

**EXECUTIVE SUCCESSION AND PERFORMANCE IN
SMALL AND MEDIUM ENTERPRISES**

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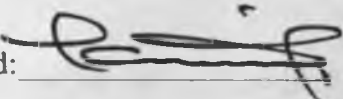
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award of the degree of Doctor of Philosophy in Business Administration, University of
Nairobi**

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Declaration

I, the undersigned, declare that this Ph.D Independent study paper is my original work and has not been submitted for any ward to any other college, institution or university other than University of Nairobi.

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Abstract

This study was to review the theories, issues and research findings relevant in the executive succession and performance in small and medium enterprises (SMEs). This paper attempts to answer key questions to the challenges and practices in executive succession.

Researchers have widely argued that the long term survival of SMEs is at risk mainly due to the challenge in executive succession. Executive succession in family owned SMEs is significantly different from non family owned.

The review of the conceptual framework in executive succession and performance identifies Performance as the dependent variable whereas successor origin, successor development/training, inter-generational relationships, predecessor leadership, compensation, educational level and functional background experience as independent variables. From the literature review it shows that the independent variables are studied in isolation, their joint effect on executive succession and performance has not been studied. The relationships of the moderating variables like culture and strategy has also not been established. While there is an attempt to study executive succession in large firms, there still exist gaps in SMEs executive succession particularly in the African context.

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CHAPTER ONE: INTRODUCTION

1.1 Background of SMEs

There has been no consensus on the definition of SMEs and researchers have given various definitions. For example, Kinyanjui (1996) defined them as firms employing between 1 and 150 persons. Soderbom (2004) and JICA and MOTI (2008) defined Small and Medium Enterprises in Kenya as businesses employing between 10 and 100 employees. They defined Small enterprises as those employing between 10 and 50, while Medium were those employing between 50 and 100. For the purposes of this study Soderbom (2004) and JICA and MOTI (2008) definition will be adopted. The importance of the small and medium enterprise sector to economic development cannot be overemphasized. In Kenya, as in many other countries, the levels of economic dependence on small and medium enterprises have increased in recent years as a result of increasing lay-off in both public and private sectors. Many of the retrenches tend to establish SMEs (Kandie 2009).

The overall contribution of small and medium enterprises to economic development is well documented (Dollinger, 1995, Hisrich 1988, Kuratko and Hodgetts, 1998 and Yu, 2001). Papoutsis (1996) noted that 4 percent of enterprises, characterized as fast-growing SMEs, contributed some 50 percent of net job creation. Similar findings were reported ten years earlier in a study of fast growing small businesses in the North East of England (Storey et al. 1987). Mead and Liedholm (1998) reported from a study of micro and small enterprises (MSEs) that firms with 10-50 employees constituted less than 2 percent of the businesses in virtually all the surveyed countries in Africa. In fact, the majority of SMEs in Africa consist of only one employee, with the bulk of the remainder employing less than 10 people. Small businesses still comprise the great majority of all businesses in the UK with well over 99 per cent of all businesses having fewer than fifty employees (DTI 1998). In Japan, official data suggested that at the beginning of the 1990s, just fewer than 80 per cent of all jobs were in small and medium-sized enterprises with less than 300 employees (Ministry of International Trade and industry 1993). Other developed countries such as United State of America (USA) and Germany, offer similar profiles. Kotey and Meredith (1997) asserted that SMEs play a major role as job

provider, income distribution through business opportunities and rural development and also increase investment and development of entrepreneurship.

This sector plays a major role in employment-creation and income generation. It is also estimated to employ two-thirds of all Kenyans of working age, either on full-time or part-time basis (00K, 1992). K'Obonyo (1999) asserted that a long-term solution to Kenya's growing problems of limited employment and income generation opportunities lies squarely in the small enterprises sector. He further pointed out that the Government of Kenya and donor agencies have recognized this fact and they have developed policies to support this sector. It is expected that the growth of the small enterprises into medium enterprises will be realized. However, K'Obonyo asserted that the expected growth of the small enterprises into medium to big scale enterprises has not occurred despite the support from donor agencies and non-governmental organization.

The benefits of small firms to Kenya are outlined in Kenya's Sessional Paper No. 2 of 1992 (Government of Kenya, 1992). Kenya Vision 2030 is in line with Kenya Sessional Paper No 2. The aim of the Kenya Vision 2030 is to create "a globally competitive and prosperous country with a high quality of living by 2030. It is expected that the country will be transformed into "a newly-industrialized middle-income country providing a high quality of life to all its citizens in a clean and secure environment". This vision is anchored on three pillars: improvement of economic growth rate by 10 percent per annum, improvement of social life to all Kenyans and improvement of political governance (Kenya Vision 2030, 2007). The vision touched on the introduction of industrial parks for SMEs in major urban towns and intends to promote region-specific industrial and manufacturing activities. The agro-industries will be established across the country since Agriculture contributes 24 percent of GDP, it is expected that when agricultural products are processed, the industry will add value and earn a better price than selling the produce as raw materials. The agro-industries activities could include processes such as blending and packaging of fertilizers, tea, coffee and processing of meat and fish. However, vision 2030 did not articulate the major issues affecting SMEs such as credit with good interest rates and zero rating of taxes to enable them compete with cheap imported goods.

The need for policies which support SMEs to raise development funding, maximize the benefits of technology, improve their workforce skills, develop management and leadership, establish and sustain new businesses and also support SMEs to be innovative cannot be over-emphasized.

The SMEs play a major role in the economy. The following are some of the positive outcomes from this sector: significant contribution to the economy in terms of output of goods and services in exemplified by the sector's contribution of approximately 18.4 percent and 30 percent respectively to Kenya's GDP (G.O.K. 1999, 2004); creation of jobs at relatively low capital cost, especially in the fast growing sector for example, MSE sector account for 74.2 percent of Total Employment in the Economy in the year 2002 (GOK, 2003); development of a pool of skilled and semi-skilled workers who form the base for future industrial expansion; strengthening forward and backward linkages among socially, economically and geographically diverse sectors of the economy; creating demand as well as supply, as it has been established that 90 percent of rural enterprise products are marketed directly to rural households; contributing to increased participation of indigenous Kenyans in the economic activities of the country; offering excellent opportunities for entrepreneurial and managerial talent to mature, the critical shortage of which is often a great handicap to economic development; supporting industrialization policies that promote rural-urban balance; increasing savings and investment by local Kenyans and encouraging use of local resources, thus leading to more effective use of capital and quick adaptation to market changes.

1.1.1 Executive succession and strategic management

Executive succession is a major component of leadership transition. CEO/Executive succession is of central importance in strategic management. Strategic management is to do with long term success of an organization, it involves strategic planning and implementation. Executive succession is very critical in ensuring the long term success and survival of the firm, some firms even demand that their CEOs start preparing a succession plan right after taking office (Wall Street Journal, 1997) Despite this importance, there is no much empirical investigation into performance implications with Small medium enterprise (SMEs) (Kesner and Sebor, 1994)

Executive Succession is the succession of the top management team that controls and leads the firm operations. It's the top management team that influences the firm's performance. According to Child (1972) Executive management team is defined as the primary unit that governs the firm's environment, makes strategic decisions and evaluates feedback. Executive succession is therefore very critical for the success and long time survival of any firm. Executive Succession is the process of preparing to hand over control of the firm. Specifically, business succession planning is the process of preparing to hand over control of the business to others in a way that is the least disruptive to the business's operations and value. Executive Succession planning is crucial to the success and continuity of a business (Miller, 1993; Ocasio, 1999; Pitcher, Cherim. & Kisfalvi, 2000), particularly for family businesses, where few survive more than one generation (Birley, 1986; Kets de Vries, 1993).

Nepotism is generally perceived to be the reason why families hand over their businesses to their offspring or close family members (Barach, Gantisky, Carlson. & Doochin, 1988; Beckhard & Dyer. 1983); however, "nepotism may prove a serious problem for the family firm" (Pollak, 1985: 215) and may not be in the interests of the firm's shareholders as a group (Barach et al., 1988). Executive succession planning involves planning for the smooth continuation and success of a business which depends greatly on the availability of competent people. Be it profit or non-profit organization, one of the concerns is there may be no successor to drive it once the leader or key person leaves either by choice or by circumstances. This concern has been repeatedly expressed in the papers by leaders from the private and government sector. It is people, or more

aply, the right people, that make things happen. But the music will stop one day! If the leader, executive or key person does not retire (whether by old age, disability or choice) he will end his time of service when he dies. And when they do, problems often set in. The day after is often filled with chaos and uncertainty.

What is likely to happen to the organization/SME when a key leader is eliminated without succession planning in place? Here are some things to expect. First, there would be either no able successor or where there is, the successor is often either unprepared to handle the heavy responsibilities placed upon them or he/she simply does not have the ability to manage the organization in the way it used to be. Whatever the case may turn out to be, the situation can be dire for the organization. Profit may be lost. Business can become untenable to continue. In the case of the unplanned death of an owner, the remaining co-owners and the heirs may be embroiled in a relationship crisis that threatens to wreck the business.

1.1.2 Firm Performance

Firm performance has been perceived as the integration of three broad dimensions: efficiency, effectiveness and adaptability (Moseng and Bredrup, 1993). According to Bradley and Herbert (1996) objective measures to assess performance include creation of new products according to time and resource budget, reduction of operational failures (Mjos, 2002), reduction in organizational costs, increase in overall revenue, improvement of customer service and workforce productivity as well as financial and non-financial measures. The measures of organizational (firm) performance can further be evaluated from various stakeholders (Gu, 1994, and Kaplan and Norton, 1996).

Pearce and Robinson (2007) asserted that researchers during the last decade sought to understand the reasons behind the superior performance of the world's "best firms". They said that one of the early and widely accepted frameworks that identify the key factors that best explain superior performance was the use of McKinsey's 7-s framework. The framework provides a useful visualization of the key components managers must consider in making sure a strategy permeates the day-to-day life of the firm. The McKinsey framework suggests that managers should focus on the six components to ensure effective execution of strategy. The six components are structure,

systems, shared values (culture), skills, style (leadership) and staff. Pearce and Robinson reorganized these six components into four basic elements through which managers can implement strategy. These four components were structure, leadership, culture and performance. In this study institutional factors represent structure, culture and leadership. They further recommended that these factors be managed to fit the strategy if the strategy is to be effectively institutionalized to realize success in performance.

Performance of each firm is in turn determined by the strategy it employs both at the corporate level and in business operation. It is suggested that owner-managers personal values influence the strategies they adopt in operating their businesses and ultimately, the performance of their businesses (Thompson and Strickland, 1986). Garland et al (1989) viewed the owner-manager as the individual responsible for planning in a small firm. They stated that if the individual is not predisposed to planning, then the activity will not take place and personality will play a key role in that predisposition. Researches on strategies used by small firms are inadequate (Robinson and Pearce, 1984). Existing research is mainly on strategies for large firms, only occasionally applied in small firms, suggesting that many do not formally plan or write down their business strategy beyond any immediate or short-term time horizon.

Performance is an essential concept in management research. Managers are judged on the basis of their firm's performance. Good performance influences the continuation of the firm. Much of the research on performance measurement has come from organizational theory and strategic management (Murphy et al., 1996). For instance, Porter (1980) defines good performance as the above-average rate of return sustained over a period of years. Postma and Zwart (2001) argue that in order to measure the multidimensional aspects of performance construct, both objective and subjective measures should be included in the measurement instrument. In this study both objective and subjective measures will be used.

1.1.3 Executive Succession and Firm Performance

Research has shown that many CEOs are reluctant to step down (Boeker, 1992, Ocasio 1994) and that unanticipated and poorly managed succession have a negative impact on shareholder wealth/firm performance (Beatty and Zajac, 1987, Worrell and Davidson, 1987). Because of these

concerns there is an ongoing discussion in the business press urging boards of directors and CEOs to give succession planning top priority (Business Week,1997

Firm performance is crucial for the survival of any firm and over time provides the test of leadership and executive succession strategy (Schendel and Hofer,1979). Staw (1986) proposes that organizational performance may be staged at the level of individual, group or organization. The performance of an organization/firm has a correlation with the executive succession.

The impact of executive/top managers on organizational performance has been recognized as a critical issue in strategic management for many years (Hambrick and Mason,1994,Gupta and Govindarajan,1994,Gunz and Jalland,1996) Parnell, Lester and Manefee, (2000) note that various researchers have continuously emphasized the role of top managers in building superior performing organizations. In line with the forgoing discussion this study seeks to assess the relationship between the executive succession and organizational/firm performance. Concerning the question on the relationship between executive succession and performance, the existing literature does not reveal a straightforward answer.

Executive succession planning helps the successor prepare for taking charge, because the skill demands of a CEO are significantly different from those of lower level executives and may vary from firm to firm (Harris and Helfat, 1997), a well planned succession process provides a successor adequate time to acquire those skills and become familiar with the firm's task environments before fully taking charge.

Firm performance is an important factor influencing the wealth effect of CEO/executive succession (Kesner and Sebor, 1994).For example Friedman and Singh (1989) reported a negative wealth effect of succession following good performance and a positive wealth effect of succession following a poor performance. According to Zajac (1990) when the incumbent executive/CEO retires as expected and passes the CEO title to the heir apparent, it not only shows that the planned leadership transition has been successfully completed, but also signals to investors the firm's ability to avoid leadership disruption in CEO/Executive succession.

Lastly the existence of a succession plan and heir apparent provides the firm with back up leadership in the event that the incumbent CEO is unexpectedly incapacitated (Lorsch and MacIver, 1989)

1.1.4 SMEs in the Kenyan Manufacturing Sector

The Manufacturing sector contributes about 14 percent of gross domestic product (GDP) (GOK, 1998). The growth of Kenya's manufacturing sector since independence has been notable from 10 percent in 1964 to 13.6 percent in 1992. The growth in this sector was mainly attributed to rise in output of the Agro Processing Industries, total employment in this sector rose from 239.8 thousand persons in 2003 to 242.0 thousand persons in 2004. Annual growth slowed from an average of 10.5 percent between 1965 and 1980 to 5.2 percent between 1982 and 1989 and 2.8 percent between 1990 and 1997 (OJK, 1983-1998). The decline in the performance of the manufacturing industry over the years is due to: deteriorating demand in regional markets; increased competition from imports as a result of liberalization; political uncertainty and loss of donor funding; poor infrastructure and deteriorating security conditions; soaring costs of doing business and inefficient use of public resources (GOK, 2004a).

In 2005 the sector showed signs of recovery. A growth of 2.7 percent in 2004 was recorded compared to 1.4 percent in 2003 (OJK, 2005). The recovery is attributed to government imposing legislation to curb restructuring practices that disadvantaged local manufacturers and zero rating excise duty and related taxes. In addition, the African Growth Opportunity Act (AGOA) initiative and the Common Market for Eastern and Southern Africa (COMESA) trading arrangements continued to impact positively on the manufacturing sector. The sector grew by 6.9 percent in 2006 against 5.5 percent in 2005 and grew by 10 percent in 2007 (GOK, 2008).

The main components of this sector include food processing such as cereal milling, meat, dairy, sugar, fruits and vegetables; chemicals, beverages, tobacco, textile, paper, metal and electronics. Manufacturing activities are mainly concentrated in the main urban centres of Nairobi, Mombasa, Nakuru, Eldoret and Kisumu due to availability of infrastructure and markets.

1.2 Purpose of the study

Is to establish the theories, issues and research findings relevant to the executive succession in small and medium enterprises with an objective of identifying the knowledge gaps that exist in the literature.

1.3 Justification of the study

Small and Medium enterprises are becoming a very important sector in the Kenyan economy as it contributes 74.2 percent of total employment. Micro and Small enterprises contributes 18.4 percent to GDP, while Medium enterprises contribute 30 percent to GDP in the Kenyan economy (GOK, 2003 and GOK, 2004b). Despite the major role played by SMEs, little research has been done to establish the influence of succession planning on performance of SMEs in Kenya. Therefore, the purpose of this study is to enhance the understanding of the relationship among the above variables.

The study is expected to provide information that the Government can use to come up with policies which will support SMEs raise development funding, maximize the benefits of technology, improve their workforce skills, develop management and leadership, establish and sustain new businesses and improve their performance. The findings of this research will also be useful to organizations/firms that wish to make better strategic decisions, put the right succession plans in place, change their cultures and implement leadership styles which will enable them make profits and become customer focused in a competitive environment. Finally, this study is expected to extend the frontiers of knowledge as scholars find it useful for teaching and as a basis for further research.

CHAPTER TWO

CONCEPTUAL BACKGROUND

2.1 Introduction

This section discusses the theoretical and empirical literature on Executive succession of Small and Medium Enterprises (SMEs). This chapter reviews theories, issues and research findings in executive succession of SMEs on performance.

2.2 SMEs Survival

According to Birley (1986), very few SMEs survive beyond the first generation. It is rather universal and independent of cultural context or economic/business environment (Lank et al., 1994). Research suggests that only 30 percent of SMEs in the United States survive into the second generation of family ownership (Birley, 1986; Kets de Vries, 1993) and approximately 15 percent to 16 percent survive into the third generation (Morris, Williams, Jeffrey, & Avila, 1997).

The average life expectancy of small/ family firms is estimated to be twenty-four years, which is also equivalent to the average tenure of their founders (Beckhard & Dyer, 1983).

It is noted that, succession planning is crucial to the success and continuity of a business (Miller, 1993; Ocasio, 1999; Pitcher, Cherim, & Kisfalvi, 2000), particularly for family businesses, where few survive more than one generation (Birley, 1986; Kets de Vries, 1993)

According to Helmich (2009) Large companies tend to have more elaborate training programs and complex succession plans than small firms (SME). From the literature its clear that most family business/SME don't survive beyond the death/retirement of the founders due to the lack of succession planning for top executives This study will therefore focus succession planning/Executive succession in small firms/ SMEs hence filling the knowledge gap that exists

Again from the literature review, it is apparent that most of the research was done in the Western World and most researchers have recommended that further research be done in different countries and in different sectors. In addition, a study focusing on the executive succession planning influence of Origin/source of successor, organizational incentives/motivation, coaching/training and leadership on the relationship between succession planning and performance of SMEs appears not to have been done. Little research has been done on SMEs particularly in developing countries such as Kenya. To fill this gap in knowledge, this study attempted to answer this broad question: What is the influence of executive succession planning on performance of Small and Medium enterprises (SMEs) in Kenya?

2.3 Executive Succession Defined

Executive Succession is the process of preparing to hand over control. Specifically, business succession planning is the process of preparing to hand over control of the business to others in a way that is the least disruptive to the business's operations and value.

Succession planning is crucial to the success and continuity of a business (Miller, 1993; Ocasio, 1999; Pitcher, Cherim, & Kisfalvi, 2000), particularly for family businesses, where few survive more than one generation (Birley, 1986; Kets de Vries, 1993). Nepotism is generally perceived to be the reason why families hand over their businesses to their offspring or close family members (Barach, Gantisky, Carlson, & Doochin, 1988; Beckhard & Dyer, 1983); however, "nepotism may prove a serious problem for the family firm" (Pollak, 1985: 215) and may not be in the interests of the firm's shareholders as a group (Barach et al., 1988).

As a major component of leadership transition, CEO succession is of central importance in strategic management. Research has shown that many CEOs are reluctant to step down (Boeker, 1992; Ocasio, 1994), and that unanticipated and poorly managed successions have a negative impact on shareholder wealth (Beatty and Zajac, 1987; Worrell and Davidson, 1987). Because of these concerns, there is an ongoing discussion in the business press urging boards of directors and CEOs to give succession planning top priority (Business Week, 1997). Some firms even demand that their CEOs start preparing a succession plan right after taking office (Wall Street Journal, 1997).

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While succession planning has been found to be more likely at high-performing firms (Zajac, 1990), its performance impact has received little direct empirical investigation (Kesner and Sebora, 1994). Prior research has primarily focused on the event of succession per se or the firm origin of the successor (i.e., insider vs. outsider) in studying the performance impact of CEO succession (e.g., Beatty and Zajac, 1987; Friedman and Singh, 1989; Lubatkin et al., 1989; Worrell and Davidson, 1987; Zajac, 1990). A notable exception is a recent study by Davidson, Nemec, and Worrell (2001). In response to Harris and Helfat's (1998) new succession-planning focused explanation that aims to expand their entrenchment argument of CEO plurality (Worrell, Nemec, and Davidson, 1997), these authors provide some indirect evidence of the performance impact of succession planning by examining investor reactions to CEO plurality announcements.

2.4 Low survival rate of family businesses.

The fact that very few family firms survive beyond the first generation (Birley, 1986) is rather universal and independent of cultural context or economic/business environment (Lank et al., 1994). Research suggests that 30 percent of family firms in the United States survive into the second generation of family ownership (Birley, 1986; Kets de Vries, 1993) and approximately 15 percent to 16 percent survive into the third (Morris, Williams, Jeffrey, & Avila, 1997). The average life expectancy of family firms is estimated to be twenty-four years, which is also equivalent to the average tenure of their founders (Beckhard & Dyer, 1983). Most major overseas Chinese firms survive only as far as the second generation (Chu & MacMurray, 1993). There is even a popular Chinese saying that the third generation dissipates the family's fortune that the first creates and the second helps maintain (Weidenbaum, 1996). Similarly, there is also an English saying that most family businesses go from "clogs to clogs in three generations." Family businesses often succeeded by families' offspring. Although the need to pass the reins of businesses to professional managers is generally recognized, especially when there is no suitably qualified family member, successors to most family businesses continue to be the families' offspring (Kirby & Lee, 1996). Sometimes, this takes place regardless of the ability of these successors to contribute to the businesses (Kets de Vries, 1993).

Family businesses often highly idiosyncratic. Family businesses are highly idiosyncratic (Williamson, 1979). Unlike in other firms, the institutionalization of the idiosyncratic knowledge of the business, which is a form of human-specific asset that arises from learning by doing (Klein, 1988; Williamson, 1979, 1981), tends to be lacking in family businesses. Hence, the idiosyncratic knowledge of family businesses is often individual specific rather than firm specific (Castanias & Helfat, 1991, 1992) and, indeed, may be accessible only to family members and trusted agents. The profitability of family businesses, therefore, often depends on the extent of idiosyncratic knowledge possessed by the heads of their businesses (Barach et al., 1988; Rosenzweig & Wolpin, 1985). Such knowledge or assets include important personal business contacts and networks (Bruderl & Preisendorfer, 1998; Nooteboom, 1993b), the ability to garner the cooperation of the firm's workforce, and knowledge about the local conditions (Pollack, 1985) and the internal operations of the family business (Nooteboom, 1993a)-all of which may be important for firm performance. For example, "Entrepreneurs often employ a personal network of long standing relations with trusted family, colleagues, accountants, customers, local politicians, suppliers or the bank" (Nooteboom, 1993b: 289), and such networks may be an entrepreneur's major asset (Bruderl & Preisendorfer, 1998). Therefore, it is important for a chosen successor to acquire such knowledge through exposure to the idiosyncrasies of the firm (Barach et al., 1988) and through working in all the major departments in the firm, just like other employees (Neubauer & Lank, 1998). Through these processes, a successor also will gain credibility and be accepted by key stakeholders of the family business (Osborne, 1991).

2.5 Succession planning in small firms: a review of literature

Succession planning is increasingly becoming an important issue for both large and small firms due to demographic factors such as the rising number of employees due for retirement and the dwindling number of younger workers stepping in to replace them. This becomes more acute at the senior level. As organisations realise their cutting-edge competitiveness is linked to the talents and enterprise of their employees, what are they doing to ensure that they do not run out of this vital raw material, particularly in the form of leaders and managers? A recent review suggests very little (HRMI, 2004). However, forward-thinking organisations are implementing

succession plans for senior management, which helps create a learning culture for employees at all levels and helps build a development process (Strategic Direction, 2004). Whilst large organisations may have a large internal labour market from which to select successors, this is more problematic in small firms.

Some research has been conducted in succession planning in small firms, particularly in family business firms. Ibrahim *et al.* (2003) report that the survival rate of family firms is very low compared to non-family firms, and so training family members is vital both to improve their business skills but also, more importantly, to improve generational succession. They identify some of the training issues “unique” to family firms, including the reluctance of the founder to let go, lack of succession planning, the lack of grooming (of offspring) and managing the transition. Wang *et al.* (2004) note that researchers argue that the most significant difference between family and non-family firms is the way in which executive succession occurs, and particularly the process of intergenerational family business transfer. Wang *et al.* (2004) provide a conceptual framework identifying the critical factors influencing the succession process within UK family SMEs. Sonfield and Lussier (2004) have also explored the intergenerational differences among family firms, finding that first-generation family businesses do less succession planning than second- and third-generation family firms. Sharma *et al.* (2003a) have investigated the satisfaction with the succession process in family firms. Succession has two interactive dimensions – satisfaction with the process (the decision-making) and effectiveness of succession (its impact). Sharma *et al.* (2003a) propose that satisfaction with the process is influenced by five factors including: the propensity of the incumbent to step aside; the successor's willingness to take over; and succession planning, as well as family and role issues.

They found that perceptions varied between incumbents and successors, and that “incumbents were more satisfied with the process and believed more strongly that they were ready to step aside and succession was planned”, (2003a, p. 668). However, the misalignment might be due to the fact that “the incumbents may not have communicated their propensity to step aside and may have been planning the succession without consulting or communicating with the successors” (2003a, p. 668)”. Incumbents indicated that “their satisfaction is influenced by the successors' willingness to take over but not by their own propensity to step aside. Successors ... indicate ... their satisfaction is influenced by the incumbents' propensity to step aside but not their own

willingness to take over". However, both parties agree on the "importance of succession planning". (2003a, p. 668). This research suggests that there are different perceptions between those handing over, and those taking over, family businesses. In addition, Sharma *et al.* (2003b) also investigated succession planning as planned behaviour and found that the propensity of a trusted successor to take over significantly affects the incidence of all succession planning activities. They conclude that succession planning may be the result of push by the successor more than of pull by the incumbent.

Gender is another issue in succession. A recent *Women in Management Review* (2001) noted that, in a study of nearly 130 small companies, both the incidence of planning and the identification of female successors was lower than expected. No company selected a female successor, despite strong existing candidates, whether relatives or internal managers. Daughters were inappropriate for succession, being either "too good" for the workplace or "doing something better", such as teaching or healthcare. Only male relatives were seen as "heirs apparent" in terms of work status and treatment. Female relatives were neither developed nor encouraged as managers, despite acting as mentors and trainers to the male successors. However, not all small businesses are family firms, where there are "natural" (and possibly competing) successors waiting within the "family labour market". Yet, there is very little research exploring succession planning in non-family, and growth-oriented firms

2.6 Executive Training

Armstrong (2006) defines training as a planned and systematic modification of behavior through learning events, programmes and instruction which enables individuals to achieve the levels of knowledge, skill and competence needed to carry out their work effectively.

Bass and Vaughan (1966) defines learning as a relatively permanent change in behavior that occurs as a result of practice or experience. Training is the use of systematic and planned instruction activities to promote learning, it involves the use of formal processes to impart knowledge and help people to acquire the skills necessary for them to perform their jobs satisfactorily.

Reynolds (2004) points out that training has a complementary role to play in accelerating learning. He further points out that for effectiveness, training must be as relevant and realistic as possible. Training must be justified through a training needs assessment whereby critical information must be imparted to the trainee to ensure they meet their responsibilities successfully.

According to Armstrong (2004) training should be systematic in that it is specifically designed, planned and implemented to meet defined needs. It is provided by people who know how to train and the impact of training is carefully evaluated.

Training is composed of four stages, that is: Identification of training needs, planning of the training programmes designing the training course content that satisfy the needs implementation of the training using experienced & trained trainers, follow up and training evaluation to ensure that it is effective.

2.7 Successor Origin (insider vs. outsider)

As noted, the extent of firm-specific experience of selected executives has been the subject of discussion and research in the management literature. In general, internal hiring is thought to lead to a number of positive outcomes, including reduced costs associated with socialization, turnover, compensation and false positive selection errors (Zajac, 1990) and an increased ability to attract and retain employees (Friedman, 1991). Emphasizing internal hiring also yields potential benefits associated with firm-specific knowledge, because familiarity with products, markets, technologies and standard operating procedures generally accrues with organizational tenure (Gupta, 1984). Thus, all things equal, internal candidates tend to be valued over external candidates. However, certain conditions may make long-term industry or organizational experience dysfunctional. 'Organizational equilibrium theory' (March and Simon, 1958) implies that the longer the tenure of organizational members, the smaller the set of novel or innovative ideas they generate when faced with new situations (Helmich, 1977).

Hambrick and Mason (1984: 200) second this opinion, stating that: 'Executives who have spent their entire careers in one organization can be assumed to have relatively limited perspectives.' In contrast, top managers brought in from outside the organization are thought to have broader

perspectives and a penchant for change. Recent empirical evidence supports this contention. Wiersema and Bantel (1992) found that tenure was negatively correlated with strategic change, while Miller (1991) concluded that CEOs with longer tenure were 'stale in the saddle'- they were less likely than their less-tenured counterparts to head organizations whose strategies and structure adapt and remain aligned with their environments. Ocasio (1993) has also provided results consistent with these findings. The choice of an internal versus an external CEO candidate is undoubtedly influenced by a firm's desire to achieve desired performance levels.

Given arguments in both the academic literature and popular business press associating insiders with increased commitment to the status quo and outsiders with a penchant for change, poor performance should increase the likelihood that external CEO candidates will be recruited (Schwartz and Menon, 1985). Bringing in an outsider may also have symbolic intent in that it sends a strong signal to both organizational members and external constituents that the organization is serious about change (Friedman and Singh, 1989). The antecedent condition of firm growth may also have an effect on the choice of an outsider vs. an insider. Although some evidence suggests that larger firms more often rely on inside executive talent (Dalton and Kesner, 1983), presuccession firm growth may lead to the opposite result. Helmich (1974) argued that adaptation via succession should bear a manifest relationship with organization growth. He equated organizational growth with organizational dynamism and change, and proposed that outside succession represents an adaptive response to growth while internal succession generally represented a nonadaptive response. Growth may also outstrip an organization's ability to develop internal talent, leading to a heightened need to 'raid' executives from competitors (Pfeffer, 1983). To date, there is only limited empirical data with regard to the relationship between inside/outside succession and organizational growth. As discussed by Schuler and Jackson (1987) growth strategies may be more effectively implemented by outsider executives.

A study by the Hay Group, Inc., in conjunction with the Strategic Planning Institute of the University of Michigan, found that growth-oriented companies having more outsiders in leadership positions outperformed growth-oriented companies relying more exclusively on insiders (see Schuler and Jackson, 1987). It is unclear, however, to what extent organizations

pursuing growth strategies tend to rely on outsiders rather than insiders. One study (Helmich, 1974), based on a small sample of 29 firms, found a relationship between growth (in terms of number of subsidiaries and board size) and the incidence of 'adaptive' succession patterns. An 'adaptive' firm was defined as a firm which hired at least one outsider in two consecutive CEO succession events. In summary, the above arguments suggest that both firm profitability and growth affect the probability of inside vs. outside CEO hiring

2.8 Functional background experience

Another background characteristic of top managers which has attracted attention in the strategic leadership literature is functional track experience. Although top managers, especially CEOs, are presumed to have a generalist's view (Hambrick and Mason, 1984) these individuals are usually functionally specialized (Gupta, 1984) and bring to the job knowledge, attitudes and skills which are partly shaped by experience in their primary functional area. From the 'resource dependence' perspective (e.g., Pfeffer and Salancik, 1978), candidates' functional experience may influence succession decisions to the extent this attribute is considered important for resolving critical organizational contingencies. In a similar vein, authors have proposed that organizational strategy partly determines the types of functional expertise central to a firm's success (e.g., Hitt, Ireland, and Palia, 1982), and thus the relative demand for people with different functional backgrounds. While the upper echelons perspective argues that strategic decisions are partly a consequence of top executives' functional experiences, the resource dependence (Pfeffer and Salancik, 1978) and strategic staffing (e.g., Guthrie and Olian, 1991) perspectives reverse this argument, contending that a firm's strategic context will result in executives having particular types of functional experience being hired. A firm's relative emphasis on R&D will likely influence the functional expertise seen as important to a firm's success. As argued by Wiersema and Bantel, backgrounds in areas such as the sciences or engineering are consonant with 'progress, invention, and improvement' (1992: 100).

Hambrick, Black, and Fredrickson (1992) discuss the special management requirements imposed by the unique characteristics of high-technology firms. They argue that due to its 'esoteric foundation,' the 'high-technology organization must have substantial technical wherewithal. It

seems reasonable to expect the same of the CEO' (1992: 8). In a cross-sectional, survey-based study, they found that firms with relatively high levels of R&D expenditures tended to have CEOs with technical (e.g., R&D) functional experience. We specifically test whether this relationship exists at the time of succession: i.e., are R&D intensive firms more likely to select CEOs having technical (R&D, engineering or manufacturing) experience? Individuals with these backgrounds are more intimately familiar with firms' core operations and technologies (Hayes and Abernathy, 1980) and, using Hambrick et al.'s (1992) language, may be viewed.

2.9 Education level

Educational background has been discussed by management researchers as indicating executives' knowledge and skill base. The literature has typically equated attained education level with attributes such as cognitive ability, capacity for information processing, tolerance for ambiguity and propensity or receptivity to innovation (Bantel and Jackson, 1989; Guthrie, Grimm, and Smith, 1991; Hambrick and Mason, 1984; Wiersema and Bantel, 1992). For example, Hambrick and Mason (1984: 200) formally proposed that the 'amount, but not the type, of formal education of a management team will be positively associated with innovation.' In a study of the banking industry, Bantel and Jackson (1989) found that more innovative banks were led by top managers possessing relatively high levels of education.

Top managers' education levels have also been empirically linked with the propensity to deviate from the status quo and implement strategic change (Wiersema and Bantel, 1992). Investment in R&D by firms has been characterized as a strategic decision indicating a firm's propensity and desire for innovation (Baysinger and Hoskisson, 1989; Miller, 1991). In addition, emphasizing the R&D function has been empirically linked with a competitive strategy of innovation (Martell, Carroll, and Gupta, 1992). In discussing the nature of R&D intensive (high-technology) organizations, Hambrick et al. (1992) note that these firms operate in contexts marked by 'high velocity' and 'high uncertainty.' They argue that these contexts require that CEOs be creative, open-minded, risk-taking and tolerant of ambiguity. Given the existing literature equating education level with these types of characteristics (Bantel and Jackson, 1989; Becker, 1970; Guthrie et al., 1991; Hambrick and Mason, 1984; Kimberly and Evanisko, 1981; Wiersema and

Bantel, 1992), R&D intensive firms may emphasize and value educational attainment in selecting their organizational leaders. This proposition is consistent with Bantel and Jackson (1989), who argue that more creative/innovative firms will tend to have more highly educated management teams. Pfeffer (1983) also believes that technologically intensive companies are best served by employing individuals with advanced training and education. We will test whether this relationship is reflected in CEO succession decisions

CHAPTER THREE: PERFORMANCE MEASUREMENT

3.0 Performance and its measurement

Performance is an essential concept in management research. Managers are judged on their firm's performance. Good performance influences the continuation of the firm. Much of the research on performance measurement has come from organizational theory and strategic management (Murphy et al, 1996). For instance, Porter (1980) defines good performance as the above-average rate of return sustained over a period of years.

For an empirical study, it is necessary to specify how a firm's performance will exactly be measured. Additional problems in analyzing performance differences between groups relate to the measurements of the performance used. A number of studies have highlighted the 'multidimensionality' of business performance and the need to include both traditional financial accounting measures together with non-financial data (Venkatraman and Ramanujam, 1986; Dess and Davies, 1984). Financial indicators are important, but provide only a limited view of a company's total value. Non-financial measures such as the quality of management, customer retention, Research and Development (R&D) and innovation, are also indicators of internal operating performance and achievement. Organizational performance is enhanced when there is a good 'fit' between management style and various contextual factors (Khandwalla, 1977).

Measuring performance in new small ventures is subject to a variety of problems (Lentz 1981, Kanter and Brinkerhoff 1981, Tsai, MacMillan, and Low 1991). Traditional accounting measures such as net profits or return on investment are questionable since some new ventures take many years to reach profitability (Biggadike 1979, Tsai, MacMillan, and Low 1991). Market share is not often relevant to small ventures. Survival is an incomplete measure since it does not evaluate performance differences among such firms (Tsai, MacMillan, and Low 1991). Tsai, MacMillan, and Low (1991) and Miller and Adams (1988) suggested the use of multiple measures to compensate for weaknesses in each of the performance measures individually. Thus, the multiple measures are: average annual growth of full time employees since the firm was founded, growth in sales revenue during the last financial year, growth in profits over the last fiscal year; and profitability relative to competitors. Venkatraman and Ramanujam (1986) have pointed out that

firm Performance is a multidimensional construct. They proposed three general levels of firm Performance. The three general levels of firm performance are, briefly discussed below.

Financial performance is at the core of the organizational effectiveness domain. Such performance measures are considered necessary, but not sufficient to define overall effectiveness (Murphy et al., 1996). Accounting-based standards such as return on assets (ROA), return on sales (ROS) and return on equity (ROE) measure financial success (Parker, 2000). These indicators tap current profitability.

Business performance measures market-related items such as market share, growth, diversification, and product development (Gray, 1997). There appears to be two dimensions here: a) those indicators related to growth/share in existing business such as sales growth and e' share and those indicators related to the future positioning of the firm including new product development and diversification. Organizational effectiveness measures are closely related to stakeholders other than shareholders. Examples of such measures are employee satisfaction, quality and social responsibility. The indicators related to quality are product quality, employee satisfaction and overall quality and those indicators related to social responsibility are environmental and community responsibility.

Although firm performance plays a key role in strategic research, there is a considerable debate on the appropriateness of various approaches to the concept utilization and measurement of organizational performance. The complexity of performance is perhaps the major factor contributing to the debate (Beal, 2000). Despite such debate there is general agreement among organization scholars that objective measures of performance are preferable to subjective measures based on manager perceptions (Beal, 2000).

The correct performance measures might be influenced by the size of the firm and the ambition of the management or entrepreneur. There is evidence in the literature that many SMEs establish businesses for reasons other than wealth creation (Boyd and Gumpert, 1987, and Peacock, 1990). The entrepreneur often starts a business with the declared intention of becoming independent and (then) maintains independence by keeping operational control (Gray, 1997). This is supported by

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study is perspective is perpetuated/ survival, the second most important objective is independence. and Growth comes in third place (Meijaard et al., 2002).

Measures of profitability (cash flow), therefore, may not be the first objective of the entrepreneur and therefore not measure success (defined as achieving the objectives) adequately. Moreover on the one hand, sometimes in SMEs subjective goals can be considered more important than objective measures of performance, while, on the other hand, a certain level of profitability is required to remain independent and/or for the continuation of the firm. As a result, several researchers (Postma and Zwart, 2001) argue that in order to measure the multidimensional of the performance construct, both objective and subjective measures should be included in the measurement instrument. In this study both objective and subjective measures were used.

3.1 Organizational Strategy

Many researchers have defined strategy differently. For instance, Mintzberg and Quinn (1996) define strategy as the pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents.

Thompson and Strickland (2003) defined strategy as the pattern of organizational moves and managerial approaches used to achieve organizational objectives and to pursue the organization's mission. Porter (1996) asserted that the essence of strategy is choosing to perform activities differently than rivals do. While, D'Aveni (1994) takes the view that strategy is not only the creation of advantage but also the creative destruction of the opponent's advantage. Brown and Eisenhardt (1998) define strategy as the creation of a relentless flow of competitive advantages that, taken together, form a semi-coherent strategic direction.

The five P's (plan, pattern, position, perspective, and ploy) serve as a key aspect of Mintzberg et al's (1998) framework for analyzing different schools of thought about strategy. They explained

the 5 P's as follows: plan - a direction, a guide, or course of action into the future, pattern -- a set of behaviors over time, for example a company that perpetually markets the most expensive products position - selling particular products in particular markets, perspective - an organization's fundamental way of doing things, for instance, the McDonald's way, ploy - a specific maneuver intended to outwit a competitor.

Zahra (1993) noted that strategy offers a framework within which the company defines possible means for achieving goals. Much of the literature has emphasized the benefits of planning for the company's performance. Yet, research conducted by Pearce and Robinson (1984), and supported by Sexton & Van Aucken (1985), concluded that small and medium sized enterprises (SMEs) barely plan their strategies because of their lack of resources, even when their need for strategic decision making increases dramatically after reaching some initial market success.

Porter's (1998) well known five forces model determines the state of competition in an industry. The author proposes three generic strategies that can be pursued by almost any firm: cost leadership, differentiation and focus. A cost leadership strategy indicates that firms pursue economies of scale which allows them to be a low cost producer and to sell at a lower price than the competitors. The second strategy, differentiation, means that the firm tries to offer a unique product or service to customers by being innovative, which allows the firm to charge a premium price. The focus or niche strategy applies either to cost leadership or differentiation but concentrates on a specific market, group of customers, product or service.

Miles and Snow (1978) proposed that firms in general develop relatively stable patterns of strategic behavior in order to accomplish a good alignment with perceived environmental conditions. These authors proposed four strategic types as follows: defenders, prospectors, analyzers, and reactors. Defenders are organizations which have narrow product-market domains. Top managers in the organization are highly expert in their fields but do not search for new opportunities. As a result of this narrow focus, these organizations seldom do major adjustments in their technology, structure, or methods of operation, instead they devote primary attention to improving efficiency in their operations.

Prospectors are organizations which are continuously in search for new market opportunities and they regularly experiment with potential responses to emerging environmental trends; they are creators of change and uncertainty to which their competitors must respond. They have strong concern for product and market innovation, and usually these organizations are not efficient. Analyzers are organizations that operate in two types of product-market domains, one in stable, and the other in a changing environment. In stable environment, these organizations operate routinely and efficiently through use of formalized structures and processes. In turbulent environment, top managers watch their competitors for new ideas and adopt those which appear to be the most promising. Reactors are organizations in which top managers frequently perceive change and uncertainty occurring in their organizational environments but are unable to respond effectively. They also lack a consistent strategy-structure relationship, it seldom makes adjustment of any sort until forced to do so by environmental pressures (Miles and Snow, 1978).

Gimenez et al (downloaded 25/1/03) adopted Miles and Snow's (1978) typology in their study and observed that analyzer strategy was mostly employed appearing in 44 percent of the firms. In second place came prospector strategy with 22.9 percent followed by reactors (18.3 percent) and defenders (14.7 percent). These findings gave additional evidence of the four types of generic strategies. Hence, this model was chosen for this study because it has been used successfully in previous studies. From the above definition we can say strategy is the roadmap which helps organizations to have focus in meeting customer's requirements and being competitive in the market place.

3.2 Strategy and Performance

Concerning the relationship between strategy and performance, the existing literature does not reveal a straightforward answer. Some of the previous studies have found a positive link (Hofer, 1976; Armstrong, 1982; Bracker & Pearson, 1986; Shrader & Schwenk, 1993) and some others a negative one (Shrader, Taylor & Dalton, 1984; Orpen, 1985). Although, multiform methodologies have been utilized, for instance, Hofer (1976) did not compare findings across studies and he could only suggest a positive relationship between formal planning and the content of plans. Pearce and Robinson (1984) argued that formal strategic planning has a linkage

with performance in large firms than in small firms. Similarly, Schwenk and Shrader (1993) analyzed fourteen studies on formal strategic planning and performance in small firms and found a linkage. They further recommended the use of strategic planning in all firms, regardless of size. According to Sinha (1990) there is a link between planning and performance but he stressed that the quality of planning was critical to the relationship.

Shrader and Schwenk (1993) also encountered a positive link. However, these authors noted the incomparable planning scales and performance measurements used in different studies and about the non-objective measurements, based on the manager's point of view rather than on objective economic criteria. Furthermore, Orpen (1985) criticized the arbitrary use of "formal planning" among different studies, which measure the engagement in strategic planning by asking the owner/manager, who frequently gave a personal inaccurate opinion. Instead, Orpen (1985) based the measurement on the time spent by small firms' managers in long range planning but, as he found out, the quality of the plans appeared to be actually important. The high-performing firms were found to plan a wider range of functions and activities than the low performing ones.

Gibcus and Kemp (2003) carried out a research on strategy and small firm performance and found a positive relationship. In their research they used Porter's typology to measure the strategy and they suggested further research be done using Miles and Snow's typology and compare the results. Most of the studies were based on large firms and this study focused on SMEs in Kenya. Miles and Snow definition was adopted in this study.

3.3 Organizational Culture

Johnson and Scholes (1984) defined corporate culture as being the deeper level of basic values, assumptions and beliefs that are shared by members of an organization'. These values, assumptions, attitudes and beliefs are reflected within an organizational culture. In fact, they are manifested in many ways such as the rites, rituals and routines that take place within an organization, the language used the stories, legends and myths that are told and re-told, the symbols, logos and artifacts that are found throughout the company.

Therefore, an organizational culture is considered to be a set of collective norms that govern the behavior of people within the company. An organizational culture is characterized by members' shared ability to understand specific concepts within the organization (Karathanos, 1998). The key feature is that culture is taught to new members as the correct way to behave, thus perpetuating organizational survival and growth (Maull et al., 2001). Pokharyal (2007) posits that culture and traditions need to be integrated with technology so that unique development strategies suitable to the region are formulated. He further suggested that Africa must inculcate national and regional pride on the basis of ethics; duty and morality among workers, managers, professionals entrepreneurs and above all in politicians, for sustainable development of sub Saharan Africa. The tradition may play a big role in improvement of performance of SMEs but this study focused on organizational culture.

Hofstede (1980) identified national and regional cultural groupings that affect the behavior of organizations. He identified four dimensions of culture in his study namely power distance which he described as relating to the degree of equality/inequality between people in a particular society; individualism collectivism. This dimension focuses on the degree to which a society reinforces individual or collective achievements and interpersonal relationships; certainty/uncertainty avoidance. This dimension concerns the level of acceptance of uncertainty and ambiguity within a society; and masculinity versus femininity. This dimension pertains to the degree to which societies reinforce, or do not reinforce, the traditional masculine work role model of male achievement, control and power.

Harrison (1972) suggested four main types of organizational culture. These are: power, role, task and person. Handy (1978) reworked Harrison's ideas and described the four dimensions of culture using single pictograms and making reference to Greek mythology.

This simple way of representation has made scholars, students and practitioners understand how organizations work. Power culture is characterized by a single source of power from which rays of influence spread throughout the organization. Role culture is characterized by bureaucracy, and its strength lies in its functions or specialists, which are coordinated and controlled by senior

executives. Rules, procedures and job descriptions dominate the internal environment. Task culture is characterized by accomplishing the job in hand by availing resources to make the project successful. The tasks are based on having experts rather than position or charisma to perform the job. Person culture is characterized by a group of people who come together to champion their own interests rather than on an individual basis.

Mahinda (2002) did a research on the relationship between Organizational Culture and Human Resource Practice in the Kenya manufacturing industry and found task culture to be dominant, followed by role culture and thirdly person culture but noted that none practiced power culture. For many years, especially during the last two decades, corporate culture has been acknowledged as an important component of organizational success (Gore Jr. 1999; Corbett and Rastrick, 2000; Lim 1995). In particular, "corporate" or "organizational culture" was used to explain the economic successes of Japanese over American firms, through the development of a highly motivated workforce, committed to a common set of core values, beliefs and assumptions of Denison, 1984; Furnham and Gunter, 1993). Hampden- Turner (1990) suggested that the most significant functions of culture include: conflict reduction, co-ordination and control of organization. Likewise, Sathe (1985a) argued that an organization's culture can also be a liability if shared beliefs, values and assumptions can interfere with the needs of the business. Culture, therefore, seems to play a central role in binding together the elements of the organizational climate. Harrison definition was adopted in the study.

3.4 Organizational Culture and performance

A lot of studies in the 1980s were skeptical about the culture-performance link. In particular, concern was raised about the theoretical validity and practical utility of such claims (Carroll: 1983, Saffold: 1988, Soeters: 1986). Several researchers, such as Kotter and Heskett (1992) have concluded that corporate culture may hurt or help a firm's performance. For example, in Fortune's all star ranking, General Electric earned the highest honor in 1998 since it has spent years developing a corporate culture in which executives have the autonomy to swoop in and take advantage of sudden shifts in markets (Kahn, 1998). A strong organizational culture enables the smooth flow of information and nurtures harmony among its members (Karathanos, 1998).

Improvements in work culture and internal communication thus improves customer's satisfaction (internal and external), which is essential for market growth and profitability in the long term (Lakhe and Mohanty, 1994).

In a study undertaken by Sluti et al. (1995), it was shown that a strong corporate culture could improve quality, and operational and business performance. Organizational culture influences people's actions and behaviors. It also alters their actions in the perceptions of all aspects of their work including quality (Reeves and Bednar, 1994). Findings by Klein et al. (1995), demonstrated that culture has a direct impact on service quality. Peters and Waterman (1982) identified in their Search of Excellence work 36 U.S. companies that had displayed excellent performance between 1961 and 1980; several performance measures were used in their studies. Denison (1984) also conducted an extensive quantitative study on organizational culture and economic performance based-on 34 countries across 25 industries and the results were positive.

Hansen and Wernerfelt (1989) studied 60 firms representing 300 businesses and found that there was a link between organizational culture and performance. Brown (1998) suggested that culture can be seen as both the means to effective organizational performance through the medium of strategy, and a potential barrier inhibiting required strategic realignment which can adversely affect strategy implementation. He further suggested that high economic performance is correlated with a strategically appropriate culture. Similarly, Kotter and Heskett (1992), Deal and Kennedy (1982) and Denison (1990) also supported Brown's sentiments. Collins and Porras (1994) found that companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. Bernard (1995) examined the relationship between organizational culture and organizational performance and found no relationship. However, he suggested that the influence of other variables such as organizational structure, leadership need to be studied.

Mahinda (2002) recommended that further research was required to determine the link between organizational culture, HR practices and performance. Therefore, in this research we investigated the relationship between organizational culture and performance.

3.5 Organizational Leadership

The research on leadership has drawn great attention from scholars in various fields in recent years. Yukl (1989) noted that the study of leadership has been an important and central part of the literature of management and organizational behavior for several years. As a result, researchers have come up with various definitions of leadership, but we shall look at only a few.

According to House et al (1999), leadership is the ability of an individual to influence, motivate and enable others to contribute toward the effectiveness and success of the organization. Sleeth and Johnston (1996), in addition, stated that the actions that link people and tasks to accomplish work is what leadership is all about, while Aosa (1998) asserted that leadership is the ability to influence others to strive towards achieving organizational objectives by mobilizing people and showing them the way forward.

Allen and Kraft (1987) found that the definition of successful leadership is the ability to bring out sustained culture change.⁷ He further said that a leader has a crucial role in setting the vision that the organization is going to move towards and has the responsibility for allocating tasks, duties, structuring the organization and distributing materials and financial resources.

A comparatively new leadership paradigm was proposed in the late 1970s (Bass, 1978) and was further developed in the 1980s (e.g., Bass, 1985). This is the transactional-transformational model of leadership. According to Bass, transactional leadership involves leader-subordinate exchange relations in which the subordinate receives some reward related to lower-order needs in return for compliance with the leader's expectations (Doherty and Danylchuk, 1996). On the other hand, it is believed that transformational leaders will motivate subordinates to pursue higher-order goals by transforming commitment to higher ideals and values instead of self-interests in order to benefit the organization (Doherty and Danylchuk, 1996; Sourcie, 1994; Yukl, 1989).

Bass (1985) elaborated the transactional-transformational model on the basis of Bass' earlier efforts (1978). Bass viewed transformational leadership from the perspective of leaders' influence on their subordinates. Subordinates, influenced by transformational leaders, are

motivated to do more than what they are originally expected to do (Yukl, 1989). Bass argued that transactional leadership and transformational leadership are two "distinct dimension rather than Opposite ends of one continuum" (Doherty and Danylchuk, 1996) - they are distinct but closely related parts of leadership (Yukl, 1989; Weese, 1994).

In addition, Bass pointed out that transformational leadership is the augmentation and extension of transactional leadership. They state that: 'all leaders are transactional, to some extent, exchanging rewards for performance, but some leaders are also transformational, going beyond simple leader-subordinate exchange relations' (Doherty and Danychuk, 1996). According to Doherty and Danyichuk (1996), Bass's argument was supported both empirically and theoretically by other researchers studies.

Armstrong (2001) laid out four main characteristics of transformational leadership when he discussed the transformational leadership of sports teams' coaches, emphasizing: ethical behavior, sharing a vision and goals, improving performance through charismatic leadership, and leading by example. This shows a simplified version of the components of transformational leadership provided by Bass (1985), which also has four elements - intellectual stimulation, individual consideration, inspirational leadership, and idealized influence (Doherty and Danylchuk, 1996; Weese, 1994).

First, intellectual stimulation refers to a leader's capability to stimulate his or her followers to be more curious and creative in thinking and problem solving (Doherty and Danyichuk, 1996; Weese, 1994). Second, individualized consideration involves relationships between leaders and followers on two dimensions: developmental orientation and individual orientation. Third, inspirational leadership refers to the idea that transformational leaders inspire and encourage subordinates to create greater emotional attachments to leaders and greater identification with leaders' visions of organizational goals. The last element is the idealized influence. This component is closely related with charisma. They also 4) pointed out that idealized influence is the behavioral counterpart to charisma and this element refers to the fact that the charismatic traits of a leader will promote his or her followers' commitment in order to tap their full potential.

Bass (1985) noted that transactional leadership behavior is described by contingent reward, management-by-exception (active) and management-by-exception (passive). He also commented that effective leaders use a combination of both types of leadership style (transformational and transactional leadership styles). This study sought to establish which leadership style is employed by Kenyan SMEs. Bass definition was adopted in the study.

3.6 Leadership and Performance

Results from several studies attempting to clarify the effect of top-level leadership on economic aspects of organizational performance include the following: Barling, Weber and Kelloway (1996) noted that Leadership training was found to result in significant effects on subordinates perception of leaders' transformational leadership, subordinates own organizational commitment, and improved financial performance. Hart and Quinn (1993) also posits that CEOs with high "behavioral complexity" (the ability to play multiple, competing roles) produce the best firm performance, particularly with respect to business performance (growth and innovation) and organizational (stakeholder) effectiveness. While, Howell and Avolio, (1993) said that Leadership measures are associated with personality characteristics (e.g. internal locus of control) and significantly and positively predict business-unit performance. Executive leadership was found to explain as much as 45 percent of an organization's performance (Day Lord, 1988).

Darling and Thomas (1999) asserted that there are commonalties in leadership style or strategy distinguish very successful firms from less successful firms. They believe that leadership is only one of several variables that affect the performance of a firm. Also Fiedler (1996) noted that leader's performance is contingent on the leader's style, abilities, and background and on the control and influence of the situation. Thus Kirkpatrick and Locke (1996) empirically supported the opinion of Fiedler that leadership characteristics are correlated with firm success. Peter and Waterman (1982) asserted that the success of a leader is determined by the manager's ability to deal with people effectively and meaningfully. Pinar et al in their study on Organizational performance and Leadership "an empirical study of small Turkish Firms" noted that there is a

positive relationship between Leadership and Performance but reiterated that the scale needs to be improved and further research be done in other countries. It appears that leadership plays a major role in performance of SMEs and this was tested in this study.

O'Regan and Ghobadian (2004) did a research on "Leadership and Strategy: Making it Happen" and their study objective was to answer what is the real link between leadership, strategy and performance of SMEs. In their findings they noted that there was a positive relationship with performance. Ireland and Hitt (1999) pointed out that the literature suggests the formulation and deployment of strategic actions by effective leaders result in strategic competitiveness and above average performance. Berkeley (1988) noted that empirical research supports the proposition that leadership and strategy are positively related to performance. Therefore, we expect that performance of SMEs will do well when strong leadership is aligned with the Strategy.

CHAPTER FOUR:SUMMARY OF EMPIRICAL LITERATURE

4.0 Summary of Empirical Literature Review and Research Gaps

A summary of the empirical literature review showing research findings of various studies and Gaps in knowledge is presented in Table 2.

Table 2: A Summary Review of the Empirical Literature

Researcher(s)	Focus	Findings	Comments and Gaps
Wei Shen and Albert A. Cannella, JR University of Florida Warrington College of Business – USA 2002	Relationship between CEO succession planning and Shareholder wealth (performance)	Positive Relationship	CEO succession planning increase shareholder wealth (Performance). He recommended further research on the effects of culture and strategy.
Donald L. Helmich, Univesrity of Sandiego, California USA (1977) Academy of Management	Relationship between Executive Succession and Performance in the Corporate Organization	Positive Relationship	Succession plans in large firms are elaborate but not in small firms (SME).).He recommended further research on SMEs for comparison purposes.
Deepak K. Data and James P. Guthrie Strategic Management Journal	Executive succession: Organizational antecedents of CEO	Positive relationship	There is strong association between poor performance and propensity for firms to select outside

1994 University of Kansas USA	characteristics		executives as CEOs
Khaeang Lee.Guan Hua Lim.Wei Shi Lim National University of Singapore 2003	Family business Succession: Appropriation Risk and Choice of successor	Positive relationship	Appointment of family members as Executive successors to family firms are not necessarily evidence of nepotism but rational response by families. Family businesses are highly idiosyncratic in general
Daily and Dollinger (1992)	Relationship between family owned and managed firm with performance	Positive relationship (in 104 small manufacturing firms)	Professionally managed firm will follow more aggressively growth oriented strategies than family owned and managed firm
Chaganti and Schneer (1994)	Relationship between firm performance and owner's mode of entry	Positive relationship (sample of 345 SMEs)	Performance is dependent on the owner's mode of entry, with inherited(family) business having average whereas start up having higher performance
Goldberg (1996)	Successor effectiveness and incumbents ment- oring relationship	Positive relationship (sample of 63 SMEs)	Effective successors had significantly better relationship with their predecessors

Luthrie and Datta (1997)	CEO characteristics/selection decisions and performance	Positive relationship Sample of 214 SMEs	Pre-succession performance(profits) are associated with planned successions and smooth intergenerational relationships
Morris et al (1997)	Relationship between succession planning and firm performance	Positive relationship Sample of 209 SMEs	Succession planning with proper successor preparations leads to high performance. He recommended further research to establish the relationship of organizational culture and strategy
Lajac (1990)	Relationship between Successor origin and performance	Positive relationship	Insider successor leads to a higher performance - with good previous performance But negative with poor performing previous results
Lambert & Kemp (2003) Research done in (Netherlands)	Relationship between strategy and performance of small firms	Positive relationship	They used Porter typology but suggests research be done using Miles & Snow typology
Larsen, Gough & Korokor (1997) Research done in (Russia Moscow)	Relationship between planning, culture and performance	No relationship	Suggests that further research be done on the relationship between planning, culture and performance
Meijaard , Brand and	Relationship between	Positive	They suggested that further studies

Mosselman (2005) (Research done in Netherlands)	structure and performance of small firms.	relationship and more complex than commonly assumed	be done on the relationship between structure and performance.
Bernard (1995) (Research done in Singapore)	Relationship between organizational culture and performance	Found no relationship	He suggests that influences variables such as organizational structure and leadership need to be studied.
Mahinda (2002) (Research done in Kenya)	Relationship between organizational culture & human resource practices in the Kenyan manufacturing industry	She noted that there was a link between organizational culture and HR practices	She suggests that research be done to determine the link between organizational culture, HR practices and performance.
Joniron & Kalika (2004) (Research done in France)	Researched on the effect of alignment of IT with strategy and organizational structure on performance of SMES	Positive relationship	Research was based on manufacturing industries, communication, etc. suggest studies be done on one sector service or manufacturing sector.
Covin and Slevin (1989) (Research done in USA)	Relationship among strategic posture, Environmental hostility, Organizational Structure, competitive tactics and Financial performance of small firms.	Found that the independent variable did not explain the variance in performance.	They suggested that other organizational context variables organizational culture and structure be studied.

Jennings & Seaman (1994) (Research done in U.S.A)	Relationship among adaptation- strategy- structure and firm performance.	Positive relationship	They suggested further research in different industry setting be done on the relationship among strategy, structure and performance.
Bates. Amundson, Schroeder and Morris (1995) (Research done in U.S.A)	Relationship between Manufacturing strategy and organizational culture	Significant relationship	Effect of the relationship between manufacturing strategy and culture on performance was not addressed.

From the literature review it is noted that the moderating effect of organizational culture and strategy on the relationship between executive succession and firm performance have not been studied, particularly in the African context.

CHAPTER FIVE: FAMILY BUSINESS THEORIES

5.0 Family business theories – emphasis on succession

Family businesses are reckoned as one of the engines of the post-industrial growth process since they are credited for nurturing across generations entrepreneurial talent, a sense of loyalty to business success, long-term strategic commitment, and corporate independence (Poutziouris, 2001). Studies of this type of business attract an unusually diverse group of researchers and practitioners. However, in contrast to the proliferation of the family business organisation, the family business sector is characterized by alarmingly deteriorating “survival rates”. Researchers confirm that only about one third of family businesses survive the transition from the founders (first generation) to the second generation of owner-management. Moreover, of those who do that, only about one third tend to survive the transition from second to third (and beyond) generation of ownership (Poutziouris, 2000; Wang et al., 2000; Ibrahim et al., 2001a). Hence effective succession within family business receives broad attention in the academia.

Family firms have been an integral part of the British economy for centuries. Firms are generally reluctant to adopt the corporate form because owners are unwilling to hand over the administration of at least part of enterprises to non-family, salaried managers. Despite great changes in British economy since the end of the Second World War, family business continues to play an important role, though its relative significance is certainly diminishing (Payne, 1984). Researchers observe that in large companies, family ownership is no more the central concern. In contrast, in smaller firms, ownership control is still a key characteristic (Donckels and Frohlick, 1991). Since the Department of Trade and Industry (DTI) (2003) and Brooksbank (2000) report that over 99 per cent of the UK businesses are small- and medium-sized, how to facilitate these firms – the great majority of which are family operated, managed and/or controlled – in order to survive and achieve sustainable growth, becomes a major topic for researchers and practitioners.

Family business literature indicates that succession can be viewed as a process (Sharma et al., 2003b; Dyck et al., 2002) with specific pre-arrival and post-arrival phases (Gordon and Rosen, 1981). Handler (1994) suggests that succession can be categorised into distinct stages based on the functions and roles played by the incumbents and their offspring. Stavrou and Swiercz (1998)

propose a three-level model that charts the succession process. The first level represents an offspring's pre-entry stage where successor(s) can learn from the incumbent about business operations. The second is an entry stage where integrating the offspring into the business operations is the main theme. The final level involves the potential successor's promotion to a managerial position. Studies indicate that the business requirements at different stages tend to be diverse and the strategies to handle these needs vary (Stavrou and Swiercz. 1998; Stavrou, 1999).

Not only is succession as a process studied in the academia, but also the effectiveness of this strategic procedure receives significant attention (Handler, 1994). The effectiveness of succession is not limited to whether a managing director/CEO/leader has been designated, but includes the ongoing health of a firm quality of life, and family dynamics. Research in relevant areas indicates that strategically many critical factors are related to the effective succession, such as succession planning (Ibrahim et al., 2001a; Gersick et al., 1997; Kets de Vries, 1993), offspring grooming (Ibrahim et al., 2001b; Danco, 1997), inter-generational relationships (Handler, 1992; Seymour, 1993; Kets de Vries, 1993), and remuneration of managers (Aronoff and Ward, 1997). The following sections, briefly reviews the literature that focuses on these key succession issues.

5.1 Succession planning in family business

According to Sharma et al. (2001), succession planning is emphasised in family business arena for two reasons. First, activities relevant to succession planning are part of the succession process; second, succession planning is reckoned as a means to improve the success rate of ownership transition. Davis (1997) argues that succession planning has three main objectives: to efficiently and fairly distribute assets from older to younger generations; to pass control of the business in a way that will ensure effective business leadership; and to maintain and promote family harmony. Although remarkable effort has been invested in family businesses towards meeting these three simple objectives, the effort does not normally lead to an effective succession but agony, confusion, and paralysis (Davis, 1997).

The existing literature, such as Sharma et al. (2001) and Morris et al. (1997), suggests that well developed succession plans can increase the likelihood of co-operation among stakeholders in businesses, therefore enhancing the chance of a smooth and effective succession. However, converse to the significant concern on planning, business owners and managers rarely outline their future succession (Sharma et al., 2000, 1996; Astrachan and Kolenko, 1994). According to Lansberg (1988), most stakeholders in family businesses are psychologically ambivalent toward succession planning. Company founders encounter psychological deterrents to succession planning as it may imply a letting go of power. Family members avoid planning, worrying about the subsequent loss of identity, family harmony, and privacy. Senior managers, having worked along with incumbents long-term, are reluctant to transfer from a personal relationship with the incumbent to a more formal one with the successor (see also Sharma et al., 1996, 2000; Kets de Vries, 1993). Successors, on the other hand, have to prepare themselves to handle residual conflicts.

The absence of a succession plan can cause serious management problems, even leading to a business failure (File and Prince, 1996). Ward's study (1987) on strategic planning and business transfers offers interesting statistics about Fortune 500 companies: Since 1955, only 188 companies have kept their status on this list as independent concerns. More than 60 per cent have been sold or acquired or have watched their sales decline significantly in the past thirty years

Correspondingly, it is revealed that, from 1924 to 1984, 80 per cent of 200 successful family owned manufacturing firms no longer exist and only 13 per cent are still owned by the same family as in 1924 (Ward, 1987; Handler, 1994). The reasons for the demise of these family businesses are many. However, Ward (1987) indicates that inability to plan strategically for the business future is a major cause. In line with Ward (1987), Shulman (1991) advocates that family businesses should start thinking about transferring ownership and managerial responsibility five-20 years in advance, while Dyck et al. (2002) and Davis (1992) all express similar sentiments.

5.2 Successor development

Successors are an important stakeholder group in the succession process. In the absence of a successor who is managerially and physically capable of taking over the ownership, succession within the family will rarely occur. Thus, successor grooming comes under the microscope of researchers and practitioners (Wang and Poutziouris, 2003; Ibrahim et al., 2001b). Fiegener et al. (1994) compare successor development in family and non-family businesses and conclude that family firms favour more personal, direct, relationship-centred approaches to successor development, while non-family businesses rely more on formalised, detached, task-centred approaches. Lansberg (1997) suggests that to be effective mentors, seniors must understand the differences between parenting and mentoring. The key to an effective succession is to find an optimal blend of well-timed parenting and mentoring. In the whole succession process, to achieve an effective mentoring, seniors should negotiate the mentoring process with juniors from the very beginning, specifying jobs and competencies that need to be mastered at each stage. Meanwhile, juniors should be assigned real jobs that generate reliable performance data, leading to the final gain in authority. Lansberg and Astrachan (1994) argue that successor training is mediated by the family's commitment to the business and the quality of the relationship between owner-manager and successor. They conclude that the family's commitment to the business is positively associated with the degree of successor training, and that the quality of the relationship between owner-manager and successor is positively associated with the extent of successor training. Goldberg's (1996) study further confirms that business effectiveness is related to successor grooming by providing evidence that effective successors[1] had more years of experience with the business than that of the less effective group.

5.3 Inter-generational relationships

The inter-generational relationship is critical to business development since successors in family businesses are normally trained in a personalised way (Wang and Poutziouris, 2003; Fiegener et al., 1994). Fox et al. (1996) indicate that the nature of family relationships during the transition stage is related to a successful succession process and suggest the need to "initiate the constructive dialogue between incumbent and successor". A similar conclusion has been reached by Wang and Poutziouris (2003) and Seymour (1993) who suggest that respect, understanding,

and complementary behaviour between the two generations are critical to an effective succession.

Kets de Vries (1993) identifies a number of psychological and emotional barriers encountered by family people in the succession process, which are similar to Lansberg's (1988) findings. For example, parents do not want to let go of power and may even be jealous of their children due to their own physical limitations. Children may worry about the potential conflicts arisen within businesses because of their parents' absence. According to Sharma et al. (2000), initiating the succession process will drive incumbents to confront their managerial mortality and significant life style change. Consequently, many incumbents are reluctant to step aside and may become the "greatest single barrier to succession" (Rubenson and Gupta, 1996, p. 29). Under this circumstance, cohesive inter-generational relationship can greatly mitigate incumbent's psychological deterrent and facilitate a smooth succession. Sonnenfeld and Spence (1989) recognise four departure styles of founders or CEOs: monarch, general, governor and ambassador. They further suggest ambassador as the best form of departure given that founders or CEOs in this pattern are willing to leave business and prolong their service to business as advisors.

Both owner-manager and heir are central persons in the succession process. In essence, the succession process is a mutual role adjustment procedure between the founder and the young generation. Parallel to the increase in the young generation's authority from "no role" to final "chief decision maker", the predecessor's role in the firm diminishes from "sole operator" to "consultant" (Handler, 1990). Therefore to enable a successful succession, it is suggested that The successor should be sensitive to the needs of the founder (Lansberg, 1988) and should exercise patience and diplomacy (Jonovic, 1989); he/she needs to become a student of the organisation and learn its intricacies and culture (Horton, 1982) (Sharma et al., 1996, p. 21).

5.4 Compensation in family business

Research on management compensation has received a great attention both from researchers and society at large (Barkema and Gomez-Mejia, 1998). A positive relationship between top

manager's compensation and firm performance would be consistent with agency theory, which emphasises that managers are self-serving and that formal monitoring and reward systems should be articulated to align the incentives of top managers with the interests of shareholders (Barkema and Gomez-Mejia, 1998; Jensen and Meckling, 1976).

Within family business, ownership and management are normally overlapping and family members are likely to consider their firms as entities to achieve their own interests and opportunities. Thus, it is not unusual to observe that family members, especially those top management members, charge higher remuneration from businesses, contradicting business performance. This unreasonable charge will constrain effective succession in a long term and may also cause conflicts between family and non-family members. Non-family members, on the other hand, sometimes have a notion that family members who work for the business should be paid less to reduce the company's payroll costs to ensure the business's healthy survival. Aronoff and Ward (1997) suggest that ensuring that all family members clearly and openly understand what kinds of money are moving from owners to employees would result in far fewer conflicts over compensation.

They further recommend developing and sharing a compensation philosophy which is a framework that "pays the job" rewarding people based on the market value of their position. Shelly (1995) concludes that creating a formalised compensation arrangement is a better way of dealing with compensation issues and suggests establishing a bonus based on a formula that is fair to the people involved. Daily et al. (1998) suggests that the composition of remuneration committees may be relevant to explaining the level a mix of top management compensation. In general, the separation of management and ownership can be an effective way to circumvent inherent family and firm contradictions on compensation.

5.5 Succession and business performance

As aforementioned, research on family business succession results in the identification of a variety of factors associated to effective transitions. Researchers generally agree that business performance is a valid indicator to assess the effectiveness of business succession (Morris et al.,

1997; Goldberg, 1996). Hence more empirical investigations into the relationship between succession issues and business performance becomes necessary.

In the literature, relatively few papers endeavour to address this issue empirically these attempts focus on the comparison between family and non-family businesses (Daily and Dollinger, 1992; Chaganti and Schneer, 1994). However, Goldberg (1996) and Morris et al. (1997) do empirically investigate the relationship between succession issues and business performance. Goldberg (1996) surveyed 63 family businesses operated by successors who have been the CEOs for a minimum of five years to uncover significant elements that differentiate effective from less effective successors. The findings suggest that incumbent's mentoring is correlated with successor effectiveness. In addition, the study indicates that effective successors had a significantly better relationship with their fathers: they were introduced to the businesses at an early age; and they began working full-time in the businesses at an earlier age.

Supported by an empirical study, Morris et al. (1997) propose a fairly comprehensive model, which indicates that three sets of determinants can determine the nature of the transition, or what Handler (1990) refers to as the "quality" of the succession process; while the nature of the transition can further affect post-transition performance (referred to by Handler as the "effectiveness" of the transition). These determinants include the preparation level of heirs, the nature of relationships among family members, and the types of planning and control activities engaged in by the management of the family business. Based on the evidence, Morris et al. (1997) conclude that: Family business transitions do occur more smoothly when successors are better prepared, when relationships among family members are more affable, and when family businesses engage in more planning for wealth-transfer purposes (p. 386). Although Morris et al.'s (1997) model provides comprehensive guidelines on succession management, no further studies can firmly confirm the findings raised from the study, leading to an enquiry whether it can be reckoned as a domain-specific framework that charts the succession process.

5.5.1 Succession planning

Succession planning can significantly affect the succession process (Sharma et al., 2000, 2001; Davis, 1997; Ward, 1987). Topics covered include who should participate in preparation and when they should be prepared (Davis, 1997; Davis and Tagiuri, 1989), the establishment of a family council (Crane, 1982), the responsibility of successors (Gersick et al., 1990, 1997) and the impact of planning on business succession (Sharma et al., 2001; Ward, 1987, 1988).

5.5.2 Successor development

Successor development constitutes a major step in the succession process (Wang and Poutziouris, 2003; Sharma et al., 1996; Goldberg, 1996). Work in this area addresses why heirs need to acquire the requisite managerial capabilities, business skills, and knowledge of company operations (Ward, 1990; Osborne, 1991) and how they can gain access to these (Ibrahim et al., 2001; Lansberg and Astrachan, 1994). Specific variables receiving attention include working experience outside family firms, quality of training, training method, and the impact of incumbent on successor development (Ward, 1990; Handler, 1992; Fiegener et al., 1994).

5.5.3 Inter-generational relationships

Inter-generational relationships can both facilitate and hinder succession planning and successor development depending on the quality of the relationship (Ward, 1987; Handler and Kram, 1988; Kets de Vries, 1993). The principle issue focus on the communication between the two generations (Williams, 1990). Other issues in this category include family turmoil, conflict and trust between the two generations (Wang and Poutziouris, 2003; Handler, 1991; Ward and Aronoff, 1992) and the incumbent's refusal to let go and share power with the potential successors (Handler, 1990; Kets de Vries, 1993).

5.5.4 Compensation issues

Compensation issues have recently received increasing attention. However, researchers are still in dispute as to whether family members working for the business should be paid less to reduce the company's payroll costs or more because of the nepotism (Aronoff and Ward, 1997; Shelly,

1995). Specific variables receiving attention include family member's shareholding schemes, remuneration and pension issues (Shelly, 1995; Gersick et al., 1990). Variables discussed above reflect the key issues in the succession process and therefore, form the skeleton for the current study. The framework of Morris et al. (1997) is considered as a starting point for the current study, nevertheless two critiques have been raised. First, Morris et al. (1997) start with an investigation of the impact of the three identified succession dimensions on the nature of ownership transition. This is followed by an examination of the impact of the ownership transition on post-transition performance. In reality, the succession process is a long-term concept, starting from the incumbent generating an initiative to transfer ownership within the family, until finally the business being taken over by the offspring(s) and the incumbent stepping down from the position. The experience and emotional feeling during the whole process tends to vary. Therefore, measuring the characteristics and the succession experience can be highly subjective and complicated. Secondly, in Morris et al. (1997), a "post-transition" concept is employed when business performance is concerned, but the concept itself is patchy.

For example, a family business, which is currently managed by the second-generation person and is transferring the ownership to the third generation, could be categorized as a "post-transition" business as it has already experienced a transition from the founder to the second generation. On the other hand, it can be classified as a "pre-transition" business since the owner in the second-generation is arranging for his or her retirement.

Having recognised these, unlike Morris et al.'s (1997) two-stage investigation, the current study only concentrates on the relationship between key succession dimensions and business performance, ignoring the succession characteristic's examination.

CHAPTER SIX: SUMMARY OF CONCEPTUAL FRAMEWORK

6.0 Summary of the conceptual framework

This chapter discusses the theoretical and empirical literature on the relationship between executive succession (planning, Successor origin, successor development, Functional background Experience, Education level, Successor Training, Inter-generational relationships, compensation issues, Exiting CEO leadership) and performance of Small and Medium Enterprises (SMEs). From the literature review, knowledge gaps were identified with firm performance as the dependent variable while executive successor origin, successor development, compensation issues, functional background experience, education level, predecessor training and exiting CEO leadership as the independent variables whereas culture and strategy as moderating variables. From the literature review of the previous it clearly shows that the independent variables have been looked at in isolation, but joint effect of these independent variables has not been studied. The exiting CEO leadership impact on executive succession has not been given the attention it deserves. The previous studies have only focused on firms in USA, Europe and emerging economies of China but no attention has been given to the African context Kenya in particular bearing in mind of the critical importance that SMEs play in the Kenyan economy.

7.0 CONCLUSION

From the previous studies there exist a knowledge gap. that is the joint effect of organizational culture and strategy on the executive succession and firm performance especially in the African context.

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