness” has both positive and negative effects. Poza (2004) analyzes unique contributions and role types the CEO spouse makes to the family-owned enterprise.

*Level of Education:* The level of education of the spouse heavily impact on the contributions as well as influence the role types of the CEO/ founders’ spouses. Any business with the intention to continue and grow needs executives with a profile

matching the business culture, organization, and strategy (Eckrich & Loughhead, 2006; Woodruff, 2009). As the entrepreneur's spouse plays an important role in success of the family enterprise, the level of education of the spouse is equally important (Levitt, 2004). An educated spouse will have better conceptual skills than an illiterate spouse. Papulova and Mokros (2007) observe that the level of education influenced performance of small entrepreneurs as they had better understanding of the business and had higher managerial skills. The entrepreneur's spouse's influence in the business cannot be underrated.

*Jealous Spouse:* A jealous spouse feels that the family enterprise leader/founder loves the business so much that it becomes her/his priority. Often, many spouses experience jealousy; competition with the business for time and affection is a prominent theme in their lives (Poza, 2004). A family member may also become involved at the start-up (or buyout) as a partner or member of an entrepreneurial team. The advantages are that (1) initial costs and early losses may be more easily shared, (2) later success benefits the family as a whole, (3) the family can be together, and (4) trust (Handler, 1989). Copreneurs or entrepreneurial couples involved in business together are a one type of family member involvement at the start-up. The experience of working together and the dividing of responsibilities and decision making are challenging and requires sober approach (Michaud, 2009).

*Keeper of Family Values:* Family enterprises develop particular ways of doing things and certain priorities that are unique to the enterprise. The special patterns of behaviours and beliefs comprise the enterprise values and culture. The founder's spouse, who is the keeper of these elements, will influence the succession of the enterprise (Moore *et al.*, 2008).

Families have family values and cultures that the founders would want maintained and carried over to generations. Bennedsen *et al.* (2006) in an empirical study carried out in Denmark, found out that 80% of the families preferred certain gender as first-borns to take over at the helm of their businesses. The concerned families even used modern technology to bear preferred gender as first-borns.

Poza (2004) observes that the founder's spouse acts as the chief banker in the family's emotional bank. He/she acts as the chief conflict handler to prevent escalating to boundaries beyond the family home. These conflicts if not handled with care can interfere with the business. When family members work together, emotions may interfere with business decisions. Conflicts may arise as relatives see the business from different perspectives. Harvey and Evans (2004) observe that spouses who play the role of 'keeper of family values' would influence on the succession plan. The extent of the influence has not been established by the scholars.

*The Business Partner:* Levitt (2004) observes that in order for the spouse to play a supporting role in the entrepreneur's career, there must be effective communication between the spouse and the entrepreneur. The spouse needs to hear what's going on in the business, otherwise he/she may begin to feel detached and respond by competing with the business for attention. The spouse can offer understanding and a shoulder to lean on for the entrepreneur, only if the couple communicates on matters of obvious importance to the family and the business. Spouses are more likely to understand each others' spoken preferences and hidden strengths (Simon, 2009). A founder's spouse provides the "glue" which holds the family together; being active in the business formally or informally; and role model and supporter of the values of the family (Poza, 2004). Spouses play a prominent role in developing a family identity since spouses lives are organized around their family needs, they will strive to make family members feel that they belong to the business (Ward, 2004). Salagnicoff (1990) further notes that the spouses adopt the role of stewards of family legacy, instilling a sense of purpose, responsibility and community which yields a spirit of cooperation and unconditional support.

### ***Sons and Daughters***

In a case of a single parent, in order to keep family members within the family firm, either the sons or daughters must be incorporated into the family firm during their early

age while the business is still controlled by their father or mother, who, as head of the family, is also head of the business (Lansberg, 1992). The father or mother uses his authority (which is not challengeable by his sons or daughters at this time), to involve his sons/daughters in his/her business. His/her main aim, however, is to demonstrate his/her confidence in his/her children, and put them in certain kinds of obligations.

The leadership capabilities of the next generation must be examined, and the possible heir must be given time to grow in stature before appointing him/her as a family leader. It is believed that a son or daughter should never be awarded an opportunity as a controlling partner within the business if he/she does not yet possess the skills, training, or dedication to succeed (Landes, 2006).

It is obvious in the literature that male offsprings are favored as far as the passing over of the family business is concerned (Family Business Network research, 1995; Allen & Langowitz, 2003) regardless of suitability (Miller, Steier & Bretton Miller, 2003). There still exist perceptual barriers to women's advancement to senior management positions (Salagnicoff, 1990).

In most cases, between father and son is a force in the expansion of the firm (Woodruff, 1999). This generates trust and confidence without which the family firm is not likely to

grow. Transactions have to be made. During these transactions, the father-son role is not just between parent and child but between a business manager and a business associate. When these transactions are successfully carried out, the sons are bound by considerable commitments to the family enterprise before they are old enough to make significant alternative choices (Woodruff, 1999). A further advantage in incorporating sons before their maturity is that the family firm profits from unpaid labour, and this makes a capital gain (Sten, 2006). The successful involvement of sons in the family firm brings with it another dimension in the structure of the family at large (Dunemann & Barrett, 2004). There is greater cohesion among family members who are all involved in a family firm than there is among family members who are not all involved in it (Sciascia *et al.*, 2008). Such cohesion has the effect of pre-empting some tensions among family members, thus paving the way for further expansion of the family enterprise.

The introduction of the daughter into the family business has also been found to pose a potential threat to individual development and several key relationships within the family and the business systems (Gist, 1987). Those people affected include the mothers, the non-family managers, fathers and siblings. Conflict and anxiety within the family business is created as identities and roles shift (Greenberg, 1990). For example, a daughter may begin to replace her mother as the father's confidante concerning business matters, thus threatening the mother's position in the family business and, in some cases,

the mother-daughter relationship (Dumas, 1992). Also, other siblings are negatively affected if they are overlooked as the daughter who is working with the father takes a more prominent position in the business. Related to this issue, Eckrich and Loughead (1996) found that late adolescents from families who own their own businesses have a less clear sense of their abilities, talents, and interests in a career than do late adolescents from non-family business homes.

### **2.5.2 Relatives**

Extended family members can play a wide range of roles in the family business. Family businesses become more complicated in multiple generations when all of the family members stay involved in some manner (Gersick *et al.*, 1999). In-laws are controversial in family businesses. Some businesses have a rule not to involve in-laws in either ownership or management, while others involve them to varying degrees. In either case, it is best to have clearly defined rules when it comes to the role and responsibility of in-laws, and clear expectations of the consequences in the event of a death, divorce, and involvement of children and also in succession planning (Dumas, 1992).

### **2.5.3 Non-family Members**

In terms of number of individuals involved and the impact on the success and growth of family firms, nonfamily employees are an important stakeholder group (Chua, Chrisman

& Steier, 2003). Moreover, these individuals may possess idiosyncratic knowledge of the firm that may prove valuable in mentoring of future-generation leaders, or filling in the leadership role should a need arise (Dyck *et al.*, 2002). In larger firms, nonfamily executives have been found to play a critical role in strategic decision making (Sharma, Chrisman & Chua, 2003).

The family enterprise owner might also expect the outsider to be an interim solution, e.g., to bridge two family generations together in order to perhaps prepare a member of the next generation as a potential future family manager (Poza *et al.*, 1997) or in order to help the business through a serious crisis. In other cases non-family executives may be hired in order to avoid interpersonal conflicts and problems in the owning family. They may serve as a neutral solution between conflicting owning families or owning family members and reduce unintentional family entrenchment (Astrachan *et al.*, 2002). In some family businesses, only external managers are allowed to take over the management function (Klein, 2004). By this measure, family owners do not just expect to de-emotionalize or de-familiarize the management team and bring a more formal style of management and decision making (Ibrahim, Soufani & Lam, 2004), but in particular to open the limited pool of capable family members to the open market of capable talents (Le Breton-Miller & Miller, 2006). The larger and more complex the family

business, the more executives with a higher level of professionalism and external knowledge are required (Levitt, 2004).

## **2.6 Sustainability**

The word sustainability is derived from the Latin *sustinere* (*sus*, up; *tenere*, to hold) (Atkinson, Dietz & Neumayer, 2007). It is the long-term continuity of an enterprise or keeping the enterprise going over time (Bookchin, 2007). Sustainability is a call to action, a task in progress or “journey” and therefore a political process. It can also refer to a future intention; “sustainable business” is not necessarily a current situation but a goal for the future, a prediction. It has also been described as a “dialogue of values” that defies consensual definition (Blackburn, 2007).

Successors of small and medium family enterprises should keep the enterprises ongoing continuously overtime. They should further strengthen the enterprises by maintaining growth of the same. The Kenya National Baseline Survey (K-Rep, 1999); Prasad (2004) describe enterprise growth as increase in the number of employees, increase in revenue, increase in capital investment and expansion in branches or outlets. Ngugi (2008) observes that expansion of an enterprise can be horizontal where many branches or subsidiary enterprises are established or vertical growth where an enterprise acquires

related and supporting enterprises. However, not much is known about the growth strategies of family businesses.

Family businesses are stereotypically known for conservative planning and organic expansion which could limit their growth compared to non-family enterprises (Okoroafo, 1999). On the other hand, recent evidence shows that family businesses are not shy of acquiring larger (family and non-family) businesses to sustain their growth for example; Haniel's acquisition of Metro AG, Porsche's takeover of Volkswagen, or Fiat's acquisition of substantial Chrysler assets (Graves & Thomas, 2006). When it comes to growth through internationalization, the results are mixed. Some research and mostly narrative evidence suggest that family businesses are relatively slow to internationalize (Fernandez & Nieto, 2006; Graves & Thomas, 2006; Kilby, 1971).

Empirical evidence shows, however that, family businesses are found to compete successfully in international markets (Zahra, 2003); some even being global market leaders in their niches (Simon, 2009). Recent research suggests that family influence, and family ownership in particular, has a curvilinear effect on the internationalization of family businesses: moderate levels of ownerships are related to higher levels of internationalization whereby low and high levels of ownership are related to lower levels of internationalization (Sciascia *et al.*, 2009).

In addition, family businesses are among the longest-lived organizations in the world with some dating back to the sixth century, having weathered the rise and fall of multiple state regimes, recessions including the dark ages, nearly all the 'great' wars, plagues and famines, and other crises (James, 2006; Landes, 2006). But the sources of their longevity are not well understood. A family is an important driver of their longevity and sustainability (Pieper, 2007). But evidence shows that family influence can also have detrimental effects for the business and the family group (Miller & Le Breton-Miller, 2003; Miller, Le Breton-Miller, & Scholnick, 2008). Thus, the following questions may be asked: Why do some family businesses survive and thrive while so many others fail? What strategies for managing the family business are successful? What are the strategic implications of taking a survival versus a growth orientation? Are there any characteristics of family involvement that foster or inhibit longevity? Do family goals (psychological and financial) for business influence strategic orientation? This study will attempt to answer some of these questions.

Papulova and Mokros (2007) observe that knowledge and experience in business management aspects are critical components of sustainability of family businesses. Family members should act as mentors to siblings in order to create a practical understanding of business management concepts. This is over and above any potential formal training that the sibling may have undergone. A specific area that is important is

the establishment of financial prudence early in the experience curve of the sibling as well as to instill strong cultural values in making business decisions.

With regards to the satisfaction dimension, the “incumbent’s propensity to step aside”, the “successor’s willingness to take over”, the “agreement among family members to maintain family involvement”, the “acceptance of individual roles”, and “succession planning” are quite significant (Sharma, Chrisman & Chua, 2003) and are very crucial in the future sustainability of the family business. Research suggests that the characteristics of successful successions are the “well prepared successors”, the “positive relationships” and the “succession planning attempts” (Morris *et al.*, 1997).

Other factors that have a negative impact on the succession process are the “family rivalries” (Dyer & Whetten, 2006) and the “incompetent or unprepared successors” (overdependence, conservatism, rebellion, excessive change, ambivalence, confusion, stagnation or abandon, compulsive consensus or conflict, stifling bureaucracy or chaos) (Kets De Vries & Miller, 1987). From another perspective, the “positive succession experience” (fulfilled career, psychosocial, and life stage opportunities in the context of the family firm, the capability to exercise personal influence in the family business, the achievement mutual respect and understanding with the incumbent, and finally the high commitment to the continuation of the family business) plays an important role in the

succession process (Handler, 1990). Furthermore, it is claimed that the “sequence” (appropriate skills and experience of successor), the “timing” (effective passing), the “baton passing technique” (succession details) and “communication” are crucial for the successfulness of the transition (Dyck *et al.*, 2002).

## **2.7 Empirical Studies**

### ***Managerial skills***

**Papulova, Z., and Mokros, M. (2007). *Importance of Managerial Skills and Knowledge in Management for Small Entrepreneurs*. Bratislava, Slovakia; Comenius University.**

The study focused on the importance of Managerial Skills and Knowledge in Management for Small Entrepreneurs. The authors observed that problems with existence and development of small enterprise could be solved with closer attention to vital managerial skills and management knowledge for the small entrepreneurs. They explored on whether support and provision of further education in these areas could help small entrepreneurs overcome initial development difficulties.

The objectives of the study were:

- i. To explore the level of management of small enterprises
- ii. The explore the fundamental management knowledge for small enterprises
- iii. To establish the effect of education for small enterprises

The study was conducted in the municipalities of Slovakia. The study covered the fiscal decentralization regions of Slovakia which create pressure on municipalities and mayors, who must pay a closer look on actual needs of all employers doing business in the particular region. The areas of study have most small enterprises that employ young people, women and part-time employees.

The researchers found that, the self-confidence of small entrepreneurs is so high, that they believe more in their ability rather than hire somebody else or pay attention to education of themselves to gain needed knowledge and managerial skills. An analysis of steps and phases of small enterprises development showed that there is possibility to create some sort of sets for managerial skills which are needed for further development of enterprise, regardless of the industry in which enterprise functions. Likewise as the enterprise grows, also grows the necessity for other types of skills needed for survival.

From the findings, the author recommended that the governments and supporting programs for small enterprise should consider a way on how to increase the awareness about the need and significance of managerial skills and knowledge, and also support the preparation of integrated education and courses for small entrepreneurs. The small entrepreneurs should consider to what extent they want to be involved in running the enterprise. The question is whether to maintain their position in the technical aspect of

the enterprise and delegate the management to professional manager or to move into the management of the enterprise. The latter action requires mastering new types of skills. Enterprise needs to grow and/or develop to survive in current environment. If it stands still, it could fall behind, lose its competitiveness and be threatened with bankruptcy.

***Entrepreneurial Skills and Sustainability***

**Das, A., and Gupta, A. (2009) *Sustaining Entrepreneurship in Family Business*. Bangalore, India; International School of Business and Research.**

This study delved into key challenges for sustainability of family businesses and how family owned firms could ensure trans-generational wealth creation. Case studies of family businesses had been studied to get an insight into these issues. The authors attempted to study valuation of family owned firms in comparison to all public limited companies.

A global research was conducted across 963 family companies present in 87 countries. The median family ownership stake was determined as 39%. Most family businesses shared two features:

- i) A prominent role by founding family members
- ii) Voting control by family

The general objective of the study was to explore the key challenges for family firms to ensure trans-generational wealth creation.

This being a global study, some of the firms studied were Walmart and Ford in USA, Fiat in Italy, Reliance and Wipro in India, Li and Fung in Hong Kong, Cemex in Mexico, Gerdau in Brazil and many more small companies. Initial sample size was 6973 public firms of which 963 family firms were chosen for benchmarking.

From the findings, the study concluded that the founder works and builds a business, the son/daughter takes it over and is poorly prepared to manage and make it grow but enjoys the wealth, and the grandson inherits a dead business and empty bank account. The issue was sustainability of trans-generational wealth.

The study also found out that trans-generational wealth creation is not only possible through meeting the key challenges faced by these business firms but rather could be possible by earning social respectability for the family through its business practices. Another way could be documenting the experiences of the family at every stage so as to provide future generations a good record of what has been done till date. This entailed chalking out clear succession plans well in advance and making them known to the family members. This helped to avoid uncertainty and disappointment. It also helps the

present and future owners of the family business develop a strong sense of belonging, and simultaneously give them pride of ownership.

Key employees must be in the know of all these. Building a sense of family pride would greatly help to sustain family businesses. Moreover, it should be ensured that there is smooth communication between various generations of family members, and between the family's men and women. Also a professional approach to management is crucial.

### *Critique*

The study mainly covered firms in developed and developing countries outside Africa. However the findings are quite interesting and of great help to family business owners. The study did not cover the variables in this study and this study's findings will add into the knowledge of sustaining family enterprises.

### *Entrepreneurial Skills and Leadership Skills*

**McElwee, G. (2006). *Developing the Entrepreneurial Skills of Farmers: Some Myths Explored*. Brayford Pool, England; University of Lincoln.**

This paper explored the nature of skill training for farmers who wished to diversify their businesses. The study begun by carefully examining the nature of entrepreneurial training and found out that there were two distinctive dimensions; training as a set of managerial practices and training about entrepreneurial attitudes. These second elements

were not only functionally different from the former, but appeared to be conceptually distinct. After a theoretical discussion the study presented the case of an enterprising farmer.

The farmer is in a municipality in Middle-East Finland and has 40 hectares of cultivated land and 32 milk cows. The farmer had decided to diversify from his dairy farm and set up a cheese making business. He appeared to do everything that the textbooks required; yet after initial success he closed his cheese making to concentrate on dairy farming. A new cow house and a building for making cheese were constructed in 1997. The farmer started making cheese in 1998, after having completed a course in cheese production arranged by University of Helsinki. He has a college level education in agriculture and has taken additional related courses related to food processing. During his studies he acquainted himself with the legislation about the food industry and prepared plans for establishing a small-scale food-processing firm. He had also considered other diversification activities (e.g., attended a course on berry processing), before finally deciding to move into food processing through cheese production.

However, despite some initial success the farmer eventually decided to give up cheese business in spring 2004 and to concentrate on milk production. By addressing this

question, the study tried to analyze the theoretical relevance and nature of entrepreneurial skills concept in the context of farming.

The research questions of this study were:

- i) Can we teach farmers to be entrepreneurial?
- ii) Can we develop a fuller understanding of the nature of the skills that farmers need to become entrepreneurial?

The research was a short narrative case of a farmer who started a cheese business. The narrative was based on an interview conducted as a part of a project that focused on the development of business diversification on farms as a strategy for rural policy. Through interpretation of this case, the aim is to consider how the issues of entrepreneurial skills could be formulated in the case of farmers.

From the findings, the study was able to account on what actually is entrepreneurial; different kinds of entrepreneurial tasks – and consequently skills – are relevant in conventional farming and in diversification. Furthermore, and critically, skills are not all that is required; situational factors and attitudes are also important.

### *Critique*

The study found out that not only skills are necessary in an enterprises performance but also situational factors and attitudes. Daft (1994) notes that for an employee to perform he/she requires knowledge, skills and the right attitudes. The above study confirms the same which also will be put into consideration in this study.

### *Succession Plan*

**Higginson, N. (2008), *Preparing the Next Generation for the Family Business: Relational Factors and Knowledge Transfer in Mother-to-Daughter Succession*. U.S.A.; Fort Lewis College.**

The study was on the preparation of the transfer of knowledge from the current owners to the future owners, a process that is facilitated by strong, functional relationships between the generations. The study noted that the issue of family business (FB) succession has been addressed extensively in various studies, but most of the studies have been on male-owned firms. There are increasing numbers of women who are pursuing entrepreneurial interests; female-owned firms who now account for close to one-third of all businesses worldwide. Commensurate with this trend, the mother-to-daughter succession pattern is becoming more prevalent. Given the uniqueness of mother-daughter versus father-son (and other family combination) relationships, it

stands to reason that the mother-to-daughter knowledge transfer process follows a different trajectory than in other forms of FB succession.

In her research, Higginson sought answers to the following research questions:

- i) What are the relational factors that influence the transfer of knowledge from mothers to daughters in FBs?
- ii) How do these factors influence this pattern of knowledge transfer?

The qualitative study was carried out in Durango, Colorado; U.S.A. Data was collected from nine women-owned FBs where the daughter had already been identified as the successor.

This study integrated concepts from the strategic management, entrepreneurship, and social psychology literatures to examine the knowledge transfer process in mother-to-daughter succession. The primary data collection method was 67 face to face interviews with the mother daughter pairs and their firms' stakeholders: 45 with the mothers and daughters, and 22 with the stakeholders. Thirty-six of the mother-daughter interviews were conducted with the women separately. For the remaining 9 interviews, each pair was met jointly in one session. A theoretical sampling procedure was used to select the sample for the study. Here, cases were chosen based on their value in answering the study questions and contributing to theory development.

The FBs were selected based on their meeting six pre-established criteria: 1) willingness to participate; 2) in operation for at least two years; 3) mother as majority owner; 4) mother has control over day-to-day operations; 5) daughter already involved in day-to-day operations; and 6) daughter already identified as successor. The firms encompassed a range of retail, services, and manufacturing businesses. The average number of years in operation and the average number of employees (both full- and part-time) were 11.3 and 8.9, respectively.

The study found out that the road to transferring a family business to a child can be littered with emotional and intellectual potholes. Most family business owners undoubtedly responded with a mixture of frustration and pride about their experiences in teaching a child the “ropes” of the business; had a sense of accomplishment in seeing their children carry their legacy to the next generation more than outweighs the “bumps” along the way. Transferring knowledge and capabilities from parent to child is an essential part of this journey.

Secondly, the findings pointed to the importance of developing a common understanding and shared language, maintaining an open mind to new ideas and experiences, and managing emotional processes. The cross-cutting themes of frequent, face-to-face interactions, open and direct communication, mutual respect and trust, and concern for

others provide the foundation for all of these processes. This study intended to lay a few more bricks in the theoretical foundation by providing a greater understanding of succession in mother-daughter firms.

### *Critique*

Though the study was on mother to daughter succession, the findings can be generalized to all family business successions across the globe and particularly in Kenya. The transfer of knowledge finding is a good lesson for all business owners that frequent interactions with the intended successors help to overcome the handles of succession.

### ***Succession Plan, Leadership Skills and Human Resource Management***

**Buuren R. B. (2008). *The Life and Times of a Family Business: A Case Study*. Bloemfontein, South Africa; University of the Free State.**

This study attempted to isolate a number of pitfalls, failures and successes of Kloppers, a medium size family business in South Africa, within the context of the life-cycle of the firm. The discussions follow this family business through its 40 years of existence as it progressed through the various stages in transition from a pure family business, to a family-owned business, to selling of the business and ultimately the re-invention of the original family business.

The family was currently entering its 3<sup>rd</sup> generation and from a contextual perspective this paper focused predominantly on succession, ownership and management of the family businesses as driving forces for success throughout the stages in their lifecycle. The main objective of this study was therefore, to evaluate the history of the firm since inception to date with the view to understand the critical aspects that the owners had to deal with during their transitional phases between the first and second generation of children.

This study attempted to isolate the issues that a family business encounters during the many phases of its life-cycle. Against the background of the objectives of this study, attention was given to evaluating the history of the firm since inception to date with a view to understand the critical aspects that the owners had to deal with during their transitional phases between the first and second generation of children.

A case study typology was used. The family business was analyzed over its entire life of 40 years and therefore a longitudinal case study method was applied. A qualitative research approach was used in order to understand the impact of historical decisions in the family business on the current and future sustainability of the firm.

The approach was to initially understand the context from a secondary research perspective. Multiple sources of evidence were used, including documents and reports from the business, printed media reports, and personal interviews. An open ended questionnaire was constructed and personal interviews with the owners (family members) were initiated.

The following is an overview of a number of specific aspects that were concluded from this study that may assist family business owners and their siblings in managing their transition over the life-cycle, with specific reference to family and business related aspects:

#### *Succession*

Family business owners need to ensure that they include the succession aspects into their early business modeling of the family business.

#### *Business skills*

Family members should act as mentors to siblings in order to create a practical understanding of business management concepts. This is over and above any potential formal training that the siblings may have undergone.

#### *Experience*

Apart from ensuring that the correct type of skills are obtained from a formal training perspective, family businesses also need to ensure that these siblings obtain early

operational experience in the business to shape their decision making abilities in a related manner once they do enter.

*Dealing with uncertainty*

Specific attention need to be given in dealing with uncertainty in succession management. Family businesses need to ensure that an open and transparent process is in place to make siblings aware of the core elements of the business and its associated risks at an early stage.

*Understanding the impact of the business environment*

The family businesses need to establish a plausible market position early and then pursue a successful pathway to sustain that position.

*Building networks of support*

The family business owner should build good supplier relationships early and to maintain these relationships over the life of the business.

*Diversification during growth*

As the family business starts to grow the need arise to diversify the business, either geographically or through their product offerings. This aspect need to be managed very sensitively and sensibly.

### *Critique*

This is a good case study of a business having undergone generational changes with its ups and downs and has a lot to learn from for small and medium enterprises family enterprises in Kenya. This study, in particular, succession plan variable, provides lessons for Kenya.

### *Role of principle confidant*

**Lee, M., and Heck, J., and Ramona K. Z. (2003). *The Effects of Education within the Family Business Context*. New York; Baruch College.**

This study examined the effects of education on entrepreneurs' attitudes, their family business operations and their relationship to families. Education may only be an intermediate variable in a system in which people with greater access to capital also receive education and then, because of their access to capital, go on to start businesses in greater numbers than the less educated population. This research was an attempt to fill in those details by both developing hypotheses that would explain education effects and to test these hypotheses using a broad-based, nationally representative telephone survey data.

The objectives of the study were based on the impacts of educational influence in:

- i) Business knowledge
- ii) Attitudes of spouse as influencer of succession decisions

- iii) Business practices and outcomes
- iv) Family conditions, practices, and outcomes.

The sample of 673 households from the 1997 National Family Business Survey (NFBS) in New York, who owned eligible family businesses, completed both the business and households interviews. These data was used to identify the profiles of households and their businesses. The sample was limited to families (defined as a group of people related by blood, marriage, or adoption, who shared a common dwelling unit) in which at least one person owned or managed a family business. Work intensity in the business also was included as a criterion, as assessed by the length of time in business and the number of hours per week of involvement. To qualify for this study, the owner/manager had to have been in business: for at least a year; had to have worked at least 6 hours per week all year round or a minimum of 312 hours a year in the business; had to be involved in its day-to-day management; spouses were to be active in the businesses' decisions; and had to reside with another family member.

The study found out that, education has powerful effects on business owners. In general, business owners with more education seek out more help, collect more data, and make greater use of computer technology and the internet specifically. Their businesses and their households were more successful as measured on financial and size scales.

Business owners with more education seemed to have clearer priorities, including putting their families above their businesses in importance. They also seemed to be able to manage their family issues more easily. Spouses involved in businesses, who were educated, influenced sound business decisions and more so succession decisions.

In certain ways, education seemed to have little if any effect. Business related and family related conflict was no less for owners with more education. Business goals, self-image, and levels of optimism seemed unaffected by education, as did business longevity and expectations of future longevity.

### *Critique*

The study found out that education is important in managing family enterprises. It also found out that education had no effect on family conflicts. An educated person has higher reasoning, may have more exposure than an illiterate person and this study will seek to find out the true position in Kenya which has high level of illiteracy.

### **Sustainability**

**Mandl, I. (2008) *Overview of Family Business Relevant Issues*. Austria: Vienna.**

The study dwelled on the specific challenges for family businesses in Europe and Policy Recommendations. The author was concerned that family businesses tend to focus on

the firm's long-term sustainability rather than realizing short-term profits and on realizing generational changes in ownership and management. In line with this, family businesses are on average older than non-family businesses.

The objectives of the study were:

1. To investigate the specific characteristics and the current situation of family businesses (particularly in comparison to SMEs)
2. To identify the importance of balancing business and family spheres as well as policy activities to support and promote family businesses
3. To analyze the access to finance and the shape of possible future policy initiatives in favour of family businesses

The above objectives were pursued for all Member States of the European Union following a decentralized approach, i.e., by research conducted at a national level. The methodological approach constituted a combination of desk research and qualitative primary research (i.e., expert interviews). The information was gathered on the basis of a semi-standardized guideline elaborated by the Austrian Institute for SME Research as the project coordinator. The data was gathered at a national level by conducting desk research as well as qualitative interviews with relevant stakeholders. In addition an

interview was conducted to individual Country Fiches for 33 European countries, describing the family business sector within their national contexts.

The study found out that: family businesses are often confronted by a lack of awareness from politicians, which results in a lower level of consideration being given to family business specific aspects when creating a business friendly public environment; in finding solutions to business activities (e.g., production, marketing, finance etc.), leaders of family businesses have to consider the overlap between the business and the family sphere; family firms are often reluctant to take in external investors because they do not want to share control (however, limited family budgets and collateral and limited access to bank loans hamper the growth of a potentially auspicious company).

**Coopers, P. W. (2007) *Business succession planning*. London, UK: Karl Publishers.**

The study probed the effectiveness of a well-thought-out plan in business succession planning. The author observed that a well-thought-out plan for business succession is a key component of overall business success. The study found that many business owners do not begin to plan for the succession of the business early enough, therefore, they fail to identify the person who will take over leadership of the business at all or early enough. This failure prevents critical planning that is essential for an orderly transition of the business.

The general objective of the study was to investigate the mistakes that hinder the effective succession of the business.

The study hypothesized that due to the nature of family enterprises, the entrepreneurs often make a series of mistakes that hinder the effective succession of the business.

- i) Not working on a succession plan
- ii) Not identifying and adequately training the successor
- iii) Not employing leadership delegation and oversight
- iv) Not planning for transfer of the ownership of the business
- v) Not communicating plans in a timely manner to key stakeholders

The study was conducted on family businesses which had multiple children in the business in London. Firstly, the study found out that, family business entrepreneur/founders who prioritized succession planning; put family members, employees and others at a considerable financial security/safety, were able to meet their stated objectives and also facilitated the continuity of the business for the benefit of all stakeholders.

Secondly, the study found out that the chosen successor should have professional experience outside of the business as a child of the entrepreneur/owner who spent all the

time working in the family business since he/she may lack the perspective to deal with potential issues. The entrepreneurs who identified and trained their successors early enough had their key executives and other employees of the family business operate in an environment of confidence and certainty.

Thirdly, founding entrepreneurs should delegate some of the decision-making authority to executives and other personnel. Delegation of decision-making leads to continued growth and success of the business.

Fourthly, family business owners should contemplate the eventual transfer of their businesses. The timing of a transfer should be given a critical consideration in order to make timely and effective decisions. The business should have a written plan which actively addresses considerations that will substantially increase the likelihood of a successful transfer of ownership interests.

Fifthly, the well formulated succession plan should be communicated in a timely manner to all the key stakeholders as disclosure of the plans may cause conflicts among the key stakeholders.

### *Critique*

The study found out that a successful leadership transition is the result of a lengthy and ongoing succession process, which must be carefully planned and executed in small steps since it is not a onetime event. This is critical to the sustainability of SMFEs after the exit of the founders.

**Deniz, A. Y. (2005). *Business Ownership Experience, Entrepreneurial Behaviour and performance: Novice and Habitual Entrepreneurs*. Nottingham: University of Nottingham.**

The study explored the relationship between business ownership experience and entrepreneurial behaviour as well as performance. The author noted that entrepreneurship is heterogeneous, and involves the creation of new businesses, business inheritance and the purchase of established businesses. In this study the author defined novice entrepreneurs as individuals with no prior business ownership experience and habitual entrepreneurs as individuals with prior business ownership experience.

The main objective of the study was to investigate the nature of the relationship between business ownership experience, entrepreneurial behaviour and performance.

The specific objectives were to explore the influence of the following in entrepreneurial processes:

- i) Information search
- ii) Opportunity identification
- iii) Opportunity pursuit/exploitation.

Types of entrepreneurs were identified with regard to the following criteria: structure of the firm, performance of the venture, managerial practices, degree of innovation, venture start-up process and the entrepreneur's perception of opportunities.

Individuals were deemed as entrepreneur in this study through three criteria. Firstly, they had to have an ownership stake in the independent business(es) they were involved in. Secondly, the individual had to have demonstrated an ability to identify and exploit at least one opportunity for creating or purchasing a business.

Based on the findings, the study concluded that the level and nature of an individual's business ownership experience may shape their behaviour and performance. Novice entrepreneurs with no prior business ownership experience do not have access to the idiosyncratic knowledge that experienced habitual entrepreneurs do. The evidence indicated that habitual entrepreneurs do not search for more information than novice entrepreneurs but they do use different sources of information. Further, habitual entrepreneurs identify and pursue a significantly greater number of opportunities in a

given period. Using a variety of entrepreneur and firm-level performance measures, habitual entrepreneurs do not out-perform their novice counterparts.

## **2.8 Summary and Research Gaps**

The main objective of this chapter was to review theoretical and empirical literature on challenges that face family enterprises after the first generation of owners. A lot has been written on large family enterprises as shown in the foregoing. These studies have been carried out mainly in developed and developing countries outside Africa. The contribution to GDP of small and medium family businesses is enormous. Therefore, ignoring such an important sector would be suicidal for Kenya. This study is seeking to step in this gap.

Globally, there are gaps that need to be filled by the study namely:

- i). No records were available to this study to show any research on small and medium family enterprises in Kenya.
- ii). There are no clear records on studies showing the influence on managerial skills, entrepreneurial skills, individual behaviour and human resource skills on sustainability of enterprises.
- iii). Although there are records to show the importance of having succession plan in place for the long-term survival of family enterprises, there are no empirical

literatures available to this study showing the influence of exit strategies and mentorship put in place by the founder and the observance of succession plan process.

- iv). There were no studies available seeking to show the effect of a close confidant to the founder's role as an intervening variable in the process of preparing for long term sustainability of a family enterprise.

This study seeks to fill these gaps.

## **CHAPTER THREE**

### **5.5 RESEARCH DESIGN AND METHODOLOGY**

#### **5.6 Introduction**

This chapter provides a discussion of the design and methodological approaches used in social science and entrepreneurship research and how they were employed in this study. The main objective of this study was to investigate the challenges that hinder sustainability of small and medium family enterprises after the exit of the founders in Kenya. There were both quantitative and qualitative variables. Social scientists routinely collect data that is both qualitative and quantitative and carefully examine the patterns that emerge in an attempt to interpret, understand and explain social life (Neuman, 2006). It is important to explain the conceptual base and methodological approaches as seen from various perspectives, to allow deductions and generalizations from the study findings (Kumar, 2005). This chapter therefore aims at providing a background and justification to the study design and methodology that were employed in the study.

The chapter is organized as follows; section 3.2 discusses the study design adopted flowing from the conceptual base of the study; section 3.3 discusses the population of the study; 3.4 the sampling techniques; while 3.5 presents the methodology of data collection and the research instruments used and finally, the data analysis methods and tools are discussed under 3.6.

## **5.7 Research Design**

Cooper and Schindler (2008) define research design as the plan and structure of investigation so conceived as to obtain answers to research questions. It includes an outline of what the investigator will do from writing hypotheses and their operational implications to the final analysis of the data (Kerlinger, 2006). A research design helps to control the experimental, extraneous and error variables of a particular research problem being investigated.

The study was exploratory using descriptive survey and ex- post facto research design. Exploratory research study formulates a problem for more precise investigation for the discovery of ideas and insights and therefore it becomes flexible to provide opportunity for considering different aspects of the problem under study (Kombo & Tromp, 2006; Kothari, 2004). Descriptive research is a process of collecting data to answer questions concerning current status of the subjects in the study. It determines and reports the way things are with the subjects. It attempts to describe such things as the behaviour, attitudes, values and characteristics (Mugenda & Mugenda, 2008; Cooper & Schindler 2008).

According to Kumar (2005), ex post facto is used to refer to a research in which the researcher, rather than creating the treatment, examines the effect of a naturally

occurring treatment after it has occurred. In other words, it is a study that attempts to discover the pre-existing causal conditions between groups. On the other hand, descriptive research tries to verify formulated hypotheses that refer to the present situation in order to elucidate it (Bechhofer & Paterson, 2008).

The study explored the actual position of small and medium family enterprises on the challenges hindering sustainability in Kenya on such enterprises after the exit of the founders. In trying to investigate the effect of the independent variables on the dependent variable, the study did not manipulate the managerial skills, entrepreneurial skills, individual behaviour, human resource management skills, and succession planning nor sustainability; the independent and dependent variables. They had already occurred. The challenge thus, was in how to control variance, when one has no control over the variables. The study did not control variance by direct manipulation or by random assignment. The concern here was in the sustainability of SMFEs, the dependant variable, which was influenced by many independent variables. In this case all other independent variables were presumed to hold constant and since the five variables were not manipulated, the relationship established simply seemed to hold true. These were some of the reasons why the study adopted this research design.

## **5.8 The Population**

Kombo and Tromp (2006) define a population as a group of individuals, objects or items from which samples are taken for measurement. Cooper and Schindler (2008) observe that a population is the total collection of elements about which one wants to make inferences. Kothari (2004) defines population as the researcher's 'universe.' The population of this study comprised all small and medium family enterprises in Kenya which have been in operation for over five years, which according to Alliance of Small and Medium Enterprises in Kenya, SMEs are estimated to be over 200,000 (ASMEs, 2010).

### **5.8.1 Target Population**

The study targeted a population of 2470 small and medium family enterprises in Nairobi's Industrial Area along Enterprise road (and adjoining roads from Addis-Ababa road to Lunga Lunga road) and Thika municipality's light industrial area. The study targeted these areas because of the urban and rural influences. The businesses in these areas were in the three strata of interest to this study (manufacturing, trade and services) and were also owned and operated by people of all races.

## **5.9 Sampling Design**

Borg, Gall and Gall (1999) define a sample as a subgroup carefully selected so as to be representative of the whole population with the relevant characteristics and sampling as the process of selecting a number of individuals in such a way that they represent the large group from which they were selected. Nachmias and Nachmias (2008) define a sampling frame as a list of all the items where a representative sample is drawn for the purpose of a study. The sampling frame of the study was the list of the licensed small and medium enterprises by Nairobi city council and Thika municipal council.

The small and medium family enterprises targeted had to be at least 5 years old and employing between 10 and 99 people. The sampling frame showed that the target population was distributed in the areas of study as follows: Nairobi 1640; Thika 830.

Simple stratified random sampling technique was used to select the sample. Cooper and Schindler (2008) talks of stratified method as a technique used where the population is not homogeneous. Neuman (2006) observes that in stratified sampling technique the population is divided into strata which are more homogeneous, and then the items are selected from each stratum to constitute a sample. Since there were little or no empirical literature, to the knowledge of this study, on family owned enterprises in Kenya, a preliminary study was necessary grouping the target population into three strata;

manufacturing, trade (whole sale and retail) and services. Simple random samples were obtained from these strata. Family owned enterprises were then identified giving general data on SMFEs compared to the other small and medium enterprises (SMEs). A full study on SMFEs was then carried out from the identified sample.

Kerlinger (2006) stated that the smaller the sample, the larger the sampling error and the larger the sample, the smaller the error. Kerlinger (2006) indicates that a sample size, 10% of the target population is large enough so long as it allows for reliable data analysis by cross tabulation, provides desired level of accuracy in estimates of the large population and allows testing for significance of differences between estimates. The sample size depends on what one wants to know, the purpose of the inquiry, what is at stake, what will be useful, what will have credibility and what can be done with available time and resource (Paton, 2002).

Gay, Mills and Airasian, (2005) observe that for correlation research, 30 cases or more are required; for descriptive studies, 10% of the accessible population is adequate. The central limit theory states that in selecting simple random samples from a population, the sampling distribution of  $\bar{x}$  can be approximated by a normal probability distribution whenever the sample size is large enough (Gay, Mills & Airasian, 2005). The large-sample condition can be assumed for simple random samples of size thirty or more

(Anderson, Sweeney & Williams, 2002). Therefore, a proportionate sample size of approximately 247 respondents which is 10% of the population was selected using simple random sampling technique from the identified sample in section 3.3 above as per Table 3.1. Primary data was collected by use of interviewer administered questionnaires and observation methods.

**Table 3.1: Sample Distribution**

<b>Region</b>		<b>Target population</b>	<b>Sample Frequency</b>	<b>Percent (%)</b>
Thika Municipality	Manufacturing	280	28	1.1
	Trade	300	30	1.2
	Services	250	25	1.0
	<b>Sub-Total</b>	<b>830</b>	<b>83</b>	<b>3.3</b>
Nairobi	Manufacturing	550	55	2.2
	Trade	670	67	2.7
	Services	420	42	1.7
	<b>Sub-Total</b>	<b>1640</b>	<b>164</b>	<b>6.7</b>
<b>Total</b>		<b>2470</b>	<b>247</b>	<b>10.0</b>

### **5.10 Data Collection Instruments**

Due to the nature of the study, triangulation was necessary. Nachmias and Nachmias (2008), observe that triangulation involves the use of more than one form of data collection to test the same hypothesis. Some variables like managerial skills, entrepreneurial skills and individual behaviour required careful administration of the questionnaires while at the same time an observer taking note of the non verbal

behaviour of the respondents. This was necessary as there was no guarantee that the actual behaviour as reported in the questionnaire would be identical to the observed behaviour. The interviewer administered questionnaire method served two purposes; the interview as well as the use of questionnaire as an instrument.

#### **5.10.1 Interviewer Administered Questionnaire**

The study had a set of questions to enable the respondents, be triggered along the thought of managerial skills, entrepreneurial and succession planning in small and medium family enterprises. Interviewer administered questionnaire method involves interviewer physically meeting the respondents and asking questions face to face. This method usually has a higher response rate than a self administered questionnaire (Bechhofer & Paterson, 2008).

#### **5.10.2 Observation Schedules**

Observation involves collecting data while an individual is involved in some form of behaviour or while an event is unfolding. Observation behaviour is studied as it occurs and the researcher does not have to ask people about their own behaviour and the action of others. Direct observation tends to yield more accurate data about particular variables than can be obtained from questionnaires or interviews (Borg, Gall & Gall, 2003); Nachmias and Nachmias (2008). Well trained research assistants were used to take

observation notes as the questionnaires were being administered. The observations were specific along the variables of the study as per the observation guide in the appendices.

### **5.10.3 Questionnaires**

The main research instrument that was used in this study was the set of questionnaires. In developing the questionnaire items, both closed-ended and open-ended formats of the item were used. This format was used in all categories of the questionnaires. However, in the fixed choice item, it involved ‘putting words’ in the respondents’ mouth, especially when providing acceptable answers, there was temptation to avoid serious thinking on the part of the respondent. The respondent ended up choosing the easiest alternative and provided fewer opportunities for self-expression. It is because of these reasons that it was necessary to combine this format of items with open-ended response items to attract qualitative responses which gave the study in-depth feelings and perceptions of the respondents. The closed-ended items adopted a Likert scale (e.g. 1-strongly disagree, 2-disagree, 3-undecided, 4-agree, 5-strongly agree). The interviewer used investigative questions to deeply probe the relationship between the variables under study. Cooper and Schindler (2006) note that, investigative questions address each research question satisfactorily and meet each objective.

The questionnaire was divided into eight sections as follows:

*i) General information of respondents*

This section sought to find out the general information of the respondents such as Age, marital status, level of education, work experience, type of business, number of employees, etc. It also served the purpose of the preliminary study.

*ii) Managerial skills*

This section had items that enabled the study to find out the managerial skills of the entrepreneurs and further proceeded to frame items that sought to find out the relationship between managerial skills and sustainability of the enterprise after the exit of the founder.

*iii) Entrepreneurial skills.*

This section contained items that sought to find out the entrepreneurial skills of the respondents and how their style affected the sustainability of the enterprises.

*iv) Individual behaviour*

This section contained items that sought to find out the social influence, the past experiences, number of spouses, personal interests and other individual preferences of the respondents and how these affected succession planning and sustainability of the enterprises.

*v) Human resource management skills*

This section had items on the human management strategies and practices in place in the enterprises managed by the respondents and their effect on sustainability of the same.

vi) *Succession planning.*

This section sought to find out the exit strategies available to the respondents and how the respondents mentored their preferred successors.

vii) *Role of principal confidant*

This section sought to find out whether the respondents had someone they shared business values with and who influenced crucial business decisions and the effect of the same on the sustainability of the enterprises.

viii) *Growth and sustainability of SMFEs*

This section sought to find out the success of the business measured in growth by increased revenue, increase in number of branches, increase in number of employees and increased capital investment.

#### **5.10.4 Validity of the Research Instrument**

Validity refers to the extent to which a test measures what was actually intended to be measured. It is based on the adequacy with which the items in an instrument measure the attributes of the study (Neuman, 2006). The following measures were taken to ensure the research instruments yielded valid data;

- i) Expert opinion: Care was taken in designing research instruments to ensure that it would measure and collect the data it was meant to collect. The designed instrument

was to be counter checked by the researcher, supervisors, peers and professionals in the target industries.

- ii) Pilot study: Instruments pretest survey was carried out in a similar area of study. After the pretest, pilot data analysis lead to modification where necessary to ensure desired results were obtained.
- iii) Triangulation. The principle of triangulation was employed in every way. Data was collected from the areas of study. Three different types of research instruments were used; Questionnaire, Interview and Observation. Efforts were also be made to validate data collection by use of well-trained research assistants who were also conversant with the SMFEs under study.
- iv) Factor analysis: Factor analysis was done on the instruments, and then the data was analyzed statistically. Factor analysis is used to identify "factors" that explain a variety of results on different tests. Ledesma and Valero-Mora (2007) assert that factor analysis has advantages that: both objective and subjective attributes can be used provided the subjective attributes can be converted into scores; factor Analysis can be used to identify hidden dimensions or constructs which may not be apparent from direct analysis; it is easy and inexpensive to do.

### **5.10.5 The Administration of Research Instruments**

Research assistants were thoroughly trained both in interpretations of responses from respondents and also in the procedure of administration. They then accompanied the researcher in piloting and modifying the research instruments so that they could comprehend fully the purposes and methods of data collection. The research assistants administered the questionnaires personally to the respondents. They also asked investigative questions where the answers from the respondents were not clear. They also entered responses from the respondents in the questionnaire. The researcher made observations on the behaviour of the respondents concerning the variables of the study.

### **3.6 Pilot Testing**

Marczyk, DeMatteo and Festinger (2005) observe that pilot test is the start phase in data gathering of the research process. Pilot test is conducted to detect weakness in design and instrumentation and to provide alternative data for selection of a probability sample. Muus and Baker-Demaray (2007) note that a pilot test should draw subjects from the target population and simulate the procedures and protocols that have been designated for data collection. In summary pilot test measures the reliability and validity of the instruments.

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Borg, Gall & Gall, 2003). Split-half technique was used to assess the reliability of the instruments. It involves administering the questionnaire to the pilot group of respondents and then dividing the scored instrument into two halves. In this study questions bearing even numbers were grouped into one instrument and those bearing odd numbers into the other. The main advantage of this method is that it eliminates chance errors (Mugenda & Mugenda, 2008). Cronbach's Coefficient Alpha is then computed using SPSS (Statistical Package for Social Science) to determine how items correlate among themselves. Cronbach's Alpha is a general form of the Kuder-Richardson (K-R) 20 formulas used to assess internal consistency of an instrument based on split-half reliabilities of data from all possible halves of the instrument. Cronbach's Alpha is usually interpreted as the mean of all possible split-half coefficients. It reduces time required to compute a reliability coefficient in other methods (Cronbach, 1971; 2004).

The Kuder-Richardson (K-R) 20 formula is as below:

$$KR_{20} = \frac{(K)(S^2 - \Sigma s^2)}{(S^2)(K - 1)}$$

Where  $KR_{20}$  *Reliability Coefficient of internal Consistency*

$K$  *Number of items used to measure the concept*

$S^2$  *Variance of all scores*

$s^2$  *Variance of individual items*

On the other hand validity is the accuracy and meaningfulness of inferences which are based on the research results. In essence this means the degree to which results obtained from the analysis of the data represent the phenomenon being studied (Nachmias & Nachmias, 2003; Mugenda & Mugenda, 2008). The size of the pilot group may range from 20 to 100 subjects, depending on the method to be tested. This study used 1 percent of the target population as shown in Table 3.2.

**Table 3.2: Pilot Test**

<b>Area</b>	<b>Target Population</b>	<b>Pilot Test 1%</b>
Thika Municipality	830	8
Nairobi City	1,640	16
<b>Total</b>	<b>2,470</b>	<b>24</b>

To ascertain the validity of the questionnaire and observation schedule, a pre-test was conducted as in 3.4.4 above. The pre-test team consisted of the researcher, peers and professionals in entrepreneurship training, supervisors and owners of small and medium enterprises. Adjustments and corrections were made appropriately.

### **3.7 Data analysis**

This study collected data based on the following objectives:

1. To investigate the influence of managerial skills on sustainability of SMFEs after the exit of the founders.

2. To establish the effect of entrepreneurial skills on sustainability of SMFEs after the exit of the founders.
3. To explore the influence of individual behaviours on sustainability of SMFEs after the exit of the founders.
4. To investigate the effect of human resource management skills on the sustainability of SMFEs after the exit of the founders.
5. To establish if succession plans have any effect on sustainability of SMFEs after the exit of the founders.

Data processing started with the preparation of data, coding, editing and cleaning. The analysis was as follows:

*Qualitative data:* Data frequency distribution and cross tabulation was used in describing and explaining the situation as it is in the enterprises. Data was coded and analyzed simultaneously as collected. Through content coding, a list of key ideas and themes for each variable was generated and this guided the nature of integration needed for both qualitative and quantitative data collected. Views and ideas that were frequently expressed were noted. This formed the basis for crosschecking and comparing the two sets of data and drawing of conclusions. Data was then operationalized through scoring for crosschecking with the quantitative data.

*Quantitative data:* Data was analyzed using descriptive statistics; measures of central tendency, measures of dispersion and measures of symmetry and inferential statistics. Scatter plots were used to show if the relationships wear linear. SPSS software version 19 was used as a statistical tool for analysis.

Linear regression analysis showed the correlation and strength of the relationship between variables both independent and dependent and the effect of the intervening variables on each relationship. Multiple regression analysis was thereafter conducted to test the overall effect on the study model. Analysis of Variance (ANOVA) was also to test the goodness of fit of the regression models and finally to test the hypothesis of the multiple regression models.

## **CHAPTER FOUR**

## **4.0 DATA ANALYSIS, FINDINGS AND DISCUSSION**

### **4.1 Introduction**

The study sought to investigate the challenges that hinder sustainability of small and medium family enterprises (SMFEs) after the exit of the founders in Kenya. Specifically, the study looked at entrepreneurial skills, managerial skills, human resource skills, individual behaviour and succession planning. This chapter presents the empirical findings and results of the application of the variables using exploratory, descriptive survey and ex-post facto research design. Data was analyzed in accordance with the strata; trade, manufacturing and services. First the analysis of the characteristics of the sample is presented. Secondly, the findings and results of the preliminary analysis of data are introduced. Thirdly, the analysis, characteristics and discussion of variables in the conceptual framework in Chapter Two on Small and Medium Family Enterprises are presented.

### **4.2 Preliminary Study**

#### **4.2.1 Sample Distribution**

The survey was conducted in Nairobi's Enterprise road (and adjoining roads from Addis-Ababa road to Lunga Lunga road) and Thika's light industrial area in Kenya. Interviewer-administered questionnaires were administered to the 83 entrepreneur/managers of small and medium enterprises in Thika's light industrial area

and 164 firms in Nairobi's Enterprise road bringing the total sample randomly selected from the two sampling frames, to 247 enterprises.

#### **4.2.2 Response Rate**

Fowler (1994) defines the response rate as the extent to which the final data set includes all sample members and it is calculated as the number of people with whom interviews are completed divided by the total number of people in the entire sample, including those who refused to participate and those who were unavailable. The instruments were administered to all the enterprises as in the selected sample above. Table 4.1 shows that 75 enterprises in Thika (90%) and one hundred and fifty (150) enterprises in Nairobi (91%) responded positively. Babbie (2002) observes that in descriptive research, a response rate of above 50% is adequate for analysis. Therefore, 90.5% response rate in this study is adequate for analysis.

**Table 4.1: Response Rate**

<b>Region</b>		<b>Sample</b>	<b>Response</b>	<b>Percent of Response to the Selected Sample (%)</b>
Thika Municipality	Manufacturing	28	26	93
	Trade	30	27	90
	Services	25	22	88
	<b>Total</b>	<b>83</b>	<b>75</b>	<b>90</b>
Nairobi	Manufacturing	55	49	89
	Trade	67	64	96
	Services	42	37	88
	<b>Total</b>	<b>164</b>	<b>150</b>	<b>91</b>
<b>Total Response</b>		<b>247</b>	<b>225</b>	<b>90.5</b>

#### **4.2.3 Proportion of Family Owned Enterprises**

Table 4.2 indicates that out of the 225 small and medium enterprises who responded, 74.6% (168) were family owned enterprises. The figures could be higher as some respondents were only adamant that their enterprises were only private companies without giving further details. Aronoff and Ward (2004) note that family firms have long been the backbone of worldwide enterprises and range between 65% and 80% of worldwide businesses. Therefore, the findings of this study are representative and it can be inferred that, of all small and medium enterprises in Kenya, approximately 75% are family enterprises.

**Table 4.2: Proportion of Small and Medium Family Enterprises in Small and Medium Enterprises**

<b>Region</b>	<b>Stratum</b>	<b>Sample Response</b>	<b>SMFEs Frequency</b>	<b>Percent (%)</b>
Thika Municipality	Manufacturing	26	20	8.9
	Trade	27	21	9.3
	Services	22	16	7.1
Nairobi	Manufacturing	49	40	17.8
	Trade	64	49	21.8
	Services	37	22	9.7
<b>Total Response</b>		<b>225</b>	<b>168</b>	<b>74.6</b>

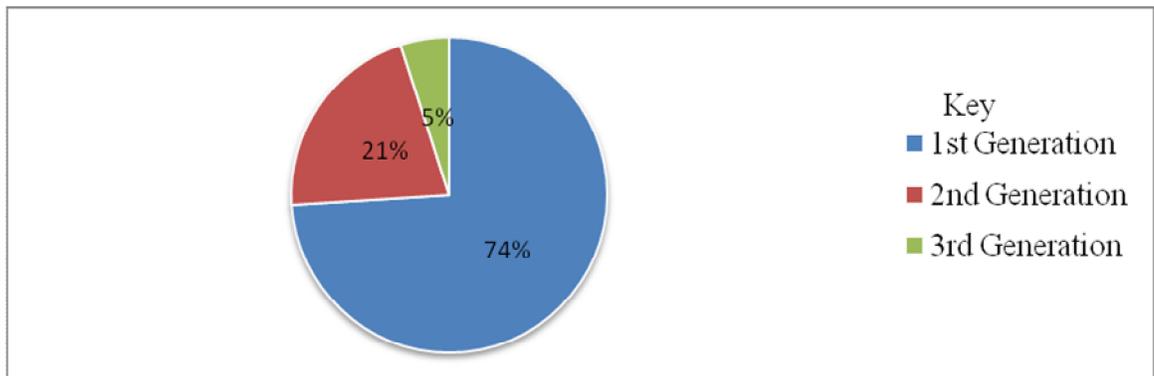
*i) Small and Medium Family Enterprises' Leadership/Ownership*

The study found out that 74% (108) of the small and medium family enterprises are owned/managed by the founders (1<sup>st</sup> generation), 21% (31) are owned/managed by the second generation and 5% (8) are owned/managed by the third generation as shown in Figure 4.1.

The introductory literature in chapter one and literature review in chapter two quote statistics from several scholars on small and medium family enterprises ownership. Bowman (2006) observes that less than one third of family businesses survive the transition from first to second generation ownership and of those that do, about half do not survive the transition from second to third generation ownership. Dyer and Whetten (2006) observe that a mere 30% of family businesses survive past the first generation and only 10% survive to a third generation. From the above findings, it is worth noting that the Kenyan figures are lower than those of developed countries as given above

which may be attributed to lack of a well established sector and lack of a well defined policy on small and medium enterprises in Kenya.

The study also found that out of the 8 enterprises owned and managed by the third generation, none is owned/managed by indigenous Kenyans; five were owned by people of Asian origin; and three by those of the Caucasian origin.



**Figure 4.1: Leadership/Ownership Distribution**

### **4.3 Study on Small and Medium Family Enterprises**

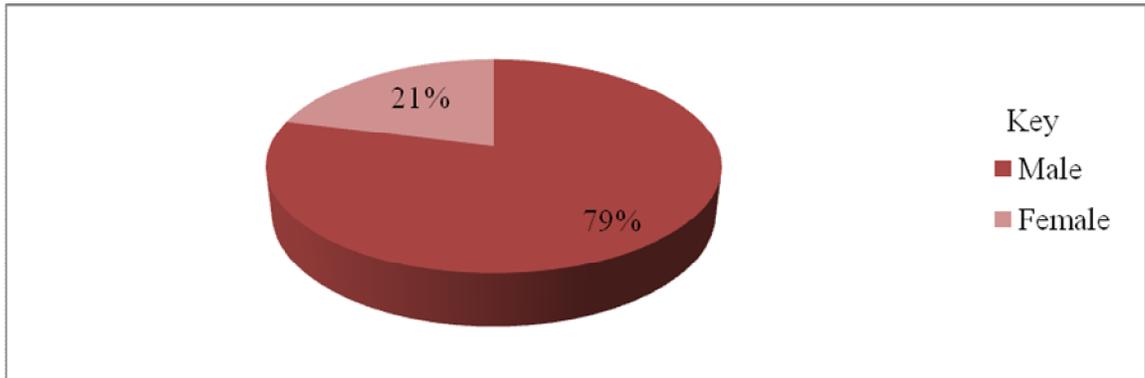
A full study was conducted on the sample of 168 small and medium family enterprises. Eighty seven point five percent (147) of them responded as per Table 4.3. As noted in section 4.2.2 above, Babbie (2002) observes that a response rate above 50% is adequate for analysis; hence 87.5% response rate in this study was adequate for analysis.

**Table 4.3: SMFEs Sample Response**

<b>Stratum</b>	<b>Sample</b>	<b>Response</b>	<b>Percent (%) of Sample Response</b>
Manufacturing	60	41	68
Trade	70	69	99
Service	38	37	98
<b>Total</b>	<b>168</b>	<b>147</b>	<b>87.5</b>

*i) Gender of the Respondents*

The survey results indicated in Figure 4.2 shows that 116 (79%) of the respondents were men while the remaining 31 (21%) were women. The above results may be attributed to the strong male domineering culture in Kenya where until recently women were relegated to domestic chores. This culture is dying off and a large population of women population is now strongly competing with their male counterparts in most jobs (RoK, 2008; 2010). The cultural, customary and religious beliefs governing succession and inheritance may also have contributed to the same (The Holy Quran, Chapter 4 vv12-14; Hindu Succession Act, 1956, The Holy Bible: NIV; Gen 25: 5, 31-33, Deut 21: 16-17 Numb 27:6-11 Josh 17: 3-4).



**Figure 4.2: Gender of Respondents**

*ii) Age Bracket of the Respondents*

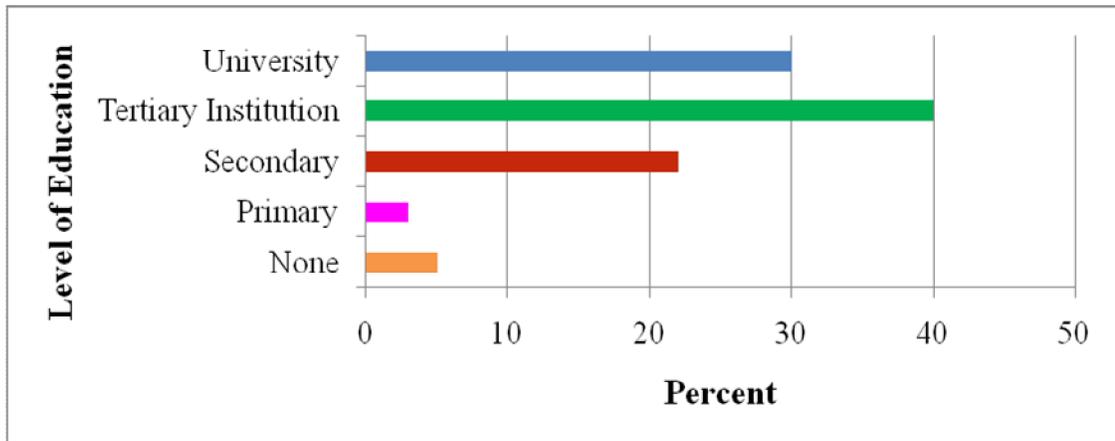
The findings showed that 60% of the small and medium family enterprises entrepreneur/managers were between 36 years and 55 years of age. The findings as tabulated in Table 4.4 shows that there were only 15% (22) of respondents who were over 56 years of age, 27% (40) of the respondents were between 46-55 years of age while the largest proportion 33% (49) of the respondents lying between 36-45 years age bracket. Bass (2005) observe that age brings along experiences, responsibilities and skills. It is sometimes difficult to impart entrepreneurial skills to old people as most are resistant to change. Sixty percent respondents also fall within the maturity and the most active age 36-55. The findings therefore show that the majority of small and medium family enterprises are lead by mature and capable leaders who can contribute to the sustainability of their enterprises.

**Table 4.4: Age Bracket of the Respondents**

<b>Age Bracket</b>	<b>Frequency</b>	<b>Percent (%)</b>
18-25	11	8
26-35	25	17
36-45	49	33
46-55	40	27
Over 56	22	15
<b>Total</b>	<b>147</b>	<b>100</b>

*iii) Levels of Education*

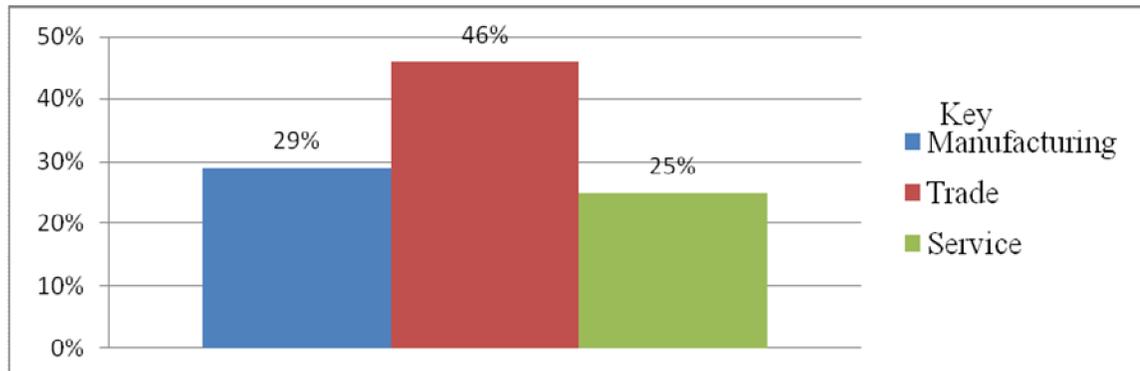
The study also revealed that 7 (5%) of the respondents were illiterate, 4 (3%) had primary education, 32 (22%) had secondary education, 59 (40%) had tertiary education and 45 (30%) had university education as shown in Figure 4.3. Ngugi (2008) observes that the level of education influences the impartation of both managerial and entrepreneurial skills of most entrepreneurs. The role of education as a change agent is indisputable and has always been a central mechanism for transmission of skills and values for the sustenance of societies and promotion of social change (Lebaking & Phalare, 2001). Therefore, the sustainability of SMFEs can be attributed to the level of education of the entrepreneurs as the above data show that 70% (104) of the entrepreneurs are above basic education (secondary level).



**Figure 4.3: Levels of Education**

*iv) Nature of Business*

The data show that the small and medium family enterprises are dominated by the trade stratum 46% (68), followed by manufacturing at 29% (42) and service at 25% (37) as shown in Figure 4.4. This may be attributed to the fact that manufacturing and service require specialized skills while trade may accommodate diverse general skills and lower start-up capital than the other strata thereby reducing barriers to entry as depicted in Porter's Model (Moore *et al.*, 2008).



**Figure 4.4: Nature of Business**

#### **4.4 Study Variables**

##### **4.4.1 Managerial Skills**

The study sought to investigate the influence of managerial skills on sustainability of small and medium family enterprises after the exit of the founders. Particularly the study focused on technical, interpersonal and conceptual skills; the functions of a manager, planning, organizing, leadership and control.

##### ***i) Technical skills***

The data in Table 4.5 shows that entrepreneur/managers with technical skills in: manufacturing were 69% (29 out of 42); services were 76% (28 out of 37); and trade stratum were 14.7% (10 out of 68).

The findings collaborate with those of Papulova and Mokros (2007) who observed that technical skills are important in businesses that relate to engineering and other technical orientations. Rue and Byers (1992) in their theory of management competencies view technical skills as very important to lower level managers. Entrepreneur/managers of the small and medium family enterprises mainly play both roles of top and lower level management. In his management theories Daft (1994) shows the importance of technical skills in supervising employees and notes that they are required by all levels of managers though in different degrees. He noted that technical skills include specialized knowledge, analytical ability and the competent use of tools and techniques to solve problems in that specific discipline.

The study shows that manufacturing and service sectors have high number of respondents with technical skills (69% and 76% respectively). These sectors require professional skills as they deal with specialized products and services. The sectors are more professional oriented and the founders are professionals in their specialized areas as opposed to trade which does not require such skills to operate. On the other hand entrepreneurs in the trade stratum do not require specialized technical skills as they deal in buying and selling.

Therefore, with good leadership entrepreneurs with technical skills in manufacturing and services sector can employ professionals in the specialized departments like finance while those in the trade stratum require good financial and management skills. With a good succession plan, these entrepreneurs can positively influence sustainability of such enterprises after the founders' exit.

**Table 4.5: Levels of Technical Skills**

<b>Skills</b>	<b>Manufacturing Frequency</b>	<b>Trade Frequency</b>	<b>Services Frequency</b>	<b>Total Frequency</b>	<b>Percent</b>
No skills	7	45	3	55	37
Low	6	13	6	25	17
Moderate	11	6	13	30	21
High	18	4	15	37	25
<b>Total</b>	<b>42</b>	<b>68</b>	<b>37</b>	<b>147</b>	<b>100</b>

*ii) Financial Management*

As shown in Table 4.6, the trade stratum had 50 out of 68 (74%) respondents with adequate financial management skills. Manufacturing had 18 out of 42 (43%) and services had 18 out of 37 (49%). In an audit or accountancy firm financial skills would fall under technical skills.

The findings correspond with other scholars' findings. Bekker (2004) finds financial management as key to sound business management. Of all businesses that fail, seventy percent of them fail due to poor financial management (Becker, 2004). Financial

management entails planning for the future of a person or a business enterprise to ensure a positive cash flow (Cronje *et al.*, 2008). Sound financial management is one of the best ways for any business to remain profitable and solvent (Daft, 2004).

The respondents in manufacturing and services had employed professional accountants to help in managing their finances while they concentrated on the core business of production and services. The objectives of financial management is to create wealth for the business, generate cash, and provide adequate return on investment bearing in mind the risks that the business is taking and the resources invested (Cronje *et al.*, 2008). Entrepreneur/managers in trade enterprises require financial management skills in their day to day running of the enterprises as most of them had no technical skills and concentrated on the financial and marketing management of their enterprises.

**Table 4.6: Levels of Financial Management Skills**

<b>Skills</b>	<b>Manufacturing Frequency</b>	<b>Trade Frequency</b>	<b>Services Frequency</b>	<b>Total Frequency</b>	<b>Percent</b>
No skills	5	7	9	21	14
Low	19	11	18	48	33
Moderate	17	19	4	40	27
High	1	31	6	38	26
<b>Total</b>	<b>42</b>	<b>68</b>	<b>37</b>	<b>147</b>	<b>100</b>

*iii) Interpersonal Skills and Organizing Function*

Table 4.7 shows that all the strata had almost the same rate of staff turnover. Seventy nine respondents (54%) had low rate of staff turnover, 62 (42%) had moderate and 6 (4%) had high rate of staff turnover.

The findings agree with findings of other scholars. Barr (2004) in his study on workers' negotiation patterns in Lagos found out that interpersonal skills are the vehicles for attaining organizational goals and that with adequate interpersonal skills; workers would be able to maintain good links with the management of their respective organizations. Fiedler and Garcia (2007) in a study on MBA students in Bloomsburg University in Pennsylvania found out that interpersonal skills were the most valuable skills the students use in their current respective jobs.

Interpersonal skills pertain to relationships with others and are related to the entrepreneur/managers ability to work with and through other people and to work effectively as a group member (Aldich & Cliffe, 2003). Yulk (2006) observes that leader/managers who pay attention to their employees and give them freedom, power, knowledge and skills to make decisions attain competitive advantage. Yulk (2006) further observes that high rate of labour turnover causes instability in the working

environment of an enterprise, affects quality of products and services and further causes low productivity.

Of all the respondents interviewed, 95 % were conversant with all the roles of their employees and the structure of their enterprises. Azjen (2005) observes that given a clear mission, core values, objectives and strategy, the role of organizing is to begin the process of implementation by clarifying jobs and working relationships. The organizing function entails making decisions about the division of labour and work specialization, departmentalization, chain of command, span of management and formalization (Fox, Nilakant & Hamilton, 2006).

The respondents being entrepreneur/managers of family enterprises ensured good relationship in the family enterprises as some of the staff are family members. This will create harmony and reduce possibilities of conflict arising among family members. The results imply that these respondents have good interpersonal skills leading to high staff retention and they were performing organizing function of management. These skills help in sustainability of small and medium family enterprises.

**Table 4.7: Labour Turnover**

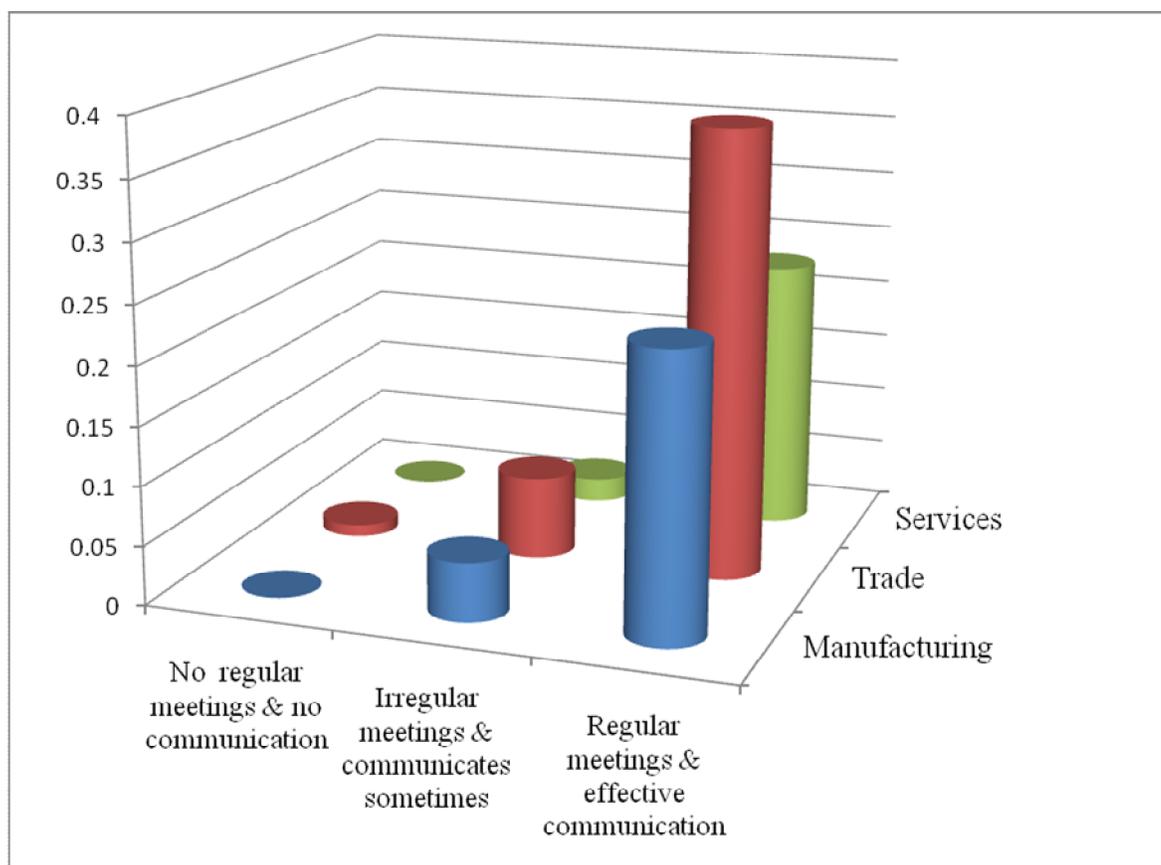
<b>Turnover rate</b>	<b>Frequency</b>	<b>Percent (%)</b>
Low	79	54
Moderate	62	42
High	6	4
<b>Total</b>	<b>147</b>	<b>100</b>

*iv) Communication Skills*

A great number of entrepreneurs 124 (85%) valued communication, had interaction with their employees and held regular meetings to discuss business matters. Twenty one (14%) of them met irregularly, two entrepreneur/managers (1%) did not hold meetings as shown in Figure 4.5.

The findings conform to other scholars' findings. Dana (2008) found communication being very crucial to business success. Michaud (1999), in his study on family businesses found that effective communication was key to resolving most family business problems, especially in matters concerning who takes the firm over when the current leader retires, who is responsible for what duties, and how to leave work at the office and not take it home. Michaud (2009) offers strategies, such as regular meetings and behavioral process analyses, and how to apply these concepts with minimal effort.

Trade stratum had higher level (34%) of communication and held regular meetings with employees while manufacturing and services had 18% and 21% respectively in the same variable. This shows that entrepreneurs of small and medium family enterprises value effective communication for success and sustainability of their enterprises.



**Figure 4.5: Communication**

v) *Conceptual Skills and Planning Function*

The study found out that, 54 out of 68 (79%) respondents in trade industry had skills in strategic management; manufacturing 32 out of 42 (76%); and services 8 out of 37 (22%) as indicated in Table 4.8.

Heasley (2005) in his study on leadership found out that conceptual skills are critical for the future success of an enterprise. Nanus (2002) attributed strategic positioning of companies to visionary leadership of their managers in a study of visionary leadership in San Francisco.

Daft (2004), in his management theories observes that conceptual skills involve the manager's strategic thinking, information processing and planning abilities. Strategic management is an ongoing process that evaluates and controls the business and the industries in which the enterprise is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy regularly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy, to meet changed environment; new technology, new competitors, a new economic environment, or a new social, financial, or political environment (Johnson, Scholes & Whittington, 2008).

The findings show that 94 out of 147 (64%) small and medium family enterprises' entrepreneur/managers had strategic management skills. This shows the importance of strategic planning which depends on conceptual skills of entrepreneur/managers, on sustainability of small and medium family enterprises.

**Table 4.8: Levels of Strategic Management Skills**

Skills	Manufacturing	Trade	Services	Total	
	Frequency	Frequency	Frequency	Frequency	Percent
No skills	4	8	7	19	13
Low	6	6	22	34	23
Moderate	23	26	3	52	35
High	9	28	5	42	29
<b>Total</b>	<b>42</b>	<b>68</b>	<b>37</b>	<b>147</b>	<b>100</b>

*vi) Leadership*

*a) Delegation*

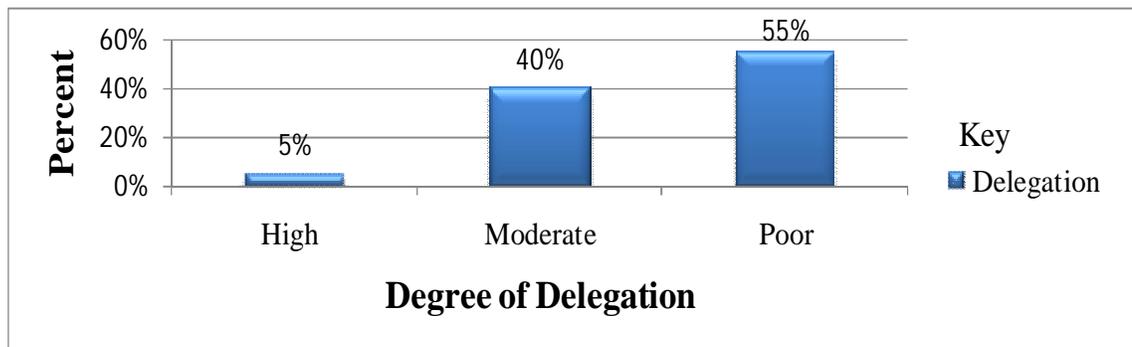
The Figure 4.6 shows that small and medium family enterprises' entrepreneur/managers who delegated work while they were away were 5% (7) while those who delegated sometimes were 40% (59) and those who hardly delegated were 55% (81).

Hackman and Johnsn (2009) found out that the majority of small and medium enterprise owners in Vietnam are 'hands on' managers and rarely delegated their roles to employees. Delegation helps to mentor successors and help employees to gain experience for personal growth. Becker (2004) too found out that the majority of

enterprise owners who delegated their roles also enjoyed proceeding on leave and had time to attend to other important matters.

Wren (2005) defines delegation as the process leader/managers use to transfer authority and responsibility to positions below them in the hierarchy. Hartman (2010) further notes that delegation is the leadership style that promotes the sharing of responsibility and the exercise of continual consultation.

The findings show that most entrepreneur/managers (55% were poor and 40% moderate) do not delegate and are hands on managers. They need to be trained on the need and benefits of delegation so as to groom and mentor successors. Over-delegation without feedback on the other hand is detrimental to the business performance.



**Figure 4.6: Delegation**

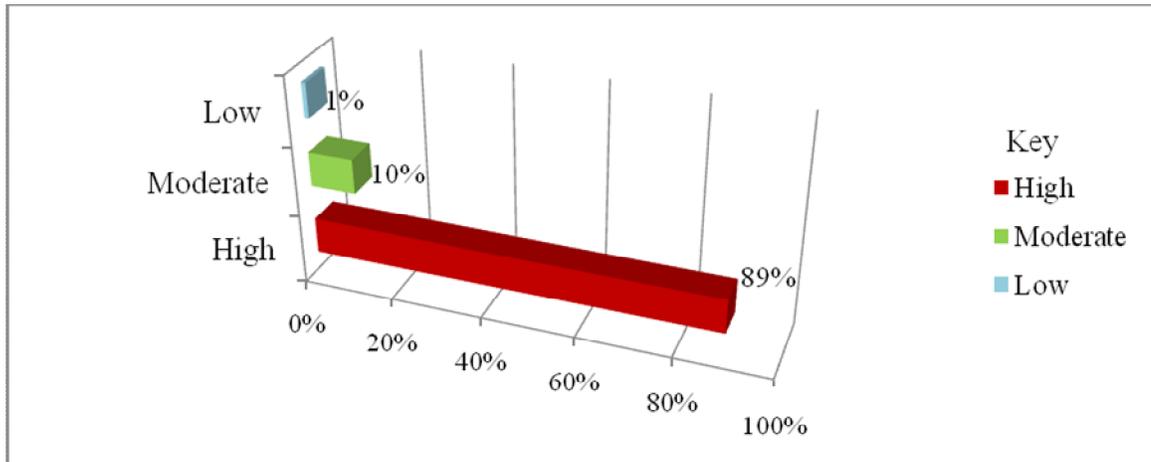
*b) Leadership Traits*

As shown in Figure 4.7, 89% (131) entrepreneur/managers of small and medium family enterprises had good leadership skills, 10% (14) had moderate leadership skills and 1% (2) had low leadership skills.

McElwee (2006) equally found majority of agri-entrepreneurs to possess high leadership skills. Buuren (2008) found leadership skills as crucial to family business skills as the leader had to balance the delicate family business systems. Buuren (2006) also attributed sustainability of family business to effective leadership.

A small and medium family enterprise is a sensitive type of organization (Groshong, 2008) where the leader/owner/manager has to balance business values and family values both at the same time. This is to avoid conflict in the business. Sorenson (2006) observes that a leader/manager should transmit current information to other relevant leaders and subordinates. A leader/manager who only communicates or only conceives ideas never gets anything done (Wren, 2005).

From the findings, 99.0% of small and medium family enterprise entrepreneurs were well equipped with good leadership skills contributing to enterprise sustainability.



**Figure 4.7: Leadership Traits**

*vii) Control Function of Management*

*a) Setting and Reviewing Performance Standards*

The largest number of entrepreneur/managers, 101 (69%) set and reviewed performance standards on monthly basis to measure their employees performance, 24% (36) set and reviewed them annually, while 7% (10) did not set performance standards in their enterprises as indicated in Table 4.9.

Higginson (2008) found out that 95% of successful business owners set performance standards for themselves and their employees and looked for feedback on how well they are performing. McElwee (2006) too had similar observations on characteristics of successful entrepreneurs in his study. Sharma, Chrisman, Pablo and Chua (2004) quoted

David McClelland as observing the same on his psychological theories of entrepreneurship.

Wright (2006) observes that performance is the organization’s ability to attain its goals by using resources in an efficient and effective manner. Performance standards are the observable behaviours and actions which explain how the job is to be done, plus the results that are expected for satisfactory job performance (Bass, 2005). They tell the employee what a good job looks like and also communicates expectations. Performance standards measure quality (accuracy, appearance, usefulness or effectiveness), quantity (volume of work done), timeliness (how, when and what date work is done) and cost-effectiveness (reducing wastage, reducing costs, reducing time) (Zahra, 2003).

The findings show that entrepreneur/managers of small and medium family enterprises exercise the control function of management effectively. Entrepreneur/managers of small and medium enterprises should deploy performance standards in their enterprises in order to improve productivity, profitability and motivation in their family enterprises.

**Table 4.9: Setting and Reviewing Performance Standards**

<b>Setting and Reviewing</b>	<b>Frequency</b>	<b>Percent (%)</b>
Quarterly	101	69
Annually	36	24
Don’t at all	10	7
<b>Total</b>	<b>147</b>	<b>100</b>

#### **4.4.2 Entrepreneurial Skills**

The study was out to investigate the influence of entrepreneurial skills on sustainability of small and medium family enterprises after the exit of the founders. The study started by investigating the drive/impetus to entrepreneurship in order to establish previous exposure into entrepreneurship.

##### *i) Drive/Impetus to Entrepreneurship*

Table 4.10 shows that 27% (39) of the respondents entered into business through succession, 24% (35) through peer influence, 20% (30) through their professions, 18% (26) through lack of autonomy/supplementing their insufficient employment income, 9% (14) lack of something to do and 2% (3) through immigrant status as shown in Table 4.10.

McElwee (2006) discussed the social influences that drive one into entrepreneurship as impetus of the momentum factors and situational factors. The momentum factors include life path factors like push and pull from peers, parents and others, in between things, divorced, sacked and immigrant factors. Situational factors include perception of desirability and perception of feasibility. These imply that the social environment dictates whether entrepreneurship is desirable and whether it is feasible.

The findings indicate that 73% of the respondents entered into business through momentum or situational factors. The remaining 27% entered into business through succession where some of them had not been mentored into entrepreneurship. It is therefore prudent to conclude that the majority of the respondents did not have previous exposure into entrepreneurship.

**Table 4.10: Drive/Impetus to Entrepreneurship**

<b>Drive</b>	<b>Frequency</b>	<b>Percent (%)</b>
Autonomy/supplementing income	26	18
Profession	30	20
Lack of something to do	14	9
Influence by peers	35	24
Immigrant status	3	2
Family succession	39	27
<b>Total</b>	<b>147</b>	<b>100</b>

*ii) Creativity and Innovativeness*

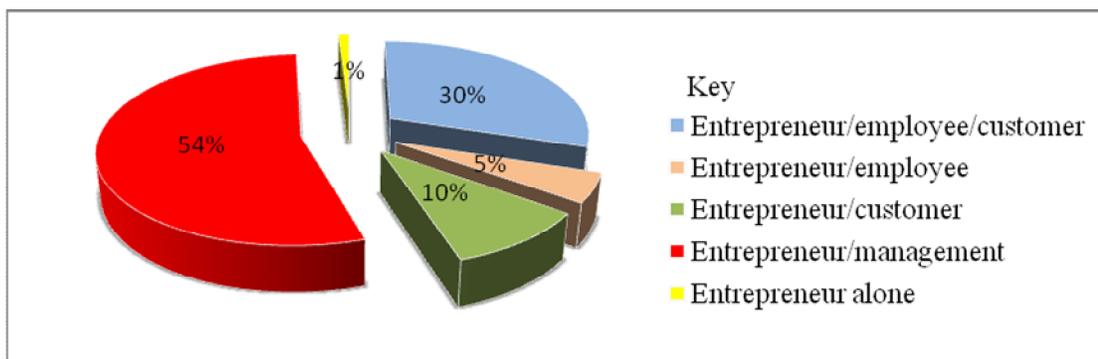
The findings show that entrepreneurs who involved their management staff in decision making on creativity and introduction of new products were 54% (79), those who involved customers and employees at the same time were 30% (44) those who relied on employees only were 5% (8), those who involved their customers (customer relationship marketing) were 10% (14) and those who made decisions on their own were 1% (2) as shown in Figure 4.8.

The findings tally with other scholars' findings that small and medium enterprises have a distinct competitive advantage over large enterprises which results from their creativity and innovativeness. In a study conducted on Japan SMEs, McCormick (2004) found that SMEs were disadvantaged in terms of resource munificence compared with larger companies, but however, SMEs who had an innovative climate and culture were able to effectively compete with larger companies. Another study on Finnish and U.S.A. entrepreneurs and small business owners, Heifetz (2004) found that a creative and innovative individual with originality of thought was motivated to develop novel solutions than conservative thinkers and valued new ideas and liked to improvise.

Schultz (2003) observes that creativity is the development of novel solutions to perceived organizational problems while innovativeness involves transferring creativity into practice. Armstrong (2010) further observes that the drive for revenue growth means that companies must be creative and innovative and this means encouraging the free flow of information and shared learning among employees.

From the findings, 59% of the entrepreneurs practice intrapreneurship in their enterprises to tap creativity and innovativeness. Forty percent of the entrepreneur/managers practice customer relationship marketing (CRM). Intrapreneurship and customer relationship marketing are two important management

practices that promote high customer retention, tapping newer markets for increased profitability (Moore *et al.*, 2008; Hisrich, Peters & Shepherd, 2005; Brink & Berndt, 2004). These two aspects promote sustainability of small and medium family enterprises after the exit of the founders.



**Figure 4.8: Decision on Innovativeness**

**iii) Risk Taking Propensity**

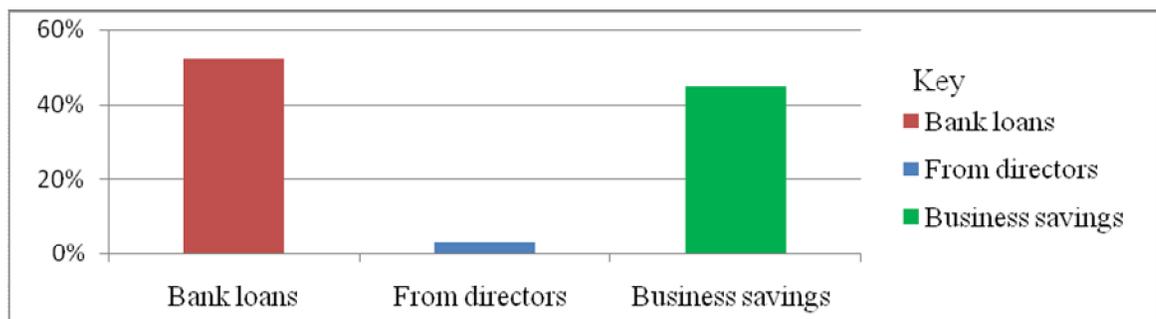
Seventy seven (51%) entrepreneur/managers use bank loans to finance development of new products, while sixty five (44%) entrepreneur/managers use business savings and five percent of the entrepreneur/managers finance from the directors' contribution as shown in Figure 4.9.

Moore and Gergen (1985) in their study on risk-taking businesses found that the process of risk-taking involves both making the decision to take a risk and developing a strategy

that minimizes the risk. They concluded that a well-seasoned risk-taking requires careful decision making. Hursky and Tuunanen (2006) found that American entrepreneurs have rich entrepreneurial traditions which involve high risk-taking propensity than Finnish entrepreneurs which made them more successful.

One of the characteristics possessed by successful entrepreneurs is risk taking propensity (Kuratko & Hodgetts, 2008). Risk taking propensity is the willingness to undertake risk with the opportunity of gaining an increased payoff (Phil & Macduffie, 1996).

Figure 4.9 shows that 52% of the entrepreneurs take calculated risks by borrowing loans from banks to finance new products and use their own personal security guarantee for these loans. Such risks are important when making some hard decisions on long-term sustainability of small and medium family enterprises.



**Figure 4.9: Source of Finance for New Products**

#### **4.4.3 Individual Behaviour**

##### *i) Behaviour Influenced by Past Experience*

As shown in Table 4.11, 63% (92) of respondents were strongly influenced into entrepreneurship by their past experience, 22% (32) were moderately influenced by their past experience and 15% (23) had little or no influence from their past experience.

Empirical literature suggests that much of the learning that takes place within an entrepreneurial context is experiential in nature (Shane & Khurana, 2003). Barr (2004) found out that past experience shapes an entrepreneur's cognitive frame and therefore influences entrepreneurship in a more holistic manner. Harvey and Evans (2004) observe that people with a trading background, even after becoming entrepreneurs, show significant reluctance toward investing on exploring new opportunities, which requires them to 'lock-in' their assets for a long period. These entrepreneurs rather prefer to hold their assets in liquid form or in easily realizable assets. Hirschman (1958, p. 20) categorizes such behavior as "personalized liquidity preference." The reason for such behavior, in his opinion, lies in an excessive alertness to new opportunities,

Deniz (2004) in a study on owners of independent firms located throughout Great Britain found out that, habitual entrepreneurs (entrepreneurs who owned two or more

businesses and therefore are experienced entrepreneurs) were distinct from novice entrepreneurs (first time entrepreneurs) in terms of their ability to acquire business ownership which was found to facilitate opportunity identification. In line with Bhaduri and Hagen (2007), people with past experiences seek more participatory form of ownership, which, much gives more opportunity to incorporate new knowledge embodied in new human resources into the decision making process.

Studying entrepreneurial learning has been primarily equal to comparing the relative difference between entrepreneurs' "total stock" of experiences at a given point of time, and researchers have then related this stock of experiences to variations in new venture performance (Bates & Servon, 2006). Through government initiated programmes, entrepreneurship has been promoted both in urban and rural areas, and as a result most people have turned into being entrepreneurs. Entrepreneurship may also have been promoted by poverty in the past, lack of employment, surplus income, rural-urban migration and also influence from peers.

As the data show, most entrepreneurs have their entrepreneurial behaviour influenced by experience and as the literature shows, the performance of their enterprises comes from this experience thereby influencing long term sustainability of these enterprises.

**Table 4.11: Entrepreneurial Behaviour Influenced by Past Experience**

<b>Degree of Influence</b>	<b>Frequency</b>	<b>Percent (%)</b>
Very strong	92	63
Moderate	32	22
Low	23	15
<b>Total</b>	<b>147</b>	<b>100</b>

*ii) Influence in Business Values*

Table 4.12 shows that 56% (82) of the small and medium family enterprises founders were influenced by family, 33% (48) by cultural values and 11% (17) by religious values in their businesses.

Mandl (2008) found out that family enterprise owners have different attitude towards the longevity of the firm (in terms of decades and generations instead of years and the focus of the professional lifetime of the entrepreneur in non-family businesses) this however, influences everything related to the business activity. Family values influence the business activities. James (2006) also found out that during transition, it is not only financial assets which are passed on, but also the value system. The value system refers to honesty, credibility, modesty and respect. Cohn (2005) found out that when a business is treated like a family, its activities are driven by values and concern for human needs which in return creates an organization with motivated people working together to create long-term value.

Business values are important factors in the unique nature on the imperfect imitability of family enterprises giving them a competitive edge over the other enterprises (Poza, 2004; Dollinger, 2008).

The findings show that most small and medium family enterprises survive mainly from family values which in turn influence business values. This leads to sustainability of these enterprises.

**Table 4.12: Influence of Business Values**

<b>Values</b>	<b>Frequency</b>	<b>Percent (%)</b>
Family	82	56
Cultural	48	33
Religion	17	11
<b>Total</b>	<b>147</b>	<b>100</b>

*iii) Successor's Willingness, Capabilities and Skills*

Table 4.13 shows that, 102 (69%) entrepreneur/managers' choice of successors is greatly influenced by willingness of the successor, followed by the skills of the successor with 41 (28%) entrepreneur/managers and the level of education and capabilities with 39 (27%) entrepreneur/managers trailing the list.

In his study, Coopers (2007) found out that if a successor does not have the will, then she cannot become trained and be prepared for the leadership role. This is in line with the findings of this study where majority (102 respondents) considered recruiting

successors who had the will to take over the family enterprise as very important to family succession. Dunn (1997) found out that, giving priority is an important factor to consider, but if enhanced with education and training it would be more influential in the sustainability of these enterprises.

The findings show that entrepreneur/owner managers of small and medium family enterprises are more influenced by the willingness of their off springs more than any other trait.

**Table 4.13: Successor’s Willingness, Capabilities and Skills**

Influence	Willingness		Level of Education and Capabilities		Skills	
	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
Very strong	102	69	39	27	41	28
Moderate	37	25	52	35	39	27
Low	8	6	56	38	67	45
<b>Total</b>	<b>147</b>	<b>100</b>	<b>147</b>	<b>100</b>	<b>147</b>	<b>100</b>

#### 4.4.4 Human Resource Management

Armstrong (2010) notes that human resource management is the strategic and coherent approach to the management of an organization’s most valuable assets – the people working there who individually and collectively contribute to the achievement of its objectives. In business enterprises, human resource management plays major roles such

as recruitment of employees, creating job specification, facilitating employee training programmes and motivating employees (Weightman, 2008). Employee well selected and well placed would not only contribute to the efficient running of the organization but offer significant potential for future replacement (Groshong, 2008). The study examined recruitment of employees, job specification, training programmes and employee motivation in this variable.

*i) Recruitment of Employees*

Fifty-four percent (80) small and medium family enterprise entrepreneur/managers recruit their employees through advertisements, 21% (31) through employee referrals, 20% (29) through directors and relatives and 5% (7) through friends as shown in Table 4.14.

Nanus (1992) found advertising as the most obvious method of attracting candidates. Armstrong (2007) observes that employees referral is an internal recruitment method employed by organizations to identify potential candidates from their existing employees' social networks and should be given first consideration. Neubauer and Lank (2008) found employee referrals as the most effective methods of recruiting people in the organizations because employees refer to those potential candidates who meet the company requirement known to them from their own experience.

Armstrong (2010) notes that the overall aim of recruiting and selection process is to obtain at minimum costs the number and quality of employees required to satisfy the human resource needs of the enterprise. This enhances new ideas, skills, productivity and profitability (Gist, 2007), which are important in sustainability of small and medium family enterprises.

The findings show that majority of the respondents, 80 or 54% used advertisement while thirty-one percent used employee referrals to recruitment of employees. The findings imply that majority 75% (111) of the respondents (used employees' referrals and advertisements) have a recruitment policy to attract the best human resources available in the market. On the other hand, Groshong (2008) notes that friends, directors and relatives, in most cases they will bring their relatives who may not be qualified to the specific jobs and also this will create room for conflict.

**Table 4.14: Recruitment of Employees**

<b>Source</b>	<b>Frequency</b>	<b>Percent (%)</b>
Friends	7	5
Directors/relatives	29	20
Employee referrals	31	21
Advertisements	80	54
<b>Total</b>	<b>147</b>	<b>100</b>

**ii) Job Specification**

Table 4.15 shows that 65% (96) of SMFEs use job specifications while 35% (51) do not use.

Job specifications define the characteristics of the activities associated with the job and given in the job description. They describe the skills sets and qualifications that a candidate for the job should possess. They also help in identifying training needs of personnel, creating recruitment strategies and making performance reviews (Grobler, *et al*, 2002).

The success and sustainability of the respondent firms partly is contributed by the role played by job specifications used in the firms.

**Table 4.15: Job Specification**

<b>Job Specification</b>	<b>Frequency</b>	<b>Percent (%)</b>
Have job specification	96	65
No job specification	51	35
<b>Total</b>	<b>147</b>	<b>100</b>

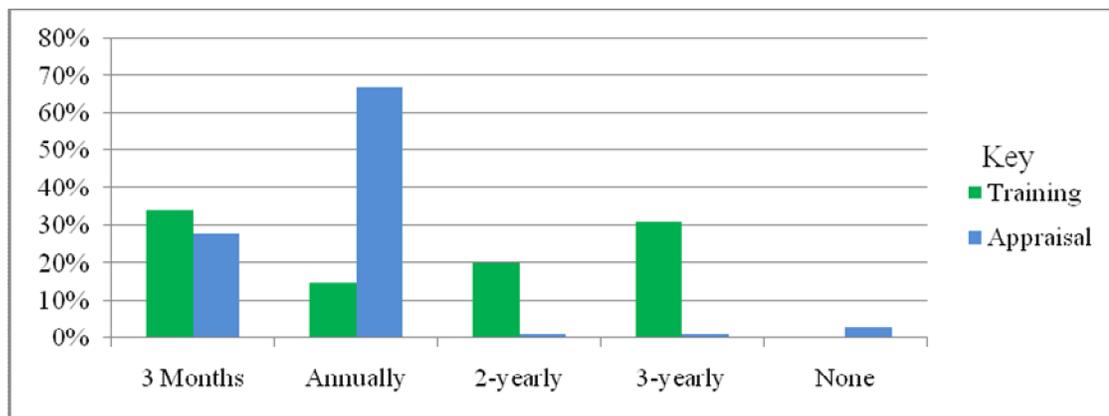
**iii) Employee Training Programmes and Appraisal**

Figure 4.10 indicates that the biggest number of SMFEs, 69% (101) appraised their employees annually and 34% (50) of them had three months training programme in

place. Fifteen percent of them had an annual training programme, and 31% (45) of them had a three year training programme.

Employee training is an excellent way to do this in a group or individual setting. Some of the benefits of training include improved skills, reduced costs, reduced liability, increased morale, higher sales volumes and improved productivity (Gist, 2007). Appraisals are also important to help staff members improve their performance and as an avenue by which they can be rewarded or recognized for a job well done (Myers, 2003).

The findings are a testimony on how training and employee appraisal contributes to the sustainability of small and medium family enterprises.



**Figure 4.10: Employees' Training and Appraisal**

*iv) Motivation of Employees*

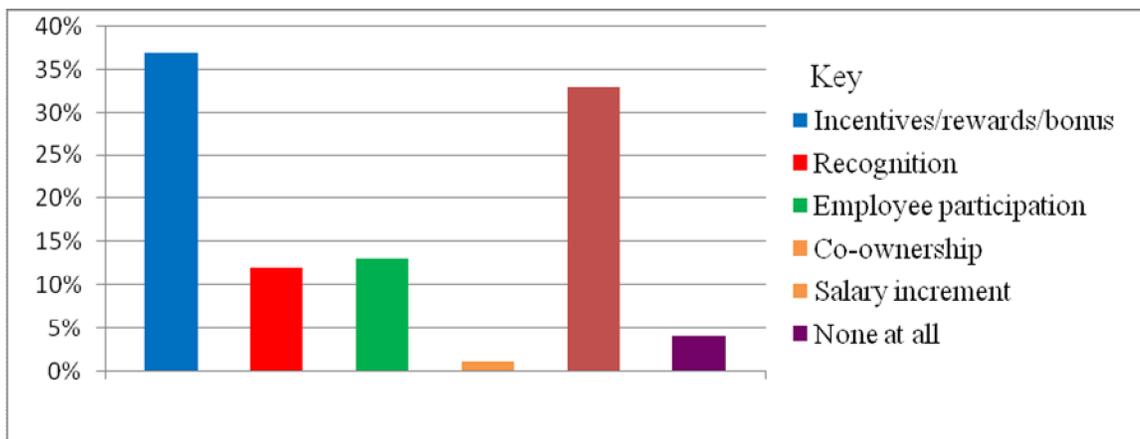
Figure 4.11 shows that 37% of respondents motivate their employees using rewards/incentives or bonuses. Thirty-three percent (33%) of the respondents use salary increments as a motivator, 13% use employee participation, 11% motivate their employees by recognizing them, 1% of respondents use co-ownership as a motivation technique while 2% of the respondents do not motivate their employees at all.

Mandl (2008) found out that the long-term sustainability of a family business is not only influenced by production/service delivery processes but also the treatment of employees, other stakeholders and the local community.

Well-paid, well-motivated workers, working in an atmosphere of mutuality and trust, generate higher productivity gains and lower unit costs (Randel & John, 2002). Using comprehensive employee recruitment and selection procedures, extensive employee involvement and training, and formal performance appraisal approaches linked to incentives are likely to have lower employee turnover, higher productivity, and enhanced corporate financial performance (Huselid, 1995). For employees who belong to the same family as the owner and managers, the same logic as that mentioned previously suggests that less professional human resource management practices are required to align the interests of managers and employees. This may also hold for

employees who are not related to the owner and/or managers, to the extent that family-owned enterprises are able to create an organizational culture (Pollak 1995) and as a result all employees feel they belong to the same family influencing long term sustainability of small and medium family enterprises.

These results show that the majority, 98% of the respondents motivate their employees. The low percentage in use of co-ownership as motivation of employees may be attributed to the fact that family enterprises are solely owned by family members and in most cases would not create room for non-family members or employees to hold shares in their enterprises.



**Figure 4.11: Motivation of Employees**

#### **4.4.5 Succession Planning**

##### *i) Exit Plan and Ways of Exiting*

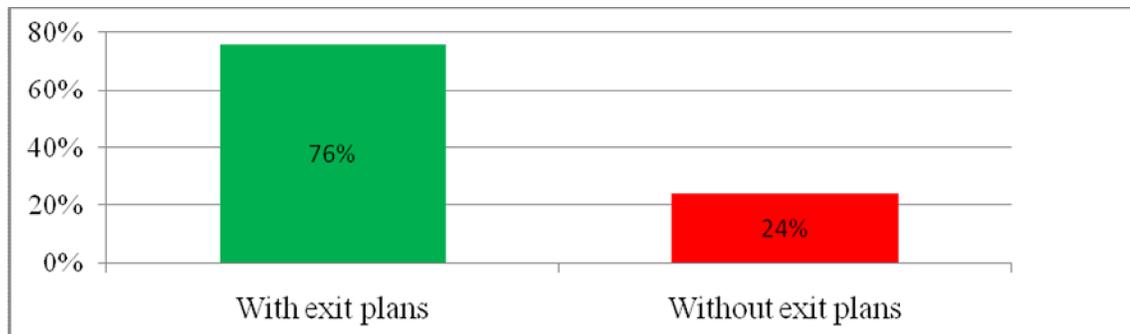
Figure 4.12 shows that most small and medium family enterprises 76% (112) had an exit plan while 24% (35) did not have exit plans. Eighty four out of 112 (75%) will exit through family succession, 11 out of 112 (10%) will sell their enterprises to outsiders, 10 out of 112 (9%) through IPO and 7 out of 112 (6%) will transfer ownership to employees.

Mandl (2008) findings showed that one of the major reasons for failure of a business transfer in Europe constitutes a lack of planning, entrepreneur lacking awareness about the importance of a substantial and timely planning as well as measures facilitating this process.

Preparing an exit plan for an enterprise helps an entrepreneur to maximize business value; leaves an “intentional” legacy; minimizes taxes; controls how and when you leave; provides a written plan to follow and measure; allows employee succession and harmony (Dawood, 2008).

The above data show that 84 (75%) of the respondents plan to transfer the enterprise ownership to their family members. Family succession is the key to the continuity of

businesses for generations. This is a sure way to ensure long term sustainability of a family enterprise (Korman, 1999; Mackillop, 2009).



**Figure 4.12: Exit Plan**

**Table 4.16: Ways of Exiting**

<b>Ways of Exiting</b>	<b>Frequency</b>	<b>Percent (%)</b>
Sale to outsiders	11	10
Transfer to employees	7	6
IPO	10	9
Family succession	84	75
<b>Total</b>	<b>112</b>	<b>100</b>

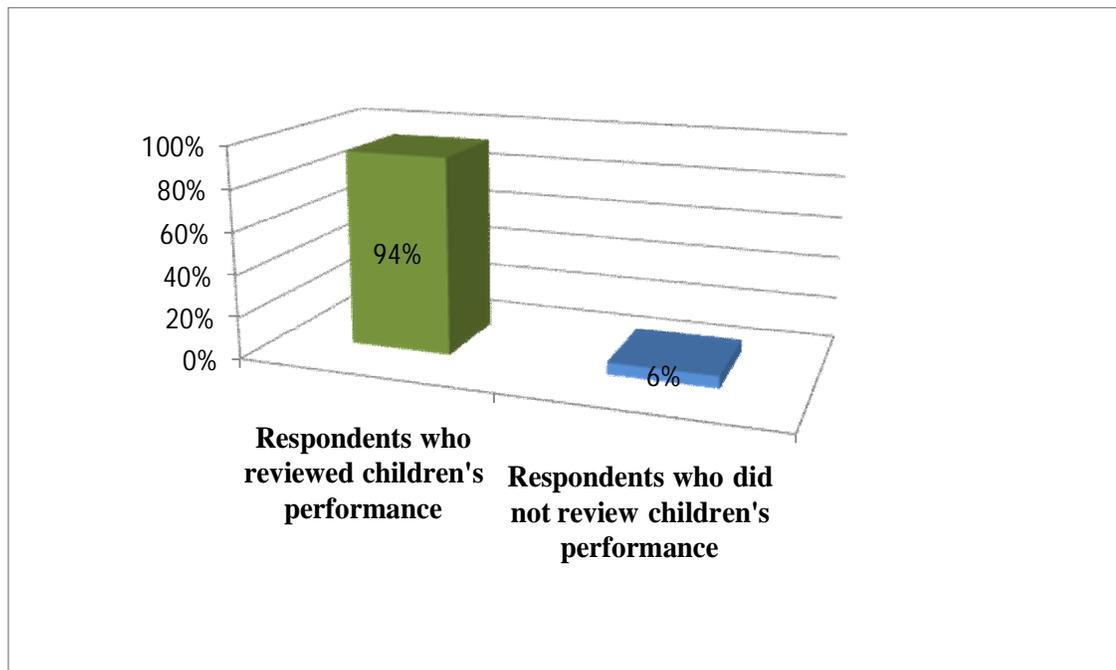
*ii) Review and Rewarding of Children's Performance*

Figure 4.13 shows that majority 94% (138) reviewed and discussed their children's performance in school while 6% (9) did not review at all. Table 4.16 further shows that fifty-seven percent (84) always rewarded their children's good performance, 39% (57) rewarded sometimes and 4% (6) did not reward at all.

In line with reviewing children's performance, Mandl (2008) found that family businesses should cultivate entrepreneurial talents as early as possible, which are passed from generation to generation and develop strong ties among family shareholders.

McClelland (1965) suggests that the adult's role in helping the child learn is to provide appropriate materials for the child to interact and construct. Reviewing and rewarding of performance and setting performance standards in a child helps inculcating an entrepreneurial culture in the child (McClelland, 1965).

From the findings, majority (94%) reviewed their children's performance in school work, and therefore they were able to impart entrepreneurial skills into their children.



**Figure 4.13: Children’s Schoolwork Performance Review**

**Table 4.17: Rewarding of Good Performance**

<b>Rewarding</b>	<b>Frequency</b>	<b>Percent (%)</b>
Always	84	57
Sometimes	57	39
Never	6	4
<b>Total</b>	<b>147</b>	<b>100</b>

**iii) Age of Instilling Standards of Performance**

As indicated in Table 4.18, majority of the respondents 52% (76) felt that children should have high standards of performance and business values instilled at the age of 11-

14 years, 25% (37) at the age of 15-18 years, 17% (25) at the age of 6-20 years, 2% (3) at the age below 6 years and 4% (6) did not know.

David McClelland in his psychological theory of entrepreneurship, noted that traits on need for achievement(N-ach) are formed during middle childhood and are produced by reasonably high standard of excellence imposed at a time when the child can attain them without interference and a real emotional pleasure in his achievements short of over protection and indulgence (McClelland, 1965).

The above findings validate David McClelland’s theory as most of the entrepreneurs interviewed had the same view and practiced it.

**Table 4.18: Age of Instilling High Standards of Performance and Enterprise Values**

<b>Age in years</b>	<b>Frequency</b>	<b>Percent (%)</b>
Below 6	3	2
6 – 10	25	17
11 – 14	76	52
15 – 18	37	25
Don’t know	6	4
<b>Total</b>	<b>147</b>	<b>100</b>

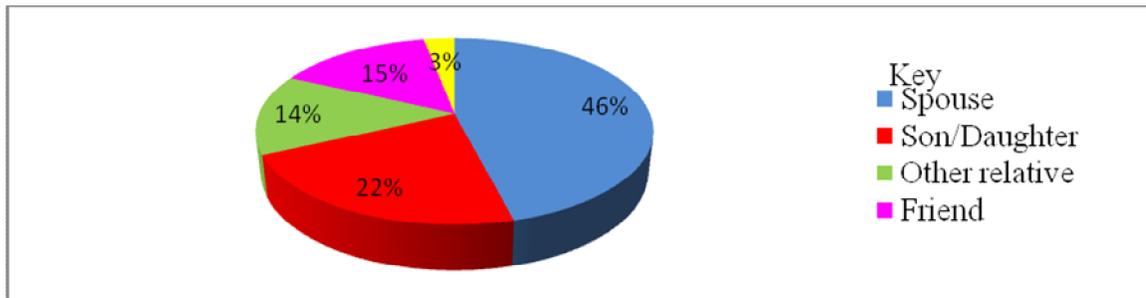
## **4.5 Role of Principal Confidant**

### *i) Roles*

The roles of principal confidant involve confiding, discussing and influencing business matters as well as handling conflicts in the family enterprises. Figure 4.14 shows that most respondents 46% (67) confided with their spouses, 22% (33) with their children, 15% (22) with their friends, 14% (21) with other relatives and 3% (4) did not confide with anyone at all.

Poza, Alfred and Maheshwari (1997), note that the principal confidant may be a family member or a non-family member who has a wide-ranging influence to the entrepreneur/manager/founder. Poza (2004) further observes that the principal confidant plays very important roles in the family enterprise in that he/she is the conflict handler, the chief trust officer, the senior advisor, the keeper of family values, facilitator of communication, touchstone of emotional intelligence in family relations and the steward of the family legacy. The unique role of principal confidant often plays a determining role in successful generational transitions (Pieper, 2007), therefore the principal confidant of the small and medium family enterprises assume a key role in initiatives to improve the relationship between the family and the management of the family business.

From the findings, 97% entrepreneur/managers had principal confidant who ensures that family concerns are appropriately handled.



**Figure 4.14: Principal Confidant**

*ii) Discussing with the Confidant on Enterprise Succession Matters*

Table 4.19 indicates that 143 respondents have principal confidants. Out of 143 respondents, 124 (87%) entrepreneur/managers discussed enterprise succession matters with their confidants while the remaining 19 (13%) entrepreneur/managers did not discuss these matters with their confidants.

Poza (2004) observes that, the principal confidants are often effective at putting succession planning and transition to retirement on the founder/entrepreneur's agenda. Lee, Lim and Lim (2003) note that through principal confidants' ability to understand and articulate various stakeholders' points of view, they are able to broaden the dialogue from an elusive focus of facts to a wider view, encompassing both facts and feelings, so that better decisions can be made.

From the findings, and as the literatures show most family enterprises 87% entrepreneur managers discuss with their principal confidants matters on enterprise succession, which ensures smooth transition.

**Table 4.19: Discussion on Enterprise Succession Matters**

<b>Discussion</b>	<b>Frequency</b>	<b>Percent (%)</b>
Yes	124	87
No	19	13
<b>Total</b>	<b>143</b>	<b>100</b>

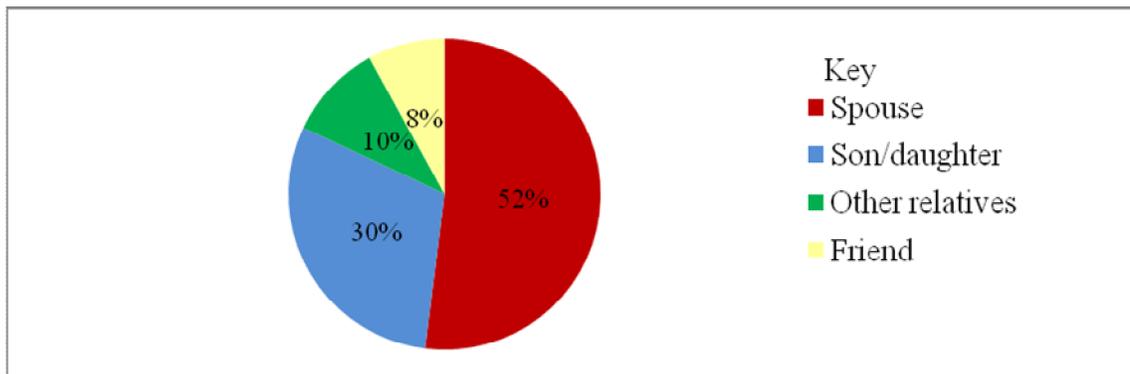
*iii) Conflict Handler in the Enterprise*

Figure 4.15 shows that, majority of the respondents 52% (76) had spouses handling family and business conflicts, 30% (45) had their sons or daughters handling family and business conflicts, 10% (15) had other relatives handling the same and 8% (11) had their friends handling these conflicts.

Ward (2004) observes that the best practices for the family enterprises start with the family which is evidenced from the findings that 82% (121) of conflict handlers (spouse, son/daughters) come from the family itself. Poza (2004) observes that the founder's spouse is the chief banker in the family's emotional bank. Sometimes differences at the enterprise level, in either personality or self-esteem among the family members raise disagreements that require the participation of a third party (Walton, 2007) and calls for

a relative or a friend to intervene. These have a huge impact on the chances of success, and also enable family members to meet the challenges and opportunities that influence sustainability of the enterprise.

From the findings in Figure 4.15, this is confirmed as a true statement. The singles, divorced and the widow(er) entrepreneur/managers use other parties to handle their conflicts.



**Figure 4.15: Conflict Handler**

#### **4.6 Sustainability**

The study started by investigating the correlation of experience to sustainability. It further examined sustainability in relation to business growth, increase in capital invested, increase in number of employees, increase in number of branches and increase in gross turnover. This helped to find if the enterprises included in the study were indeed sustainable.

*i) Experience in Business*

Table 4.20 shows that the respondents who had experience of between 5 to 10 years were 24% (35), 10 to 15 years were 30% (44), 15 to 20 years were 29% (43), and 20 years and above were 17% (25).

Ross & Ross 2009); Landes (2006) found that apart from ensuring that the correct type of skills are obtained from a formal training perspective, family businesses also have operational experience in the business to shape decision making abilities in a related manner.

The findings show all entrepreneur/managers had sufficient experience in running the enterprises and as they all were past business incubation period, then sustainability required only ensuring good business management practices.

**Table 4.20: Experience in Business**

<b>Experience in Years</b>	<b>Frequency</b>	<b>Percent (%)</b>
5-10 years	35	24
10 - 15 years experience	44	30
15 - 20 years experience	43	29
Over 20 years experience	25	17
<b>Total</b>	<b>147</b>	<b>100</b>

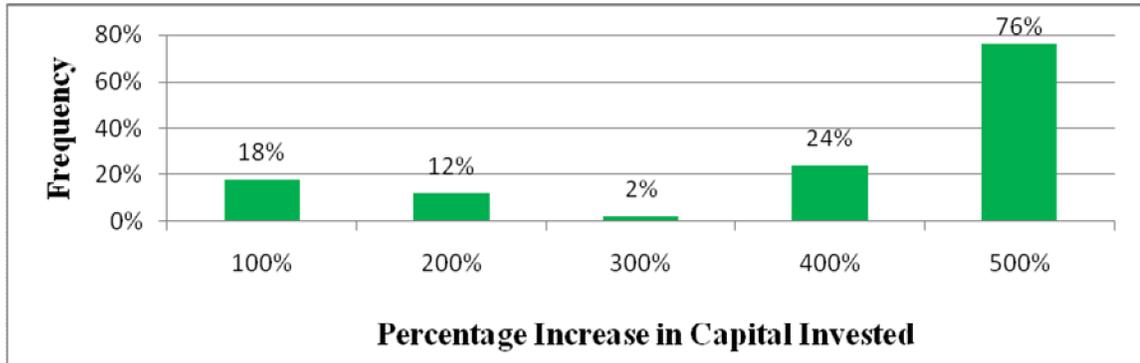
**ii) Business Growth**

The Kenya National Baseline Survey (K-Rep, 1999); Prasad (2004) describe enterprise growth as increase in capital investment, increase in number of employees, increase in revenue turn over, and expansion in branches or outlets.

An enterprise growth is the development process that the enterprise keeps the tendencies of balanced and stable growth of total performance level (including output, sales volume, profit and asset gross) or keeps realizing the large enhancement of total performance and the stage spanning of development quality and level (Olson, 2002). As shown in Figure 4.16, Table 4.21, Figure 4.17 and Table 4.22 (respectively), most enterprises had experienced growth, albeit at different levels.

**a) Increase in Capital Invested**

As can be seen in Figure 4.16 the majority of the respondents 52% (76), had accumulated/increased their capital investment by 500%, 16% (24) by 400%, 2% (3) by 300%, 12% (18) by 200% and 18% (26) by 100% in a span of five years.



**Figure 4.16: Increase in Capital Invested**

***b) Increase in number of employees***

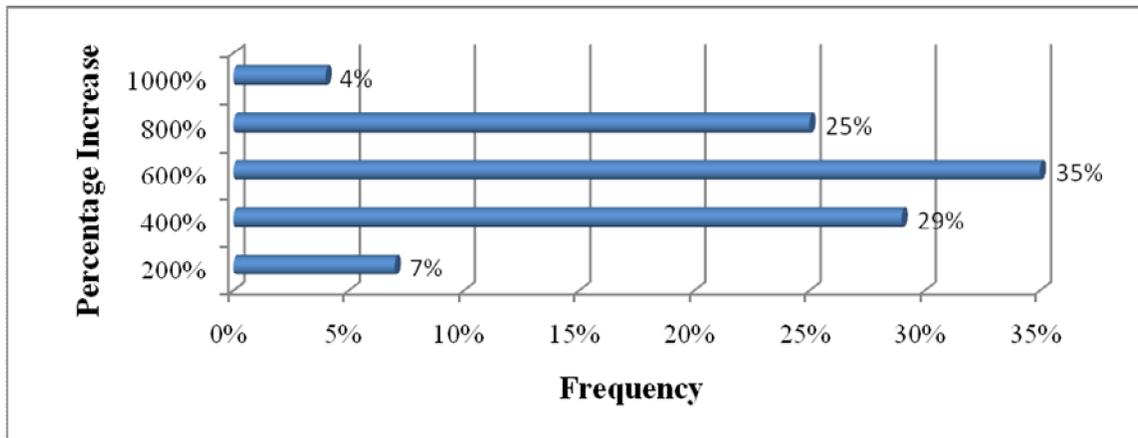
Most of the respondents 43% (63) had increased their employees by 200%, 24% (36) had increased by 400%, 21% (31) by 300% and 12% (17) by 100% over a period of five years as shown in Table 4.21.

**Table 4.21: Increase in Number of Employees**

<b>5-year Percentage Increase in Number of Employees</b>	<b>Frequency</b>	<b>Percent (%)</b>
100	17	12
200	63	43
300	31	21
400	36	24
<b>Total</b>	<b>147</b>	<b>100</b>

**c) Increase in Gross Turnover**

Figure 4.17 shows that 7% (10) SMFEs had increased their turnover by 200%, 29% (43) by 400%, 35% (51) by 600%, 25% (37) by 800% and only 4% (6) by 1000% over a five year period.



**Figure 4.17: Rate of Gross Turnover Increase**

**d) Increase in Number of Branches/Sister Companies**

Most respondents 77% (113) did not have branches or sister companies, 16 (23%) had branches, 6% (9) had sister companies while 1% (2) of the respondents had branches and sister companies elsewhere as indicated in Table 4.22.

Most respondents interviewed confessed that they opted to diversify at totally different lines of business avoiding vertical or horizontal growth for personal and tax reasons. On further probing they resisted mentioning the sister enterprises although observations

proofed they had. Table 4.22 shows that all SMFEs had experienced overall growth in revenue, capital and number of employees though at different rates which leads to their sustainability.

**Table 4.22: Increase in Number of Branches/Sister Companies**

<b>Branches/Sister Companies</b>	<b>Frequency</b>	<b>Percent (%)</b>
Branches	23	16
Sister companies	9	6
Both	2	1
None	113	77
<b>Total</b>	<b>147</b>	<b>100</b>

#### **4.7 Results on Observations**

Respondents' behaviours were observed by the well trained researchers. This yielded more accurate data about particular variables that could be not be obtained from the questionnaires and interview schedules.

From the observations, slightly over half of the respondents (51%) were observed to be in control of their enterprises; 80% had displayed their enterprise objectives in their reception area and 89% showed respectability to their employees; 86% had good leadership skills; ninety-three percent of the respondents had good entrepreneurial skills; 87% were found to be quite aggressive in business and risk takers; 96% did not let go

any opportunity unexploited; 65% were creative and 78% were wholly committed to their enterprises. Most respondents (86%) had an entrepreneurial culture as they recognized and rewarded intrapreneurship in their organizations.

Most respondents (94%) were well composed when answering questions, 57% had strong religious values, 4% had cultural values and 71% seemed to have strong family values and family members were seen to participate as a team. Almost half of the employees (50.3%) from manufacturing and service enterprises were seen to be well skilled in their areas of work, 36% employees were found to be intimidated mostly in trade enterprises, most firms (61%) were found to have training programmes, in 51% of the enterprises had vacant job adverts cuttings from newspapers on the notice boards an indication that they use advertisement to recruit employees, and in 54% enterprises there were employee recognition as observed from the photos of recognized staff in the order of merit in their areas of specialization.

Seventy-one percent of enterprises had the entrepreneur's children present performing management related duties and in 71% enterprises it was observed that family members participated in business decision making process.

Sixty-one percent of the respondents consulted other parties in the enterprises while 39% had all the details of their enterprises. In 48% enterprises there were displays of the personality icons who the respondents affirmed to be the principal confidants. Most icons were of spouses.

The information given by the majority of the respondents (83%) on the capital investment corresponded with the views of the interviewers, 87% of the enterprises were found out to be of the same age with the one given by the respondents and 93% had almost the same number of employees as the ones given by the respondents.

**Table 4.23: Observation Results**

Variable Description	Manufac t		Trade		Services		Total	
	Yes	No	Yes	No	Yes	No	Yes	No
<b>Managerial Skills</b>								
1. Is the manager in control?	22	20	39	29	14	23	75	72
2. Eye contact (honesty)	37	5	66	2	35	1	138	9
3. Vision, mission and core values	38	4	49	19	31	6	118	29
4. Respectful Communication?	36	6	61	7	34	3	131	16
5. Warm leadership	36	6	59	9	32	5	127	20
<b>Entrepreneurial Skills</b>								
Does the manager look:								
a) Entrepreneurial?	40	2	64	4	34	3	138	9
b) A risk taker?	39	3	56	12	33	4	128	19
c) Go getter?	41	1	65	3	36	1	142	5
d) Creative?	33	9	37	31	26	11	96	51
e) Hardworking?	37	5	49	19	29	8	115	32
Is there entrepreneurial culture in the firm?	35	7	57	11	34	3	126	21
<b>Individual Behaviour</b>								
1. Respondent look well exposed?	39	3	66	2	34	3	139	8
2. Any signs of:								
a) Religious?	36	6	35	33	13	24	84	63
b) Cultural?	4	38	1	67	2	35	7	140
c) Family?	38	4	46	22	31	6	105	42
<b>HRM Skills</b>								
1. Employees look well skilled?	27	15	19	49	28	9	74	73
2. Do the employees look intimidated?	11	31	35	33	8	29	54	93
3. Training programme?	37	5	17	51	36	1	90	57
4. Job advertisement/recruitment?	31	11	35	33	10	27	76	71
5. Employee recognition	29	13	24	44	26	11	79	68
<b>Succession Plan</b>								
1. Any sign of								
a) Successor mentorship?	21	21	56	12	27	10	104	43
b) Influential family member?	13	29	62	8	28	9	103	44
<b>Principal Confidant</b>								
1. Any sign of consultation from the confidant?	12	30	37	31	8	29	57	90
2. Any sign of a role model?	21	21	39	29	11	26	71	86
<b>Sustainability</b>								
1. Are the figures given corresponding with what is there?	33	9	60	8	29	8	122	25
2. Is the age of business given corresponding with what you see/estimate?	36	6	57	11	35	2	128	19
3. Is the size of the firm corresponding with the number of employees given?	37	5	65	3	34	3	136	11

#### **4.8 Reliability and Construct Validity**

Reliability refers to the extent to which a measuring instrument contains variable errors, that is, errors that appear inconsistently from observation to observation during any one measurement attempt or that vary each time a given unit is measured by the same instrument. Construct validity is established by relating measuring instruments to a general theoretical framework in order to determine whether the instrument is tied to the concepts and theoretical assumptions they are employing (Nachmias & Nachmias, 2008). SPSS version 19 programme was used as the tool of analysis to test the relationship between the dependent variable and the five independent variables, the intervening variable and the results are as indicated in Table 4.24 (Appendix VII, page 302).

Cronbach's alpha type of reliability co-efficient value of .70 or higher is considered as usually sufficient (Sekaran, 2003). The results in the tables below show Cronbach's alpha of well above 0.7 and most of it above 0.8 implying that the instruments were sufficiently reliable for measurement. As most item total correlations were reasonably high, the construct validity of the instruments was considered reasonable (Brown, 2006). However a few items had 0.0 correlation (no correlation) and very low standard deviation implying that the sub-variables were not valid and therefore omitted.

#### **4.9 Multicollinearity Test**

Multicollinearity is a statistical phenomenon in which two or more predictor variables in a multiple regression model are highly correlated. In this situation the coefficient estimates may change erratically in response to small changes in the model or the data (Farrar & Glauber, 2005). Mathematically, a set of variables is perfectly multicollinear if there exists one or more exact linear relationships among some of the variables. Multicollinearity test helps to reduce the variables that measure the same things and also checks model redundancy (Robert, 2007).

Collinearity is a linear relationship between two explanatory variables. Two variables are perfectly collinear if there is an exact linear relationship between the two. Formal detection-tolerance and the variance inflation factor (VIF) are used to test multicollinearity. SPSS generated tolerances of below 0.1 and VIF of below 10 for all variables which are the acceptable limits (Farrar & Glauber, 2005).

#### **4.10 Factor Analysis.**

Exploratory Factor Analysis was done where components were extracted using principal component analysis. Exploratory Factor analysis seeks the least number of factors which can account for the common variance (correlation) of a set of variables (Myers, 2003). It assumes that all the rating data on different attributes can be reduced down to a few

important dimensions. This reduction is possible because the attributes are related. The rating given to any one attribute is partially the result of the influence of other attributes. The factor loadings are the correlation coefficients between the variables (rows) and factors (columns) (Farrar & Glauber, 2005). The squared factor loading is the percent of variance in that indicator variable explained by the factor. To get the percent of variance in all the variables accounted for by each factor, the sum of the squared factor loadings are added for that factor (column) and divided by the number of variables. This is the same as dividing the factor's eigen value by the number of variables. By a rule of thumb in confirmatory factor analysis, loadings should be 0.7 or higher to confirm that independent variables identified a priori are represented by a particular factor, on the rationale that the 0.7 level corresponds to about half of the variance in the indicator being explained by the factor (Ledesma & Valero-Mora, 2007). However, for exploratory purposes, researchers use a level 0.4 as 0.7 is considered high for real life data to meet this criterion (Rahim & Magner, 2005).

All the variables and sub-variables were subjected to SPSS Version 19 for factor loading and analysis. In total they were 72 components as shown in Table 4.25 (Appendix IV, page 305).

According to the Table 4.25 (Appendix VIII, page 305) of total variance, 5 components out of the 72 were retained. These were the components that had a level of .4 and above. The 5 components retained explain all the 100% of the total variance in the original variables.

The results in the components matrix Table 4.26 (Appendix IX, page 307), factor loadings show good loading. All the Original variables load the components by at least values above 0.5. From the matrix it can be seen to which components each of the variables belong. A variable belongs to the components it loads highest with a loading above 0.5. The highest loading above 0.5 of each original variable is highlighted in Table 4.26. The results also confirm all the variables in the conceptual framework model for this study as given in chapter two.

## **4.11 Statistical Modeling**

### **4.11.1 Linear Regression**

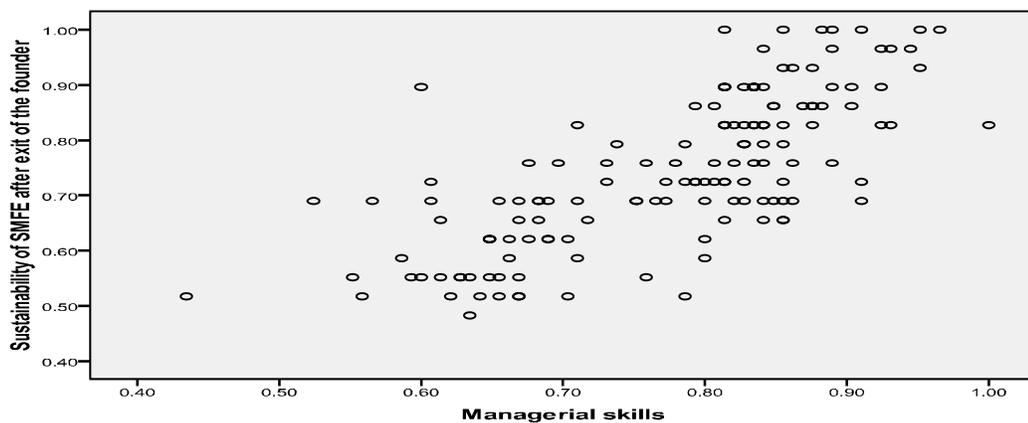
Linear regression is an approach to modeling the relationship between a scalar variable  $y$  and one or more variables denoted  $x$ . In linear regression, data are modeled using linear functions, and unknown model parameters are estimated from the data (Fowler, 2004). Such models are called linear models. Most commonly, linear regression refers to a model in which the conditional mean of  $Y$  given the value of  $x$  is an affine function of  $x$  (Doane & Seward, 2008).

SPSS version 19 was used as a tool of analysis. For each variable a scatter plot was generated to show the kind of relationship that existed between each independent variable and the dependent variable holding the intervening variable constant. Any linear relationship generated called for linear regression to test the direction and magnitude of the relationship.

### *Managerial Skills*

A visual examination of the scatter plot suggests a positive linear relationship between Sustainability of SMFEs after the Exit of the founders and Managerial skills. This implies that the higher the managerial skills the higher the sustainability of the enterprise.

### **Scatter Plot of Sustainability of SMFEs after the exit of founder against Managerial skills**



**Figure 4.18: Scatter Plot of Sustainability/Managerial Skills**

**Linear Regression model of Sustainability of SMFEs after the exit of founder and Managerial Skills keeping the intervening variable (Role of Principal Confidant) constant**

**Table 4.27: Model Summary of Sustainability/Managerial Skills**

<b>Model</b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.732 <sup>a</sup>	.536	.532	.09308

<b>ANOVA<sup>b</sup></b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	1.448393	1	1.448393	167.1679	.000 <sup>a</sup>
	Residual	1.256324	145	0.008664		
	Total	2.704717	146			

<b>Coefficients</b>				
<b>Model</b>		<b>B</b>	<b>Std. Error</b>	<b>Sig.</b>
1	(Constant)	0.025	.056	.657
	Managerial skills	0.927	.072	.000

The linear regression analysis shows a relationship,  $R = 0.732$  and  $R^2 = 0.536$  which means that 53.6% of the corresponding change in Sustainability of SMFEs after the Exit of the founder can be explained by a unit change in managerial skills. A further test on the beta coefficient of the resulting model, the constant  $\alpha = 0.025$  is not significantly different from 0, and since the p value  $p = .657$  is greater than  $p = 0.05$ , the constant is not significant. However, the coefficient  $\beta = 0.927$  is significantly different from 0,

$p=0.0$  which is less than  $p=0.05$ . R squared ( $R^2$ ) - co-efficient of determination in linear regression relationship, tells how well the regression line fits the data. It is an important indicator of the predictive accuracy of the equation. Goodness of fit refers to how well the model fits the data (Anderson, Sweeney, & Williams 2002).

**Table 4.28: The Regression Model Summary after Dropping the Constant Term**

<b>Model</b>				
<b>Model</b>	<b>R</b>	<b>R Square<sup>b</sup></b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.893 <sup>a</sup>	0.885094	0.884992	0.092826

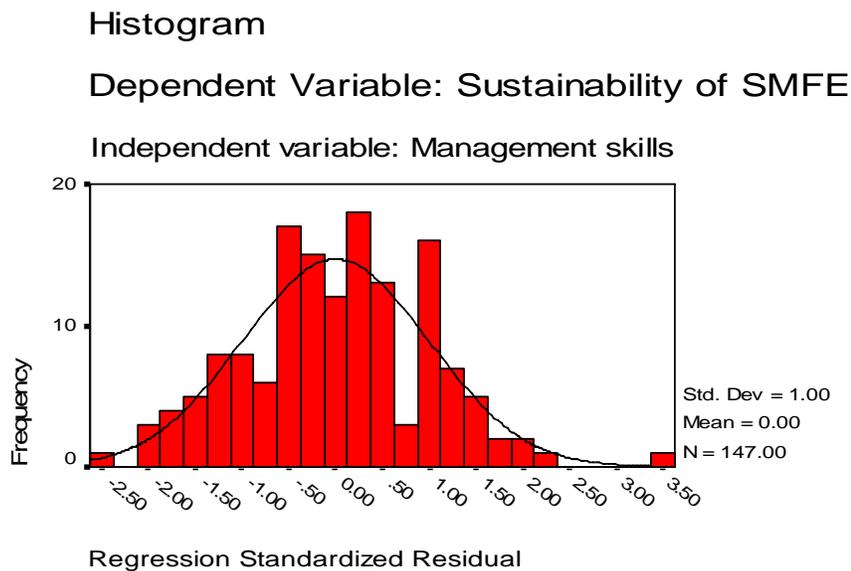
<b>ANOVA<sup>c,d</sup></b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	83.14149	1	83.14149	9648.894	.000 <sup>a</sup>
	Residual	1.258036	145	0.008617		
	Total	84.400 <sup>b</sup>	146			

<b>Coefficients<sup>a,b</sup></b>				
<b>Model</b>		<b>B</b>	<b>Coefficients Std. Error</b>	<b>Sig.</b>
1	Managerial skills	0.959	0.009764	.000

On dropping the constant term both the R and the  $R^2$  values improved. The linear regression analysis shows a stronger relationship,  $R = 0.893$  and  $R^2 = 0.885$  which means that 88.5% of the corresponding change in Sustainability of SMFEs after the Exit of the founder can be explained by a unit change in managerial skills. The ANOVA Table 4.28 shows that the significance of the F-statistic is less than zero. This implies

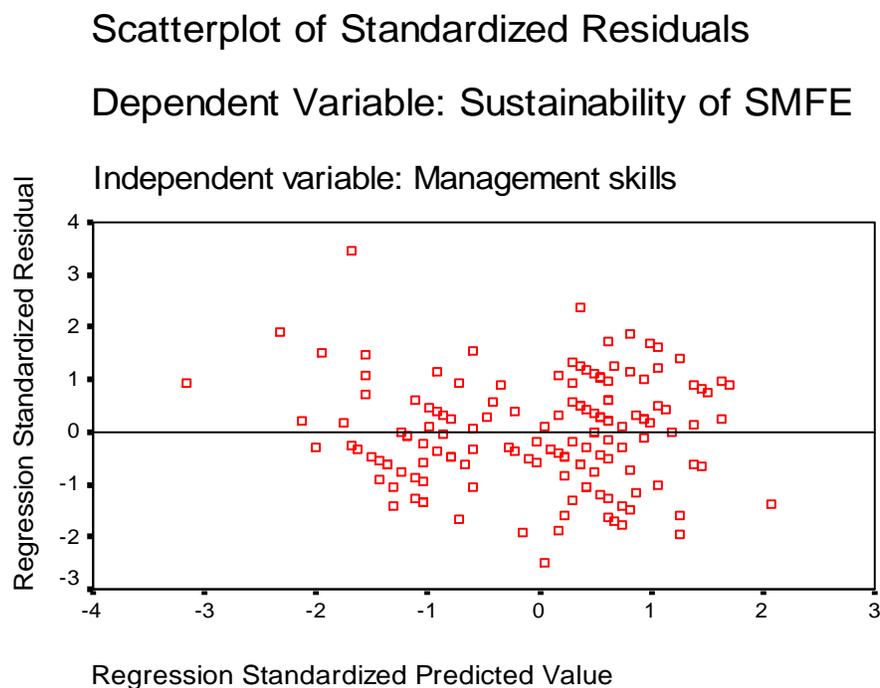
that the null hypothesis  $\beta_1=0$  is rejected and the alternative hypothesis  $\beta_1\neq 0$  is taken to hold implying that the model  $Y= \beta_0 + \beta_1X_1 + e$ , is significantly fit. A further test on the beta coefficient of the resulting model, the coefficient  $\beta = 0.959$  is significantly different from 0,  $p=0.0$  which is less than  $p=0.05$ . R squared ( $R^2$ ) - co-efficient of determination in linear regression relationship, tells how well the regression line fits the data. It is an important indicator of the predictive accuracy of the equation. Goodness of fit refers to how well the model fits the data (Anderson, Sweeney, & Williams 2002).

The model Sustainability of SMFEs =  $\beta$  (Managerial skills) holds as suggested by the test above. This confirms that there is a positive linear relationship between Managerial skills and Sustainability of SMFEs after the exit of the founder.



**Figure 4.19: Histogram of Standardized Residuals of Sustainability/Managerial Skills**

A visual examination of the histogram suggests a positive skewness of the standardized residuals. The statistics at the legend however show that the residuals have a mean of zero and a standard deviation of 1 as of a standard normal distribution. This means that the model yields a normal distribution giving normally distributed values.



**Figure 4.20: Scatter Plot of Standardized Residuals of Sustainability/Managerial Skills**

The Scatter plots of the residuals suggest a normal distribution of the residuals since the plots are evenly distributed on both the positive and negative ends. A further test for

normality was found necessary. Shapiro-Wilk test was found to be the most appropriate. The Shapiro–Wilk test, tests the null hypothesis that a sample  $x_1 \dots x_n$  came from a normally distributed population where  $P < 0.05$  for  $W$  rejects this supposition of normality. It was published in 1965 by Samuel Shapiro and Martin Wilk (Conover, 1999).

The test statistic is:

$$W = \frac{\left(\sum_{i=1}^n a_i x_{(i)}\right)^2}{\sum_{i=1}^n (x_i - \bar{x})^2}$$

Where:

$x_{(i)}$  (with parentheses enclosing the subscript index  $i$ ) is the  $i$ th order statistic, i.e., the  $i$ th-smallest number in the sample;

$$\bar{x} = (x_1 + \dots + x_n) / n \text{ is the sample mean;}$$

Most authors agree that this is the most reliable test for non-normality for small to medium sized samples (Conover, 1999; Shapiro and Wilk, 1965; Royston, 1995).

**Table 4.29: Normality Tests of the Standardized Residuals of Managerial Skills**

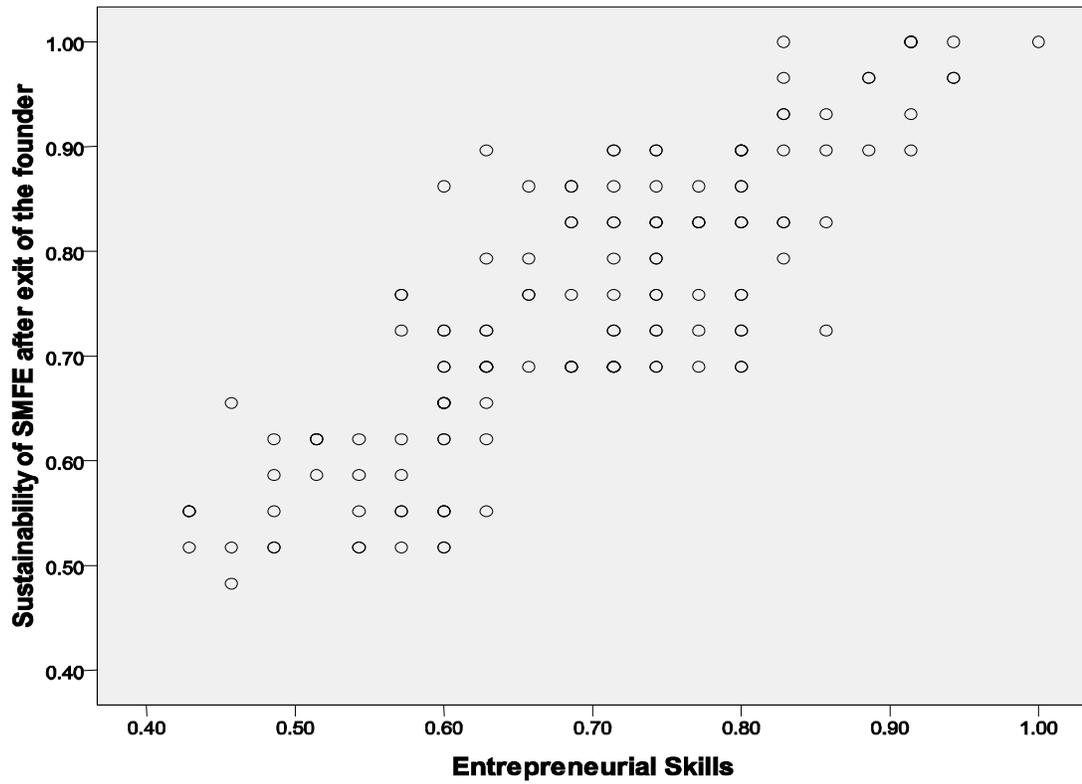
	Shapiro-Wilk		
	Statistic	Df	Sig.
Standardized Residual (predictor Managerial skills)	.992	147	.606

The further test for normality, the Shapiro-Wilk test shows that the Standardized residuals are significantly normally distributed with a significance 0.606 which is greater than 0.05. The findings show that the independent variable, managerial skills influences sustainability of SMFEs after the exit of the founders.

### ***Entrepreneurial Skills***

A visual examination of the scatter plot suggests that there is a strong positive linear relationship between Sustainability of SMFEs after the Exit of the founder and Entrepreneurial skills. Therefore the level of influence of Entrepreneurial Skills on the sustainability of SMFEs after the exit of the founder can statistically be determined by performing a linear regression analysis.

**Scatter plot Sustainability of SMFEs after the Exit of the founder against Entrepreneurial skills**



**Figure 4.21: Scatter Plot of Sustainability/Entrepreneurial Skills**

**Regression model of Sustainability of SMFEs after the Exit of the founder and Entrepreneurial skills keeping the intervening variable (Role of Principal Confidant) constant**

**Table 4.30: Model Summary of Sustainability/Entrepreneurial Skills**

<b>Model</b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.838 <sup>a</sup>	.702	.700	.07458

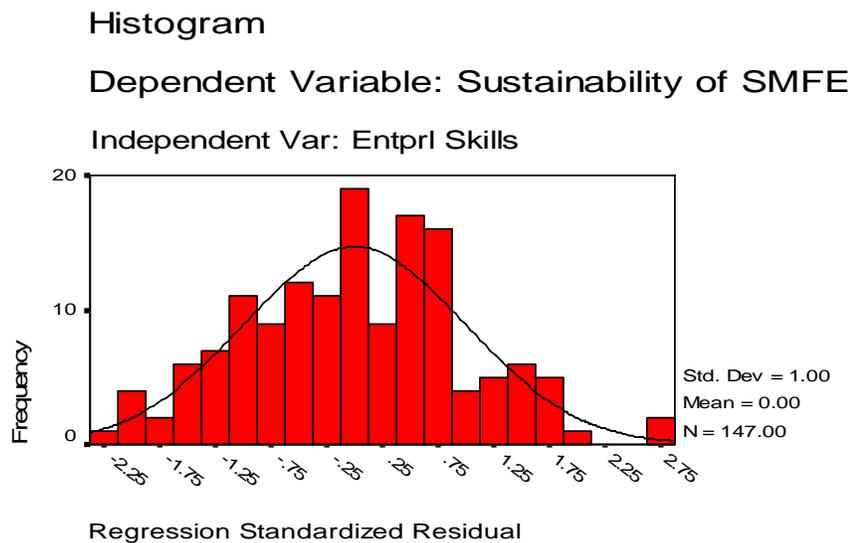
<b>ANOVA<sup>b</sup></b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	1.898255	1	1.898255	341.3023	.000 <sup>a</sup>
	Residual	0.806461	145	0.005562		
	Total	2.704717	146			

<b>Coefficients</b>				
<b>Model</b>		<b>B</b>	<b>Std. Error</b>	<b>Sig.</b>
1	(Constant)	.133	.034	.000
	Entrepreneurial Skills	.885	.048	.000

The regression analysis shows a very strong linear relationship.  $R = 0.702$  and  $R^2 = 0.700$  which shows that 70% of the corresponding change in Sustainability of SMFEs after the Exit of the founder can be explained by unit change in Entrepreneurial skills. A further test on the beta coefficient of the resulting model, the constant  $\alpha = 0.133$  is significantly different from 0, since the p value  $p = 0.000$  is less than  $p = 0.05$ . The

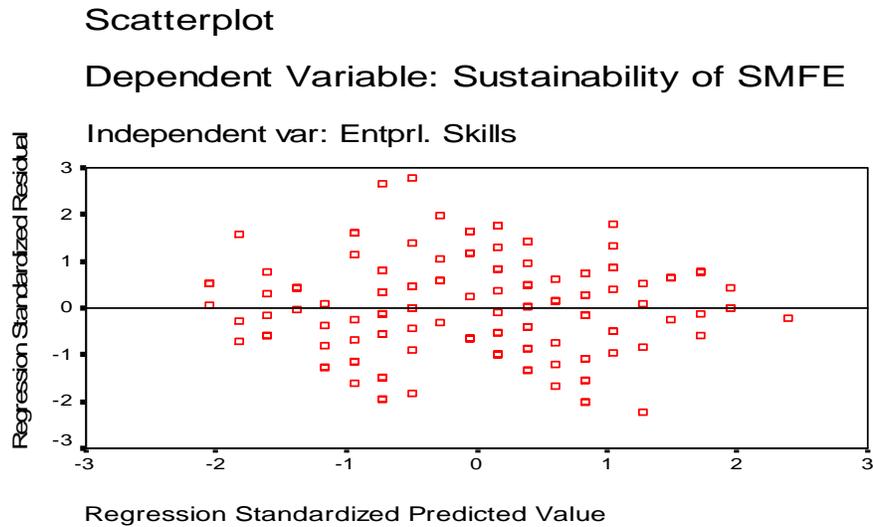
coefficient  $\beta = 0.885$  is also significantly different from 0 with a  $p=0.000$  which is less than  $p=0.05$ . This explains  $\alpha$  that if  $\beta_1 x_1$  were held constant then sustainability will be 0.133 (low) and therefore the gradient ( $\beta$ ) and the sustainability would be very low. The Anova test in Table 4.30 shows that the significance of the F-statistic is less than zero. This implies that the null hypothesis  $\beta_1=0$  is rejected and the alternative hypothesis  $\beta_1 \neq 0$  is taken to hold implying that the model  $Y = \beta_0 + \beta_1 X_1 + e$ , is significantly fit.

The model Sustainability of SMFEs =  $\alpha + \beta$  (Entrepreneurial skills) holds for  $\beta \geq 0$  as suggested by the test above. This confirms that there is a positive linear relationship between Entrepreneurial skills and Sustainability of SMFEs after the exit of the founder.



**Figure 4.22: Histogram of Sustainability/Entrepreneurial Skills**

A visual examination of the histogram suggests a normal distribution of the standardized residuals. The statistics at the legend also show that the residuals have a mean of zero and a standard deviation of 1 as of a standard normal distribution.



**Figure 4.23: Scatter Plot of Standardized Residuals on Sustainability/Entrepreneurial Skills**

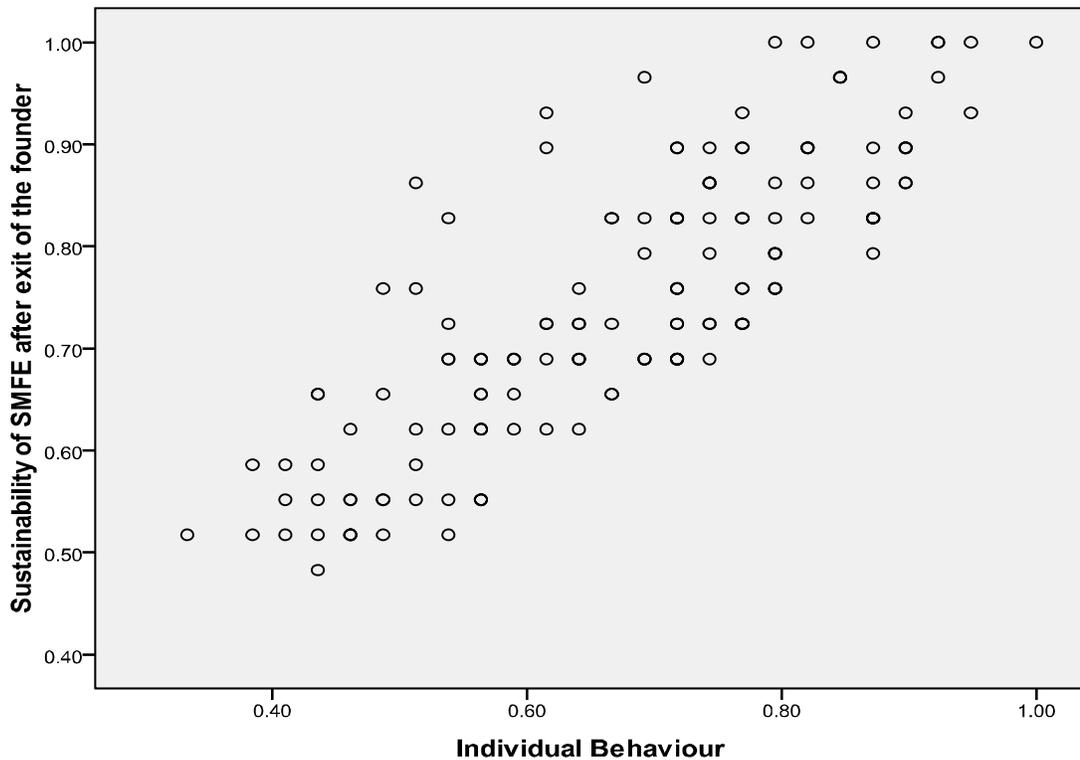
The Scatter plot of the residuals also suggests a normal distribution of the residuals since the plots are evenly distributed on both the positive and negative ends. A normality test was also done and the results are as in Table 4.31.

**Table 4.31: Tests of Normality on Sustainability/Entrepreneurial Skills**

	Shapiro-Wilk		
	Statistic	Df	Sig.
Standardized Residual	.993	147	.643

The test for normality, the Shapiro-Wilk test shows that the Standardized residuals are significantly normally distributed with a significance 0.643 which is greater than 0.05. The findings prove that the independent variable, entrepreneurial skills has a strong influence on sustainability of SMFEs after the exit of the founder.

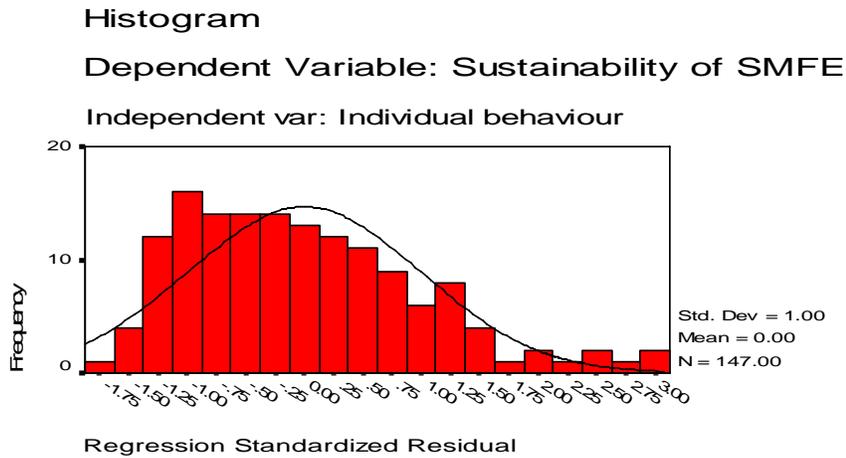
### **Sustainability of SMFEs after the Exit of the Founder Scatter Plot against Individual Behaviour**



**Figure 4.24: Scatter Plot on Sustainability v/s Individual Behaviour**

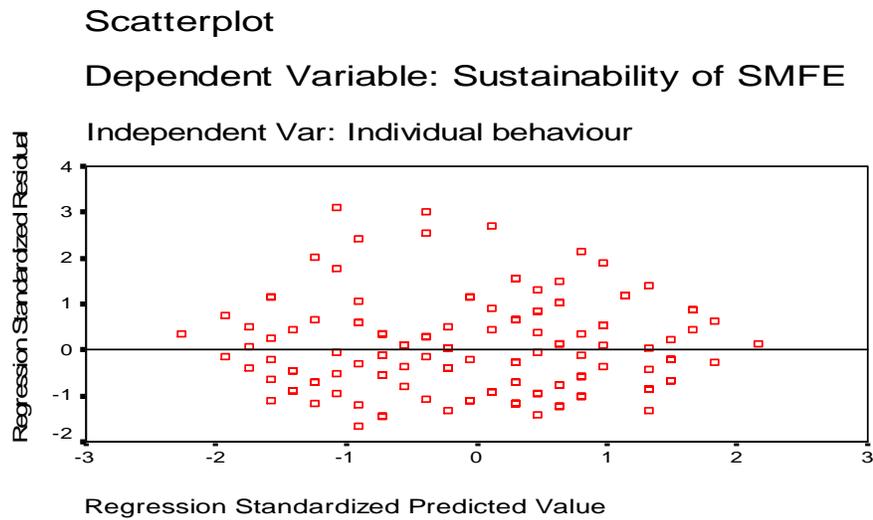
The visual examination of the scatter plot suggests a very strong positive linear relationship between Sustainability of SMFEs after the exit of the founder and individual behaviour.

A linear regression was however found not feasible as in Figures 4.25 and 4.26 and Table 4.32.



**Figure 4.25: Histogram on Sustainability/Individual Behaviour**

A visual examination of the histogram suggests a positive skewness of the standardized residuals as much as the statistics at the legend however show that the residuals have a mean of zero and a standard deviation of 1 as of a standard normal distribution.



**Figure 4.26: Scatter Plot of Residuals of Sustainability/Individual Behaviour**

The Scatter plots of the residuals however suggest not a very normal distribution of the residuals. The residuals on the upper side show slight uneven distribution though the plots are distributed on both the positive and negative ends. A further test for normality using the Shapiro-Wilk test produced results as in Table 4.32.

**Table 4.32: Tests of Normality on Sustainability/Individual Behaviour (a)**

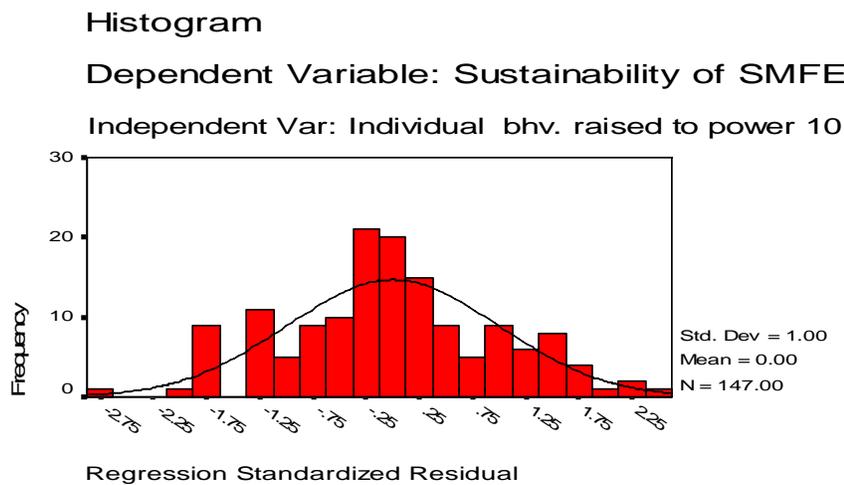
	Shapiro-Wilk		
	Statistic	Df	Sig.
Standardized Residual	.950	147	.000

The test for normality, the Shapiro-Wilk test also shows that the standardized residuals are not significantly normally distributed with a significance 0.000 which is less than 0.05.

Since the residuals must meet the normality assumption of linear regression, a linear regression would not hold for this case. A transformation was made on the independent variable (Individual behaviour) by raising it to power ten. The transformation yielded a linear relationship in the parameters as represented by the equation below. When this was done the results on the normality test of the residuals were as in the Figure 4.27 and Table 4.33.

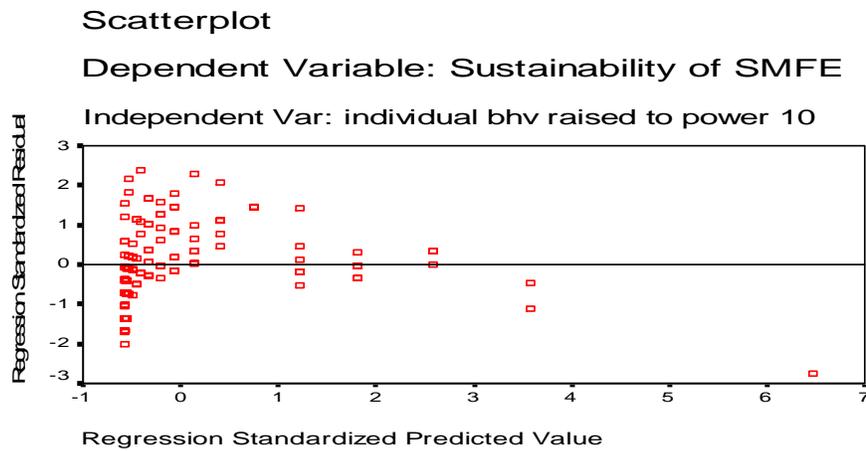
$$Y = \alpha + \beta X^{10} + e$$

where Y is the dependent variable and X the independent variable,



**Figure 4.27: Histogram on Sustainability/Individual Behaviour**

A visual examination of the histogram now suggests a normal distribution of the standardized residuals. The statistics at the legend also show that the residuals have a mean of zero and a standard deviation of 1 as of a standard normal distribution.



**Figure 4.28: Scatter Plot of Residuals of Sustainability/ (Individual Behaviour)<sup>10</sup>**

**Table 4.33: Model Summary**

<b>Model</b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.623 <sup>a</sup>	0.387602	0.383379	0.106879

<b>ANOVA<sup>b</sup></b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	1.048354	1	1.048354	91.77417	.000 <sup>a</sup>
	Residual	1.656363	145	0.011423		
	Total	2.704717	146			

<b>Coefficients<sup>a</sup></b>				
<b>Model</b>		<b>Coefficients</b>	<b>Std. Error</b>	<b>Sig.</b>
		<b>B</b>		
1	(Constant)	0.696297	0.010202	.000
	Individual behaviour	0.598301	0.062454	.000

The regression analysis shows a relationship.  $R = 0.623$  and  $R^2 = 0.388$  which shows that 38.8% of the corresponding change in Sustainability of SMFEs after the Exit of founder can be explained by a unit change (individual behaviour)<sup>10</sup>. The Anova test in Table 4.33 shows that the significance of the F-statistic is less than zero. This implies that the null hypothesis  $\beta_1=0$  is rejected and the alternative hypothesis  $\beta_1 \neq 0$  is taken to hold implying that the model  $Y = \beta_0 + \beta_1 X_1^{10} + e$ , is significantly fit. A further test on the beta coefficient of the resulting model, the constant  $\alpha = 0.696$  is significantly greater

than 0, since the p value  $p = 0.000$  is less than  $p = 0.05$ . The coefficient  $\beta = 0.598$  is also significantly greater than 0,  $p = 0.00$  which is less than  $p = 0.05$ .

The model Sustainability of SMFEs =  $\alpha + \beta$  (Individual Behaviour)<sup>10</sup> holds as suggested by the test above. This confirms that there is a positive relationship between (Individual behaviour)<sup>10</sup> and Sustainability of SMFEs after exit of the founder. The Scatter plot of the residuals however does not suggest a normal distribution of the residuals since the plots are not evenly distributed on both the positive and negative ends. But a further normality test was done on the residuals to yield the results in Table 4.34.

**Table 4.34: Tests of Normality on Sustainability/(Individual Behaviour)<sup>10</sup>**

	Shapiro-Wilk		
	Statistic	Df	Sig.
Standardized Residual	.983	147	.068

The test for normality, the Shapiro-Wilk test now shows that the Standardized residuals are significantly normally distributed with a significance 0.068 which is greater than 0.05. A regression model was thus holding when the independent variable is raised to the power of ten.

**Regression Model of Sustainability of SMFEs after the Exit of founder and Individual Behaviour raised to power ten keeping the intervening variable (Role of Principal Confidant) constant**

**Table 4.35: Model Summary (b) on Sustainability/Individual Behaviour**

<b>Model</b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.623(a)	.388	.383	.10688

a Predictors: (Constant), INDIVSQD

b Dependent Variable: Sustainability of SMFE after exit of the founder

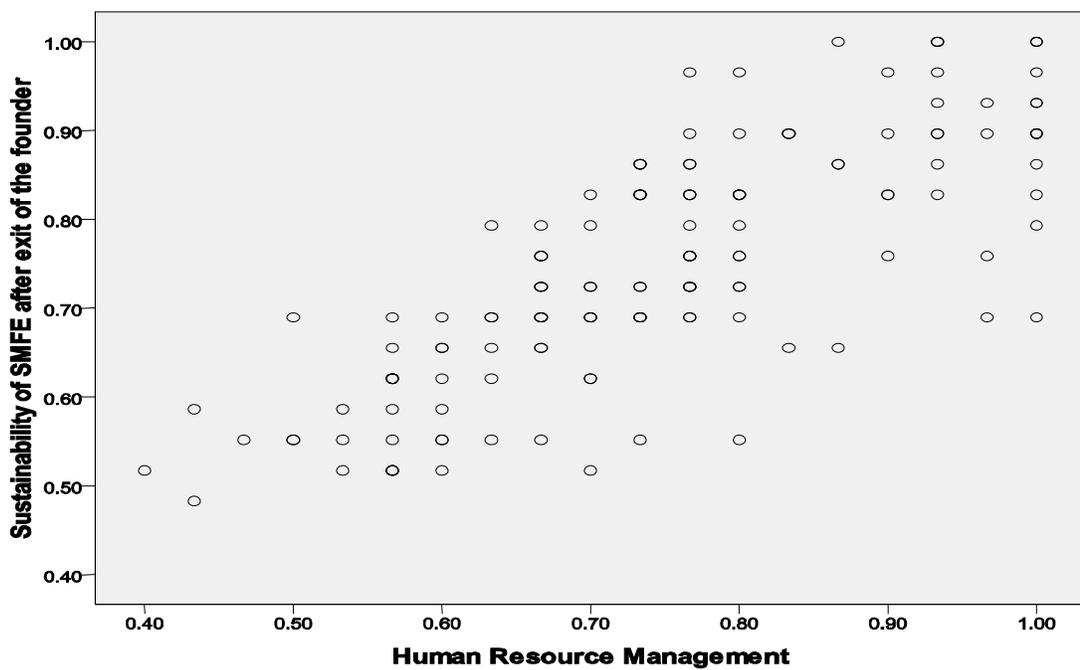
<b>Coefficients (a)</b>				
<b>Model</b>		<b>Coefficients</b>		<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	
1	(Constant)	.696	.010	.000
	(Individual behaviour) <sup>10</sup>	.598	.062	.000

a) Dependent Variable: Sustainability of SMFE after exit of the founder

The regression analysis shows a relationship.  $R = 0.623$  and  $R^2 = 0.388$  which shows that 38.8% of the corresponding change in Sustainability of SMFEs after the Exit of the founder can be explained by a unit change (individual behaviour)<sup>10</sup>. A further test on the beta coefficient of the resulting model, the constant  $\alpha = 0.696$  is significantly greater than 0, since the p value  $p = 0.000$  is less than  $p = 0.05$ . The coefficient  $\beta = 0.598$  is also significantly greater than 0,  $p = 0.000$  which is less than  $p = 0.05$ .

The model Sustainability of SMFEs =  $\alpha + \beta$  (Individual Behaviour)<sup>10</sup> holds as suggested by the test above. This confirms that there is a positive relationship between (Individual behaviour)<sup>10</sup> and Sustainability of SMFEs after exit of the founder.

**Scatter Plot of Sustainability of SMFEs after the Exit of founder against Human Resource**



**Figure 4.29: Scatter Plot on Sustainability/Human Resource Management Skills**

A visual examination of the scatter plot suggests that there is a positive relationship between Sustainability of SMFEs after the Exit of founder and Human Resource Management.

**Regression model of Sustainability of SMFEs after the Exit of the founder and Human Resource Management Skills keeping the intervening variable (Role of Principal Confidant) constant.**

The regression analysis shows a strong relationship.  $R = 0.791$  and  $R^2 = 0.623$  which shows that 62.3% of the corresponding change in Sustainability of SMEs after the Exit of the founder can be explained by a unit change in Human resource Management.

**Table 4.36: Model Summary on Sustainability/HRM**

<b>Model</b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.791 <sup>a</sup>	.625	.623	.08362

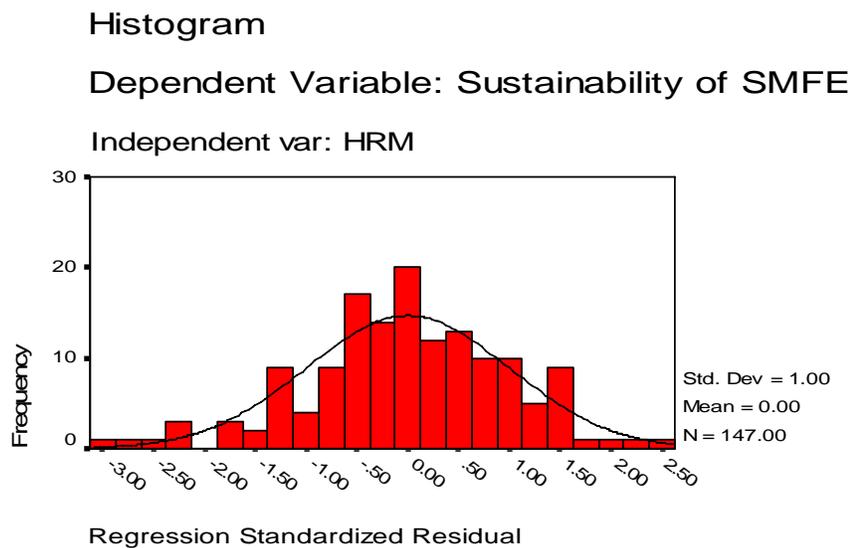
<b>ANOVA<sup>b</sup></b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	1.690723	1	1.690723	241.7715	.000 <sup>a</sup>
	Residual	1.013994	145	0.006993		
	Total	2.704717	146			

<b>Coefficients</b>				
<b>Model</b>		<b>B</b>	<b>Std. Error</b>	<b>Sig.</b>
1	(Constant)	.202	.036	.000
	Human Resource Management	.729	.047	.000

The Anova test in Table 4.36 above shows that the significance of the F-statistic is less than zero. This implies that the null hypothesis  $\beta_1=0$  is rejected and the alternative

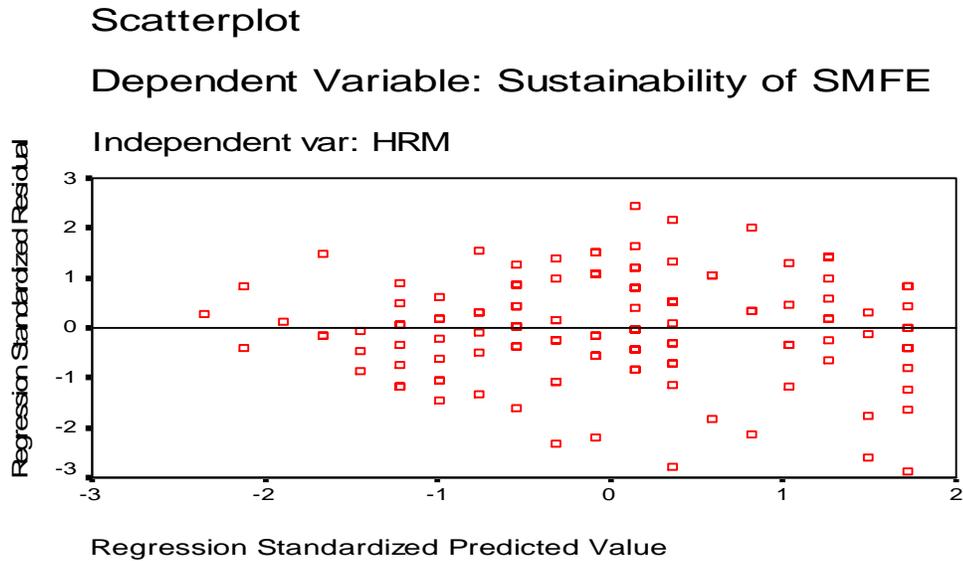
hypothesis  $\beta_1 \neq 0$  is taken to hold implying that the model  $Y = \beta_0 + \beta_1 X_1 + e$ , is significantly fit. A further test on the beta coefficient of the resulting model, the constant  $\alpha = 0.202$  is significantly greater than 0, since the p value  $p = 0.000$  is less than  $p = 0.05$ . The coefficient  $\beta = 0.729$  is also significantly greater than 0,  $p = 0.000$  which is less than  $p = 0.05$ .

The model Sustainability of SMFEs =  $\alpha + \beta$  (Human Resource Management) holds as suggested by the test above. This confirms that there is a positive relationship between Human Resource Management and Sustainability of SMFEs after exit of the founder.



**Figure 4.30: Histogram on Sustainability/HRM**

A visual examination of the histogram suggests a negative skewness of the standardized residuals. The statistics at the legend however show that the residuals have a mean of zero and a standard deviation of 1 as of a standard normal distribution.



**Figure 4.31: Scatter Plot of Residuals on Sustainability/HRM**

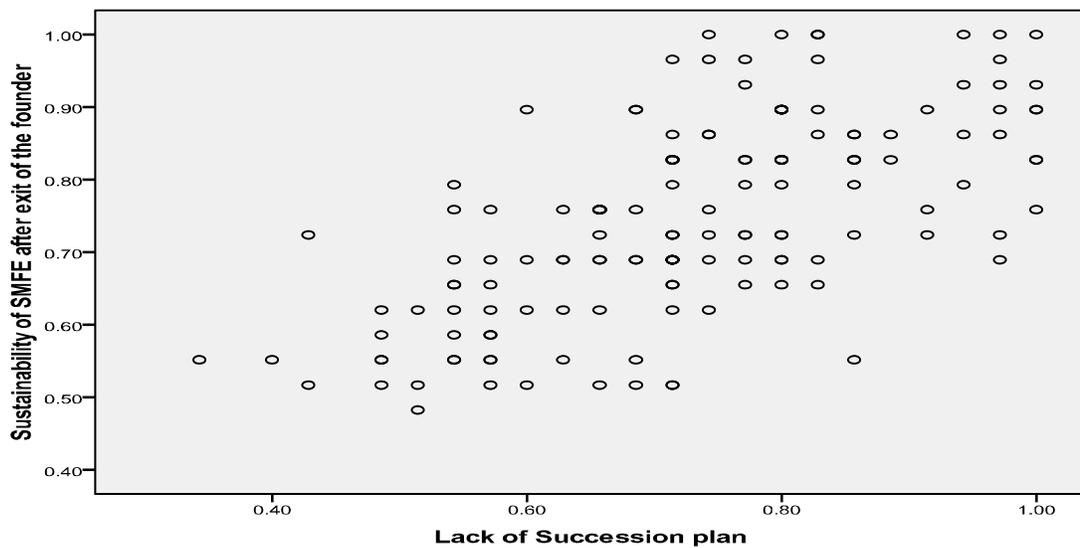
The Scatter plots of the residuals suggest a normal distribution of the residuals since the plots are evenly distributed on both the positive and negative ends. A further test for normality using the Shapiro-Wilk test produced results as in Table 4.37.

**Table 4.37: Tests of Normality on Sustainability/HRM**

		Shapiro-Wilk	
	Statistic	df	Sig.
Standardized Residual	.986	147	.132

The further test for normality, the Shapiro-Wilk test shows that the Standardized residuals are significantly normally distributed with a significance 0.132 which is greater than 0.05.

### Scatter Plot of Sustainability of SMFEs after the exit of founder against succession plan



**Figure 4.32: Scatter Plot Sustainability/Succession Plan**

A visual examination of the scatter plot suggests a positive relationship between Sustainability of SMFEs after the Exit of founder and succession plan. The level of effect that a succession plan has on the sustainability can be statistically determined by performing a regression analysis.

**Regression model of Sustainability of SMFEs after the Exit of the founder and Succession Plan keeping the intervening variable (Role of Principal Confidant) constant.**

**Table 4.38: Model Summary on Sustainability/Succession Plan**

<b>Model</b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.653 <sup>a</sup>	.427	.423	.10342

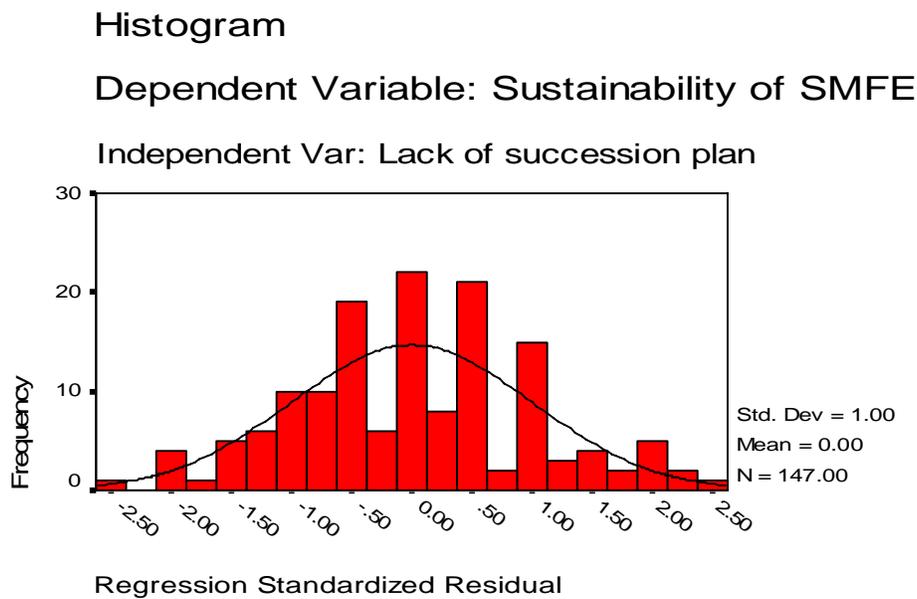
<b>ANOVA<sup>b</sup></b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	1.15383	1	1.15383	107.8772	.000 <sup>a</sup>
	Residual	1.550887	145	0.010696		
	Total	2.704717	146			

<b>Coefficients</b>				
<b>Model</b>		<b>B</b>	<b>Std. Error</b>	<b>Sig.</b>
1	(Constant)	.304	.043	.000
	Succession plan	.605	.058	.000

The regression analysis shows a strong relationship.  $R = 0.653$  and  $R^2 = 0.427$  which shows that only 42.7% of the corresponding change in Sustainability of SMEs after the exit of the founder can be explained by a unit change in succession plan. This implies that the null hypothesis  $\beta_1=0$  is rejected and the alternative hypothesis  $\beta_1 \neq 0$  is taken to hold implying that the model  $Y = \beta_0 + \beta_1 X_1 + e$ , is significantly fit. A further test on the

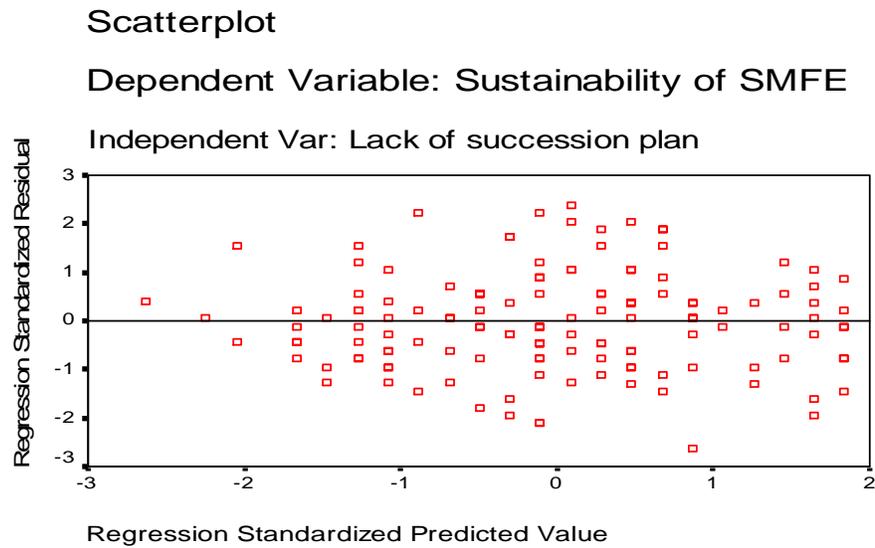
beta coefficient of the resulting model, the constant  $\alpha = 0.202$  is significantly greater than 0, since the p value  $p = 0.000$  is less than  $p = 0.05$ . The coefficient  $\beta = 0.605$  is also significantly greater than 0,  $p = 0.00$  which is less than  $p = 0.05$ .

The model Sustainability of SMFEs =  $\alpha + \beta$  (succession plan) holds as suggested by the test above. This confirms that there is a positive relationship between succession plan and Sustainability of SMFEs after the exit of the founder.



**Figure 4.33: Histogram on Sustainability/Succession Plan**

A visual examination of the histogram suggests a positive skewness of the standardized residuals. The statistics at the legend however show that the residuals have a mean of zero and a standard deviation of 1 as of a standard normal distribution.



**Figure 4.34: Scatter Plot of Residual on Sustainability/Succession Plan**

The Scatter plots of the residuals suggest a normal distribution of the residuals since the plots are evenly distributed on both the positive and negative ends. A further test for normality using the Shapiro-Wilk test produced results as in Table 4.39.

**Table 4.39: Tests of Normality on Sustainability/Succession Plan**

	<b>Shapiro-Wilk</b>		
	<b>Statistic</b>	<b>Df</b>	<b>Sig.</b>
Standardized Residual	.992	147	.552

On the normality test, the Shapiro-Wilk test shows that the Standardized residuals are significantly normally distributed with a significance of 0.552 which is greater than 0.05.

**Multiple Linear Regression Model of Sustainability of SMFEs after the Exit of the Founder, Managerial Skills, Entrepreneurial Skills, Individual Behaviour, Human Resource Management Skills and Succession Plan holding the intervening variable constant**

Hypothesis for the model:

Null Hypothesis  $H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0$

Alternate Hypothesis  $H_1$ : at least one of  $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  is not equal to 0, that is  $\beta_j \neq 0$

The general purpose of multiple linear regression (the term was first used by Pearson, 1908) is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable (Borg, Gall & Gall, 2008). Multiple regression allows the researcher to ask (and hopefully answer) the general question “what is the best predictor of ...” (Doane & Seward, 2008).

**Table 4.40: Model Summary on Sustainability/Lack of Succession Plan, Managerial Skills, Individual Behaviour, Human Resource Management Skills and Entrepreneurial Skills**

**Model**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.835 <sup>a</sup>	.874	.869	.04917	1.568

- a). Predictors: (Constant), Lack of Succession plan, Managerial skills, Individual Behaviour, Human Resource Management, and Entrepreneurial Skills.
- b). Dependent Variable: Sustainability of SMFE after exit of the founder

**Coefficients**

Model	Coefficients		
	B	Std. Error	Sig.
1 (Constant)	.02808	.031	.366
Managerial skills	.25141	.05512	.007
Entrepreneurial skills	.43132	.05232	.000
Individual behaviour	.17304	.04351	.000
HRM skills	.25434	.04213	.000
Lack of succession plan	.09721	.03722	.019

The regression analysis shows a very strong linear relationship.  $R = 0.835$  and adjusted  $R^2 = 0.869$  which means that there is 86.9% of corresponding change in Sustainability of SMFEs after the Exit of the founder for every change in all the predictor variables jointly. A further test on the beta coefficients of the resulting model, as shown on Table

4.40, the constant  $\alpha = 0.028$  is not significantly different from 0, and as the p value  $p = 0.366$  is greater than  $p = 0.05$ . The coefficients  $\beta_1 = 0.25141$ ,  $\beta_2 = 0.43132$ ,  $\beta_3 = 0.17304$ ,  $\beta_4 = 0.25434$  and  $\beta_5 = 0.09721$  are however significantly different from 0, with p values 0.000, 0.007, 0.000, 0.000 and 0.019 respectively which are all less than  $p = 0.05$ . A further test of the model excluding the constant, produced results as in Table 4.41.

**Table 4.41: Model Summary Multiple Linear Regression**

<b>Model</b>						
<b>Model</b>	<b>R</b>	<b>R Square<sup>b</sup></b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>		
1	.898 <sup>a</sup>	0.895219	0.895051	0.053307		
<b>ANOVA<sup>c,d</sup></b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	83.99602	5	16.7992	5911.86	.000 <sup>a</sup>
	Residual	0.403509	142	0.002842		
	Total	84.400 <sup>b</sup>	147			
<b>Coefficients<sup>a,b</sup></b>						
<b>Model</b>	<b>Coefficients</b>			<b>Sig.</b>		
		<b>B</b>	<b>Std. Error</b>			
1	Management skills	0.248515	0.047379		.000	
	Entrepreneurial skills	0.413363	0.052282		.000	
	Individual behaviour	0.168295	0.033637		.000	
	HRM skills	0.24395	0.045715		.000	
	Lack of succession plan	0.095787	0.038707		.014	

The Anova test in Table 4.41 shows that the significance of the F-statistic is less than zero. This implies that the null hypothesis  $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0$  is rejected and the alternative hypothesis that at least one  $\beta_j \neq 0$  is taken to hold implying that the model  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3^{10} + \beta_4 X_4 + \beta_5 X_5 + \epsilon$ , is significantly fit.

The model holds as:

$$Y = \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3^{10} + \beta_4 x_4 + \beta_5 x_5 + e$$

$Y =$  *Sustainability of SMFES*

$x_1 =$  *Management skills*

$x_2 =$  *Entrepreneurial skills*

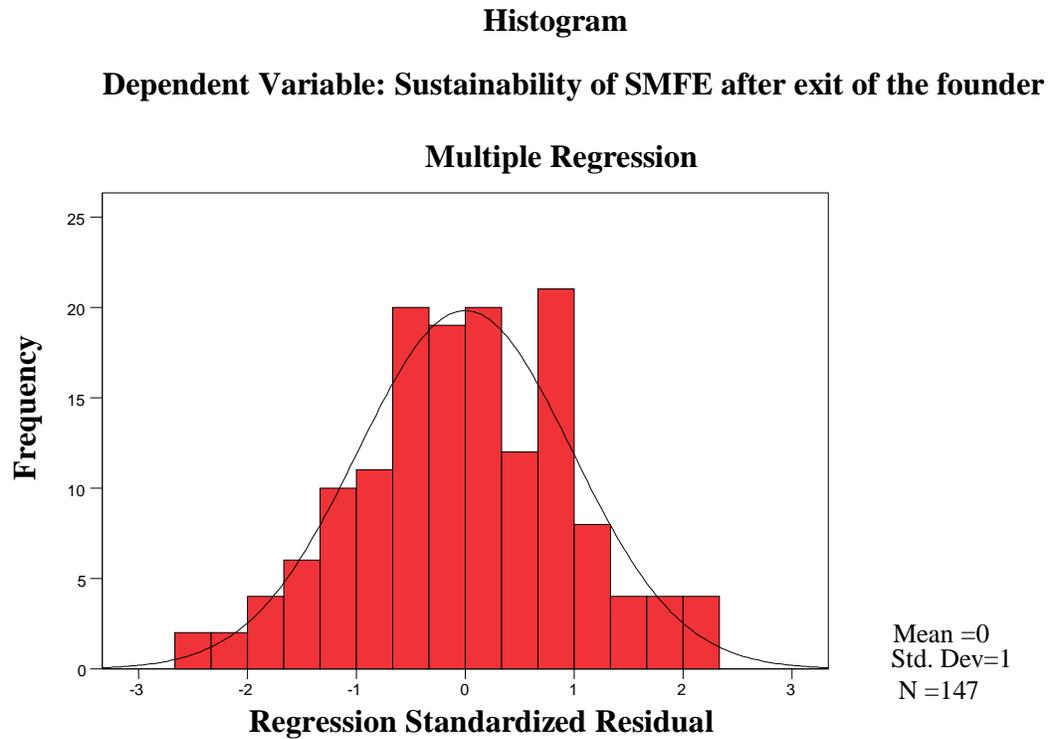
$x_3 =$  *Individual behaviuor*

$x_4 =$  *Human resource management skills*

$x_5 =$  *Succession plan*

$e =$  *Standard error*

When  $\alpha = 0$  as suggested by the test in Table 4.40.



**Figure 4.35: Histogram on Sustainability/Managerial Skills; Entrepreneurial Skills; Individual Behaviour; Human Resource Management; Succession Plan**

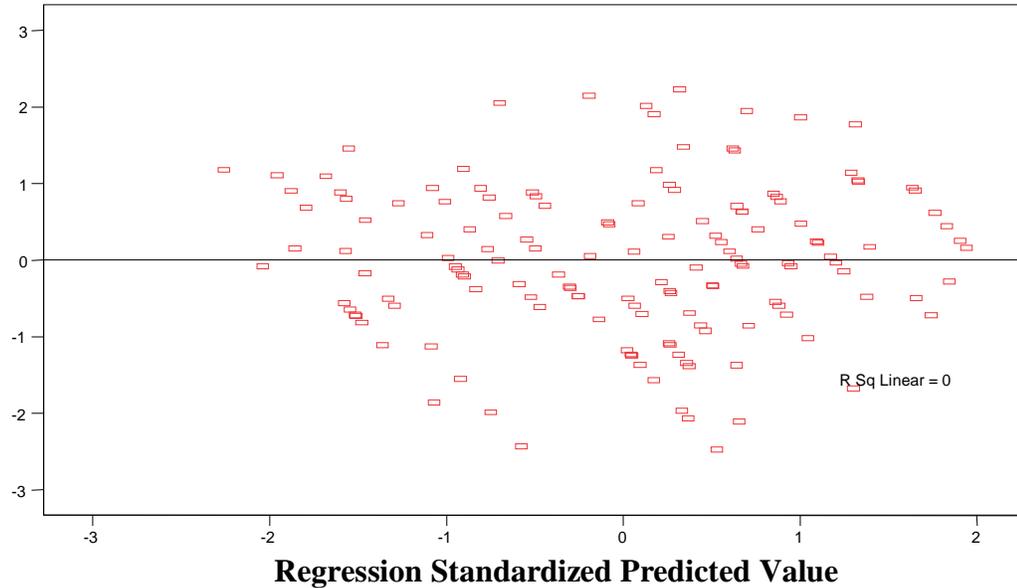
A visual examination of the histogram suggests a normal distribution of the standardized residuals. The statistics at the legend show that the residuals have a mean of zero and a standard deviation of 1 as of a standard normal distribution.

### Scatter plot

**Dependent Variable: Sustainability of SMFE after exit of the founder**

**Multiple Regression**

**Regression Standardized Residual**



**Figure 4.36: Scatter Plot of Residuals on Sustainability/Managerial Skills; Entrepreneurial Skills; Individual Behaviour; Human Resource Management; Succession Plan**

The Scatter plots of the residuals suggest a normal distribution of the residuals since the plots are evenly distributed on both the positive and negative ends. A further test for normality using the Shapiro-Wilk test produced results as in Table 4.42.

**Table 4.42: Tests of Normality**

	<b>Statistic</b>	<b>Shapiro-Wilk Df</b>	<b>Sig.</b>
Standardized Residual (Multiple regression)	.993	147	.728

The further test for normality, the Shapiro-Wilk test shows that the Standardized residuals are significantly normally distributed with a significance 0.728 which is greater than 0.05.

**Multiple Linear Regression model of Sustainability of SMFEs after the Exit of founder/Managerial Skills, Entrepreneurial Skills, Individual Behaviour, Human Resource Management and Succession Plan including the intervening variable**

**Table 4.43: Model Summary**

<b>Model</b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.826 <sup>a</sup>	0.857139	0.851016	0.052536

<b>ANOVA<sup>b</sup></b>						
<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	2.318317	6	0.386386	139.995	.000 <sup>a</sup>
	Residual	0.3864	140	0.00276		
	Total	2.704717	145			

<b>Coefficients</b>				
<b>Model</b>		<b>Coefficients</b>		<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	
1	(Constant)	0.01248	0.037345	0.738
	Management skills	0.236112	0.056766	.000
	Entrepreneurial skills	0.38951	0.052745	.000
	Individual behaviour	0.175444	0.036757	.000
	HRM skills	0.247764	0.045089	.000
	Lack of succession plan	0.081251	0.039424	.041
	Role of principal confidant	0.065641	0.026568	.014

The regression analysis shows a very strong relationship,  $R^2 = 0.857$  and adjusted  $R = 0.851$  which shows that 85.1% of a corresponding change in Sustainability of SMFEs after the Exit of the founder can be explained by a change in all the predictor variables jointly. However the strength of the influence is lower than when the intervening

variable was held constant implying that the intervening variable has a negative effect on the overall change in all the variables jointly. A further test on the beta coefficients of the resulting model, the constant  $\alpha = -0.01248$  is not significantly greater than 0, and since the p value  $p = 0.738$  is greater than  $p = 0.05$  the constant is not significant. The coefficients  $\beta_1 = 0.23611$ ,  $\beta_2 = 0.38951$ ,  $\beta_3 = 0.17544$ ,  $\beta_4 = 0.247764$ ,  $\beta_5 = 0.081251$  and  $\beta_c = 0.65641$  are however significantly different from 0, with p values 0.0000, 0.0000, 0.0000, 0.0000, 0.041 and 0.014 respectively which are all less than  $p = 0.05$ .

**Table 4.44: Coefficients after the Dropping the Constant**

**Model Summary**

**Model**

Model	R	R Square <sup>b</sup>	Adjusted R Square	Std. Error of the Estimate
1	.898 <sup>a</sup>	0.895418	0.895223	0.05237

**ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	2.355	4	.589	238.691	.000(a)
	Residual	.350	142	.002		
	Total	2.705	146			

**Coefficients<sup>a,b</sup>**

Model		Coefficients		Sig.
		B	Std. Error	
1	Management skills	0.225776	0.047444	.000
	Entrepreneurial skills	0.387972	0.052378	.000
	Individual behaviour	0.180486	0.033411	.000
	HRM skills	0.247386	0.044933	.000
	Lack of succession plan	0.078845	0.038638	0.043
	Role of principal confidant	0.063372	0.025605	0.014

Table 4.44 shows that R square = 0.8954 implying that is 89.54% change in sustainability can be attributed to all the variables jointly. This shows a positive improvement when the constant is excluded. Table 4.43 showed R square = 0.8571 which implied 85.7% change.

The model holds as:

$$Y = \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3^{10} + \beta_4 x_4 + \beta_5 x_5 + \beta_c x_c + e$$

$Y$  – *Sustainability of SMFEs*

$x_1$  – *Management skills*

$x_2$  = *Entrepreneurial skills*

$x_3$  – *Individual behaviour*

$x_4$  – *Human resource management skills*

$x_5$  = *Succession plan*

$x_c$  – *Role of principal confidant*

$e$  = *Standard error*

#### 4.12 Optimal Model

From the research findings above, the revised study model is as in Figure 4.37.

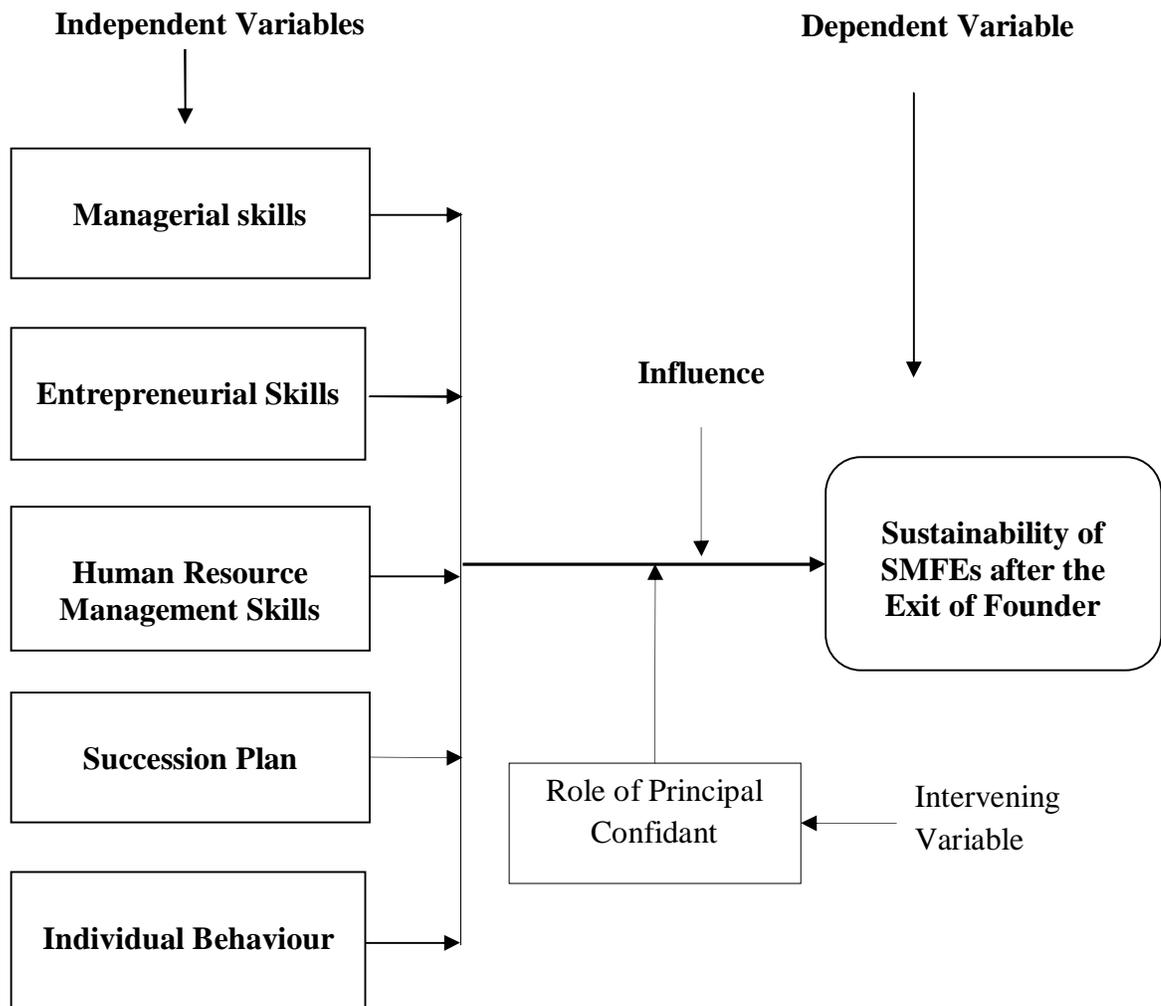


Figure 4.37: Revised Study Model

## **CHAPTER FIVE**

### **5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The study sought to investigate the challenges that hinder sustainability of small and medium family enterprises (SMFEs) after the exit of the founders in Kenya. Specifically, the study looked at entrepreneurial skills, managerial skills, human resource skills, individual behaviour and succession planning. This chapter summarizes the collected data and the statistical treatment of analysis; discussion with reference to the specific objectives/research questions and assesses the meaning of the results by evaluating and interpreting them. The conclusions relate directly to the specific objectives/research questions. The recommendations refer to suggestions for further study, or proposals for change, or both. Each recommendation traces directly to each conclusion.

#### **5.2 Summary of Findings**

Empirical literature showed that family enterprises contribute heavily towards the economy of every nation. The literature further showed that as important as they are, family enterprises have very low survival rate. Less than a third of family enterprises survive the transition from first generation to second generation and of those that do, half do not survive the transition from second to third generation.

The study started with a preliminary study targeting a population of 2470 small and medium enterprises in Nairobi's Enterprise road and Thika's light industrial area. The enterprises targeted had been in operation for 5 years and above and employed 10-99 people. A stratified random sample of 247 respondents was selected. The basis of stratification was the type of business; manufacturing, trade and services. Out of the 247 enterprises, 225 responded. The preliminary study found out that out of the 225 small and medium enterprises, SMFEs were (168) 74.6%. These findings were in line with other scholars in other parts of the world who found out that family enterprises range between 65% and 90% of all enterprises in various economies (Bechhofer & Paterson, 2008). A full study was then conducted on the 168 SMFEs by use of interviewer-administered questionnaires in parallel with observation. Out of the 168 SMFEs, (147) 87.5% responded. Babbie, (2002) observes that response rate of 50% and above is adequate for analysis and therefore this rate was considered adequate for analysis. The instruments were pilot tested and analyzed for reliability and validity using the Cronbach's Coefficient Alpha formula. Exploratory factor analysis to reduce the factors was also used, which confirmed the conceptual framework model of this study. The independent variables were tested for multicollinearity. Statistical Package of Social Sciences (SPSS) version 19 was used as the statistical tool for analysis all through.

Qualitative data was content analyzed as the data was collected for themes and categories. The data was operationalized quantitatively for farther analysis. Quantitative data was analyzed and described using descriptive and inferential statistics. Scatter plots were visually examined to see if linear regression relationship existed after which inferential statistical analysis in every variable was made. A normality test using Shapiro-Wilk test then followed. Multiple linear regression was used to test the combined effect of all the independent variables including the intervening variable to the dependent variable. The study had the following findings:

### ***5.2.1 Preliminary Findings***

The preliminary study found that small and medium family enterprises constitute 74.6%, say 75% of all the small and medium enterprises in the sample. Therefore, it can be inferred that, of all small and medium enterprises in Kenya, SMFEs constitute 75%. About 70% of the small and medium family enterprises are lead and managed by men.

### ***5.2.2 Do managerial skills influence the sustainability of SMFEs after the exit of the founders?***

The findings of this study suggested that managerial skills of the entrepreneur/manager positively influence the sustainability of small and medium family enterprise after the exit of the founder. Fifty three decimal six per centum (53.6%) of the corresponding change in Sustainability of SMFEs after the Exit of the founder can be explained by a

unit change in managerial skills with the constant. On dropping the constant, the positive influence considerably increases to 88.5%. High managerial skills well utilized, lead to prudent management and utilization of the enterprises resources and to higher profitability for long term sustainability of the SMFE.

***5.2.3 What is the influence of entrepreneurial skills to the sustainability of SMFEs after the exit of the founders?***

The research found out that entrepreneurial skills have a great positive influence on sustainability of SMFEs. Seventy per centum (70%) of the corresponding change in sustainability of SMFEs after the Exit of the founder can be explained by a unit change in Entrepreneurial skills. The entrepreneur/owner inculcates an entrepreneurial culture in the enterprise. Entrepreneurial skills of the entrepreneur/managers drive the enterprise to above average performance leading to high profitability for the sustainability of the SMFE.

***5.2.4 How do individual behaviours influence the sustainability of SMFEs after the exit of the founders?***

The study found out that 38.8% of the corresponding change in Sustainability of SMFEs after the Exit of the founder can be explained by 10 units change in individual behaviour (individual behaviour)<sup>10</sup>. The influence is positive and not very strong. The individual

behaviour of an entrepreneur/manager of an SMFE is highly dependent on social factors, more so the immediate environment and the environment under which the person grew in. Religious, cultural and family values are great motivators to this behaviour. This behaviour influences the working environment, productivity and the enterprises culture.

***5.2.5 Do human resource management skills have any effect on the sustainability of SMFEs after the exit of the founders?***

Human resource management skills have a positive influence on sustainability of SMFEs. The study findings suggest that 62.5% of the corresponding change in Sustainability of SMFEs after the Exit of the founder can be explained by a unit change in human resource management. High standards of human resource skills lead to good human resource management practices. These practices develop a capable, highly skilled and motivated enterprises labour force. This highly improves the productivity of the small and medium family enterprise for long sustainability of this enterprise.

***5.2.6 Does succession plan affect the sustainability of SMFEs after the exit of the founders?***

Succession plan has a positive influence on sustainability of SMFEs. The findings confirmed that 42.7% of corresponding change in sustainability of small and medium family enterprises after the exit of the founders can be attributed to a unit change in

succession plan. Succession plan guides the successors of SMFEs long after the founder has exited the enterprise.

***5.2.7 What is the role of principal confidant in sustainability of SMFEs after the exit of the founders?***

The study found out that the principal confidant influences decisions on sustainability of small and medium family enterprises. The principal confidant could be the entrepreneur manager's spouse, son/daughter, a relative or a friend. The overall effect of the independent variables' is reduced from 89.5% to 85.1% on introduction of this intervening variable. This implies that the variable has a negative influence on sustainability of about 4.4%.

***5.2.8 What is the overall effect of all the independent variables to the sustainability of SMFEs after the exit of the founders?***

The research findings showed a great influence of all the five variables to the sustainability of SMFEs. The study found out that there is 89.5% of corresponding change in Sustainability of SMFEs after the exit of the founder for every change in all the five predictor variables jointly. Test of overall significance of the five variables jointly; managerial skills, entrepreneurial skills, human management skills, (individual

behaviour)<sup>10</sup>, and succession plan using ANOVA, at 0.05 significance found the model to be significant.

### **5.3 Conclusion**

Based on the findings, it is logical to conclude that small and medium family enterprises can be sustained for a long time and reverse the current phenomenon of high mortality rate if the founders of these enterprises ensure that they acquire the necessary training to acquire; managerial, entrepreneurial and human resource skills. They should also mentor their potential successors and have them trained for the same skills. The proposed successors must also be willing and have the capabilities necessary. The founders must also be aware of their environmental, cultural and religious influences which affect the sustainability of the enterprises. Succession plans also play a role in the sustainability of the enterprises and should also be put in place. The founders must also be aware of the principal confidants' role in the sustainability of the SMFEs.

### **5.4 Recommendations**

The study justifies that, an entrepreneur/manager with good managerial skills, entrepreneurial skills, human resource management skills and positive individual behavioural characteristics, a succession plan in place has a deep understanding of the dynamics of the small and medium family enterprises that helps avoid assumptions,

misconceptions and miscommunications that threaten family harmony and the long-term sustainability of an SMFE. Specifically, the study recommends:

The Kenya government, policy makers, financial organizations and other stakeholders in small and medium enterprises should pay more attention on measures that ensures long term sustainability of SMFEs as they constitute 75% of all small and medium enterprises in Kenya.

Entrepreneurs and owners of small and medium family enterprises require managerial skills to be able to lead and manage the enterprise to long term sustainability of the enterprise. Particularly the entrepreneur manager requires technical, interpersonal and conceptual skills to do this. The entrepreneur/manager requires to effectively perform the functions of planning, organizing, leadership and control functions. Many entrepreneurs can be able to take care of their children, mould and mentor them to be entrepreneurial and as a result, they will continue running the family enterprise generations after generations.

The entrepreneur/owner/manager of an SMFE requires entrepreneurial skills to propel the enterprise to long term sustainability. The entrepreneurial skills help the leader to impart an entrepreneurial culture in the enterprise which drives the family members as

well as the employees to create continuously new and improved products for competitive advantage.

The individual behaviour of an SMFE leader has effect on sustainability of the enterprise from the values this leader imparts on the enterprise. These values are particularly influenced by cultural, religious and family values. All stake holders need to pay attention to these values to be able to predict the direction and behaviour of an SMFE.

Human resource management skills are critical in long term sustainability of SMFEs and leaders of these enterprises require them. A family enterprise is a unique organization where committed family members go out of their way to use their personal resources for the survival of the family enterprise. The uniqueness of the family enterprise emanates from three subsystems; the family, ownership and management which give an SMFE a competitive advantage. The entrepreneur/manager of an SMFE needs to balance between family and business. This is a delicate balance requiring superior human resource management skills. The leader needs to be aware of his/her emotions (emotional intelligence) for effective balance of these three subsystems.

Founders of SMFEs should put in place succession plans for their enterprises. They should prepare an exit plan and be committed to it for long term survival and sustainability of their enterprises.

Owners of SMFEs should be aware of their principal confidant's influence on their decisions concerning the enterprises succession matters and weigh overall effect on sustainability of their enterprises.

### **5.5 Areas for Further Research**

Due to constraints highlighted in the first chapter, this study could not exhaust all the challenges hindering sustainability of small and medium family enterprises in Kenya. Businesses owned/managed by third generation are not in the hands of indigenous Kenyans; therefore factors leading to mortality of businesses owned/managed by indigenous Kenyans need to be established. Challenges like the existing legal and policy framework, entrepreneurial and management courses available to the entrepreneurs and their affordability, accessibility and affordability of financial credits in the market and accessibility to market information just to mention a few require further investigation.

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## **APPENDIX I: QUESTIONNAIRE/INTERVIEW GUIDE**

**Section A: Preliminary Information**

1. Gender	Male	[	]
	Female	[	]
2. Age Bracket	18-25	[	]
	26-35	[	]
	36-45	[	]
	46-55	[	]
	Over 56	[	]
3. Marital Status	Married	[	]
	Single	[	]
	Divorced	[	]
	Widow/Widower	[	]
4. Level of Education:	None	[	]
	Primary	[	]
	Secondary	[	]
	Tertiary Institution	[	]
	University	[	]
5. Nature of business:	Manufacturing	[	]
	Trade	[	]
	Service	[	]
	Other (Specify)	-----	
6. Number of major competitors			
	2 – 10	<input type="checkbox"/>	
	11 – 30	<input type="checkbox"/>	
	31 – 50	<input type="checkbox"/>	
	51 – 100	<input type="checkbox"/>	
	Over 100	<input type="checkbox"/>	
7. Who owns the business?			
1. Family members		<input type="checkbox"/>	
Sole proprietorship		<input type="checkbox"/>	
Spouses		<input type="checkbox"/>	
Spouses & children		<input type="checkbox"/>	
Cousins		<input type="checkbox"/>	

Others specify .....

- 2. Outsiders
- Partners
- Private company

8. Any other comment on business ownership .....

**Section B: Managerial Skills**

1. a) Have you ever been trained in

i) Technical skills of performing this business?

Yes  No

If yes, specify the area of training and when trained

.....

ii) Financial management?

Yes  No

If yes, what level?

.....

iii) Strategic management

Yes  No

If yes, what level?

.....

2. Do you have the following in your firm?

- Vision
- Mission
- Short-term goals
- Medium-term goals
- Long-term goals

3. When was the last time you had new employee(s) in the senior position?

Less than 1 year  
 1 - 3 years  
 3 - 5 years  
 5 – 10 years  
 Over 11 years


4. How often do you hold meetings in the firm?

	Daily	Weekly	Monthly	Semi-annual	Annually
With directors					
Family assembly					
Concerning business					
Senior management					
Other employees					

5. How do you communicate vital information to:

	Writing	Telephone	Memo	Meeting	Other
Management?					
Employees?					
Directors/family members' owners?					
Other stakeholders?					
Other employees?					

6. i) Do you normally set performance standards for your employees?

Yes  No

ii) If Yes, how often do you compare the set standards with the performed standards?

-----  
 -----

iii) What do you do with the results of the comparison?

-----  
 -----

10. Who runs the business in your absence?

Yourself on:

On phone -----  
 Internet -----

Delegate to:

Management employee -----  
 Other director(s) -----  
 Family member -----

11. What adjectives would your closest friend manager use to describe you in order of priority? Omit the irrelevant ones to you. Tick where appropriate.

	Very Strong	Strong	Fair	Weak	Not at all
No-nonsense					
Hardworking					
Crisis manager					
Integrity					
Credible					
Delegates a lot					
Cool under pressure					
Hot tempered					
Democratic,					
Strategic planner					
Quick in decision making					
Generosity					

**Section C: Entrepreneurial Skills**

1. Before entering into this business, what were you (or the founder) doing?

Employed by outsiders   
 Employed in family business

Others: specify -----

2. Why did you (or the founder) decide to enter into business?

-----  
 -----

3. How often do you introduce new products to your customers? -----

-----  
4. Do you alone decide on the new products or who participates in the introduction of new products? -----  
-----

5. How do you finance for the new products?

Business saving

Bank

Directors


Others: specify -----

6. a) What time do you report to your place of work? -----

b) What time do you retire from your place of work? -----

7. What are your future goals as a person? -----  
-----

8. What opportunities do you see and plan to exploit as a business? -----  
-----

9. How do you finance your activities?

Savings

Financier

If from a financier, what securities do you use? -----  
-----

10. How often are members of your immediate family (spouse, sons/daughters and relatives) involved in your daily activities in the business?  
-----  
-----

11. What future plans do you have for them in the business?  
-----  
-----

#### **Section D: Individual Behaviour**

1. Where did you grow up?

- Rural
- Urban
- Abroad

2. What influenced you to enter into business?

- Succession
- Lack of employment
- Social class
- Course undertaken
- Jackpot
- Other (Specify) .....

3. How do you mentor your proposed successors?

	State Yes or NO
Persuading him/her to take a business course	
Daily involvement in the business activities	
Appointing him/her a director	
Sending him/her to business seminars	

4. How would you rate your proposed successor's willingness to take over the business?

Very willing	Willing		

5. What grade is the level of education of your proposed successor?

- None [    ]
- Primary [    ]
- Secondary [    ]
- Tertiary Institution [    ]
- University [    ]

6. Which department/section is your proposed successor good in the business? (HRM, Finance, marketing, etc)

.....

.....

7. What are the skills (or proposed skills) of your proposed successor?

- Technical
- Managerial
- Financial
- Human resource
- Others (specify) \_\_\_\_\_

8. What are the values that help in the long-term planning of the business? .....

- Family
- Cultural
- Religious
- Others (specify) \_\_\_\_\_

**Section E: Human Resource Management Skills**

1. How do you recruit your employees?

- Employee's referrals
- Directors
- Relatives
- Friends
- Advertisements
- Others (specify) \_\_\_\_\_

2. Do you have job specifications for each position? .....

Yes  No

3. How do you fill vacant positions?

- Internal promotions
- External recruitment
- Others (Specify) \_\_\_\_\_

4. Do you have employee training programmes? .....

Yes  No

If Yes, how often do you train? .....

Which form of training do you use? .....

5. a) Do you appraise your employees? .....

Yes  No

b) How often do you appraise?

-----  
i) How do you motivate your employees?  
-----  
-----

**Section F: Succession Plan**

1. a) Do you have any exit/retirement strategy for yourself from this business?

Yes  No

b) If yes, when and how do you intend to retire?

Initial Public Offering (IPO)	<input type="checkbox"/>
Family succession	<input type="checkbox"/>
Sale to outsiders	<input type="checkbox"/>
Sale to partners	<input type="checkbox"/>
Transfer to employees	<input type="checkbox"/>

c) If family succession, what plans have you put in place or intend to put in place to avoid family conflict in future?  
-----  
-----  
-----

2. Do you (or were you) review(ing) your children's performance in:

School?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Any other task?	Yes <input type="checkbox"/>	No <input type="checkbox"/>

3. Did (do) you take performance as it was (is)?  
-----  
-----

4. i) Did (do) you reward good performance?  
-----  
-----

ii) To your opinion at what age should the above values be instilled into children?  
-----  
-----

**Section G: Role of Principle Confidant**

**Answer if applicable**

1. i) Do you have someone very close to you whom you confide in on business matters?

Yes  No

ii) If Yes, specify

Spouse   
 Son/daughter   
 Relative   
 Friend

2. Do you discuss the following with your 1 (ii) above?

	Always	Sometimes	Rarely	Never
Interests in business				
Children abilities				
Succession				
Inheritance				
Exit strategy				
Employee promotion				

3. a) How often do you have family conflicts?

	Monthly	6 months	Annually	Rarely	Never
Minor					
Moderate					
Major					

b) If any, do the conflicts filter into business?

Often	Sometimes	Rarely	Never

c) If they do, who handles them to see that they are amicably resolved?

Spouse   
 Son/daughter   
 Other relatives   
 Friends

**Section H: Sustainability**

1. How many years have you been in business? (Years).

- Below 5 [     ]
- 5- 10 [     ]
- 11 -20 [     ]
- Over 20 [     ]

2. a) When was your firm started?

- 5 – 10 yrs ago
- 10-20 yrs ago
- Over 20 yrs

b) Who started this business?

- You
- Your parents
- Grand parents
- Bought from non-relatives

Others specify -----

3. a) Do you have branches?                      Yes                       No

b) If Yes, how many?-----

4. a) Do you have sister companies?                      Yes                       No

c) If Yes, comment on why you preferred sister companies to branches.

-----  
-----

5. What future direction do you foresee for you firm?

- Branches                       Sister Companies

6. a) What was the initial capital? -----

b) What is the estimated current capital investment?

- Below Kshs.5M
- 5-10M
- 11-30M
- 31-60M
- Over 61M

7. What was your annual turnover in the first four years of business?

- 1-5 Million
- 6-10 Million
- 11-20 Million
- 21-50 Million
- 50-100 Million
- Over 100 Million

8. What is your current annual turnover?

- 1-5 Million
- 6-10 Million
- 11-20 Million
- 21-50 Million
- 50-100 Million
- 100-200 Million
- Over 200 Million

9. a) How many employees did you start with?

- Less than 10
- 10-49
- 50-99

b) What is the current number of employees?

- 10- 30
- 31- 50
- 51- 80
- 81- 99

## APPENDIX II: Observation Schedule

Compare these observations with the information given by the respondent.

Variable Description	Yes	No	Remarks
<b>Managerial Skills</b>			
1. Is the manager in control?			
2. Eye contact (honesty)			
3. Vision, mission and core values			
4. Respectful Communication?			
5. Warm leadership			
<b>Entrepreneurial Skills</b>			
Does the manager look:			
a) Entrepreneurial?			
b) A risk taker?			
c) Go getter?			
d) Creative?			
e) Hardworking?			
Is there entrepreneurial culture in the firm?			
<b>Individual Behaviour</b>			
1. Respondent look well exposed?			
2. Any signs of:			
a) Religious?			
b) Cultural?			
c) Family?			
<b>Human Resource Management Skills</b>			
1. Employees look well skilled?			
2. Do the employees look intimidated?			
3. Training programme?			
4. Job advertisement/recruitment?			
5. Employee recognition			
<b>Succession Plan</b>			
1. Any sign of			
a) Successor mentorship?			
b) Influential family member?			
<b>Principal Confidant</b>			
1. Any sign of consultation from the confidant?			
2. Any sign of a role model?			
<b>Sustainability</b>			
1. Are the figures given corresponding with what is there?			
2. Is the age of business given corresponding with what you see/estimate?			
3. Is the size of the firm corresponding with the number of employees given?			

### **APPENDIX III:**

#### Succession Planning: Guiding Questions.

##### 1. The Owner's Vision

- a) How do you want to spend your "golden" years?
- b) What will it take financially to live your dream?
- c) Do you want to keep the business in the family?
- d) Can you make the shift from "me" to "we"?

##### 2. The Family's Vision

- a) Do members of your family have a vision for their own lives?
- b) Does the next generation wish to own and/or operate the business?

##### 3. Aligning the Business & Family Strategies

- a) Does the company's strategic plan support the family's vision and values?
- b) Is the business positioned for long-term viability and succession?
- c) Could the business survive your untimely death or disability?

##### 4. Preparing Successors

- a) Which family members will enter the business?
- b) Who will you prepare for succession?
- c) How will you prepare them?

##### 5. Leadership Transition

- a) Who will run the business?
- b) How will you ease the transition?

##### 6. Ownership Transfer

- b) When will the change in ownership take place?
- c) Who will own the business?

##### 7. Estate Planning

How can you leave your family and the business in the best possible financial shape?

## APPENDIX IV

**Table 1.1 Contribution of Small and Medium Enterprises in Various Economic Aggregates in Different Countries of the World**

Country	Index	Shares
United States	Less than 100 Employees	34% employment and 32% sales (1982)
Japan	Small scale Manufacturing	99% of all establishments 72% of employment 52% output 13.5% of exports
Federal Republic of Germany	Small scale Industrial sector	40% of production 35% of all
France	Less than 9 employees	99.9% of all firms
Chile	Less than 9 employees	99% of all firms 39% value addition
Republic of Korea	Small industry	38.4% value addition
Brazil	Small scale sector	43.6% employment 29.6% production share
Philippines	Small manufacturing	90% of all establishment 50% of employment
Singapore	SME	About 33% of value addition 97% of establishment 32% of output 16% of exports
India	Small scale industrial sector  Small and village industries sector	40% of production in the industrial sector 35% of all exports 45% of employment in industrial sector 50% of production in the industrial sector Over 50% of exports Over 80% of industrial employment

Adopted from Poza (2004)

## APPENDIX V

**Table 1.2 Worldwide Highlights of Family Businesses**

<b>Country</b>	<b>% of Family Enterprises to total enterprises</b>	<b>Contribution to GNP</b>
Brazil	90%	63%
Chile	75%	50-70%
USA	96%	40%
Belgium	70%	55%
Finland	80%	40-50%
France	>60%	>60%
Germany	60%	55%
Italy	93%	
Netherlands	74%	54%
Poland	80%	35%
Portugal	70%	60%
Spain	79%	
UK	70%	
Australia	75%	50%
India		65%

**Adopted from Timmons and Spinelli (2007)**

## APPENDIX VI

**Table 1.3: Family Business: The Statistical Story**

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Family businesses constitute	80%-98%	of all businesses in the world's free economies.
Family businesses generate	49%	of the GDP in the United States
Family businesses generate more than	75%	of the GDP in most other countries
Family businesses employ	85%	of the United States work force
Family businesses employ more than	85%	of the working population around the world
Family businesses created about	80%	of all new jobs in the United States in the last 2 decades
A total of	37%	of Fortune 500 companies are family controlled.
A total of	60%	of all publicly held United States companies are family-controlled.
Number of family-owned businesses in the United States:	17 to 22 million	
Number of United States family-owned businesses with annual revenues greater than \$25 million	35,000	

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**Adopted from Poza (2004)**

## APPENDIX VII

**Table 4.24: Reliability and Validity**

<b>Variable/ Construct Description</b>	<b>Item Means</b>	<b>Item Standard Deviations</b>	<b>Coefficient Alpha Reliability</b>	<b>P Value</b>	<b>Item Total Correlations</b>
<b>Managerial skills</b>			0.806		
Technical	2.7500	1.89297		0.010	.632
Financial mgt.	2.0000	2.30940		0.022	.447
Strategic mgt	3.0000	2.16025		0.010	.800
Labour turnover	1.5000	.57735		0.026	.894
Meetings with dir	4.5000	1.00000		0.042	.258
Family assembly	4.5000	1.00000		0.027	.258
Concerning bus	4.5000	1.00000		0.028	.258
Other employees	2.7500	1.50000		0.022	.775
Communication with mgt	3.7500	1.89297		0.049	.949
Employees	3.5000	1.91485		0.006	.949
Directors	4.5000	1.00000		0.011	.775
Stakeholders	3.0000	2.30940		0.046	.447
Other employees	2.0000	2.00000		0.021	.775
Performance stds	3.7500	2.50000		0.024	.258
Comparison of stds	3.0000	2.44949		0.043	.105
Results of performance stds	3.5000	2.38048		0.005	.105
Traits: Delegation	3.5000	1.00000		0.017	.775
Hardworking	4.5000	.57735		0.015	.000
Crisis manager	3.7500	.50000		0.047	.258
Integrity	4.2500	.50000		0.046	.775
Credible	4.0000	.81650		0.002	.316
Cool under pressure	3.2500	.50000		0.017	.258
Hot tempered	2.2500	1.70783		0.039	.800
Quick in decision making	4.2500	.50000		0.045	.775
<b>Entrepreneurial skills</b>			.816		
Drive to business	3.5000	1.00000		0.040	.775
Why business	4.0000	1.41421		0.032	.632
Decision on new products	3.0000	.00000		0.002	.
Finance new products	4.0000	1.15470		0.039	.894

Note, item-total correlation is significant at the p<0.05 level (2-tailed).

<b>Variable/ Construct</b>	<b>Item</b>	<b>Item</b>	<b>Coefficient</b>	<b>P Value</b>	<b>Item</b>
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Description	Means	Standard Deviations	Alpha Reliability	Total Correlations
Time to work	2.7500	1.25831		0.038 .632
How do you finance activities	3.5000	1.00000		0.024 .775
Involvement of family members	3.2500	2.21736		0.011 .949
<b>Individual behaviour</b>			.869	
Grow-up	2.7500	.50000		0.043 .775
Influence to bus	3.0000	.00000		0.006 .
Mentor children encouraging	1.7500	2.36291		0.049 .316
Involvement activities	1.2500	2.50000		0.021 .775
Appointing	.0000	.00000		0.012 .
Seminars	1.2500	2.50000		0.013 .775
Willingness	3.7500	1.25831		0.009 .949
Education grade	3.7500	1.25831		0.000 .949
Training	2.7500	2.06155		0.004 .738
Skills	3.7500	1.50000		0.006 .738
<b>HRM</b>			.789	
Recruitment	4.2500	1.50000		0.038 .775
Job specification	5.0000	.00000		0.025 .
Vacant	3.7500	.95743		0.008 .949
Training prog.	2.5000	2.88675		0.019 .894
Appraisal	2.5000	2.88675		0.031 .447
Motivation	4.2500	1.50000		0.009 .775
<b>Succession plan</b>			.771	
Exit plan	3.7500	2.50000		0.030 .258
How	4.2500	1.50000		0.000 .775
Review of performance school	3.7500	2.50000		0.034 .775
Other tasks	3.7500	2.50000		0.014 .775
Perform as it is	2.5000	2.88675		0.050 .447
Reward of good performance	3.7500	2.50000		0.041 .775
Age	3.2500	1.50000		0.016 .738

Note, item-total correlation is significant at the  $p < 0.05$  level (2-tailed).

<b>Variable/ Construct Description</b>	<b>Item Means</b>	<b>Item Standard Deviation</b>	<b>Coefficient Alpha Reliability</b>	<b>P Value</b>	<b>Item Total Correlations</b>
<b>Principal confidant</b>			.869		
Confidant?	5.0000	.00000		0.015	.
Who	2.2500	1.89297		0.014	.105
Discussion	4.2500	.50000		0.020	.775
Interests in business	3.7500	1.25831		0.025	.949
Children abilities	3.7500	1.25831		0.015	.949
Succession	3.7500	1.25831		0.027	.949
Inheritance	3.7500	1.25831		0.006	.632
Exit strategy	3.5000	1.00000		0.007	.775
Employee promotion	3.2500	1.50000		0.049	.632
<b>Sustainability</b>			.899		
Experience	4.5000	.57735		0.011	.894
Age of business	4.0000	1.15470		0.024	.894
Generation	3.2500	.50000		0.023	.775
Capital	4.2500	1.50000		0.017	.775
Turnover	4.2500	1.50000		0.019	.775
Employee	4.5000	1.00000		0.014	.775

Note, item-total correlation is significant at the  $p < 0.05$  level (2-tailed).

## APPENDIX VIII

**Table 4.25: Total Variance Explained**

Component	Initial Eigen Values			Extraction Sums of Squared Loadings		
	Total	% of	Cumulative	Total	% of	Cumulative
		Variance			Variance	
1	26.326	36.564	36.564	26.326	36.564	36.564
2	15.958	22.163	58.727	15.958	22.163	58.727
3	13.500	18.750	77.477	13.500	18.750	77.477
4	8.805	12.229	89.706	8.805	12.229	89.706
5	7.412	10.294	100.000	7.412	10.294	100.000
6	1.32E-015	1.84E-015	100.000			
7	1.11E-015	1.54E-015	100.000			
8	1.05E-015	1.45E-015	100.000			
9	9.41E-016	1.31E-015	100.000			
10	7.82E-016	1.09E-015	100.000			
11	6.04E-016	8.39E-016	100.000			
12	5.82E-016	8.08E-016	100.000			
13	5.55E-016	7.70E-016	100.000			
14	4.94E-016	6.87E-016	100.000			
15	4.79E-016	6.65E-016	100.000			
16	4.18E-016	5.80E-016	100.000			
17	3.82E-016	5.30E-016	100.000			
18	3.65E-016	5.07E-016	100.000			
19	3.27E-016	4.54E-016	100.000			
20	3.08E-016	4.28E-016	100.000			
21	2.84E-016	3.94E-016	100.000			
22	2.57E-016	3.57E-016	100.000			
23	2.34E-016	3.25E-016	100.000			
24	2.16E-016	3.00E-016	100.000			
25	1.92E-016	2.67E-016	100.000			
26	1.86E-016	2.58E-016	100.000			
27	1.39E-016	1.94E-016	100.000			
28	1.35E-016	1.87E-016	100.000			
29	1.02E-016	1.42E-016	100.000			
30	9.71E-017	1.35E-016	100.000			
31	8.39E-017	1.17E-016	100.000			
32	6.92E-017	9.62E-017	100.000			
33	5.66E-017	7.86E-017	100.000			

Extraction Method: Principal Component Analysis

Component	Initial Eigenvalues		Cumulative %	Extraction Sums of Squared Loadings		
	Total	% of Variance		Total	% of Variance	Cumulative %
34	2.43E-017	3.37E-017	100.000			
35	9.89E-018	1.37E-017	100.000			
36	3.32E-018	4.61E-018	100.000			
37	3.14E-032	4.36E-032	100.000			
38	2.50E-032	3.47E-032	100.000			
39	1.02E-032	1.42E-032	100.000			
40	4.00E-034	5.56E-034	100.000			
41	-2.17E-033	-3.02E-033	100.000			
42	-4.70E-033	-6.53E-033	100.000			
43	-1.73E-032	-2.41E-032	100.000			
44	-2.70E-032	-3.75E-032	100.000			
45	-1.09E-017	-1.52E-017	100.000			
46	-2.33E-017	-3.24E-017	100.000			
47	-3.90E-017	-5.42E-017	100.000			
48	-5.26E-017	-7.31E-017	100.000			
49	-8.20E-017	-1.14E-016	100.000			
50	-1.02E-016	-1.41E-016	100.000			
51	-1.03E-016	-1.43E-016	100.000			
52	-1.15E-016	-1.59E-016	100.000			
53	-1.40E-016	-1.94E-016	100.000			
54	-1.67E-016	-2.32E-016	100.000			
55	-1.79E-016	-2.49E-016	100.000			
56	-2.33E-016	-3.24E-016	100.000			
57	-2.61E-016	-3.63E-016	100.000			
58	-2.63E-016	-3.65E-016	100.000			
59	-2.79E-016	-3.87E-016	100.000			
60	-3.18E-016	-4.42E-016	100.000			
61	-3.43E-016	-4.77E-016	100.000			
62	-3.88E-016	-5.39E-016	100.000			
63	-4.02E-016	-5.58E-016	100.000			
64	-4.25E-016	-5.90E-016	100.000			
65	-5.08E-016	-7.06E-016	100.000			
66	-5.11E-016	-7.09E-016	100.000			
67	-5.57E-016	-7.73E-016	100.000			
68	-5.82E-016	-8.08E-016	100.000			
69	-6.04E-016	-8.39E-016	100.000			
70	-7.09E-016	-9.84E-016	100.000			
71	-8.55E-016	-1.19E-015	100.000			
72	-1.27E-015	-1.76E-015	100.000			

Extraction Method: Principal Component Analysis

## APPENDIX IX

**Table 4.26: Component Matrix (a)**

	Component				
	1	2	3	4	5
Technical	-.834	-.271	.023	.409	.250
Goals	.632	-.579	.513	-.038	.012
Employees turnover	.600	.462	.123	.118	.630
Directors meetings	.741	-.550	-.187	.330	.077
Family meetings	.610	-.523	-.266	.528	.073
Other employees	-.607	.089	.543	-.571	-.053
Communication mgt	.919	.047	.377	.087	-.052
Directors	.901	.273	.268	.123	-.165
Other stakeholders	.901	.273	.268	.123	-.165
Other employees	-.930	-.177	.173	.104	.252
Performance stds	.969	-.076	-.093	-.164	-.139
Comparison	.814	-.445	.331	-.098	.139
Results of comparison	.920	-.175	.091	-.132	.314
Why business	-.747	-.051	.531	.285	.274
Involvement of family	.888	.211	-.278	.108	-.278
Mentor/encouraging	.930	.177	-.173	-.104	-.252
Involvement	.930	.177	-.173	-.104	-.252
Appoint	.791	.295	.474	.230	-.101
Seminars	.791	.295	.474	.230	-.101
Willingness	.887	.238	-.373	.019	-.130
Grade	.883	.254	-.173	.239	-.262
Training	.762	.254	-.504	-.228	.221
Skills	.762	.254	-.504	-.228	.221
Other tasks	.851	-.465	.051	-.229	.066
Perf as is	.851	-.465	.051	-.229	.066
Reward perf	.851	-.465	.051	-.229	.066
Age	.777	-.381	.484	.008	-.129
Someone to confide	.610	-.523	-.266	.528	.073
Confidant from nuclear	.841	-.531	-.064	.035	.075
Discuss	.670	.258	-.560	-.247	.332
Interest in business	-.670	-.258	.560	.247	-.332

Extraction Method: Principal Component Analysis.

5 components extracted.

	Component				
	1	2	3	4	5
Delegates	.279	-.700	-.154	.412	-.488
Hot tempered	.072	.880	.036	.323	-.338
Strategic planner	-.153	.938	-.119	.279	.063
Decision	-.229	.836	.246	.411	.139
Generosity	-.181	.723	-.611	-.018	.266
Business	.670	.258	-.560	-.247	.332
Financing activities	.291	.668	.645	-.176	-.150
Job specification	.171	.826	-.296	.151	-.422
Motivate	.476	.657	.200	-.463	-.297
Exit strategy	-.060	.761	.423	.460	-.167
How	-.060	.761	.423	.460	-.167
Children ability	-.177	-.812	.298	-.461	.083
Financial	.618	-.337	.668	.105	.219
Strategy	.333	.594	.669	-.132	-.266
Self-running	.247	-.136	-.831	-.431	-.210
Delegatn	.536	-.162	-.594	.536	.215
No nonsense	.428	.415	.597	-.527	-.095
Credible	.071	.516	.848	.097	.004
Cool under	.236	.346	.657	-.564	.275
Recruit	.495	-.349	.607	.456	.239
Vacant	-.242	-.357	.637	.636	-.069
Appraise	.618	-.337	.668	.105	.219
Succession	-.173	-.055	-.918	.306	-.174
Exit	.247	-.136	-.831	-.431	-.210
Concerning business	.559	-.498	-.059	.648	.128
Senior mgt	-.011	-.072	-.010	-.947	-.312
Influence	-.480	-.506	.190	-.626	.293
Children perfm	.466	-.066	.330	-.818	.010
Employee	.426	-.341	.119	-.147	.817
Decision on nw pdt	.600	.462	.123	.118	.630
Finance	.339	-.288	.332	-.026	.832
Time	-.400	.089	-.476	-.173	.759
Grow up	.438	-.570	.209	-.118	-.653
Train program	.512	-.178	-.281	-.204	-.766
Inheritance	.491	.427	-.457	.312	.520
Employees pro	.600	.462	.123	.118	.630

Extraction Method: Principal Component Analysis.

5 components extracted.

## APPENDIX X

### REGRESSION

In all cases of regression,  $\alpha_1$  and  $\beta_1$  are tested for significance using the true input estimates of the parameters  $\alpha$  and  $\beta$  by;

Formulate hypothesis for the intercept  $H_0 : \alpha = 0$

$$H_1 : \alpha \neq 0$$

And computing

$$t_c = \frac{\alpha - 0}{S_a}$$

For the gradient;

$$H_0 : \beta = 0$$

$$H_1 : \beta \neq 0$$

And  $t_c = \frac{b - \beta}{S_b}$

$$\text{Where } S_a = \sqrt{\frac{\sum x^2}{n \sum x^2 - (\sum x)^2}}$$

$$S_b = \frac{S_e}{\sqrt{\sum x^2 - \frac{(\sum x)^2}{n}}}$$

$$S_e = \sqrt{\frac{\sum y^2 - a \sum y - b \sum xy}{n - 2}}$$

*$S_e$  is the standard error of the regression,*

*$S_b$  is the standard error of the intercept and*

*$S_b$  is the standard error of the gradient/coefficient*

$t_\alpha$  is obtained from the student distribution table for the corresponding significance level required and the degree of freedom given by  $n-2$ .

If the coefficient  $\beta$  is found not to be significantly greater than zero (0), the regression equation would collapse to be  $y = a$ .