

**THE ROLE OF THE FAMILY COUNSEL BOARD ON THE GROWTH OF SMALL
AND MEDIUM ENTERPRISES IN KENYA AFTER EXIT OF THE FOUNDER: A CASE
OF NAIROBI CBD FAMILY SMALL SMES**

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ABSTRACT

Family firms' growth plays a crucial role in the growth of the economy as a whole, due to the prominence of family firms in the economy, especially in Kenya. SMEs account for around two-thirds of total employment, and half of the turnover in the Kenyan business sector. Given this prominent place of SMEs, macroeconomic growth depends necessarily on the management of these SMEs. It is also estimated that approximately 20% small business enterprises exit from the business as a result of various reasons in Kenya poor corporate governance being one of them. To the best of the researcher's knowledge, no study has ever concentrated on detailing the relationship between the role of family counsel and financial performance of SMEs in Kenya. The general objective of this study was to establish the role of the family counsel on the financial performance of family small and medium enterprises in Kenya. The study also sought to determine whether family counsel, family counsel skills, family counsel composition and family counsel leadership structure on the financial performance of family small and medium enterprises in Kenya. This study used a descriptive research design. The target population for this study was all the counsel members in family SMEs located in Nairobi Central Business District. There are 120 SMEs in Nairobi Central Business District. Each of the SMEs has 6 family counsel members. The target population for this study was therefore being 720. The sample size of this study will therefore be 72 respondents. Primary data was collected using a questionnaire. The data collected was mainly quantitative, however some qualitative data was collected from the open ended questions to enhance uncover any convergent and divergent views. Descriptive statistics was used to summarize the data. This included percentages and frequencies. All quantitative data on the role of the family counsel on the financial performance of family small and medium enterprises in Kenya was measured in real values by normalizing. The study found

that the size of the family counsel board affects the growth of SMEs to a great extent. The study concludes that the size of the family counsel board affects the growth of SMEs to a great extent. The study also found that family counsel board skills affect the growth of SMEs to a great extent. The main skills needed by family counsel board in order to ensure the growth of a family SME were human resource management skills, creativity and innovation, marketing skills, interpersonal skills, communication, entrepreneurial skills, customer relation skills, risk management skills and planning.

Key Words: family counsel board, small and medium size enterprises, Nairobi Central Business District

Introduction

There is growing recognition of the important role small and medium enterprises (SMEs) play in economic development. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines (Kayanula & Quartey, 2004). Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers. Dun & Bradstreet (2003) found that in the USA, 45 percent of all business failures are caused by the appointment of incompetent managers to chief executive positions. In the context of family owned businesses (FOBs), the ability to ensure competent family leadership across the generations may be even more complex. Research shows that failure to provide for succession is the primary cause for the demise of family owned businesses. Studies reveal that only one third of these firms survive into the second generation, and only 10-15% make it into the third generation. In the Republic of South Africa, it is estimated that 91% of the formal business entities are Small, Medium and Micro Enterprises (SMMEs) (Berry et al., 2002). They also contribute between 52 and 57% to GDP and provide about 61% of employment (Gumede, 2004). SMEs therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries.

As a sector that accounts for 75% of the total employment in Kenya while contributing 18.4 percent of the country's Gross Domestic Product, the SME sector has caught the attention of government and other private sector who in a bid to move the country to a middle level economy as envisaged in the development blue print of Vision 2030 are strategizing how to create an enabling environment for this sector with the realization that the sector is a key pillar if the country is to realize its Vision 2030 (Muhoho, 2008). Already the Kenyan government has taken the driver's seat in championing SME sector as key to shaping the Vision 2030 Kenyan dream. "SMEs are central in creating a balance between the needs of rural and other disadvantaged areas, where the majority of the poor live thus increasing competition and contributing to a more equitable distribution of income (Ramachandran, 2008). This is due to the fact that they are the main source of economic growth and employment. The general objective of this study was to

establish the role of the family counsel board on the growth of small and medium enterprises in Kenya after exit of the founder by focusing on Nairobi CBD family small SMEs. Specifically the study sought to:

- i. To determine whether family counsel board size influences the growth of small and medium enterprises in Kenya after exit of the founder
- ii. To determine whether family counsel board skills affects the growth of small and medium enterprises in Kenya after exit of the founder
- iii. To establish the role of family counsel board composition in the growth of small and medium enterprises in Kenya after exit of the founder
- iv. To assess the effects of family counsel board leadership structure on the growth of small and medium enterprises in Kenya after exit of the founder

Theoretical Review

Resource Dependency Theory

Resource-dependence theory is a theory of organization(s) that seeks to explain organizational and inter-organizational behavior in terms of those critical resources that an organization must have in order to survive and function. The resources dependence approach, developed from Pfeffer (2006) & Pfeffer & Salancik (2007), emphasizes that external directors enhance the ability of a firm to protect itself against external environment, reduce uncertainty or co-opt resources that increase the firm's ability to raise funds or increase its status and recognition.

The influence of the family counsel as a resource is likely to vary between firms of different sizes. Where size and diversity of the family counsels may be major benefits for small firms they may act constraints for larger firms. Goodstein et al., (2009) research finds that larger family counsel size influences firm performance negatively and is predominantly in businesses of larger size (more than 500 employees). It may also be that the family counsel size and diversity are nonlinear influences on the firm performance as size varies; producing increasing returns as family counsel size/ diversity increases, as we moves from very small to medium-sized firms, but producing little additional improvement in performance, or even diminishing performance, as we move from medium to large firms (Morris et al., 2008; Fox, Nilakant & Hamilton, 2006).

Stewardship Theory

Stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. The issue becomes whether or not the organisation structure helps the executive to formulate and implement plans for high corporate performance (Donaldson 2004). Stewardship theory assumes that managers

are stewards whose behaviors are aligned with the objectives of their principals. The theory argues and looks at a different form of motivation for managers drawn from organizational theory. Managers are viewed as loyal to the company and interested in achieving high performance (Goldberg, 2009).

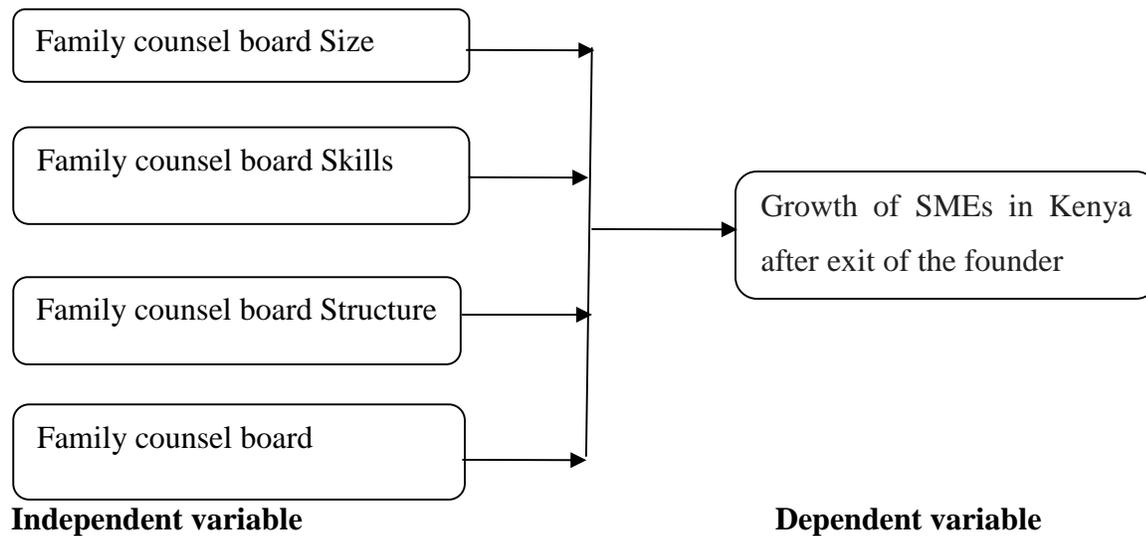
Organizational Portfolio Theory of Family counsel Composition

Organizational portfolio theory of organizational change and success was proposed by Donaldson (Donaldson, 2010). Organizational portfolio theory argues that performance drives organizational change. It aims to provide a coherent explanation of the factors which produce adaptation and culminate in long-term success, as well as why some organizations fail to make needed changes. Organizational portfolio theory stipulates a range of eight portfolio factors which interact to cause performance fluctuations (i.e. risk). Central to organizational portfolio theory is the level of performance necessary to precipitate or prevent the implementation of needed structural adaptations. Firms typically need to experience a crisis of poor performance before they make required structural changes (Hamilton & Shergill, 2004). Organizational portfolio theory thus asserts that a combination of portfolio factors which causes performance to drop below the satisfying level is the usual trigger of organizational adaptations.

Schumpeterian theory of Family counsel board Leadership Structure

The Schumpeterian theory of the state has been largely neglected in recent discussions on the analytical relevance of Schumpeter's thought for current theorising on the economic role of the state (Abor & Biekpe, 2005). Indeed, it is argued in the following essay that fiscal sociology provides those conceptual foundations for the Schumpeterian theory of the state that parallel the analytical impact of the sociology of leadership in the Schumpeterian theory of entrepreneurship, as both conceptual frameworks account for the developmental impact of institutional variety (Baysinger & Butler, 2004).

Conceptual Framework



Research methodology

This study used a descriptive research design. The target population for this study was all the counsel members in family SMEs located in Nairobi Central Business District. There are 120 SMEs in Nairobi Central Business District. Each of the SMEs has 6 family counsel members. The target population for this study was therefore 720 persons. Stratified random sampling technique The sample size of this study will therefore be 72 respondents determined through Stratified random sampling technique. Primary data was collected using a questionnaire. The data collected was mainly quantitative, however some qualitative data was collected from the open ended questions to enhance uncover any convergent and divergent views. Descriptive statistics was used to summarize the data. This included percentages and frequencies. All quantitative data on the role of the family counsel on the financial performance of family small and medium enterprises in Kenya was measured in real values by normalizing.

Results

The study was conducted on 72 respondents who were served with a questionnaire; out of 72 targeted respondents 58 questionnaires were returned duly filled which made a response rate of 80.6%.

Reliability Analysis

Reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. Cronbach Alpha was established for every objective in order to determine if each scale (objective) would produce consistent results should the research be done later on.

Table 4.1 shows that Family counsel board size had the highest reliability ($\alpha=0.818$) followed by family counsel board Skills ($\alpha=0.789$), then family counsel board composition ($\alpha = 0.723$) and family counsel board Structure ($\alpha=0.719$). This illustrates that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.6.

Reliability Coefficients

Scale	Cronbach's Alpha	Number of Items
Family counsel board Size	0.818	6
Family counsel board Skills	0.789	7
Family counsel board Composition	0.723	2
Family counsel board Structure	0.719	8

Family Counsel Board Size

The size of the family counsel board in this firm

	Frequency	Percent
less than 5	12	20.7
between 5 and 10	32	55.2
between 10 and 15	8	13.8
more than 15	6	10.3
Total	58	100.0

On the size of the family counsel board, the study requested the respondents to indicate their age category, from the findings, the study found that 55.2% of the respondents as indicated the size to be between 5 and 10 , 20.7% of the respondent indicated the size to be less than 5, 13.8% of the respondents indicated the size to be between 10 and 15, whereas 10.3% of the of the respondents indicated the size to be more than 15, this is an indication that the size of the family counsel board to be less than 10 members.

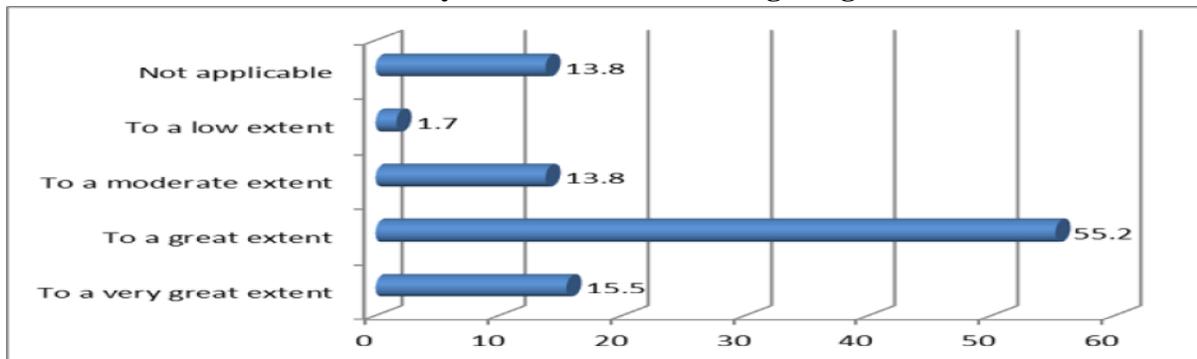
Size of the family counsel board affecting the growth of SME

	Frequency	Percent
Yes	50	86.2
No	8	13.8
Total	58	100.0

From the findings on whether the size of the family counsel board affects the growth of SMEs, the study found that majority of the respondents as shown by 86.2% believed that the family counsel board size affects the growth of SMEs whereas 13.8% of the respondents were of the

opinion that family counsel board size has no effect on the growth of SMEs, this is an indication that the family counsel board size has an effect the growth of SMEs.

Extent to which size of the family counsel board affecting the growth of SME



From the findings on the extent to which the size of the family counsel board affects the growth of SMEs, the study found that majority of the respondents as shown by 55.2% indicated that the size of the family counsel board affects the growth of SMEs to a great extent, 15.5% of the respondents indicated very great extent, whereas 13.8% of the respondents indicated to a moderate extent and not applicable in each case. This is an indication that the size of the family counsel board affects the growth of SMEs to a great extent.

Family Counsel Board Skills

Extent to which family counsel board skills affect the growth of SME

	Frequency	Percent
To a very great extent	5	8.6
To a great extent	35	60.3
To a moderate extent	16	27.6
To a low extent	2	3.4
Total	58	100.0

From the finding on the extent to which family counsel board skills affects the growth of SMEs, the study found that majority of the respondents as shown by 60.3% indicated that the family counsel board skills affects the growth of SMEs to a great extent, 27.6% of the respondents indicated to a moderate extent, 8.6% of the respondents indicated very great extent whereas 3.4% of the respondents indicated to a low extent, the above information show that the family counsel board skills affects the growth of SMEs to a great extent. The study on the main skills needed by family counsel board in order to ensure the growth of a family SME found that the main skills needed by family counsel board in order to ensure the growth of SME are human resource management skills, creativity and innovation, marketing skills, interpersonal skills,

communication, entrepreneurial skills, customer relation skills, risk management skills and planning.

Family Counsel Board Compositions

Family counsel board composition affecting the growth of SME

	Frequency	Percent
Yes	43	74.1
No	15	25.9
Total	58	100.0

On whether the family counsel board composition affects the growth of SMEs, the study requested the respondents to indicate whether family counsel board composition affect the growth of SMEs, the study found that majority of the respondents as shown by 85.9% believed that the family counsel board composition affects the growth of SMEs whereas 14.1% of the respondents were of the opinion that family counsel board composition has no effect on the growth of SMEs, this is an indication that the family counsel board composition affects the growth of SMEs. The findings concur with those of Ferguson and Taylor (2005) who found that there is a relationship between family counsel board composition and the growth of SMEs.

Extent to which Family counsel board composition affecting the growth of SME

	Frequency	Percent
To a very great extent	3	5.2
To a great extent	30	51.7
To a moderate extent	11	19.0
Not applicable	14	24.1
Total	58	100.0

From the finding on the extent to which counsel board composition affects the growth of SMEs, the study found that majority of the respondents as shown by 51.7% indicated that the counsel board composition affect the growth of SMEs to a great extent, 24.1% of the respondents indicated not applicable, 19% of the respondents indicated moderate extent whereas 5.2% of the respondents indicated to a very great extent, the above information show that that the counsel board composition affects the growth of SMEs to a great extent.

Family Counsel Board Structure

Extent to which family counsel board structure affects the growth of SME

	Frequency	Percent
To a very great extent	13	22.4
To a great extent	34	58.6
To a moderate extent	11	19.0
Total	58	100.0

From the finding on the extent to which counsel board structure affects the growth of SMEs, the study found that majority of the respondents as shown by 58.6% indicated that the counsel board structure affect the growth of SMEs to a great extent, 22.4% of the respondents indicated to very great extent whereas 19% of the respondents indicated to moderate extent, the above information show that counsel board structure affects the growth of SMEs to great extent.

Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 20) to code, enter and compute the measurements of the multiple regressions

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.901 ^a	.811	.798	.88195

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.798 an indication that there was variation of 79.8% on the growth of SMEs in Kenya after exit of the founder due to changes in family counsel board size, family counsel board skills, family counsel board composition and family counsel board structure at 95% confidence level . R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.901.

Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.042	2	0.021	3.064	.018 ^b
	Residual	17.93	55	0.326		
	Total	17.972	57			

From the ANOVA statics in table above, the processed data, which is the population parameters, had a significance level of 1.8% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. It also indicates that the model was statistically significant and family counsel board size, family counsel board skills, family counsel board composition and family counsel board structure were significantly affecting growth of SMEs in Kenya after exit of the founder.

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.510	.440		1.209	.000
Family counsel board Size	-.226	.129	-.026	-.205	.018
Family counsel board Skills	.125	.112	.152	1.121	.026
Family counsel board Composition	.247	.125	.262	1.971	.043
Family counsel board Structure	.276	.185	.183	1.488	.042

The established regression equation was

$$Y = 0.510 - 0.226 X_1 + 0.125 X_2 + 0.247 X_3 + 0.276X_4$$

From the above regression equation it was revealed that holding family counsel board size, family counsel board skills, family counsel board composition and family counsel board structure to a constant zero , growth of SMEs in Kenya after exit of the founder would stand at 0.510 , a unit increase in family counsel board size would lead to decrease in the growth of SMEs in Kenya after exit of the founder by a factors of 0.226, unit increase in family counsel board skills would lead to increase in growth of SMEs in Kenya after exit of the founder by factors of 0.125 , unit increase in family counsel board composition would lead to increase in growth of SMEs in Kenya after exit of the founder by a factor of 0.247 and unit increase in family counsel board structure would lead to increase in growth of SMEs in Kenya after exit of the founder by a factors of 0.276. This shows that there was positive association between growth

of SMEs in Kenya after exit of the founder and family counsel board skills, family counsel board composition and family counsel board structure, the study also found that there was a negative relationship between growth of SMEs in Kenya after exit of the founder and family counsel board size. All the p-value for all the independent variable were found to be less than 0.05 an indication that they were statistically significant with family counsel board size being the most significant , followed by family counsel board skills, then family counsel board structure and lastly family counsel board composition.

Conclusion

The study concluded that the size of the family counsel board affects the growth of SMEs; it was also revealed that the family counsel board size affects the growth of SMEs to a great extent. Thus the study concluded that the size of the family counsel board affects the growth of SMEs to a great extent. The study concluded that the family counsel board skills affects the growth of SMEs, the study also concludes that family counsel board skills affects the growth of SMEs to a great extent. The main skills needed by family counsel board in order to ensure the growth of a family SME were human resource management skills, creativity and innovation, marketing skills, interpersonal skills, communication, entrepreneurial skills, customer relation skills, risk management skills and planning. The study further concluded that the family counsel board composition affects the growth of SMEs to a great extent. The study concluded that board composition affect the growth of SMEs through Idea generation, diversity of opinions, flexibility, speed of decision making, profit margins, increased sales, delegation of duties, restricting outside decisions, and keeping up with competition. The study concludes that the counsel board structure affects the growth of SMEs to a great extent. Those facets of family counsel board structure affecting growth of SMEs were, firm-level assessment, transformational style, delegation of duties, roles of the CEO and family counsel board flexibility.

Recommendation

From finding the study recommends that there is need for family SMEs to reduce the number of board size as it was found that the size of the family counsel board affects the growth of SMEs negatively to a great extent. The study recommends that there is need for family owned SMEs to enrich their board member with managerial skill like human resource management skills, creativity and innovation, marketing skills, interpersonal skills, communication, entrepreneurial skills, customer relation skills, risk management skills and planning as this will positively influence the growth of SMEs. There is need for Family owned SMEs to properly constitute their board composition as it was found that family counsel board composition affects the growth of SMEs to a great extent. This will help the SMEs through idea generation, diversity of opinions, flexibility, speed of decision making, profit margins, increased sales, delegation of duties, restricting outside decisions, and keeping up with competition. The study also recommends that

there is need for family owned SMEs to properly constitute the board structure as this positively influence the growth of SMEs, as it was found that the counsel board structure affects the growth of SMEs to a great extent.

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