

**MIDLANDS STATE UNIVERSITY**



**FACULTY OF COMMERCE  
DEPARTMENT OF ACCOUNTING**

*The impact of owner management on the financial performance of a company: a case of  
hofstra manacc consultancy*

**BY**

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## **DECLARATION**

I, Marodzah Regai do hereby declare that this dissertation is a product of my own work and research except to the extent indicated in the acknowledgement, references and report in the body of the report and that it has not been submitted in full or partial fulfilment of any other degree or at any other university or institution.

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The undersigned certify that they supervised the dissertation of **MARODZAH REGAI** with registration number **R144236X** entitled **‘THE IMPACT OF OWNER MANAGEMENT ON THE FINANCIAL PERFORMANCE OF A COMPANY: A CASE OF HOFSTRA MANACC CONSULTANCY’**. The dissertation was submitted in partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree (HACC) at Midlands State University.

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## **DEDICATIONS**

I dedicate this dissertation to my family and friends. Your motivation and endless support has seen me this far.

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Special and sincere gratitude goes to the Lord Almighty. Without the grace of the good lord, I would not have made it this far.

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## **Abstract**

*This research seeks to examine the impact of owner management on the financial performance of a company using Hofstra Manacc Consultancy as a case study. Some scholars were of the view that ownership structure plays a significant role in determining the financial performance of a company. However, others argued that ownership and management structure of a company has nothing to do with the financial performance of a company. In conducting this research, the researcher used the mixed approach which encompassed both quantitative and qualitative methods of collecting data. Questionnaires were administered to eighteen respondents and four questions were asked in conducting interviews. The research findings showed that organisational structure, structure formalisation, structure complexity and structure centralisation greatly affect the financial performance of a company. It was also found that accounting practices by small firms and the knowledge of performance measurement play a vital role in determining a firm's financial performance. The entity was then recommended to employ an expert manager, practice proper financial reporting as well as centralise decision making through delegation and consultations.*

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## **Abbreviations**

**ROA:** Return on Assets

**ROE:** Return on Equity

**EVA:** Economic Value Added

**SMEs:** Small to Medium Enterprises

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

Leng (2013) noted that one of the indicators of best corporate governance controls over managers' decisions is how far the ownership of the firm is concentrated in the hands of major shareholders and the impact of such concentration on the financial performance of a firm. Olajide (2012), noted that organisational structure plays a vital role in determining the firm's performance and the profitability of an entity has become the major criteria in determining its financial performance. Lippert (2014) noted that business owners are mainly concerned about the profitability of their firm, hence they employ professional managers as agents to play essential roles on their behalf. He further explained that sometimes the employed managers work for their own interest rather than in the interest of the owners. Fama and Jensen (2012) in their alignment theory explained that family relationship among managers and owners create advantages in reducing agency costs. According to Chen and Steiner (2012) ownership structure helps in aligning managerial interests with those of shareholders and thus, agency conflict might be reduced. Contrary, Barney (2013) and Tseng (2012) carried out a research and found that there is no link between ownership structure and financial performance and noted that there is little support for the diverging interests between shareholders and managers. Naser (2015) was also against the attempts to decentralise decision making structures in organisations. The author argues that decentralisation of decision making usually cause a loss of control of employees at the lower levels of the hierarchy which may result in dysfunctional behaviour and thus inefficient use of resources. Shleifer and Vishny (2014) also argued that even though ownership structure can affect a firm's value and performance, it is still questionable whether external

shareholders can give impact to the future performance of a company. The differences in these scholars concerning the impacts of management structure on financial performance has given rise to the need to further research on this area using Hofstra Manacc Consultancy as the case study.

### **1.1 Background of the study**

Miller and LeBretonMiller (2012) noted that although family businesses present some advantages in terms of employee loyalty and long term relationships, they also present cons by acknowledging the risk of the owner's concentration on firm's survival and neglecting the concept of wealth maximization. They further explained that the owner's goal will be only concentrated on how to safely pass on the business to future generations. According to ZIMRA 2016 end of year awards, Hofstra Manacc Consultancy has become one of the leading management accounting firms and tax advisory services provider in Victoria Falls. According to the company financial statistics, it has a clientele of over two hundred small to medium enterprises (SMEs) in Victoria Falls. It also stretches to Hwange and Bulawayo where it has fifty six (56) clients and over thirty clients respectively. It specialises in tax advisory services, management accounting, preparation of annual financial statements for clients as well as company secretarial services. The three branches are owned and managed by Mr T. Sayi and the wife is there as the assistant managing director. "This year marks the 14<sup>th</sup> anniversary since I started this company in 2003 and I would like my children to take over when I feel I cannot continue". That was the statement made by the owner of the company on the 14<sup>th</sup> of February 2017 in a board meeting held in Victoria Falls with all branch representatives present. It is the company culture that every month the owner has to travel to other branches and compute VAT and PAYE returns and ensure that they are submitted to ZIMRA in time. According to the company Human Resources Department reports the managing director fell sick and could not make it to work for the whole month.

According to the Income Tax Act 23.06 [Chapter 37 (13)] all annual financial statements of registered companies should be submitted to ZIMRA by the 30<sup>th</sup> of April every year. Financial statements were due for submission to ZIMRA and the deadline was not met because the managing director is the only one who finalises these returns. Due to the increased clientele of this company, it has become difficult for the owner to continue running the entity solely as this has led to declining financial performance. Chrisman et al (2013) cited that a family business is distinguished not only by ownership, governance and control that are retained by the family, but also by the next generation succession.

Table 1.1: The relationship between increase in clients and the increase in revenue.

<b>Period</b>	<b>Number of clients</b>	<b>Increase in Revenue (%)</b>
2015	150+	64%
2016	200+	65.5%
2017	230+	68%

**Source: HofstraManacc Consultancy Financial Report (2015-2017)**

Table 1.1 above shows the increases in revenue for HofstraManacc Consultancy as a result of an increase in the number of clients during the period 2015 to 2017. It can be noted that although there is a higher increase in clients, the increase in revenue is slight. This has been caused by the failure of the company to meet the needs of the clients and most of them will not be paying since there will be poor service delivery. According to Jensen and Meckling (2016) the value of the firm would be decreased due to manager's non value maximising behaviour that is contradicted with the interest of outside shareholders. Clients are not satisfied by the services offered to them. This has been caused by the workload of many clients who need services from one management accountant. Lippert (2014) carried out the

agency theoretic research where he studied the impacts of conflicts between owner managers' behaviour in relation to financial performances of companies. It specifically focused on managers' diversification motive and owners' control to avoid diversification.

## **1.2 Statement of the Problem**

HofstraManacc Consultancy has been managed by the owner since its incorporation in 2003 when it had few and manageable clients. The increasing owner management problems due to the growth of the company and the need not to employ or train other members of staff to carry out some tasks on behalf of the managing director have been of great concern. Clients are not getting their monthly accounting reports in time and failure to meet deadlines for example ZIMRA, NSSA and ZIMDEF. The main objective of the study therefore is to analyse the current management structure and suggest recommendations on how the current situation can be addressed.

## **1.3 Main Research Question**

What are the effects of owner management on the financial performance of HofstraManacc Consultancy?

## **1.4 Sub Research Questions**

- How does owner management of firms affect accountability which affects financial performance?
- What is the effect of expertise and monitoring on financial performance of owner managed firms?
- How does owner management slow decision making and growth of SMEs which affect performance?
- What are the measures of firm performance?

- What is the relationship between management structure and financial performance?

### **1.5 Research Objectives**

- To establish how owner management of firms affects accountability which affects financial performance
- To establish the effect of expertise and monitoring on financial performance of owner managed firms.
- To establish how owner management slows decision making and growth of SMEs which affect performance.
- To establish the measures of firm performance.
- To analyse the relationship between management structure and financial performance.

### **1.6 Delimitation of the Study**

HofstraManacc Consultancy which is located in Victoria Falls is used as the case study and the research covers the period 1 August 2016 to 31 July 2017. The major objective of the study is to ascertain how owner management is affecting the financial performance of HofstraManacc Consultancy. The respondents targeted at the company are the management and the personnel of the company in conducting the research.

### **1.7 Justification of the Research**

#### **To the Student**

The research will help the student to acquire research skills and improve the ability to analyse different situations.

#### **To the University**

This research helps in providing the necessary literature on the study area of impacts owner management on financial performance of a company. The research can also be important to other students who may want to conduct further research in future. It can also serve as a future reference for students who need to further investigate in the same area of study.

### **To the Organisation**

The research will be used as an eye opener to HofstraManacc and will help the owner to appreciate the importance of having a good management structure as a way of improving financial performance.

### **1.8 Limitations of the Study**

- Limited access to organisation data- The company under study has a strict privacy policy which does not allow them to disclose their data easily. Other staff personnel were assured that all disclosed data should be kept confidential. The student obtained a letter from the academic institution so as to give assurance to management that the collected data shall be kept confidential and used for academic purposes only.
- Respondents like management and other personnel may fail to cooperate due to the nature of their work that keep them occupied. As a way to overcome this challenge, questionnaires will be administered even via mails.

### **1.9 Research Assumptions**

- The current management structure of HofstraManacc Consultancy is not going to change.
- The responses from the company are going to be truthful, honest and unbiased.
- The results of the research will be based on the accuracy of the data to be collected.



## **1.10 Summary**

This chapter contained the introduction, background of the study, the problem statement, main research question, sub research questions, delimitation of the study, justification of the research as well as research assumptions. The next chapter, the Literature review will look at the theoretical reviews and arguments that were put forward by several researchers and authors.

## **1.11 Acronyms and Definitions**

### **Acronyms**

**SMEs-** Small to Medium Enterprises

**VAT-** Value Added Tax

**PAYE-** Pay As You Earn

**ZIMRA-** Zimbabwe Revenue Authority

**NSSA-** National Social Security Association

**ZIMDEF-** Zimbabwe Manpower Development Fund

### **Definition of Key Terms**

**Management-** The organisation and coordination of the activities of a business in order to achieve defined objectives. It consists of the interlocking functions of creating corporate policy and organising, planning, controlling and directing an organisation's resources in order to achieve the objectives of that policy.

**Management Structure-** refers to how a company organises its management hierarchy.

**Financial Performance-** Is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenue.

**Business Owner-** Individual or entity who owns a business entity in an attempt to make profit from the successful operations of the company.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

Having hosted the research, this chapter goes deeper to amalgamate and interpret critically the theoretical points done in earlier studies. Several theories and models have been proposed over the years by different theorists in an attempt to explain the impacts of ownership structure on financial performance. The main objective of this chapter is to refine further the research questions, highlight research possibilities as well as to discover explicit recommendations for further research.

#### **2.1.0 Establish how owner management of firms affect accountability which affect financial performance.**

According to Herri (2013) small to medium enterprises play a significant role in economic growth of any nation specifically in the developing countries. The International Financial Reporting Standards (IFRS) for SMEs (2012) and IASB (2013) defined SMEs as entities that lack public accountability and publishing of general purpose financial statements. Manaseer et al (2012) noted that the ownership structure of small companies depend on the individual or family members. The author also explained that that is the major reason why these SMEs lack systematic and effective accounting practices.

#### **2.1.1 Accounting Practices by SMEs**

Shim and Siegel (2015) defined accounting practices as normal application of accounting practices or auditing which take place in an entity. They added that it is a system of controls and procedures that are used by the accounting department of a firm for the recording of all transactions. According to Chamberlain (2013) several small firms tend to recruit sales

personnel instead of appointing financial practitioners who possess knowledge on how financial reporting should be done in an entity. Uwalomwa and Olamide (2016) highlighted that the major factors behind poor accounting practices in an organisation are the deficiencies in public accountability, lack of regulations, deficiencies in mandatory audit requirements as well as shortage of resources. According to Singh and Gaur (2014) there is a substantial negative impact of poor accounting practices on survival and growth of small firms. Pandya(2013) cited that quality accounting information is very crucial for efficient and strategic business decision making. According to the European Federation of Accountants (2015), decisions in business should be supported by proper financial information which should also be user friendly and in timely manner. He further explained that owners or managers of small firms often operate with no accounting or financial evaluation, they invest or make credit decisions with no financial analysis.

On the other hand, Karaca and Eksi (2014) noted that it appears that financial statements tend to be of little or no use to owner-managers. Collins and Jarvis (2013) confirmed it through their interview and questionnaire study that financial accounts were not useful for the provision of management information. Poutziouris et al (2015) explained that although some of the accounts may be used for the purposes of calculating tax, most firms do not use them for tax planning. Stanworth and Gray (2015) also argued that money is not a major factor for owner-managers, but quality of life, independence and being involved in running of business are more crucial aspects to them. According to Ibrahim and Abdulsamad (2013) most small firms often make use of non-financial indicators, which are the standard of living, level of busyness, rate at which the telephone rings and rate at which customers settle their obligations.

Moreover, Senik (2014) cited that it is important for small firms to understand the significance of proper accounting practices as it impacts on their firm's growth. Maseko and

Manayani (2013) also noted that accounting information is better used by owner-managers with an appreciation of the accounting knowledge which rarely exist in most SMEs. According to Mutambanengwe (2012) a critical challenge with informal business setup of small firms is lack of proper records of accounting for their operational activities. He further explained that keeping accounting records is viewed as a mere waste of time, effort and money by most of the SMEs. Mwangi (2015) asserts that record keeping of accounting information is usually avoided to ensure that there is no track of record of the activities of the entity in case of investigations by any agency of the government.

### **2.1.2 Financial Record Keeping and Financial Performance.**

According to Barney (2013) due to the lack of proper accounting system in SMEs, the stakeholders working with the small firms face many challenges and at times the owner managers fail to comprehend the financial status of their firms. Ntim (2014) highlighted that accounting systems provide information to owners and managers of small firms which are operating in any industry for financial performance measurement. He added that they usually have poor management of liquidity, credit management, system of internal recording and asset management since they do not prepare financial statements and have no proper analysis.

However, Chari, Chen and Dominguez (2015) noted that most small firms usually depend on single entry and manual accounting practices which suit their size and needs. They added that the use of computerised accounting systems in small firms maybe costly and complex to them. Vafeas (2016) argued that proper accounting practices may not be a priority to most owner managers since the major objective will be to make a living out of the business activities. According to Mkasiwa (2014) SMEs financial reporting has been reviewed and most of the owner managers lack knowledge on accounting and financial issues. According to Holmes and Nicholls (2015) the development of a proper accounting information system in

small firms depends upon the owner's knowledge of accounting. Kinney (2013) cited that accounting is one of the critical forms of information when making decisions but the absence of proper accounting practices should not hinder business operations.

According to Padachi (2012) small sized entities today are expected to grow on a daily basis and turn into medium sized firms. He further explained that in developing countries small firms act as a bridge between the informal sectors of family enterprises and the formal business sector. Kofi et al (2014) noted that two-thirds of newly formed businesses usually survive for two years and 44% usually survive for four years because of poor financial management, specifically poor accounting practices. According to Mia and Chenhall (2014) the failure by small firms to adopt and implement proper accounting practices is the major cause why most small firms fail to make sound decisions since their record keeping is not proper as the firm grows big.

On the other hand, Naser (2015) noted that there are major factors contributing to the closure and failure of small firms particularly in Zimbabwe. According to McConnel and Sevares (2012) the harsh economic environment, lack of funding and the complex legal formalities on SMEs have been a heavy blow to the growth and success of most of the small firms in Zimbabwe.

### **2.1.3 Access to Funding.**

Germain (2014) cited that capital management is viewed as one of the obstacles of business growth and expansion of SMEs. He added that poor record keeping in business usually lead to collapsing. Kwok (2013) highlighted that banks and other financial institutions are the major sources of finance for SMEs and since SMEs do not have proper accounting and financial records, it is usually difficult for the financial institutions to assess the capacity of a business to payback the credit. According to William (2016) studies show that it is difficult

for SMEs to obtain financial aid from banks since they do not have proper accounting records as requirements. Olufunso (2013) noted that it is advisable that small firms keep accounting records in detail and their financial statements be audited annually. He added that this enables the financial institutions to evaluate the financial position of an entity which improve their credit accessibility. Tagoe (2013) noted that the quality of SME record keeping attracts financial institutions to provide them with financial aid. Zhao et al (2015) further explained that suppliers and franchisers also take into consideration the accounting performances of SMEs when assessing the possibility that the entity may face financial challenges and will not be able to perform their implicit contracts.

Contrary, Jarvis (2013) argued that there is little evidence that financial statements of SMEs are of use to other external users. Ofor (2012) noted that no reference is made to the use of financial information of an entity to ascertain its credit worthiness by suppliers. According to Martins and Martins (2014) studies have shown that 51 per cent of small firms claim that they read annual reports of competitors, 44 per cent read customer reports and 26 per cent read major supplier reports.

#### **2.1.4 SMEs Cash flow Management.**

According to Ahmad and Mohamed (2017) the improper accounting practices by small firms have shown that most of them randomly record their business transactions without following the prescribed procedures in accounting. They added that this makes difficult for small firms to keep record of how cash flows in their entities. According to Mbroh and Attom (2012) the major indicator of small business failure is the lack of management of cash flows which may cause small firms to fall behind on paying their suppliers. Mwangi (2013) noted that the lack of cash flow management systems can affect the firm's ability to re-invest for earnings for instance ordering of supplies and the execution of marketing. Lee and Heish (2017) cited that

start-up firms that fail to make profit in their first eighteen months of trading are prone to high risk of bankruptcy and it is difficult for those firms to survive for long. According to Klerk and Villiers (2012) inventory size impacts on the cash flow of an entity which may also affect the chain of related functions and processes since the cash that is tied up in inventory is difficult to recover if the inventory is spoiled.

However, Lebars and Euske (2015) argued that little attention is given to the management of cash flows since most of the owner-managers are interested in the fact that their products are selling at a profit. According to Lippert (2014) most small firms fail to keep record of cash flows in the entity because they do not possess the knowhow on how it should be computed. Brock (2016) also argued that hiring an expert to carry out this cash flow management may be costly to the firm since the benefits might be outweighed by the charges of the experts. Carney and Gedajlovic (2013) highlighted that most SME owner managers believe that cash flows are only meant for the big organisations which need to be accountable to the shareholders who are the owners of equity.

## **2.2 Establish the effect of expertise and monitoring on financial performance of owner managed firms.**

According to Chrisman et al (2015) major small businesses are characterised by having the majority ownership being held by family members. They explained that usually the company is run by the founder and the younger members of the family will be expected to inherit control of the entity. Anderson and Reeb (2013) noted that prior evidence from the US and other developed nations show that owner managed firms tend to have high returns and profits. Gramlich and Sorensen (2014) highlighted that family controlled businesses are usually associated with higher profitability.



### **2.2.1 Board Composition**

Shleifer and Vishny (2012) noted that in the concept of corporate governance the agency theory explains that there should be adequate monitoring mechanisms so as to protect the shareholders from the self-interest attitude by managers. They cited that the hired outside managers should be the guardians of the owners' interests through monitoring. Munichilli, Zatton, Nielsen and Huse (2015) explained that a high proportion of outside managers can enhance the financial performance of an entity via their roles of monitoring. According Basco and Voordeckers (2015) the recruited managers can be viewed as the link between the organisation and its operating environment and this may help the owners in the attainment of their organisational goals. Arosa, Itumalde and Maseda (2013) highlighted that the outside managers are knowledgeable, people who are powerful and can use their personal networks for the enhancement of the firm's reputation and legitimacy. According to Gupta and Leverburg (2014) the access to external financial resources is a crucial aspect for growth for SMEs and these firms often have few alternatives for the management of their resource dependencies. They added that when this becomes the case, the outside directors can be the effective means to overcome the human resource challenges that usually plague small entities. Brick and Chidambaran (2013) explained that outside managers improve supervision, they offer decision making independently and also adds professional knowledge of the company. They concluded that the fraction of outside managers in small firms is positively correlated to firm performance. Garcia-Ramos and Garcia-Olalla (2014) cited that a board of directors with several connections with the external environment improve access to firm's resources thereby enhancing corporate governance and the performance of a firm. They further explained that a huge board have a superior depth of knowledge and this improve the quality of decisions made that affect firm performance.

On the other hand, Cheng (2014) argued that whilst a large board and outside managers' abilities may improve the firm performance, the benefits can be overshadowed by the costs of poor communication, decision making as well as coordination arising from a large board. Pugliese and Wenstop (2013) noted that small companies are different from large ones in that their concentrated ownership structures make it a common phenomenon of CEO duality. De Andres and Rodriguez (2013) also argued that the close monitoring and supervision by the outside managers may demotivate employees since there will be no room for employee innovation. They added that this may have a negative impact on the performance of the firm. According to Faleye (2012) large corporate boards are often less efficient since they usually face challenges in solving the agency problem among organisational members. According to Brickely, Coles and Jarnel (2015) the separation of the duties between CEO and Chairman comes with related costs in trying to give the board's ability to perform its functions of monitoring.

There are also other scholars who are neutral concerning the effect of board composition on monitoring the performance of an entity. Jackling and Johl (2015) noted that the impact of board composition and size can be viewed as a trade-off between advantages and setbacks. They noted that the expected link between board composition and performance of a firm can be described as non-linear. Schoonman and Donaldson (2013) explained that the relationship that exist between board composition and the performance of an organisation can be expressed in an inverted U-shape. According to Machold, Huse, Minichile and Nordqvist (2013) there is no empirical conclusive evidence about the CEO/ chairperson structure of leadership and organisational performance.

### **2.2.2 Owner Perception towards Managers**

According to Miller and LeBreton (2012) competitive advantage in terms of monitoring is likely to be achieved due to family ownership and control. They also explained that owner managed firms have familiar control over their management hence more resources saved due to less agency costs and more funds will be channelled towards future investments. Lee (2013) cited that firms with high ownership concentration enjoy reduced asymmetry of information about factors like management of risk, allocation of resources and the strategies for business growth. The author added that the resources of an entity will not be prone to wastage since there will be close monitoring and control by the owner and the family members who are part of the ownership of the company. According to Jense and Meckling (2016) the managers and shareholders differ in interests since each one of them strive to maximise their own utility and wealth. Bertrand and Schoar (2014) cited that the agent have more information on what is taking place in the company than the principal. They added that conflict will be created because of this.

However, Quangyen and Yezhuang (2014) argued that most of the owner managed firms commence operations as a result of an opportunity and most of the owner-managers do not possess the expertise of running a company so that its financial performance is enhanced. They explained that the lack of proper business management strategies and the need not hire an expert to manage the business on their behalf impacts negatively on the firm's performance. According to Padilia (2013) the costs of recruiting an outsider to perform managerial duties on behalf of the owners might be high in the short run but have a positive bearing on the long run performance of an entity. Barney (2015) argued that the major reason why most SMEs fail is their poor corporate governance. He noted that the owners in their desire to manage, their focus is more on sales maximisation and ignore the concept of profit maximisation. Morck and Yeung (2013) also cited that the owners of most SMEs stick to

their old ways of business operations and resist change for innovation in the organisation. The explained that this will reduce the firm's competitive advantage in the market hence reduced financial performance. Gomez-Mejia et al (2012) noted that most owner managed firms tend to be more risk averse since they are afraid of losing their prestige and dignity. The explained that the tendency of being more risk averse and diverging of family objectives with those of the firm results in poor financial performance. Baek et al (2014) compared the financial performance of family owned firms and none family owned ones and noted that firms with high concentration of family members in management suffered a large drop in their equity value than the firms with wider ownership.

Neutrally, King and Santor (2014) examined the influence of owner management on the financial performance of a company. They noted that ownership concentration does not have a perceptible impact on the performance of an entity. The added that inefficient structure of ownership may fail in the long run. Another study by Martikainen et al (2012) questioned whether higher earnings of family owned firms were a result of efficiency use of different production technologies and they found that there is no substantial difference between the technologies of production between family and non-family owned firms. Andreas (2013) also did a comparison of owner managed firms with those larger ones. He noted that not only do owner managed firms outperform the large ones but they are also profitable than the other companies with different types of block holders

### **2.3 Establish how owner management slows decision making and growth of SMEs which affect financial performance.**

According to Mandal, Venta and EI-Houb (2013) the implementation of corporate practices based on principles of quality management and other aspects of business management will

result in improved firm performance, especially when key business practices are applied to all the departments of an entity.

Pushpakumari and Wijewickrama (2014) cited that several SMEs are pushed by their desire to imitate large company operations so as to establish desirable management activities which may improve efficiency and effectiveness if they implement them appropriately through the process of knowledge dissemination. Bowen, Morara and Mureithi (2015) highlighted that SMES due to their small size they tend to be too particular in their decision making styles since they believe that a simple mistake they make may cause the downfall of the firm without giving a room to learn from mistakes. They explained that due to the fear of business failure, most owner-managers often centralise decision making and they are the ones who have the final say in the organisation. Evans (2016), noted that control in organisational bureaucracy consists of standards, rules and internal procedures. He described centralisation as the level of hierarchy with decision making authority. When decisions are assigned to lower levels, the company is said to be decentralised and when the power of making decisions is retained at the top level, the organisation is said to be centralised. Vaicys (2015) considered the results of decision making on financial performance mediating supply chain management and noted that there is a positive effect on performance under a formal structure and a negative effect on performance in a dynamic environment. Morck, Strangeland and Yeung (2013) explained that owner control cause a capital constraint which inhibits the business growth. They further explained that the heirs to large owner managed firms may fail to find innovative ventures and may seek to entrench their management and would want to preserve their wealth using political lobbying. They added that the agency have become the leading paradigm for study issues of family governance mainly focusing on an older sociological tradition that saw family business like a drag on economic development. These sociologists also argued that owner managed businesses have poor incentive structures which

pool their earning and provide for everyone without considering contribution. He added that they dilute individual incentives to work, save and invest through decision making styles which are usually unfavourable to the personnel. According to Lazonick and Sullivan (2013), owner managed businesses are viewed as a backward pre-modern institution with exclusionary values. They further explained that owner managed companies are over concerned with preserving wealth as well as ill-equipped to develop the company's capability to manage large scale and advanced industries. They also noted that others view family businesses a rife with personal rivalry and control problems which are difficult to solve in family governance context.

On the other hand, Whyte (2017) the common prescription to owner managed businesses is to strive for diversity of their wealth and also try to professionalise their management structure. Nevertheless, Colli, Fernandez- Perez and Pose (2015) noted that owner managed businesses are ubiquitous and more dominant in several economies and have been so for many centuries. They added that owner managers make decisions without consulting because they believe in themselves only and feel seeking advice from personnel is a waste of time and may cause wrong decision making Durand and Vargas (2015) argued that there is increased evidence that owner managed entities attain their advantages in more developed economies and in highly codified legal environments. They also explained that the brighter performance of small businesses is more evidenced in emerging markets where they are seen as 'engines' of the economy and also large family owned companies are versatile and dynamic and the decisions they make suit the way they operate. Bhattacharya, Gibson and Doty (2017) cited that a company can come up with its structure when it decides how it desires its workers to act, the attitudes they wish to promote and what the company wants its workers to achieve as well as supporting the development of values and ethics to achieve the desired behaviours, goals and attitudes.

Moreover, Baum and Smith had no specific side and found that no relationship exist between employee performance and the span of control but they explained that higher job satisfaction is evidenced in a decentralised environment because the span of control defines the number of employees an authority figure is responsible for. Quangyen and Yezhuang (2013) noted that organisational structure decreases the ambiguity of employees and aids in explaining and predicting behaviour. They further explained that the effectiveness of an organisation and its relation to structure is determined by information processing requirements such that people will not have too little or too much inappropriate information. However, information flow is crucial to an organisation's achievement. They also suggested that the structure must be designed to ensure individuals and departments which need to coordinate their efforts to have communication lines that are built into the structure. Evans (2016) agreed that organisational structure gives shape of performance in an organisation. He noted that in a poorly designed organisational structure, good performers may take the shape of that structure. Mathieu (2014) related organisational structure with effectiveness. He gave a conclusion that management restructuring is aimed at improving both efficiency and effectiveness of the management organisation. Choi and Eboch (2012) explained that developing and enforcing performance monitoring and behavioural prescriptions aid in decision making and increases financial performance.

## **2.4 Establish the measures of firm performance.**

### **2.4.1 Financial Performance.**

According to Ajagbe, Oluyinka and Long (2014), this is a subjective evaluation of how well a firm can use assets from its primary mode of business and generate revenue. They further explained that that the term is also used as a general measure of a firm's financial health over

a given period of time. They also cited that it can be used to compare similar firms within the same industry or to compare industries or sectors in aggregate and one of the most crucial aspects about business is that operating performance of the entity shapes its financial structure. According to Naser and Mokhtar (2013) the financial status of a company can be a determinant of its operating performance. They cited that the subject of financial performance has received much attention from scholars in various fields of business and strategic management. They further explained that high performance reflects the effectiveness and efficiency of management in the use of company resources and contribute to a nation's economy at large.

#### **2.4.2 Financial Performance Measures.**

According to Black, Wright and Davies (2013) shareholder value is maximised when equity returns of an entity exceed the cost of the equity. They added that it can be termed as the present value of all the future cash flows minus the cost of the debt. Reimann (2014) cited that there is still no agreement concerning the measurement of shareholder value about the measures which impact most on shareholder value.

#### **Return on Equity (ROE)**

Monterio (2012) noted that return on equity (ROE) is the most used overall financial performance measure since it represents the final result of financial ratio analysis. According to Correia et al (2014) ROE is calculated by taking the profit after deducting tax for the year and preference dividend of the current period then divide it by the book value of the equity which is ordinary share capital at the beginning of an accounting period. The equity can be made up of ordinary shares, share premium as well as reserves. Fier et al cited that the computation of ROE can be sub-divided into three separate ratios as shown below:



$$\text{ROE} = \frac{\text{Earnings}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$$

$$\text{Sales} \quad \text{Assets} \quad \text{Equity}$$

According to Reinmann (2015) the three ratios above can be described respectively as profitability, asset turnover and financial leverage. He further explained that the ROE can be enhanced through the improvement of profitability or through the efficient use of assets or by improving financial leverage. Finegan (2015) supported the use of ROE as a financial performance measure since it links the income statement through earnings and the the balance sheet statement of financial position through equity.

However, ROE has been condemned by Dodd and Chen (2014) who argues that it increases financial gearing since it is calculated after the cost of debt capital before taking into consideration the cost of own capital. They explained that ROE increases with gearing and the major challenge to be faced is that financial gearing may be high beyond a certain level financial risk may end up devaluing the company through a fall in share prices. According to Finegan (2013) ROE does not take into consideration the timing of cash flows since cash flows are viewed as better way of assessing whether shareholder value is being maximised or not. He also argued that the management of an entity cannot only rely on earnings figures on performance measurement unless they would like wait for the reactions of investors on how they are performing. Copeland, Koller and Murrin (2105) argued that ROE measures performance on a short term basis and long term growth is overlooked which have opportunities for increasing shareholder value. Rappaport (2012) highlighted that the asset turnover is affected by inflation such that it may increase even when there is no efficient use of assets.

Black et al (2014) were neutral about the effect of ROE as a measure of performance and cited that some companies specifically in Japan have realised the drawbacks of using ROE

but most of them believe that it is the best shareholder value indicator. Thomas and Lipson (2013) also noted that coefficient of determination of ROE to market ratios showed an significant percentage and cannot be relied upon. They further explained that it is still an important measure of performance since ROE implies that returns on equity should be improved and the cost of capital be reduced.

### **Return on Assets (ROA)**

Stewart (2012) noted that ROA is financial ratio which shows the proportion of profit that is earned by a company in line with its overall resources. He noted that it is usually described as the net income dividend by total assets. According to Karmer and Pusner (2014) the net income dividend is derived from the statement of comprehensive income of an entity and it is the profit after deducting taxes. They noted that it can be computed as follows:

#### Net Income Dividend

Total Assets

According to Bhagat, Bolton and Subramanian (2015) the assets of a firm are derived from the statement of financial position they include cash and cash equivalents, trade receivables, inventories, land and buildings, capital equipment after depreciation and intellectual property for instance patents. Shao (2013) noted that goodwill may also form part of the assets of a firm and explained that ROA is usually expressed as a percentage. He further noted that the ROA measure is best applicable when comparing organisations with same level of capitalisation. Khatab et al (2016) described ROA as a better measurement tool since it includes all the business assets, those arising from liabilities to creditors and capital that is paid by investors. They explained that it uses total assets not net assets and therefore, the cash holdings of an entity which have been borrowed are balanced the payables which are the liabilities. De wet (2015) also supported the inclusion of all assets both from equity and debt

is favoured by management since they need to assess the uses of all the finances in different functions. According to Hawawin and Viallet (2016) The ROA measure of performance is often used by organisations internally for the tracking of asset-use over time, monitoring the performance of the firm as well as reviewing different operations or divisions through comparison of each of them. They explained that for management to achieve this, the accounting systems should be able to allocate assets precisely to the different operations. Kaplan and Norton (2017) cited that ROA involves the evaluation of benefits for investing new sectors versus expanding the existing operations. They highlighted that the best decision taken by the firm will come with an increase in productivity and income and simultaneously reducing costs, giving a higher ROA.

However, Biddle et al (2014) argues that ROA can show the effective use of assets as well as under-capitalisation. If the ROA increases in relation to the business industry and if management fail to pinpoint the inefficiencies that causes profitability, the positive sign maybe unfavourable since investment in new equipment would be overdue. Stern (2012) and Byne (2014) also argued that the cost of installing a new system may exceed the benefits to be enjoyed after setting up the whole system. Copeland (2014) noted that these usually apply to large firms with well-established systems and some of these measures may not be applicable to SMEs due to their complexity in nature.

### **2.4.3 Non Accounting Measure of Performance**

#### **Economic Value Added (EVA)**

According to Harris and Ohlson (2013) EVA is a new measure of corporate profit which must be shared among employees, shareholders and management. They explained that EVA focuses on clear profit in contrast to the traditional surplus which was available to shareholders of the company. They added that this measure is used by most entities as a

performance indicator and as a foundation for executive reimbursement. Bernnet (2015) highlighted that surplus must be derivative of deducting the capital cost from the profit before interest but after tax. He noted that it can be computed as follows:

$$\text{EVA} = \text{NOPAT} - \text{WACC} \times \text{Capital Employed}$$

Where NOPAT refers to the Net Operating Profit before Interest and after Tax

WACC stands for Weighted Average Cost of Capital

Capital Employed = Net Block + Trading Investment + Net Current Assets.

Rice (2014) noted that whilst deriving EVA it is necessary to adjust the accounts only for corporate reporting purposes. According to Stewart III (2013) EVA is a strong tool for measuring performance of a company and he explained that if an entity can serve its shareholders then its stakeholders can be served too. Eatson and Ohlson (2013) highlighted that EVA is an famous measure of company performance that is useful to most companies not only for examining performance but also for influencing incentive pay. They further noted that EVA tries to survive the tension between the need to bring about a measure of performance that is related with shareholders wealth. According to Stewart III and Bernett (2012) EVA has obtained rising international reception as a standard of corporate governance. They added that it serves the attraction of an entire incorporated framework of financial management and compensation of incentives. They also explained that EVA is a means of both legitimising as well as institutionalising the operating of a business in line with basic principles of microeconomics and corporate governance.

On the other hand, Malik and Rakshit (2013) argued that EVA focuses much on shareholders' value ignoring the interests of all other stakeholders.

## **2.5 To Analyse the Relationship between management structure and financial performance.**

### **2.5.1 Management/ Organisational Structure**

Ahire and Golhar (2014) noted that organisational structure clearly defines how workers are organised or the division and coordination of their jobs. They also described organisational structure as the formal configuration among individuals and groups pertaining responsibilities, task allocation and authority in an entity. Bergeron (2016) added that organisational structure includes formalisation nature, hierarchical layers, horizontal integration level, authority centralisation as well as communication patterns. He further explained that it refers to the manner in which responsibilities and power are allocated, how work procedures are carried out among organisational members. Researchers assert that organisational structure is made up of job positions, how they relate to each other and accountabilities for process and sub process deliverables.

### **2.5.2 Relationship between Management Structure and Financial Performance.**

Bhagat and Black (2013) highlighted that the concept of structure of the board of directors as a corporate governance mechanism has been attended to considerably over recent years by market participants, regulatory and academics. They noted that it comes to receive attention since several theories provide conflicting views towards the impact of board structure on performance of companies, whereas the empirical studies are inconclusive. According to Baum et al (2015) managerial ownership is inversely related to agency conflicts that exist between managers and shareholders. McConnel and Sevares (2012) give evidence on the relationship that exists between equity ownership distribution and the value of the firm. They found a significant curvilinear relationship  $Q$  and the portion of shares held by insiders. They noted that  $Q$  increases first and decreases as the share ownership is concentrated in managers

and board members' hands. A study in South Korea by Freedman and Godwin (2012) found that the organisation's performance is achieved at hump-shaped level between ownership structure concentration of the firm and its performance. The study gave empirical results on the relationship between organisational ownership structure and financial performance, which showed a positive relationship. Another empirical study was conducted in Greece by Inelo (2013) on the factors which affect financial performance of an entity by differentiating it from non-financial performance. The results show that firm size and leverage help in determining the organisation's financial performance. The firms in Greece which were seen to be highly profitable are the large ones that have a strong competitive advantage with effective management. The size of the firm in determining performance has been viewed by many scholars as positively significant in affecting financial performance of several organisations. Another earlier study conducted in the developed countries mainly in the US and UK. Antoniou et al (2014) found that there is a positive effect of leverage ratio and assets on financial performance. They further noted that the leverage ratio that affects firm performance is also affected by other conditions which are propelled by market forces in the business world. According to Binti and Binti (2013), it is the manager's responsibility to make decisions which are aimed at moving the organisation towards the achievement of its goals and objectives. They added that managers are viewed as the crucial assets of the organisation together with the employees. They also cited that the manager that makes decisions plays a vital role in aligning and determining further the long-term goals of the entity that are usually important to the success of the organisation.

Contrary, Joh (2012), Xu and Wang (2013) found no link between ownership structure and financial performance and noted that there is little support for the diverging interests between shareholders and managers. Studies by scholars like Demesetz and Vilalonga (2015), Kumar (2012) and Rowe and Davidson (2014) have shown that there is little or no significant

relationship between concentrated ownership and firm performance. According to Severin (2013) and Kumar (2014) when managerial ownership exceeds some limit, management will become more entrenched. Himmerlberg et al (2015) in their study examined the impact of insider ownership on the performance of a firm in the US market and they saw a non-monotonic linkage between these variables. The evidence was noted through the incentive and entrenchment integrated theory.

On a neutral point of view, in empirical contrast to the above findings and according to the beneficial effects of ownership, Jensen and Meckling (2016) found that the performance of a firm first rises as ownership increases up to 5% and falls as the ownership rise up to 25% and will rise again slightly at higher levels of ownership. They are in support of the theory that managers allocate the resources of the organisation in their own best interests that may contradict with those of the shareholders. Studies by Sanda, Mikailu and Garba (2014) noted a positive but insignificant link between ownership structure and financial performance.

## **2.6 Research Gap**

Ibidunni and Ogundana (2014) highlighted that for an entity to achieve high financial performance the major prescription is to professionalise the management structure through the centralisation of decision making that allow lower level staff to bring their innovative ideas towards the achievement of the organisation's goals. Thomas and Alex (2015) in conducting their research came up with their findings and concluded that there is a significant relationship between management structure and the financial performance of an entity. On the other hand, Parnell (2013) concluded that there is no link between management structure and financial performance.

## **2.7 Summary**

The chapter did a review of the relevant literature from several scholars which support the research topic. A critical evaluation and examination of concepts, interferences, ideologies, remarks and principles of many scholars was carried out aiming for a research that is well supported. Many researchers have supported the idea that management structure impacts on financial performance.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

Howell (2013) noted that a research methodology illustrates how a study was carried out and how data was gathered and the justification of the data collection method. The research designs and procedures used in collecting data on the impacts of owner management on the financial performance of an entity shall be emphasized. This chapter goes further to show the evaluation, processing and interpretation of the collected data. The chapter is crucial to the researcher since it aided in finding data that is of relevance in carrying out the research.

#### **3.1 Research Design**

Singh (2016) described a research design as a research method that is integrated by the researcher in carrying out the study and the extension of some of the components of the research. He added that a research design is a stage of planning that is designed through visualising its feasibility. According to Creswell (2013) a research design can be defined by considering the techniques and procedures combined in the research. The author also noted that the research design includes selection criteria, research plan, enquiry of research tools and numerical performances method. He further highlighted that the approach to be adopted depends on the surrounding circumstances of the current problem and the approaches can be quantitative, qualitative and mixed. Cooper and Schindler (2013) defined a research design a plan for carrying out a study with control over the influences that may hinder the validity of study results.

Kothari (2012) defined a research design as the conceptual constructions in which research is carried out and forms part of the plan for collecting, measuring as well as analysing data. He

further explained that it is the organisation of conditions necessary for collecting and analysing data in a way that suits the purpose of the research. He added that a good design is dependent on the purpose, availability of funds, skills of the researcher and nature of the problem under study. In this research the descriptive research design was used the descriptive design. Kumar (2014) noted that a descriptive research design assists the researcher in answering the questions of the circumstances surrounding a particular research problem. The author further noted that a descriptive study is helpful if it is undertaken with the aim of obtaining evidence that relates to the area of study. Under the descriptive research design, the mixed approach was used which encompassed both quantitative and qualitative approaches.

### **3.2 Mixed Research Design**

According to Cooper and Schindler (2013) the mixed approach involves the collection, analysis and the interpretation of both quantitative and qualitative data. This research will be carried out using the mixed research design. The study employed the mixed approach which gives room to handle the limitations of both quantitative and qualitative methods. Mwangi et al (2014) also used this design in assessing the impacts of capital structure on performance of non-financial companies that are listed at the NSE and a study by Molavi and Jamalzade (2015) where they were evaluating the correlation of financial ratios and capital adequacy on the banking sector of Iran.

The researcher chose this approach because it suits the research problem where we seek to examine the impact of owner management on the financial performance of an entity. The qualitative method was chosen by the researcher because it answers the sub research questions of the study. These include the relationship between management structure and financial performance, how owner management affects accountability on firm

performance and how owner management slows decision making. Bryman and Bell (2016) highlighted that the benefits of using qualitative research design is the use of immature concluded investigations which gives the respondents a chance to provide feedback on their own unlike not giving them an option but only to give them written responses as seen in quantitative methods. Quantitative research design was also used to examine the measures of financial performance and when testing the relationship between management structure and financial performance. Hughes (2014) explained that the benefit of using quantitative design is on their reliability and validity and conclusions are easy to deduce with high degree of precision. He added that gathered information from the assessed records can be comprehended with accuracy through organised scrutiny. He also noted that the level of significance of the data can also be determined and quantitative method comes with high accuracy levels.

### 3.3 Research Population

Yin (2013) explained that a population in a research is a separate group of characters which can be recognized because of their interrelated features. All the items that are confined in a certain population take a common characteristic. The target population was made up of management, administrators and officers at HostraManacc Consultancy.

**Table 3.1 Population and Sample Size**

<b>Participants</b>	<b>Target Population</b>	<b>Sample Size</b>	<b>Percentage of Sample Size</b>
Management	2	2	100%
Administrators	4	4	100%

Officers	12	12	100%
<b>Total</b>	<b>18</b>	<b>18</b>	<b>100%</b>

The researcher targeted management, administrators as well as officers since these could be in a position to provide relevant information pertaining ownership structure and financial performance. The other reason is that the company is small in size and working with every targeted member was manageable.

### **3.4 Sources of Data**

In conducting their research, researchers have to determine the sources to base their investigations on. They can either use primary or secondary sources of data or use both of them which is referred to as dual methodology. The researcher of this study only used the primary source of data.

#### **3.4.1 Primary Sources of Data**

Griffin (2013) and Bhattacharjee (2012) described primary data as the information that is collected for particular drive when conducting a research and this is often gathered by means of observations, inspection, and recording by the researcher. According to Steward (2012) primary data is that which is first hand and is collected by the researcher directly from respondents through interviews and questionnaires. The researcher used primary data by giving out questionnaires and doing some interviews at the company under study. The data collected from primary sources is original and relevant to the current study and the collected information is usually accurate. Primary data shows a true picture of the current situation hence it is reliable. Primary sources of data were the most appropriate in carrying out this

research since the information required needed direct contact with the respondents in assessing the impact of owner management on firm performance.

### **3.5 Data Collection Instruments**

Keshab(2014) defined data collection instruments as techniques that are embraced for data gathering purposes. Useful and relevant data was collected using primary and secondary sources. Questionnaires were administered and interviews conducted on primary investigation carried out at HofstraManacc Consultancy.

#### **3.5.1 Interviews**

Siebold (2013) interviews are conducted to understand someone's expressions or personalities or to obtain further evidence concerning their answers to the questionnaires. He added that interviews and questionnaires can be used simultaneously. A friendly environment is created between interviewer and interviewee hence data can be disclosed. They are objective oriented since the interviewee is not affected by some external factors when conducting the interview. The researcher conducted face to face interviews so as to get information pertaining to the research questions. These were oral interviews and an interview guide was used to avoid the mixing of the gathered information.

#### **3.5.2 Questionnaires**

According to Steward (2012) researchers often use questionnaires if the depth of data is required from another person. Questionnaires shall be designed to collect the required data and administered to the targeted respondents. The researcher made use of likert questions in

collecting data. The researcher was given facts following list of answers that were set for the respondents to make a choice. Completion of questions can be unidentified. They are cheap to administer and they can be verbal, on paper or online. Time is also saved and data can be recovered shortly.

### 3.6 Likert Scale

Yin (2013) noted that a likert scale measures reaction and is used by the researcher in forms of feedback to questionnaires to get someone's support level to the assertions. Targeted populace will be asked to indicate their extent of support to a question through the use of an ordinal scale. In carrying out the research, the likert scale was used to obtain opinions of respondents.

**Table 3.2 Likert Scale**

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
5	4	3	2	1

**Source: Creswell (2013)**

### 3.7 Validity and Reliability

Singh (2013) note that data reliability to the point that any substantial outcome should exceed once-off finding and be repetitive intrinsically. The researcher achieved data reliability by collecting both primary and second hand data concerning ownership structure to emphasize

explanations and outcomes taken from different conditions. Bryman (2015) defined data validity as a measurement of the dependability of a project under study. He added that validity in collecting data make sure that the consequences show a true picture of the claims of the researcher. In this research data validity was ensured by means of using interviews and questionnaires to add value to the research and at the same time abolishing the drawbacks of each method.

### **3.8 Data Presentation and Analysis**

The collected data was qualitative in nature and it was examined by giving conclusion through taking into consideration homogeneous designs of data and quantitative data was examined and presented by use of Microsoft Excel by using pie charts, graphs and tables. The researcher also used measures of central tendency for data analysis by using mode, median and mean. These methods were chosen since they are easy to understand they show the patterns of the collected information. Bryman (2015) explained that the presentation of data encompasses statistical methods of data presentation by means of diagrams. Microsoft excel was used to present the gathered information by use of pie charts, bar graphs and tables. Interviews were examined by way of interpreting so that a conclusion would be deduced on the research area.

#### **3.8.1 Analytical Model**

This was used to establish the impact of organisational structure on the financial performance of HofstraManacc Consultancy. A regression analysis was used as follows:

$$ROA = \beta_0 + \beta_1SZ + \beta_2SF + \beta_3SC + \beta_4SCE + \epsilon_i$$

Where;

ROA = Return on Assets

SZ = Organisational Size

SF = Structure Formalisation

SC = Structure Complexity

SCE = Structure Centralisation

$\beta_0$  = The Constant Term

$\beta_1$  = Coefficient of Organisational Size

$\beta_2$  = Coefficient of Structure Formalisation

$\beta_3$  = Coefficient of Structure Complexity

$\beta_4$  = Coefficient of Structure Centralisation

$\varepsilon_i$  = The error term

### **3.9 Ethical Considerations**

Saunders (2013) noted that researchers should consider the interests of the society and other people. He added that the way they act should not impact negatively on other people's interests.

### **3.10 Summary**

This chapter summarised the research methodology for the research which was done using descriptive research design. The chapter also explained the targeted populace, sampling methods, instruments of data collection as well as data sources. The chapter went on to



discuss the reliability and validity of the data to be gathered. The presentation of data and its analysis was also explained. The chapter ahead will focus on presentation and analysis of the results of the research, aiming at drawing conclusions and suggesting recommendations.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.0 Introduction**

This chapter covers the presentation and analysis of research findings so that conclusions can be drawn from the investigation of the impact of owner management on the financial performance of an entity with HofstraManacc Consultancy as a case study. The research findings are presented by use of graphs, pie charts and tables. The collected data was well analysed and related to the objectives of the research. The chapter ends by a summary of the discussions of this chapter.

#### **4.1 Response Rate**

**Table 4.1 Questionnaire Response Rate**

	<b>Questionnaires Sent</b>	<b>Questionnaires Returned</b>	<b>Response Rate (%)</b>
<b>Management</b>	<b>2</b>	<b>2</b>	<b>100</b>

<b>Administrators</b>	<b>4</b>	<b>4</b>	<b>100</b>
<b>Officers</b>	<b>12</b>	<b>12</b>	<b>100</b>
<b>Total</b>	<b>18</b>	<b>18</b>	<b>100</b>

Table 4.1 illustrates the rate of response for the questionnaires. The management's response rate was 100%, a very high response rate since they are only two personnel in management. This was followed by administration and officers who gave a response rate of 100% since they all returned the sent questionnaires. This response rate was also attributed to the size of the organisation and the personnel were not that busy, giving them time to respond to the administered questions. According to Creswell (2013) a positive effect is accepted from a questionnaire that has a 70-80% rate of response. The researcher therefore used the illustrated results above in drawing conclusions and recommendations.

**Table 4.2 Respondents level of Education**

<b>Level of education</b>	<b>Respondents</b>	<b>Percentages (%)</b>
<b>Ordinary Level</b>	<b>-</b>	<b>0</b>
<b>Advanced Level</b>	<b>2</b>	<b>11</b>
<b>Diploma</b>	<b>10</b>	<b>56</b>
<b>Degree</b>	<b>4</b>	<b>22</b>
<b>Degree Plus</b>	<b>2</b>	<b>11</b>

<b>Total</b>	<b>18</b>	<b>100</b>
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Table 4.2 above illustrates the highest qualification level attained by the respondents. It shows that 10/18, 56% of the respondents hold a diploma as the highest level of qualification. The table also illustrates that 4/18, 22% of the respondents are degree holders in the organisation. Table 4.2 also shows that only two people with a percentage of 11% possess the highest level of qualification with a degree plus, with masters and professional qualifications like ACCA. The other two people in the organisation represent 11% of the respondents with advanced level as their qualification. Business management courses are provided from the advanced level hence most of the personnel in the organisation have an understanding of business management and financial performance. The modal value was 10 out of the 18 since it had the highest frequency of the respondents' level of education. From the information illustrated above, it can be concluded that most of the respondents had the level of knowledge which suits the research hence the responses they provided can be relied upon.

**Table 4.3 Respondents work experience**

<b>Period</b>	<b>Respondents</b>	<b>Percentages (%)</b>
<b>Less than 1 year</b>	<b>2</b>	<b>11</b>
<b>1-5 years</b>	<b>5</b>	<b>28</b>
<b>5-10 years</b>	<b>8</b>	<b>44</b>
<b>Over 10 years</b>	<b>3</b>	<b>17</b>

<b>Total</b>	<b>18</b>	<b>100</b>
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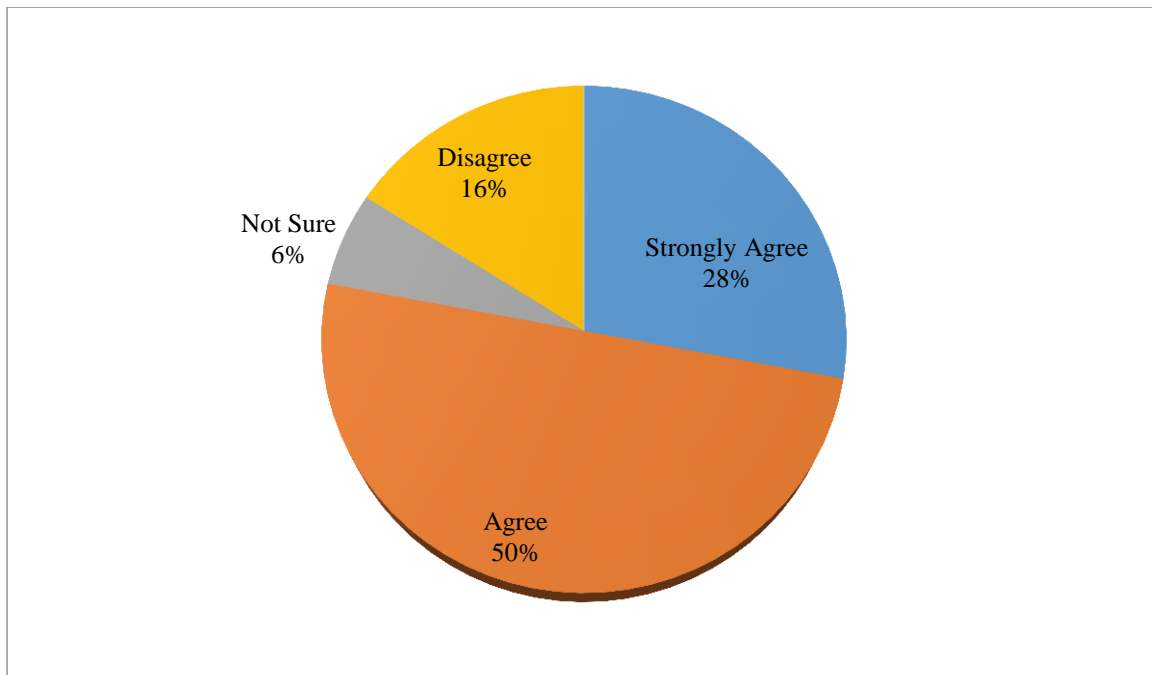
Table 4.3 illustrates the analysis of respondents' work experience. It is shown that 8/18, 44% of the respondents have 5-10 years' experience in the firm. 5 out of the 18 represented by 28% of the total number of respondents possess a work experience of 1-5 years in the organisation. This is followed by 3 members, 17% who have over 10 years work experience and this includes the owner of the company. Only two members with a percentage of 11% of the respondents have a work experience of less than a year at the company. According to Brink (2013) the targeted population should possess at least five years working experience to ensure reliability of responses. Therefore nearly half of the respondents 8/18 (44%) had over five years working experience. This implies that the responses they provided can be relied upon in analysis.

#### **4.2 How Owner Management Affects Accountability which impacts on performance**

*Table 4.4 Most SMEs have poor accounting practices*

<b>Response</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
<b>Respondents</b>	5	9	1	3	

*Figure 4.1 Most SMEs have poor accounting practices*



**Respondent 1**

*“Most SMEs are worried about making profit and they do not follow stipulated accounting procedures”.*

.

**Respondent 2**

*“SMEs usually lack the knowledge of financial reporting and practising proper accounting is a challenge”.*

**Respondent 3**

*“Employing an accounts clerk is costly to the organisation”*

Figure 4.1 above illustrates the responses from the view that SMEs have poor practices of accounting. 5/18 (28%) strongly agrees that SMEs have poor accounting practices and 9 of them (50%) agreed on the same view. This is also in line with the response from an interview that most SMEs are worried about making profit and they do not follow stipulated accounting procedures. The responses from respondent one and two indicate that accounting practices are not a priority in most SMEs. Only one member (6%) was uncertain about whether SMEs have

poor accounting practices or not. There were also 3(16%) of the respondents who disagreed that SMEs have poor accounting practices. There was no one who strongly disagreed on this notion.

From the information contained in figure 4.1 we can conclude that most SMEs have poor practices of accounting. This was supported by Uwalomwa and Olamide (2016) who noted that the major factors behind poor accounting practices by small firms is attributed to lack of resources and expertise, hence the need to educate small firms on the importance of having sound practices of accounting and proper financial reporting procedures. The third respondent explained that most SMEs do not maintain proper accounting records since it is costly to employ an accountant. Eksi (2014) noted that the costs of hiring an expert to perform accounting tasks may be outweighed by the benefits derived from the service, hence most SMEs tend to operate without a proper accounting function.

***Table 4.5 Small firms do not keep Accounting Records***

<b>Response</b>	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
<b>Respondents</b>	4	8	3	2	1

***Figure 4.2 small firms do not keep accounting records***

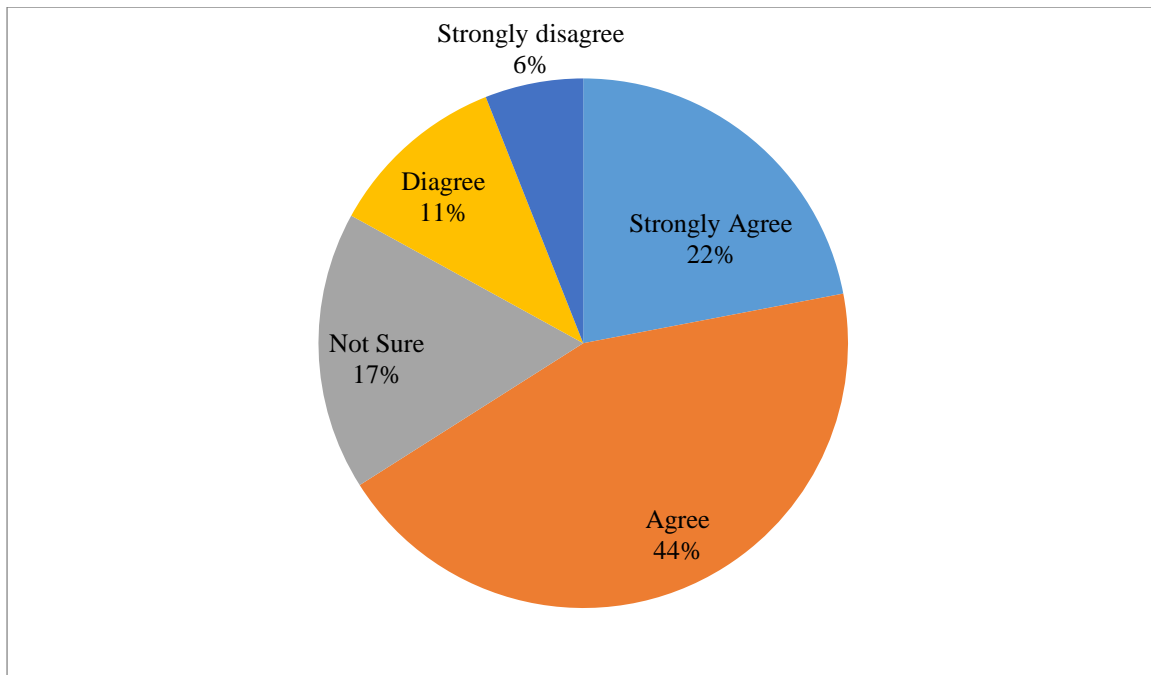
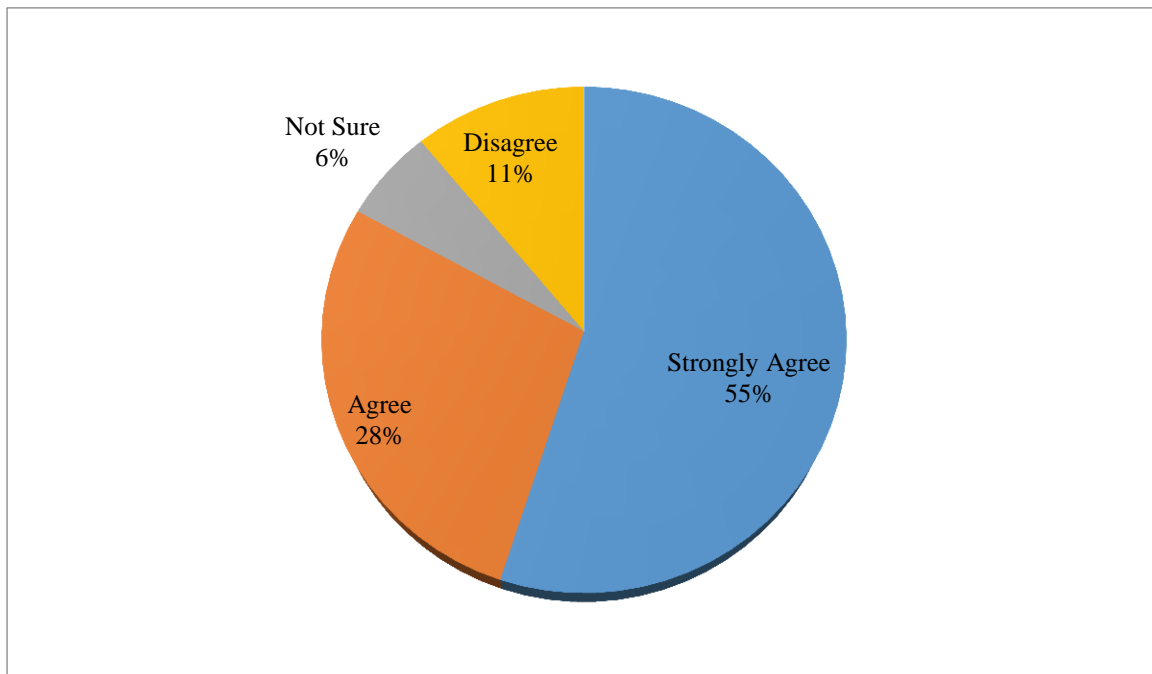


Figure 4.2 above shows that 4/18 (22%) strongly agree that small firms do not keep accounting records. 8/18 (44%) agreed on the same notion. 3 members (17%) were not sure on the record keeping of small firms. However, 2/18 disagreed on this notion and only 1 person (6%) strongly disagreed on the view that small firms do not keep accounting records. From the above information, it can be noted that 66% of the respondents in the organisation agreed that small entities do not keep proper records of accounting. The findings also indicate that 17% of the respondents who were not certain on whether small firms do keep accounting records or not. On the other hand, 17% of the respondents disagreed on the fact that small companies do not keep their records of accounting. The conclusion based on the research findings is that most small companies do not keep proper accounting records. Vafeas (2016) concluded that proper accounting records may not be a priority to most owner managed firms since the major objective will be to earn a living out of the business. Therefore most small companies should employ expertise who performs financial duties on their behalf for them to be competitive in the world of business.

***Table 4.6 SMEs have no proper management of cash flows***

Response	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
Respondents	10	5	1	2	0

*Figure 4.3 SMEs have no proper management of cashflows*



From the above table it can be seen that 10/18 (55%) strongly agreed that SMEs have no proper management of cash flows. It also shows that 5/18 (28%) agreed on the same view. There was only 1 out of the 18 respondents (6%) who were not sure about this notion. On the other hand, 2/18 (11%) disagreed on the view that SMEs have no proper management of cash flows and 0 strongly disagreed. The information presented in figure 4.3 above indicates that 83% of the respondents in the organisation agreed that small firms have poor cash flow management. This has been supported by Attom (2012) who noted that the major indicator of



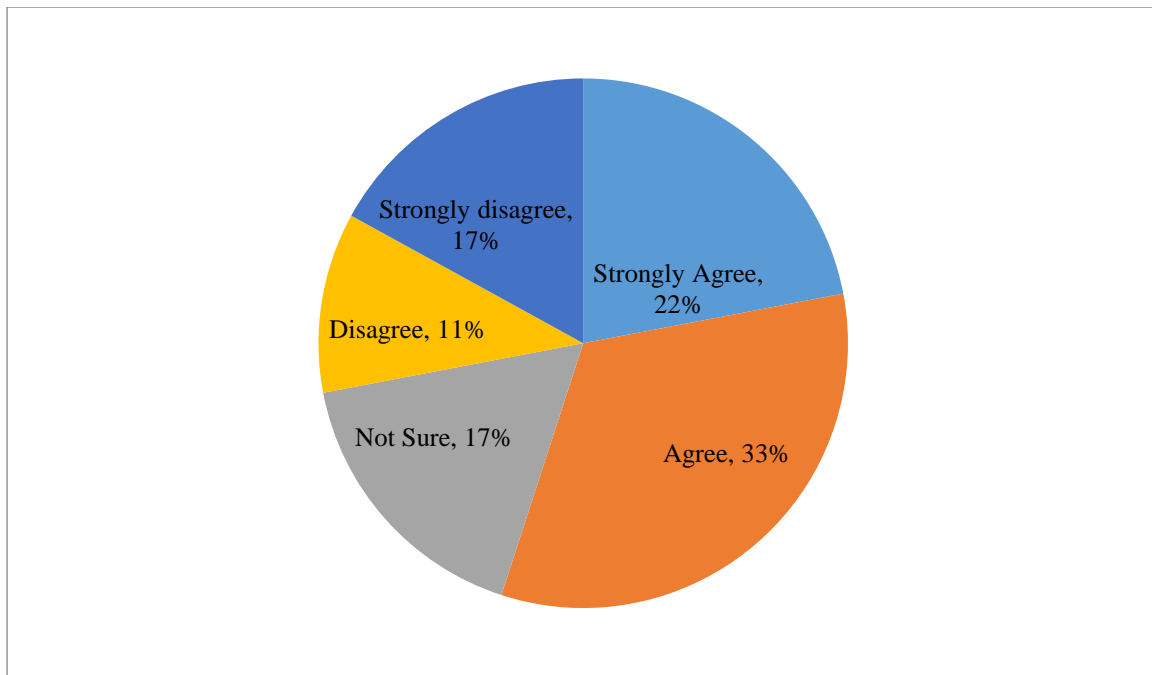
small business failure is the lack of cash flow management which cause small firms to fall behind when paying their suppliers. 6 % of the respondents were not certain on whether small companies have proper cash flow management or not. There were also 11% who did not agree to the fact that small firms have no proper management of cash flows. These have been supported by Carney and Gedajlovic (2013) who concluded that most SME owner managers believe that cash flows are only meant for big organisations which need to be accountable to the shareholders who are the owners of equity. Conclusively, it can be noted that SMEs have poor cash flow management due to their size in nature and their computation might require an expert, which might be costly for the organisation.

#### **4.3 Effects of expertise and monitoring on financial performance of owner managed firms**

*Table 4.7 Board composition affects monitoring of firm performance*

<b>Response</b>	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
<b>Respondents</b>	4	6	3	2	3

*Figure 4.4 Board Composition affects monitoring of firm performance*



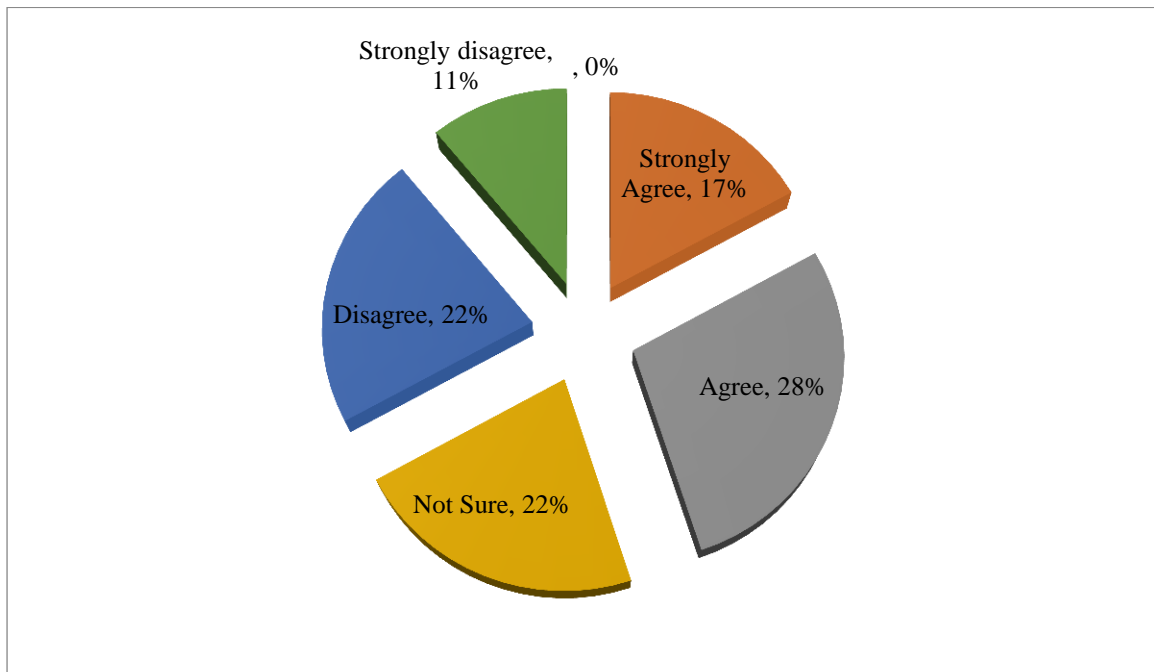
The information in figure 4.4 above shows that 4/18 (22%) of the total respondents strongly agreed that the board composition of an organisation affects the level of monitoring of financial performance. Moreover, 6/18 (33%) also agreed that board composition affects the degree of monitoring of firm performance. According to Munichilli (2015) a high proportion of outside managers in the board can enhance the financial performance of an entity through their monitoring roles. 17% were not sure on the effect of board composition on firm performance. Jackling and Johl (2015) were also neutral on the effect of board composition when they cited that the expected link between board composition and firm performance can be described as non-linear. However, there were also 2/18 (11%) of the respondents who disagreed on the notion that board composition affects firm's financial performance. 3/18 (17%) strongly disagreed on the view that board composition affects the level of monitoring. These have been supported by Cheng (2014) who argued that whilst a large board and outside managers' abilities may improve the firm performance; the benefits might be overshadowed by the costs associated with a large board. The meaning of the research findings is that the

companies that opt for outside managers are more competitive since financial performance will be monitored regularly by experts.

**Table 4.8 Owner perception towards the managers affect the level of expertise in the firm**

<b>Response</b>	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
<b>Respondents</b>	3	5	4	4	2

**Figure 4.5 Owner perception towards managers affects the level of expertise in the firm**



From the collected data on the table, it is illustrated that 3/18 (17%) strongly agreed that the perception of the owner towards managers affect the level of expertise in the organisation.

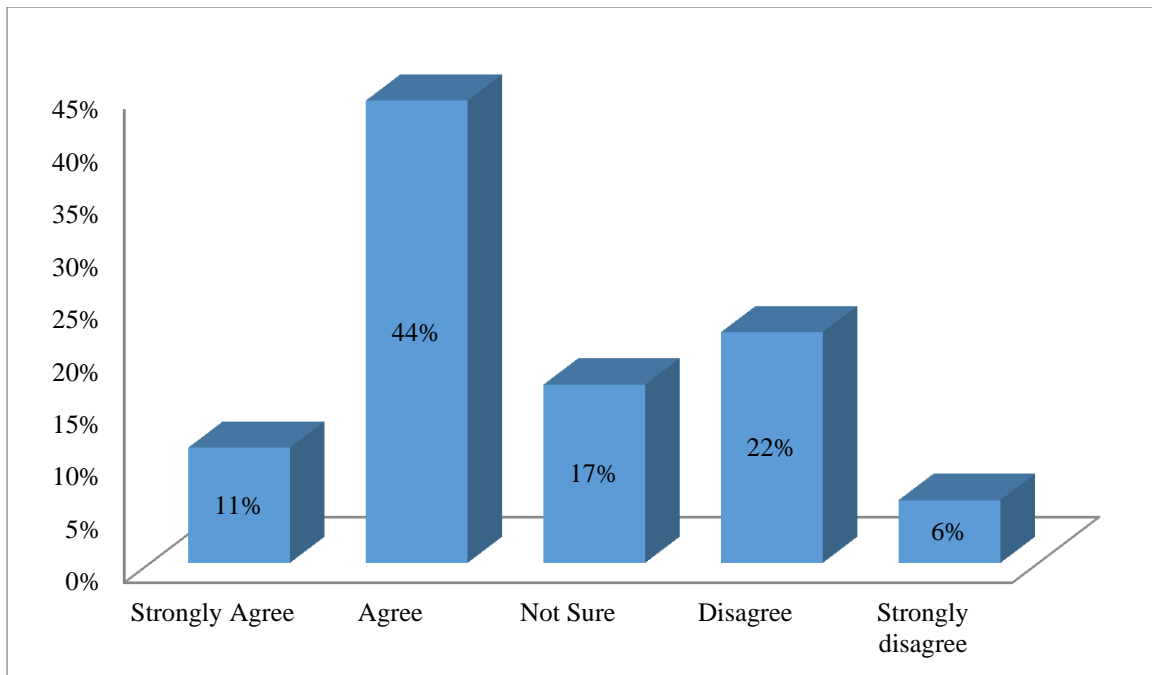
5/18 (28%) agreed on the same view. 4/18 (22%) were uncertain on the effect of owner perception on the level of expertise in the firm. 4/18 (22%) of the respondents disagreed that owner perception towards managers affects the level of expertise in the firm. The information in figure 4.5 above illustrates the effect of owner perception towards managers on the level of expertise in the organisation. 45% of the total respondents in the firm agreed that the perception of owners towards managers affect the level of expertise. Jensen and Meckling (2016) cited that the managers and shareholders differ in interests since each one of them strive to maximise their own utility and wealth. 22% of the respondents were uncertain about the effect of owner perception towards managers on the level of expertise in the organisation. On the other hand, 33% did not agree on the view that owner perception towards managers affects the level of expertise. According to Yeung (2013) the owners of most SMEs stick to their old ways of business operations and resist change and resist change for innovation in the organisation.

#### **4.4 How owner management slows decision making and growth of SMEs**

*Table 4.9 Managing own company slows decision making*

<b>Response</b>	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
<b>Respondents</b>	2	8	3	4	1

*Figure 4.6 Managing own company slows decision making*

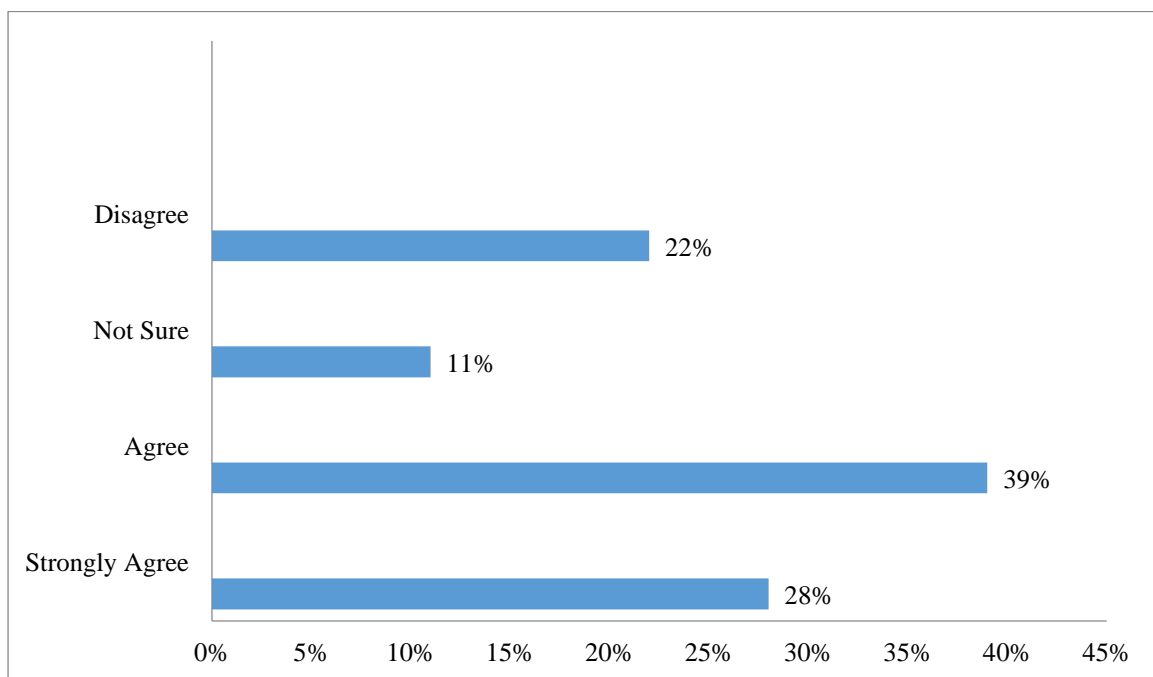


The information in figure 4.6 above shows that 2/18 (11%) strongly agreed that managing own company slows decision making through delayed task completion. 8/18 (44%) agreed on the same notion. Mureithi (2015) noted that most owner managers tend to centralise decision making due to their fear of failure. 17% were not sure about the effect of managing own company on decision making. However, 4/18 (22%) disagreed on the view that managing company slows decision making. One out of the eighteen (6%) strongly disagreed on the same view. These have been supported by Gibson and Doty (2017) who cited that a company can come up with its structure when it decides how it desires its workers to act, the attitudes they wish to promote as well as what the company wants its workers to achieve. Therefore it can be concluded that managing own company slows decision making since a greater percentage of the respondents agreed on that although there are others who disagree. Furthermore, some managers may decide to make decisions on their own since the company will be small hence no need to consult other members.

**Table 4.10 Decision making in small firms is centralised**

Response	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
Respondents	5	7	2	4	

**Figure 4.7 Decision making in small firms is centralised**



**Respondent 1**

*“Since I started working here I have never been consulted in decision making in this company”.*

**Respondent 2**

*“The last time I remember my boss consulting me was when he wanted to open a branch in Livingstone, Zambia of which I was not sure if this move was going to be successful or not since I’m not familiar with the area”.*

### **Respondent 3**

*“Decision making is for the management at this company and workers just do what management tells them to do”.*

Figure 4.7 above shows information about the view that decision making in small firms is centralised. It can be seen that 5/18 (28%) strongly agreed that decision making in small firms is centralised. 7/18 (39%) agreed on this. Evans (2016) supported this notion when he explained that control in organisational bureaucracy consists of standards, rules and internal procedures. He further described centralisation as the level of hierarchy with decision making authority. This was also in line with the interview response on decision making at the company under study where 2/3 (67%) confirmed that they have never been involved in the decision making process of the company and that decisions are made by management and workers are told what to do.

This means that workers are not part of the decision making process. This also shows that the decision making is made by the owner of the company. Bowen, Morara and Mureithi (2015) highlighted that SMES due to their small size they tend to be too particular in their decision making styles since they believe that a simple mistake they make may cause the downfall of the firm without giving a room to learn from mistakes. On the other hand 22% of the respondents did not agree that small firms have centralised decision making and no one strongly disagreed. 2/18 (11%) were not sure whether decision making in small firms is centralised or not. According to Smith (2014) there is no relationship between employee performance and the span of control but he explained that higher job satisfaction is evidenced

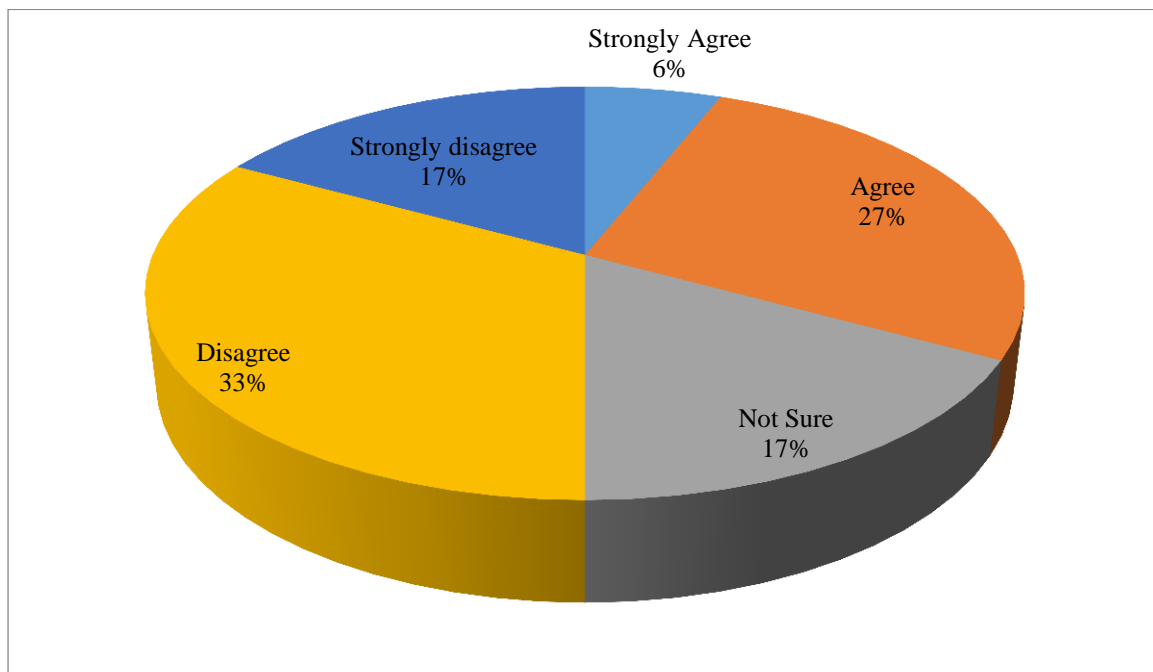
in a decentralised environment. In conclusion, small firms tend to centralise decision making but they should decentralise so as to improve their performance.

#### 4.5 Measures of financial performance

*Table 4.11 SMEs understand the measurement of firm performance*

Response	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
Respondents	1	5	3	6	3

*Figure 4.8 SMEs understand the measurement of firm performance.*



**Respondent 1**



*“In my own understanding financial performance is the measure of how effective a company utilises its assets to generate revenue from its core business activities”.*

### **Respondent 2**

*“I hardly understand the concept of financial performance because I think it applies to big companies”.*

### **Respondent 3**

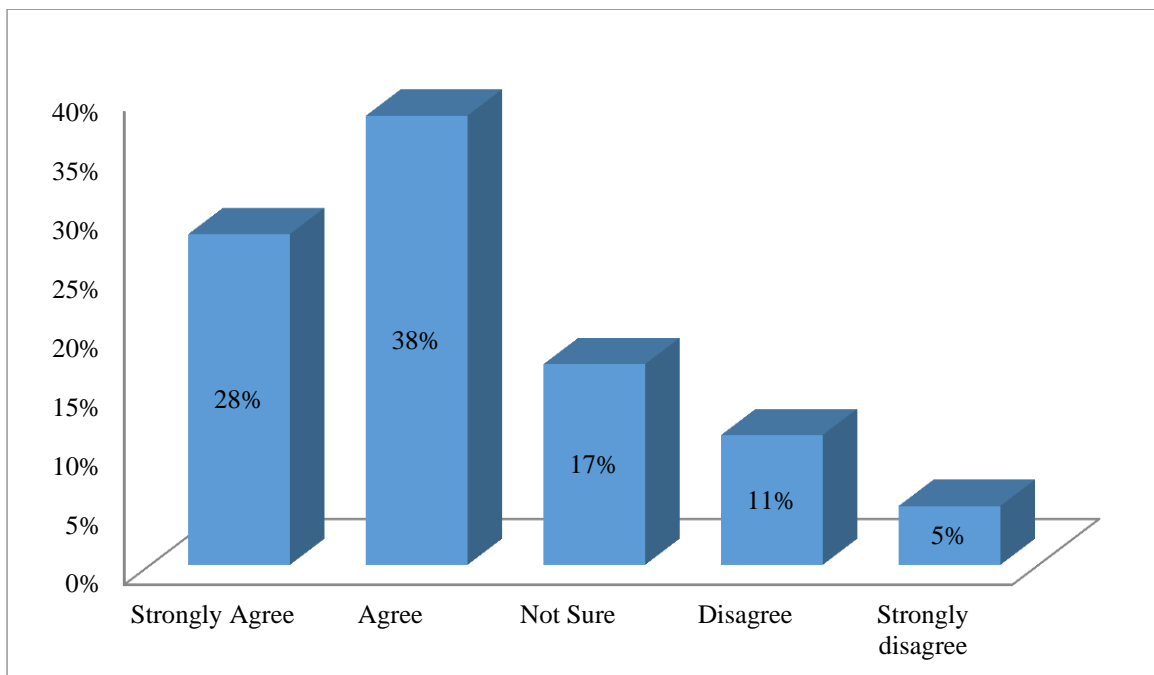
*“Financial performance is a broad subject and in my own view it is the measure of the profits made by the firm.*

Figure 4.8 above illustrates that 1/18 (6%) strongly agreed that small companies understand the measurement of firm performance. 5/18 (27%) also agreed that small firms understand the measurement of firm performance. This implies that 33% of the total respondents agreed that small companies understand the measurement of firm performance. This percentage was also supported by 1/3 (33%) of the interviewees who showed their understanding of financial performance by explaining that financial performance is a measure of how effective a company can use its assets to generate revenue. This was supported by Oluyinka and Long (2014) who described financial performance as a subjective evaluation of how well a firm can use assets from its primary mode of business and generate revenue. 3/18 (17%) of them were uncertain about the fact that small firms understand performance measurement. However, 50% of the total respondents in the organisation disagreed. These have been supported by Copeland (2014) who argued that the financial performance measures usually apply to large firms with well-established systems and most of the measures are not applicable to small firms due to their complexity in nature. 2/3 of the interview respondents (67%) also showed that they lack the understanding of financial performance from the responses they gave. From the above information, it can be concluded that SMEs do not understand the measurement of firm performance since the majority of the respondents disagreed. This means that SMEs need to be educated on the measurement of financial performance or employ experts who can perform the task on their behalf.

**Table 4.12 ROA is a better performance measurement tool**

Response	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
Respondents	5	7	3	2	1

**Figure 4.9 ROA is a better performance measurement tool**



The information in figure 4.9 above shows different views on ROA as a performance measurement tool. 5/18 (28%) strongly agreed that ROA is a better performance measurement tool. 7/18 (38%) agreed on the same notion. 17% of the respondents in the organisation were uncertain on this view. 2/18 (11%) disagreed on the fact that ROA is a better performance

measurement tool. 1 of the 18 respondents (5%) strongly disagreed on this fact. Further analysis indicates that 66% agreed that ROA is a better measure of performance. Khatab et al (2016) described ROA as a better measurement tool since it includes all the business assets, those arising from liabilities to creditors and capital that is paid by investors. On the other hand, 16% disagreed on the view that ROA is a better performance measurement tool. Byne (2014) argued that ROA can show the effective use of assets as well as under-capitalisation. From the research findings it can be concluded that ROA is a better tool compared to others like ROE. De wet (2015) supported the inclusion of all assets both from equity and debt since it is favoured by management when they need to assess the uses of all the finances in different functions.

#### 4.6 Factors which influence financial performance of most SMEs

##### Regression Analysis

*Table 4.13 Model summary*

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	0.5713 <sup>a</sup>	0.7685	0.7681	0.42127

a. *Predictors:* (Constant), organisational size-Turnover and number of staff, structure formalisation, structure centralisation and structure complexity.

b. *Dependent Variable:* Return on Assets (ROA)

##### Source: Research findings

The analysis in table 4.13 above indicates that the coefficient of determination, R square is 0.7685 which is organisational size- Turnover and number of staff, structure formalisation,

structure centralisation as well as complexity. The analysis of variance (ANOVA) was used to verify how best the model fits the data. The results are shown in table 4.14 below

**Table 4.14: Analysis of Variance (ANOVA)**

Model	Sum of squares	Df	Mean square	F	Sig
1 Regression	1.045	3	0.123	0.678	0.000 <sup>a</sup>
Residual	5.102	28	0.177		
Total	5.628	93			

a. *Predictors:* (organisational size-Turnover and number of staff, structure formalisation, structure centralisation and structure complexity)

b. *Dependent Variable:* Return on Assets (ROA)

**Source: Research findings**

The F static is the regression mean square (MSR) divided by the residual mean square (MSE). Because the significance value of the F static is small (0.000 smaller than for instance 0.05) then the predictors' variables that is the relationship between organisational size-Turnover and number of staff, structure formalisation, structure centralisation and structure complexity explain the variation that is in the dependent variable, that is ROA. As a result, a hypothesis that all the population values for the regression coefficients are not zero is accepted. On the other hand, if the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable and the insignificant hypothesis that all the population values for the regression coefficients are 0

should have been accepted. The output of the regression that is of most interest is the following table of coefficients and associated output.

**Table 4.15 Regression coefficients Results**

	Standardised coefficients		
Model	Beta	t	Sig
1 (Constant)	0.954	7.367	0.000
Organisational size	0.971	2.021	0.045
Structure formalisation	0.739	1.157	0.210
Structure complexity	0.835	1.194	0.234
Structure centralisation	1.271	2.617	0.095

**Source: Research findings**

Dependent variable: Return on assets (ROA)

From the regression results above, the multiple linear regression model finally appears as follows:

$$ROA = 0.954 + 0.971SZ + 0.739SF + 0.835SC + 1.271SCE + \epsilon_i$$

The model indicates that all independent variables have positive coefficient. The results reveal that there is a positive relationship between dependent variable, ROA and independent variables (organisational size- Turnover and number of staff, structure formalisation, structure centralisation and structure complexity).

From the results it can be seen that one unit change in organisational size results in 0.971 units increase in the firm's financial performance. One unit in structure formalisation results in 0.739 units increase in the financial performance of a company. Another change by one unit in structure centralisation will cause a 1.271 financial performance increase. Another change in structure complexity by one unit will increase the firm's financial performance by 0.835. The t statistics aid in determining the relative importance for each variable in the model. The results of regression showed that the model is significant to the coefficient of determination (R) for the regression is 0.5713. This shows that the variance in financial performance of firms is explained by organisational size (coefficient = 0.971), structure formalisation (coefficient = 0.739), structure centralisation (coefficient = 1.271 and structure complexity (coefficient =0.835).

## **CHAPTER FIVE**

### **SUMMARIES, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This research was conducted for the purposes of examining the impact of owner management on the financial performance of a company using HofstrManacc Consultancy as a case study. This chapter is made up of summaries, conclusions and recommendations that the researcher came up with after conducting this investigation. The conclusions were drawn basing on the analysis of research objectives which resulted in the researcher giving recommendations which were based on the collected data and the findings of the research. These recommendations are expected to help the organisation in adopting different strategies to improve their financial performance.

#### **5.1 Chapter Summaries**

Chapter one covered the background of study on the examination of the impact of owner management on the financial performance of a company using HofstraManacc Consultancy as a case study. The study was carried out due to the identified research problem that the

company is managed by the owner since its incorporation and it has now grown beyond the management of its owner, thereby causing a threat to its financial performance. The research problem resulted in the research objectives which were reviewed during the course of the research. The objectives of the research were to establish how owner management affect accountability which impacts on performance, establish the effect of expertise and monitoring on financial performance of owner managed firms and to establish how owner management slows decision making and growth of SMEs. The other objectives were aimed at establishing the measures of firm performance as well as establishing the relationship between management structure and financial performance. Additionally, the researcher explained the research assumptions, justification of the research, limitations and delimitations of the study. The main research question was the impact of owner management on the financial performance of a company.

Chapter two concentrated much on reviewing literature of the research objectives discussed in Chapter one. In discussing these objectives some authors were of the view that owner management of firms affects accountability which affects financial performance and others had an opinion that there is a positive effect between monitoring and financial performance. Some authors wrote on how owner management slows decision making and others established the measures of financial performance. Some of the discussed measures were ROE, ROA and EVA. Some went on to establish whether there is a relationship between management structure and financial performance of SMEs. Antoniou et al (2014) found that there is a positive relationship between ownership structure and financial performance. The major scholars in chapter two were Shleifer and Vishny (2012) who posit that in the concept of corporate governance the agency theory explains that there should be adequate monitoring mechanisms so as to protect the shareholders from the self-interest attitude by managers. They cited that the hired outside managers should be the guardians of the owners' interests



through monitoring. There were also Morck, Strangeland and Yeung (2013) who explained that owner control cause a capital constraint which inhibits the business growth. They further explained that the heirs to large owner managed firms may fail to find innovative ventures and may seek to entrench their management and would want to preserve their wealth using political lobbying.

Chapter three described the research methodology embraced by the researcher in the collection of data. It covered the research methods used in the data collection process, targeted population, validity and reliability of the collected data as well as brief summary of the data presentation and analysis. The researcher used a census of eighteen respondents from management, administration and officers in carrying out the research since the company is small and working with every member of the organisation was manageable. The chapter also described the model and methods of datapresentation which includes tables, pie charts and graphs. On research design the researcher made use of the mixed approach which incorporated both qualitative and quantitative approach so as to get sufficient reliable information. Data was collected through the use of questionnaires and interviews which gave a satisfactory response rate. Only primary sources of data were used in carrying out this research. The analytical model was also used under linear regression analysis to test the relationship between management structure and the financial performance of a firm.

Chapter four demonstrated the presentation and analysis of the research findings. The raw data was gathered through the use of questionnaires and interviews which was then analysed and presented as information in graphs, tables and pie charts. Qualitative data collected using interviews was also analysed by drawing conclusions based on the information given by the respondents in the organisation. The analysed information in chapter four gave the basis for summary and conclusion and provided the researcher with a guideline for setting up the recommendations.

## **5.2 Major Findings**

The researcher administered questionnaires and conducted interviews during data collection to examine the impact of owner management on the financial performance of a company using HofstraManacc Consultancy as a case study. The research was carried out successfully and the researcher drew a conclusion that owner management impacts on financial performance negatively hence the need for expertise that carry out managerial tasks on owners' behalf.

### **5.2.1 How Owner management affect accountability which impacts on performance**

The results of the study concluded that most SMEs have poor accounting practices and they do not keep proper records of accounting since they do not prioritise financial reporting but they are worried about making a living out of the business. Uwalomwa and Olamide (2016) noted that the major factors behind poor accounting practices by small firms is attributed to lack of resources and expertise, hence the need to educate small firms on the importance of having sound practices of accounting and proper financial reporting procedures. Some of the small companies cannot afford the costs of an accountant hence their financial reporting remains poor. The modal value was 13/18 (72%) of the respondents who agreed that small firms have poor accounting practices was

### **5.2.2 The Effect of expertise and monitoring on financial performance of owner managed firms.**

The findings of the research concluded that board composition affects monitoring of firm performance. This was supported by Munichilli (2015) who cited that a high proportion of outside managers in the board can enhance the financial performance of an entity through their

monitoring roles. Therefore there is need for employing an outside manager at HofstraManacc so that the financial performance is enhanced through quality managerial services from experts.

### **5.2.3 How Owner Management slows decision making and growth of SMEs**

The results of the study indicated that the decision making in small firms is centralised and the decision making is slowed due to this decision making style. Delays in task completion are faced since the lower level workers have to wait for the owner to pass the final decision. Evans (2016) explained that control in organisational bureaucracy consists of standards, rules and internal procedures. He further described centralisation as the level of hierarchy with decision making authority. To improve the level of efficiency in the organisation, the owner of the company should give room for decision and delegate some tasks to lower level workers and this improves their motivation hence enhancing the performance of the firm.

### **5.2.4 Measures of firm performance**

From the gathered information in the research study, it was concluded that most SMEs do not understand the measurement of firm performance since they do not possess the knowhow of measuring the performance. Copeland (2014) cited that the financial performance measures usually apply to large firms with well-established systems and most of the measures are not applicable to small firms due to their complexity in nature. The small firms need to be educated on these measures so that they grow and become competitive in the world of business.

### **5.2.5 The relationship between management structure and financial performance**

The results of the research concluded that management structure of an organisation determines the performance of an entity. Freedman and Godwin (2012) concluded that there

is a positive relationship between ownership structure and the financial performance of a firm. Inelo (2013) also concluded that the size of the firm plays an important role in determining the degree of centralisation which in turn affects financial performance.

### **5.3 Conclusion**

The major objective of this research was to examine the impact of owner management on the financial performance of a company using HofstraManacc Consultancy as a case study. The researcher reviewed the relevant literature on this problem, administered questionnaires and also conducted interviews. The objective of the research was a success since the research objectives were addressed.

### **5.4 Recommendations**

- The organisation should employ expert managers who can make decisions that guarantee long-term firm survival.
- Proper financial reporting should be practiced in the firm so that audits can be carried out.
- The company should also strive to have a sound finance department so that funds are properly managed.
- Decision making should also be centralised through delegation or consultations.
- The management structure should be formalised to ensure a formal communication channel within the organisation.

### **5.5 Further area of study.**

This research was successfully conducted although it was only limited to HofstraManacc Consultancy case study. Other researchers should consider other organisations and the impacts of different factors on financial performance of companies.

## 5.6 Summary

The chapter outlined the overall research by summarising the previous chapters, describing the major findings of the study and drawing conclusions and giving recommendations for the company. The chapter ended by giving suggestions for further study since this research was only limited to one company.

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**Appendix A      Cover Letter**



Faculty of Commerce

Department of Accounting

P. Bag 9055

Gweru

21 August 2017

The Managing DirectorDirector

HofstraManacc Consultancy

719 Syringa Road

Victoria Falls

Dear Sir

**RE: REQUEST FOR PERMISSION TO CARRY OUT AN ACADEMIC RESEARCH**



Permission is being sought to carry out an academic research at your organisation. The requester (MarodzahRegai R144236X) is a student in his final year at Midlands State University and the research is being conducted in partial fulfilment of the Bachelor of Commerce Accounting Honours Degree. The academic research being conducted is titled "The Impact of owner management on the financial performance of a company: A case of HofstraManacc Consultancy".

The information obtained will be used for academic purposes and ethical considerations in terms of confidentiality will be highly observed. Your favourable response will be greatly appreciated.

Thank you in advance.

Yours faithfully

RegaiMarodzah (R144236X)

## Appendix B



MIDLANDS STATE UNIVERSITY

ESTABLISHED 2000

### QUESTIONNAIRE

This questionnaire was administered by RegaiMarodzah, a student from the Midlands State University. The student intended to examine the impacts of owner management on the financial performance of an entity. The evidence gathered shall be strictly used for academic purposes and it shall be kept confidential. Your cooperation shall be greatly appreciated.

#### Instructions

1. Do not write your name on the questionnaire
2. Indicate response by ticking where appropriate.
3. If not sure of your response leave the question

1. Work experience

a) Under 1yr [ ] b) 1-5yrs [ ] c) 5-10yrs [ ] d) over 10yrs [ ]

2. Qualifications

ACCA [ ] CIMA [ ] CA [ ] CIS [ ]

Other Specify.....

The following questions require the respondents to indicate their views and knowledge about auditing and performance by ticking in the appropriate box. There is a Likert scale rating. 1- strongly agree, 2- agree, 3- not sure, 4-disagree, 5- strongly disagree.

**Questions**

**1. How does Owner Management Affect Accountability which impacts on Performance?**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
Most SMEs have poor accounting practices					
Small firms do not keep accounting records					
SMES have no proper management of cash flows					

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**2. What are the effects of expertise and monitoring on financial performance of owner managed firms?**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
Board composition affects monitoring of firm performance					
Owner perception towards managers affect the level of expertise in the firm					

**3. How does owner management slow decision making and growth of SMEs?**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
Managing own company slows decision making					
The decision making in small firms is centralised					

**4. What are the measures of firm Performance?**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
SMEs understand the measurement firm performance					

ROA is a better performance measurement tool					
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**5. What factors influence financial performance of most SMEs?**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
Management structure determines firm performance.					
Organisational size influences the degree of centralisation.					
The degree of formalisation affects firm					

performance.					
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## Appendix C



ATE UNIVERSITY

ESTABLISHED 2000

### INTERVIEW QUESTION GUIDE

1. What is your understanding on the concept of financial performance?
2. To what extent do you think owner management ensures firm survival?
3. How often does the owner of the firm consult workers in decision making?
4. Do SMEs comply with relevant accounting practices?