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**FACULTY OF COMMERCE**

****

**DEPARTMENT OF ACCOUNTANCY**

**TOPIC:** **THE EFFECTS OF OWNER MANAGEMENT ON THE FINANCIAL PERFORMANCE OF A FIRM.**

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# **RELEASE FORM**

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Dissertation Tittle: The effects of owner management on the financial performance of a firm: Case of Chako Farm Pvt Ltd.

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The undersigned certify that Mr L Chiriseri have supervised the student on the research project titled, “The effects of owner management on the financial performance of a firm: Case of Chako Farm Pvt Ltd” submitted by (B1129223) in partial fulfilment of the requirements of the Bachelor of Accountancy Honours degree.

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# **DEDICATION**

I would like to dedicate this piece of work to the Heavenly Father above, for strength and the ability to conduct this research. This project is also dedicated to my mother, family and friends who offered professional and academic guidance. May the Good Lord grant them the desires of their heart.

# **ABSTRACT**

This paper aims to investigate how owner management affects a company's financial performance and it used Chako Farm Pvt Ltd as a case study. The research was necessitated by the problems and challenges faced by the organization due to the management and overall running of the business by the owner manager. According to some academics, a company's ownership structure has a big impact on how financially successful it is. In that case, a comprehensive literature review was used from different sources to come up with the research strategy and case study approach was adopted. Others countered that a company's ownership and management structure have no bearing on the company's financial performance. The researcher employed a mixed approach for this study, which included both quantitative and qualitative data collection techniques. 26 respondents received questionnaires, and 10 questions were asked during interviews. The results of the study demonstrated how a company's financial performance is significantly influenced by its organizational structure, structure formalization, structure complexity, and structure centralization. It was also discovered that farms accounting processes and their understanding of performance assessment are crucial in determining a firm's financial performance. It was then advised that the organization hire a skilled management, follow good financial reporting procedures, and centralize decision-making through delegation and consultations.

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# **CHAPTER ONE**

**INTRODUCTION**

## **1.0 Introduction**

The most relevant barometer of corporate governance control over decisions made by the management is the level of involvement of the major shareholders and the impact of their involvement on the financial performance of a firm, Marodzah (2018). The organisational structure, according to Wang and Shailer (2017), is very paramount in determining the firm’s performance and the profitability of an entity has become the major criteria in determining its financial performance. This is so because various organisational structures focus of varying performance models as Lippert (2014) alluded to by stating that owners are primarily concerned with the profitability of their business, thus they employ professional managers to perform important roles on their behalf. He went to explain that sometimes the employed manager’s work for their own interest rather than in the interest of the owners, as is explained by the agency theory. Fama and Jensen (2012) in their alignment theory stated that family relationship among managers and owners create advantages in reducing agency costs. The ownership structure helps in appropriating the interests of owners and those of mangers and agency conflict will thus be minimised, Chen and Steiner (2012). Barney (2013) and Tseng (2012), however found no relationship between ownership structure and financial performance and stated that there is little to no support for the differing interests between managers and shareholders. Other scholars have performed their research and were supporting this notion, Naser (2015) did not support the decentralisation of decision-making structures in organisations. He further stated that this translates to loss of control to the lower-level employees of the company’s hierarchy and may further lead to dysfunctional behaviour and thus misallocation or 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. Given the above varying conclusions and research by the above-mentioned scholars on the impact of the management structure on financial performance, this has produced the need to research more on this area focusing much more on Zimbabwean context, thus picking Chako Farm Pvt Ltd.

## **1.1 Background of the study**

According to Miller and Le Breton Miller (2012) although family businesses present some advantages in terms of employee loyalty and long-term relationships, they are also susceptible to disadvantages such as too much concentration on the survival of the entity and not addressing wealth maximization concept. The scholars went on to elaborate that the owner tends to concentrate on how to hand down the organisation to the coming generations. Chako Farm Pvt Ltd has evolved and expanded as it has started engaging in other produce other than their focus which is tobacco. According to the company financial data, it now sells 5 types of produce farmed at 4 different farms. The company mostly sells tobacco, but they have started other crops such as barley, beans, and maize seed. All the farms have managers, but they are directed by the manager Mr T Bradwin, the owner. The owner travels monthly for finance meetings and weekly just to check on things on his farms. Most of the transactions are centralised on him as he must approve everything. Due to the increased workload of the company management, it has increasingly become difficult for the owner to solely run the organisation, toppled with the need to become a corporate entity this has also led to noticeable financial deficiencies and sometimes frustrated employees and suppliers.

This management structure provides not much room for teamwork and employees may not be willing or incapacitated to co-ordinate with others be it within the same department or other departments Dale (2003). Workers tend to concentrate on individual tasks and may not offer the necessary help for others to meet their goals unless the manager has directed to do so. According to Lippert (2014) owners usually puts control to avoid the focus of managers which is diversification.

## **1.2 Statement of the Problem**

Chako Farm Pvt Ltd has been managed by the owner since inception when it had only one farm. The increasing owner management problems due to the growth of the company and the need not to evolve to a more corporate structure and employment of staff to carry out some tasks on behalf of the managing director have been of great concern. Costs of hiring consultancy organisations and the unavailability of the owner in some instances are also affecting the company. 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 impacts of owner management on the financial performance of Chako Farm Pvt Ltd?

## **1.4 Sub Research Questions**

* How does owner management affect the flow of business and growth which affect performance?
* What are the determinants of financial performance?
* What is the relationship between management structure and financial performance?
* How does owner management of firms affect accountability and ultimately financial performance?

## **1.5 Research Objectives**

* To establish how owner management affect the flow of business and growth which affect performance.
* To establish the determinants of financial performance.
* To analyse the relationship between management structure and financial performance.
* To establish how owner management of firms affects accountability and ultimately financial performance

## **1.6 Delimitation of the Study**

Chako Farm Pvt Ltd which is in Harare is used as the case study and the research covers the period 01 October 2016 to 30 September 2018. The major objective of the study is to ascertain how owner management is affecting the financial performance of Chako Farm Pvt Ltd. 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 and will also be important to other students who may want to conduct further research. It will also act as a reference point for other studies.

**To the Organisation**

The research will be used by Chako Farm Pvt Ltd and will help the owner in coming with a better management structure to improve financial performance as well as help with the corporate route the company is willing to take.

## **1.8 Limitations of the Study**

As every firm has policies to safeguard data and other ethical issues which professionals need to adhere to, the company also has a strict privacy policy which acts as an impediment to easily access financial information. The management and staff need to be assured that all disclosed data shall be kept confidential. The student will obtain a letter from the academic institution 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. To overcome this challenge, questionnaires will be administered even via mails.

## **1.9 Research Assumptions**

* 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, and 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.

**CHAPTER TWO**

**LITERATURE REVIEW**

**2.0 Introduction**

The main objective of this chapter is to expand on the research objectives and further draw special attention to the research possibilities as well as provide for the further avenues of research. This chapter intends to interpret and consolidate the theoretical positions raised by other scholars on the research field. Many scholars have proposed different theories and models to explain the effects of ownership structure on financial performance.

**2.1 Agency theory**

In an agreement known as an agency, one party, known as the principal, uses an agent's services to conduct certain tasks on the principal's behalf, including delegating decision-making authority to the agent. Regarding the use of a company's limited resources, the principle delegated decision-making authority to the agent. Divergence of attention is likely because the agent's goal and the principals' goal may not be compatible, and this could result in agency expenses. To reduce agency costs, agent performance must be evaluated. Agency costs, which should always be avoided, are used as incentives to encourage the agent to limit divergences (Jensen and Meckling, 1976).

According to the agency hypothesis, investors assume that agents act and make decisions in the principal's best interests. The agent, on the other hand, would not necessarily share the same interests as the principal; they might instead succumb to "self-centeredness" and opportunistic behaviour and fall short of the convergence of the principals and the agent's pursuits' objectives. Given that managers might not work to maximize profits for shareholders, it follows that the proper governance structures must be put in place to safeguard the interests of shareholders. Thus, the executive board of directors was established to reduce agency risk or expense. To ensure that other internal directors' choices are made independently, outside directors must be nominated (Finegold,

**2.2 Expertise**

Usually, family members are found to be the majority owners of major small businesses (Chrisman et al., 2015). They explained that usually the founder and the younger members of the family run the company will be expected to inherit control of the entity. According to Anderson and Reeb (2013) evidence from United States and other developed nations suggest that firms that are managed by owners are more likely to “higher returns and profits”. As highlighted by Grimlich and Sorense (2014) family-controlled businesses are linked with higher profitability.

2.2.1 Board Composition

The agency theory explains that within the framework of corporate governance, there should be sufficient oversight measures to protect shareholders against managers' self-interested behaviour. Managers must protect the interests of the owner, which should aid the organization in achieving its objectives. Studies have been done, and some of them indicate that a significant number of outside managers can affect an organization's financial success through their monitoring skills. According to Basco and Voordeckers, managers hired outside the owner's area of influence were seen as a link between the organization and the environment it operates in (2015). Outside managers are seen as educated and very influential because they typically have the experience to link organizations with their external environment. Villalonga, B., and Amit, R. (2006) noted that any business's ability to grow depends on its ability to access outside financial resources, which makes it impossible for small business units to meet their resource needs. In such cases, the outside director can play a crucial role in helping the business unit deal with any difficulties that may arise. Outside directors boost autonomous decision making, improve monitoring, and tend to give the organization a more professional air, according to Marodzah (2018). The percentage of outside managers in small enterprises, he continued, is positively connected with business performance. Externally connected directors improve the organization's access to resources, which improves corporate governance and performance.

Contrary to what other researchers have discovered, owner managed organizations have been found to lower the chances of agency difficulties, resulting in a decrease in opportunistic management behaviours. According to An and Naughton (2009), there is a direct link between family ownership and rising firm value. Although an expanded board and the skills of outside directors may boost the organization's financial performance, Cheng (2014) highlighted that in the end, the costs exceeded the advantages because this could lead to poor communication, poor decision-making, and disagreements resulting from a large board. Due to their concentrated ownership structures, Pugliese and Wenstop, small enterprises were notable for their potential to have dual CEOs (2013). According to De Andres and Rodriguez's (2013) argument, certain subordinates may find due to the potential for close oversight and monitoring from outside directors, employees may find it difficult to be innovative, which will demotivate them. This will have a negative impact on any organization or business. Faleye (2012) pointed out that huge boards struggle to handle the agency issue, making them ineffective.

There are other academics who do not have a strong opinion about how a board's makeup affects a company's ability to oversee its performance. According to Jackling and Johl (2015), the impact of board size and composition can be seen as a trade-off between benefits and drawbacks. They pointed out that the anticipated relationship between a board's makeup and a company's success can be characterized as non-linear. According to Schoonman and Donaldson's (2013) explanation, there is a link between an inverted U-shape can be used to represent the relationship between a board's makeup and an organization's performance. There is no empirically significant evidence linking the CEO/chairperson structure of leadership with organizational success, claim Machold, Huse, Minichile, and Nordqvist (2013).

2.2.2 Owner Perception towards Managers

According to Lee (2013), organizations with high ownership concentration benefit from less knowledge asymmetry regarding issues like risk management, resource allocation, and company expansion plans. Miller and LeBreton (2012) assert that family ownership and control is likely to result in competitive advantage in terms of monitoring. They added that owner-managed businesses have familiar management, which results in more resources being saved due to lower agency fees and more money being allocated to future developments. According to the author, since the owner and the family members who are also shareholders in the business will closely monitor and manage operations, an entity's resources won't be vulnerable to waste. The goals of managers and shareholders are different, according to Jense and Meckling (2016), because each one aims to maximize their own usefulness and wealth. According to Bertrand and Schoar (2014), the agent is better informed than the principle about what is happening within the organization. They further stated that this will lead to conflict.

However, Quangyen and Yezhuang (2014) stated that the majority of owner-managed businesses start out as a result of an opportunity and that the majority of owner-managers lack the necessary skills and competence in managing a business to improve its financial performance. They claimed that the firm's performance is significantly impacted by the lack of effective company management methods and the need to hire a professional to manage the business on their behalf. According to Padilia (2013), hiring a third party to manage the business on the owners' behalf may cost a lot up front, but it will benefit the company's performance in the long run. According to Barney (2015), the main factor in why most companies fail is weak corporate governance. He observed that the owners, in their effort to manage, place a greater emphasis on increasing sales while ignoring the idea of increasing profits. Morck and Yeung (2013) also noted that most company owners adhere to their tried-and-true company practices and resent change that might promote innovation. According to the explanation, this will lessen the firm's edge in the market, which would result in decreased financial performance. According to Gomez-Mejia et al. (2012), owner managed businesses are typically more risk averse since they are worried about losing their reputation and respect. Poor financial success is explained by the inclination to be more risk-averse and the divergence of family goals from those of the company. When comparing the financial performance of family-owned businesses with those that were not, Baek et al. (2014) in their study they saw that businesses with a high percentage of family members in management saw a greater decline in equity value than those with a more diversified ownership.

King and Santor (2014) examined the impact of owner management on a company's financial performance objectively. They observed that ownership concentration had no discernible effect on an entity's performance. The additional ineffective ownership structure can eventually fail. When Martikainen et al. (2012) examined whether the higher earnings of family-owned businesses were due to their efficient use of various production technologies, they concluded that there is little difference between the production technologies used by family-owned businesses and those that are not. Andreas (2013) also contrasted smaller, owner-managed businesses with those of a bigger size. He pointed out that owner-managed businesses not only beat large ones, but they are also more profitable than other businesses with a variety of stockholders.

**2.3 The art of Decision Making**

The adoption of corporate practices based on the principles of quality management and other facets of business management would lead to increased business performance, claim Mandala, Vento, and EI-Hob (2013). The additional ineffective ownership structure can eventually improve the performance of the company, particularly when essential business procedures are used throughout all divisions of the organization.

According to Pushpakumari and Wijewickrama (2014), many company feel pressured by their desire to mimic the operations of large corporations to establish desirable management activities that, if implemented properly through the process of knowledge dissemination, could increase efficiency and effectiveness. Due to their small size, Bowen, Morara, and Mureithi (2015) noted that relatively small organisations tend to be overly cautious in their decision-making processes because they fear that a single error could lead to the company's demise without providing an opportunity to learn from mistakes. They explained that most owner-managers frequently centralize decision-making owing to a fear of business failure, and they are the ones who hold ultimate authority within the organization. Evans (2016) pointed out that internal policies, norms, and regulations make up organizational bureaucracy's system of control. He defined centralization as the hierarchy level that has the power to make decisions. The corporation is said to be decentralized when decisions are delegated to lower levels, and the organization is said to be centralized when decision-making authority is held at the highest level. Vaicys (2015) examined the effects of decision-making on financial performance as it relates to supply chain management and found that formal structures have a beneficial impact on performance while dynamic environments have a negative impact. According to Morck, Strangeland, and Yeung (2013), owner control results in a capital constraint that prevents the expansion of the business. They further said that the heirs of sizable owner-managed businesses could struggle to come up with novel ideas, might try to solidify their management, and might even use political lobbying to protect their riches. The agency, they continued, has emerged as the dominant paradigm for research on family governance issues, relying on an earlier sociological tradition that viewed family businesses as a hindrance to economic growth. Additionally, these sociologists believed that owner-managed enterprises have ineffective incentive systems that combine earnings and support everyone without taking contributions into account. He continued by saying that they undermine personal motivations to work, save, and invest through decision-making processes that are typically not in the best interests of the staff. Owner-managed enterprises, in the opinion of Lazonick and Sullivan (2013), are seen as an outdated, pre-modern organization with exclusive values. They continued by saying that owner-managed businesses are overly focused on protecting their money and are ill-equipped to build their capacity to manage complex, modern industries. They also made notice of the fact that some people think family enterprises are full of interpersonal conflict and control issues that are challenging to resolve in a family governance setting.

In contrast, Whyte (2017) argues that the typical advice for owner-managed enterprises is to work on diversifying their sources of wealth and making their management structures more professional. Colli, Fernandez-Perez, and Pose (2015) pointed out that owner-managed enterprises are widespread and more prevalent in numerous economies and have been for many centuries. They continued by saying that owner managers often make decisions without consulting others because they have a strong sense of self-confidence and believe asking for help from staff would be a waste of time and may lead to poor conclusions. According to Durand and Vargas (2015), there is growing evidence that owner managed entities benefit from more developed economies and fully codified legal systems. They also mentioned that large family-owned businesses are versatile and dynamic, and the decisions they make suit the way they operate. Small businesses, on the other hand, exhibit better performance in emerging markets where they are seen as the "engines" of the economy. According to Bhattacharya, Gibson, and Doty (2017), a business can create its structure after it decides how it wants its employees to work, the behaviours, goals, and attitudes they want to see in their employees as well as the values and ethics they want to see developed to support those behaviours, goals, and attitudes.

Additionally, Baum and Smith did not take a stance and discovered that there is no connection between employee performance and the span of control. However, they did explain that higher job satisfaction is demonstrated in a decentralized system because the span of control specifies how many employees an authority figure oversees. According to Quangyen and Yezhuang (2013), organizational structure reduces employee ambiguity and helps to explain and anticipate behaviour. They went on to say that information processing requirements influence an organization's effectiveness and how it relates to its structure such that neither too little nor improper information will be available to people. However, the success of an organization depends on information flow. Additionally, they recommended that communication channels be included in the structure's design so that individuals and departments that need to coordinate their efforts can do so. Evans (2016) agreed that an organization's organizational structure determines how well it performs. He observed that in an organizational structure that is badly conceived, strong performers could adopt the characteristics of that structure. Effectiveness and organizational structure were linked by Mathieu (2014). He came to the opinion that management restructuring aims to increase the management organization's efficiency and effectiveness. According to Choi and Eboch (2012), creating and implementing behavioural guidelines and performance monitoring systems facilitate decision-making and improve financial performance.

**2.4 The Mechanism for Financial Performance.**

2.4.1 Financial Results

This is a subjective assessment of how effectively a firm can utilise resources from its core form of operation and generate money, according to Ajagbe, Oluyinka, and Long (2014). They said that the phrase is also employed as a broad indicator of a company's financial health over a specific time frame. One of the most important aspects of business is that operating performance of the entity shapes its financial structure. They also mentioned that it can be used to compare similar firms within the same industry or to compare industries or sectors. According to Naser and Mokhtar (2013), a company's financial health can influence how well it operates. They stated that academics in numerous business and strategic management sectors have given the topic of financial performance a great deal of attention. High performance, they continued, demonstrates management's efficacy and efficiency in the use of organizational resources and supports a country's overall economy.

2.4.2 Return on Equity

The most common metric of total financial performance, according to Monterio (2012), is return on equity (ROE), which is the outcome of financial ratio analysis. According to Correia et al. (2014), the return on equity (ROE) is computed by first calculating the profit after subtracting tax for the year and the current period's preference dividend. It is determined at the start of each accounting period by the book value of the equity, which is ordinary share capital. Reserves, share premium, and common shares can all be included in the equity. According to Fier et al., the calculation of ROE can be broken down into three different ratios, as illustrated below:

ROE = Earnings x Sales x Assets

Sales Assets Equity

Reinmann (2015) claims that the three ratios shown above correspond to profitability, asset turnover, and financial leverage, respectively. He continued by saying that increasing profitability, making better use of assets, or increasing financial leverage are all ways to increase ROE. Since ROE connects the income statement through earnings and the balance sheet statement of financial position through equity, Finegan (2015) endorsed its usage as a financial performance indicator.

Dodd and Chen (2014), on the other hand, contend that because ROE is determined after the cost of borrowed capital and before considering the cost of own capital, it raises financial gearing. They outlined how ROE rises with gearing, and the main obstacle to be overcome is that financial gearing may be high beyond a certain degree of financial risk, which could lead to the devaluation of the company through a decline in share prices. Finegan (2013) asserts that ROE disregards the timing of cash flows since cash flows are thought to be a more accurate indicator of whether shareholder value is being maximized. Additionally, he made the case that management of an entity cannot just rely on earnings data to gauge performance unless they want to wait for investor feedback. ROE, according to Copeland, Koller, and Murrin (2105), only considers short-term success and ignores long-term growth. which offer possibilities to increase shareholder value. According to Rappaport (2012), even when assets are not being used effectively, asset turnover is nevertheless impacted by inflation.

Black et al. (2014) were unconcerned about the impact of ROE as a performance indicator and said that while some companies, particularly in Japan, had become aware of the limitations of using ROE, the majority still thought it was the best indicator of shareholder value. The coefficient of determination of ROE to market ratios, according to Thomas and Lipson (2013), revealed a considerable proportion and could not be trusted. They went on to say that while ROE suggests that returns on equity should increase and capital costs should decrease, it is still a crucial performance indicator.

2.4.3 Return on Assets (ROA)

According to Stewart (2012), the ROA financial ratio demonstrates how much profit a company generates relative to its total resources. It is typically defined as net income divided by total assets, he said. According to Karmer and Pusner (2014), the net income dividend is the profit after taxes and is determined from the statement of comprehensive income of an organization. They pointed out that the computation looks like this:

Net income Dividend

Total Assets

The assets of a company are derived from the statement of financial position, according to Bhagat, Bolton, and Subramanian (2015). These assets include cash and cash equivalents, trade receivables, inventories, land and buildings, capital equipment after depreciation, and intellectual property, such as patents. Goodwill may also be included in a company's assets, as stated by Shao (2013), who also observed that ROA is typically expressed as a percentage. He added that when comparing organizations with the same degree of capitalization, the ROA measure is most useful. According to Khatab et al. (2016), ROA is a better assessment tool since it considers all firm assets, including those resulting from liabilities to creditors and capital contributions from investors. They clarified that total assets, not net assets, are used and as a result, the borrowed cash holdings of an organization balance the liabilities, which are the payables. De Wet (2015) argued that as management must evaluate how all funds are used in various roles, including those that require debt and equity, it is preferable to include all assets. According to Hawawin and Viallet (2016), organizations frequently utilize the ROA measure of performance internally to track asset use over time, monitor the firm's performance, and evaluate various businesses or divisions through comparison of each. They clarified that for management to accomplish this, the accounting systems must be able to precisely allocate resources to the various operations.

According to Kaplan and Norton (2017), ROA entails comparing the advantages of investing in new areas with growing current operations. They emphasized that the optimal choice made by the company will result in higher income and productivity while simultaneously cutting costs, increasing ROA.

However, according to Biddle et al. (2014), ROA can demonstrate both under-capitalization and the efficient use of assets. If the ROA rises relative to the business sector and management cannot identify the inefficiencies that drive profitability, the positive sign will be unfavourable because it will be time for new equipment investment. Additionally, Stern (2012) and Byne (2014) claimed that putting up a new system may be more expensive than reaping its benefits. Copeland (2014) noted that these usually apply to large firms with well-established systems and some of these measures may not be applicable to smaller due to their complexity in nature.

2.4.4 Economic Value Added (EVA)

Tortella and Brusco (2003) attributes EVA to the company called Stern Value Management, it is a measure of a firm’s financial performance basing it on the residual wealth after capital costs. They further explained that it hinges profit in comparison to surplus which is available to the stakeholders of the organisation. Bernnet (2015) noted to get the surplus we should deduct all the capital costs from profit before interest but after tax, thus EVA can be calculated as below:

EVA = NOPAT – WACC x Capital Invested

NOPAT = Net Operating Profit before Interest and after Tax

WACC stands for Weighted Average Cost of Capital

Capital Invested = Equity+ Trading Investment + Net Current Assets.

Eatson and Ohlson (2013) cited that EVA is useful as a measure of any business performance since it encompasses more than just gauging business performance; it also affects incentive pay. EVA is being criticized by Malik and Rakshit (2013) who claim that it prioritizes shareholder value over the interests of all other stakeholders.

**2.5 Organizational Structure.**

According to Ahire and Golhar, a management structure is the method through which employees of a firm are directed and coordinated to carry out their responsibilities and accomplish the organization's goals (2014). They continued by adding that it is the official arrangement among people and groups about power, responsibility distribution, and authority inside an organization. The notion that management structure is made up of job positions, process appraisals, and the relationships between the job positions has been solidified by academics. It refers to how responsibilities and authority are allocated, as well as how work processes and procedures are carried out among personnel, according to Bergeron (2016). He added that management structures also include layers of hierarchy, formalization, and the concentration of authority.

2.5.1 The link between management structure and financial results.

Academics and market participants have given the topic of management structure a lot of attention as a mechanism of corporate governance. Baum et al (2015) mentioned that owner management is inversely related to agency problems that are found amongst directors and shareholders. According to research done by McConnell and Sevares (2012), there is a connection between firm value and the distribution of ownership equity. Freedman and Godwin (2012) conducted a study in South Korea that found a hump-shaped relationship between the firm's ownership structure concentration and performance and the organization's performance. The study discovered empirical data demonstrating a favourable association between management structure and financial success. Inelo (2013) conducted a study in Greece on the variables affecting an entity's financial performance, and they discovered that leverage and organization size were key predictors of an organization's performance. The large enterprises in Greece that have a significant competitive advantage due to effective management have historically been seen as being very lucrative. Many academics believe that firm size has a favourable impact on the financial performance of an organization. Another earlier study was carried in the industrialized nations of the US and UK. According to Antoniou et al. (2014), wealth and the leverage ratio both have a favourable effect on financial performance. They also discovered that other factors influenced by market forces in the business world have an impact on the leverage ratio, which has an impact on the performance of the company. According to Binti and Binti (2013), managers oversee making choices that will help the firm achieve its goals and objectives. They continued by saying that managers are seen as an essential asset for the company, alongside its workers. They added that the decision-making manager is crucial in setting the unit's long-term objectives, which are often significant to the organization's success.

Joh (2012), Xu, and Wang (2013), on the other hand, noted that there is little evidence to support the conflicting interests of shareholders and managers and found no association between ownership structure and financial performance. There is little to no correlation between concentrated ownership and business performance, according to research by academics like Demesetz and Villalonga (2015), Kumar (2012), and Rowe and Davidson (2014). When management ownership exceeds a particular threshold, management, according to Severin (2013) and Kumar (2014), becomes more entrenched. According to Himmelberg et al. (2015), there is a non-monotonic relationship between these variables when examining the effect of insider ownership on a company's success in the US market. Integrated incentive and anchoring theory established the evidence. From an objective viewpoint, in empirical contrast to the above results and according to the positive effects of ownership, Jensen and Meckling (2016) found that a firm's performance first increases when ownership increases up to 5% and decreases when ownership increases rise to 25% and will rise again slightly at higher participation levels. They support the theory that managers allocate the organization's resources in their own best interests, which may conflict with those of shareholders. Studies by Sanda, Mikailu, and Garba (2014) found a positive but insignificant association between ownership structure and financial performance.

**2.6 Research Gap**

Marodzah (2018) found that owner management impacted negatively on financial management and proposed that managerial tasks be caried out by experts on behalf of the owners. Much research has been carried outside of Zimbabwe and they have produced major prescriptions however there leaves a gap within Zimbabwe and within the agriculture sector. Thomas and Alex (2015) conducted their research and concluded that there is substantial correlation between an entity's financial success and its management structure. However, Parnell (2013), came to the opposite conclusion, stating that there is no connection between management structure and financial performance.

**2.7 Summary**

According to the assessment of different academics undertaken in this chapter, numerous studies have been carried out to comprehend the connection between owner management and financial performance. The results, however, are inconclusive, therefore it was required to conduct a critical evaluation and investigation of the theories, assumptions, ideologies, statements, and guiding principles of numerous researchers to conduct well-supported research. This study aims to ascertain the effect of owner management on the financial performance of a tobacco farming company in light of the inconsistent findings and paucity of research in Zimbabwe's agricultural sector.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

## **3.0 Introduction**

This chapter provides examples of the research technique and data collection strategy that were used in this study. The chapter clearly explains how information was gathered for research purposes, the instruments that were used, and the techniques used for gathering pertinent data. It also revealed the target population and study sample

## **3.1 Research Design**

A research design, according to Singh (2016), is a research methodology that the researcher incorporates into the execution of the study and the extension of some of the research's component parts. A research design, he continued, is a step of planning that is created through visualizing its viability. Creswell (2013) asserts that considering the techniques and procedures combined in the research can help develop a research design. The research plan, selection criteria, tool investigation, and numerical performance method are all included in the research design, according to the author. He also emphasized that there are other ways that can be used, including quantitative, qualitative, and blended approaches, depending on the specifics of the current problem.

A research design, according to Cooper and Schindler (2013), is a strategy for conducting a study while keeping an eye on factors that can compromise the validity of the results. A research design, according to Kothari (2012), is a conceptual framework used to conduct research and is a key component of the strategy for data collection, measurement, and analysis. The arrangement of conditions required for data collection and analysis in a manner that serves the objective of the research was further clarified. A good design depends on the goal, the amount of funding available, the researcher's expertise, and the nature of the problem, including the issue being investigated. The descriptive research design was applied in this study. According to Kumar (2014), a descriptive research design helps the researcher respond to inquiries about the circumstances surrounding a specific study problem. The author also mentioned that a descriptive study is beneficial if it is conducted with the intention of gathering data relevant to the field of inquiry. The mixed strategy was employed in the descriptive research design and included both quantitative and qualitative research design.

## **3.2 Research Approach**

This study will use the mixed method approach. The mixed method, according to Cooper and Schindler (2013), entails the gathering, examination, and interpretation of both quantitative and qualitative data. The mixed research design will be used to conduct this study. The study used a mixed methodology, which allows for the handling of both quantitative and qualitative methodologies' constraints. This methodology was also used by Mwangi et al. (2014) to evaluate the effects of capital structure on the performance of non-financial companies listed on the NSE, as well as by Molavi and Jamalzade (2015) to assess the relationship between financial ratios and capital adequacy in the Iranian banking sector.

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 Target Population**

The operational definition of the target population is the study population (Bickman and Rog, 1998). Rarely are researches able to analyse the full target population because they are not always easily available. Rather just a portion of respondents who are eligible for the study were made part other study. Everything that is restricted to a certain demographic has a characteristic. The target group consisted of officers, management, and staff of Chako Farm Pvt Ltd.

## **3.4 Sample**

**Table 1 Population and Sample Size Participants**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Target Population** | **Sample Size** | **Percentage of Sample Size** |
| Executives | 2 | 2 | 100% |
| Management | 5 | 5 | 100% |
| Officers | 10 | 9 | 90% |
| Employees | 23 | 10 | 43% |
| **Total** | **40** | **26** | **65%** |

## **3.5 Sources of Data**

Researchers must choose the sources on which to base their studies before beginning their work. They can either use primary sources of data or secondary sources, or they can use both, which is known as dual approach. The study's researcher solely utilized the primary data source.

### **3.5.1 Primary Sources of Data**

Griffin (2013) and Bhattacherjee (2012) defined primary data as the information gathered for a specific purpose when conducting a research project. This information is frequently gathered by the researcher through observations, inspections, and recording. As stated by Steward (2012) Primary data is information that is obtained directly from respondents during interviews and questionnaires. It is first-hand information. By distributing questionnaires and conducting a few interviews at the company under investigation, the researcher collected primary data. The information gathered from primary sources is typically accurate, original, and pertinent to the current study. Primary data is trustworthy because it provides a true picture of the current situation. The best sources of information for this were primary sources.

## **3.6 Data Collection**

According to Keshab (2014), data collecting instruments are methods that are used to collect data. Primary and secondary sources were used to get useful and pertinent information. On primary sources, surveys and interviews were done investigated at Chako Farm.

### **3.6.1 Interviews**

According to Siebold (2013), interviews are conducted to better understand someone's demeanour or personality or to gather more information about their questionnaire responses. He emphasized that it is possible to combine questionnaires and interviews. a welcoming environment is established between interviewer and interviewee, allowing for the disclosure of data. They are objective in nature because there are no outside influences on the interviewee during the process. The researcher conducted face-to-face interviews to gather data relevant to the research questions. An interview guide was employed during these oral interviews to prevent the mixing of the material acquired.

### **3.6.2 Questionnaires**

Marodzah (2018) claims that when in-depth information from a different subject is needed, researchers frequently use questionnaires. To gather the necessary data, questionnaires must be created and distributed to the intended respondents. Likert scale questions were employed by the researcher in gathering data. Following a list of options from which the respondents might select an answer, information was provided to the researcher. Question completion may go undetected. They can be given verbally on paper, or online, and they are inexpensive to administer. Additionally, time is saved, and data can recuperate quickly.

## **3.7 Likert Scale**

Additionally, the Likert rating scale was utilized by the instrument. Likert scales, according to David and Sutton (2011), are summative scales that ask respondents to choose a position on an ordered position. A Likert scale is employed in questionnaires to determine respondents' levels of agreement or disagreement with statements, according to Malhotra et al. (2011:12). Such a scale requires respondents to select a stance from groups of stances that are ranked, for instance, selecting on a scale from 1 to 5. Likert scales quantify a single feature and use a non-comparative scaling mechanism. According to Yin (2013), a researcher may use a Likert scale to gauge an individual's level of support for claims by asking them to rate their response to questions. A Likert scale will be used to ask the population to rate how much they agree with a statement. The Likert scale was employed in the research to gather respondents' thoughts.

## **3.8 Validity and Reliability**

The extent to which the instrument assesses the investigated constructs is indicated by the instrument's validity (Mugenda and Mugenda, 2011). There are three different kinds of validity tests: linked construct, content, and criterion validity. To assess how closely the test's intended content is represented by the sample items, this study employed content validity. To enhance the research and eliminate the shortcomings of each approach, interviews and questionnaires were used to confirm the validity of the data.

## **3.9 Data Presentation and Analysis**

The researcher utilized excel to analyse the data that was gathered. Following the completion of the respondents' surveys, the replies were edited, categorized, coded, and tabulated to analyse quantitative data using tables. To make the presentation easier to grasp, tables and charts were employed. The collected data was evaluated and confirmed for accuracy and clarity. For data analysis, the researcher also used the mode, median, and mean as measures of central tendency. These techniques were selected because they demonstrate the patterns in the data that was gathered. According to Bryman's (2015) explanation, statistical methods of data presentation using diagrams are included in the presentation of data. The information was presented using tables, pie charts, and bar graphs in Microsoft Excel. Interviews were analysed through interpretation to draw a conclusion about the study's topic.

### **3.9.1 Analytical Model**

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

ROA= β0 + β1SZ+ β2SF + β3SC + β4SCE + εi

Were.

ROA = Return on Assets

OZ = Organisational Size

SF = Structure Formalisation

BC = Structure Complexity

SC = Structure Centralisation

β0 = The Constant Term

β1 = Coefficient of Organisational Size

β2 = Coefficient of Structure Formalisation

β3 = Coefficient of Structure Complexity

β4 = Coefficient of Structure Centralisation

εi = The error term

## **3.10 Ethical Considerations**

A researcher has a moral responsibility to consider the rights of his informants (Streubert et al, 2003). First, the researcher emphasized that participation in the study was entirely voluntary and that participants had the option of declining to participate. The researcher used the knowledge of managers, administrators, and officers to conduct this study. Because the company or the respondent could be implicated in the data collected, the researcher had to explain the study's purpose and obtain permission. To protect the respondents from harm and to maintain confidentiality, the researcher also assured the respondents that the data collected would not be used in a way that could be used to identify them. Accordingly, names of the respondents were omitted from this study.

## **3.11 Summary**

The research methodology utilized to gather, present, and analyse data was described in this chapter. The chapter also provided justification for and an explanation of the rationale behind the study's use of a descriptive research design.

# **CHAPTER FOUR**

**DATA** **PRESENTATION** **AND** **ANALYSIS**

## **4.0 Introduction**

The chapter outlines the presentation and analysis of research findings so that conclusions can be drawn from the investigation of the effect of owner management on the financial performance of Chako Farm. 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.

## **4.1** **Response** **Rate**

**Table 2 Questionnaire Response Rate**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Questionnaires**  **Sent** | **Questionnaires**  **Returned** | **Response**  **Rate** **(%)** |
| **Executives** | **2** | **2** | **100** |
| **Management** | **5** | **5** | **100** |
| **Officers** | **9** | **8** | **87.50** |
| **Employees** | **10** | **10** | **100** |
| **Total** | **26** | **25** | **96.15** |

Table 2 illustrates the rate of response for the questionnaires. The Executive’s response rate was 100%, a remarkably high response rate since they are only two Executive members within the company, management and employers also gave a 100% response rate. Only one officers did not fill up the questionnaire there giving the 87.50% for officers. This response rate was highly because of the size of the organisation and that the personnel were closely knit also; they had the time to respond to the administered questions. N Gordon (2002) noted that even though research is different, the high positive effect of a questionnaire 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 3 Respondents level of Education***

|  |  |  |
| --- | --- | --- |
| **Level** **of** **education** | **Respondents** | **Percentages** **(%)** |
| **Ordinary** **Level** | **0** | **0** |
| **Advanced** **Level** | **1** | **4** |
| **Diploma or Certificate** | **6** | **24** |
| **First Degree** | **10** | **40** |
| **First Degree and any other qualification** | **8** | **32** |
| **Total** | **25** | **100** |

Table 3 shows the level of qualification the respondents have attained. It shows that 24% of the respondents hold a diploma as the highest level of qualification. The table also illustrates that 10/25 of the respondents are degree holders in the company. Table 3 also shows that 8 of the respondents which has a percentage of 32% possess the highest level of qualification with a first degree and any other qualification such as a master’s degree, professional qualifications like CIMA or CA(Z). Four percent of the respondents, which is only one employee had only attained an advanced level qualification as their highest qualification. From the responses tabulated above, it can be concluded that most of the respondents had the level of knowledge which that would make the research reliable since they have the prerequisite knowledge of management modules.

**Table 4 Respondents work experience**

|  |  |  |
| --- | --- | --- |
| **Period** | **Respondents** | **Percentages** **(%)** |
| **Less** **than** **1** **year** | **9** | **36** |
| **1-5** **years** | **4** | **16** |
| **5-10** **years** | **10** | **40** |
| **Over** **10** **years** | **2** | **8** |
| **Total** | **25** | **100** |

Table 4 illustrates the analysis of respondents work experience, it shows that 10/25, 16% of the respondents have 5-10 years’ experience in the organisation. 4 out of the 25 respondents have been working for Chako Farm Pvt Ltd for between 1-5 years. Thirty six percent of the respondents have been with the organisation for less than one year. Lastly two members with a percentage of 8% of the respondents have a work experience of more than 10 years at the company this also includes the owner. Marodzah (2018) cited that the targeted population should have at least five years working experience to ensure reliability of responses, almost half of the respondents 12/25 (48%) 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 the flow of business and growth which affect performance**

**Table 5 Most farming units have bad accounting practices**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Response** | **Strongly**  **Agree** | **Agree** | **Not** **Sure** | **Disagree** | **Strongly**  **Disagree** |
| **Respondents** | 5 | 9 | 3 | 5 | 3 |

Table 5 above illustrates the responses from the view that most farming companies have bad accounting practices. 5/25 (28%) strongly agrees that Farming companies have poor accounting practices and nine of them (50%) agreed on the same view. This is also in line with the response from an interview that most Farming companies are worried about making profit and they do not follow stipulated accounting procedures. The responses from respondents one and two indicate that accounting practices are not a priority in most Farming companies. Only one member (6%) was uncertain about whether Farming companies have poor accounting practices or not. There were also 3 (16%) of the respondents who disagreed that Farming companies have poor accounting practices. There was no one who strongly disagreed on this notion.

From the information contained above we can conclude that most Farming companies have poor practices of accounting. This was supported by Kafidipe (2021) 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.

**Figure 1 Farming companies do not have proper accounting records**

Figure 1 above shows that 8/25, (22%) strongly agree that farms do not keep proper accounting records. 8/25 (44%) agreed on the same notion. Two employees were not sure on the record keeping of farming units. However, 5/25 disagreed on this notion and only 1 respondent strongly disagreed on the view that small firms do not keep accounting records. From the above information, it can be noted that 68% of the respondents in the organisation agreed that small entities do not keep proper records of accounting. The findings also indicate that were 8% of the respondents who were not certain on whether small firms do keep accounting records or not. On the other hand, 24% 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 6 Farming companies have no proper management of cash flow**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Response | Strongly Agree | Agree | Not Sure | Disagree | Strongly Disagree |
| Respondents | 12 | 8 | 0 | 4 | 1 |

12 out of the 25 respondents to the table, which constitutes 48% of the respondents, strongly agreed that Farming business units lack appropriate cash flow management. It also demonstrates that 32% of the employees shared the same opinion. The assertion that farms do not effectively manage their cash flows, however, was contested with by 16% of the respondents, with 1 strongly disagreeing. According to the data in Table 6 above, 80 percent of the respondents in the organization agreed that small businesses struggle with cash flow management. Attom (2012) corroborated this, noting that poor cash flow management causes small businesses to fall behind in paying their suppliers and is the main predictor of small business failure. 20% of respondents did not believe that small businesses do not manage their cash flows well. These have been backed by Carney and Gedajlovic (2013), who concluded that many owner managers think cash flows are only appropriate for large organizations that must answer to the shareholders, who are the equity owners. Finally, it should be mentioned that farming businesses have poor cash flow management because of their scale and the complexity of their computation, which could be expensive for the organization.

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

**Figure 2 The effects of management structure on financial performance**

The information in figure 2 above shows that 28% of the total respondents strongly agreed that the management structure of an organisation affects the level of monitoring of financial performance. Moreover, 8 of the 25 respondents also agreed that board composition affects the degree of financial performance. Munichilli (2015) noted that a high proportion of outside mangers in the board can enhance the financial performance of an entity through their monitoring roles. Sixteen percent were not sure on the effects on financial performance. According to Marodzah (2018), he noted that a study by Jackling and Johl (2015) was neutral on the effect of management structure. There were 12% of the respondents who disagreed on the notion that management structure affects financial performance of an organisation, whilst the remaining three respondents strongly disagreed on the same notion.

**Figure 3 Owner perception towards the managers affect the level of expertise in the firm**

According to the data on the table, 36% of respondents strongly agreed that the owner's attitude toward managers has an impact on the organization's level of expertise. Another 5 respondents concurred with the rational viewpoint, while 6 were unsure whether owner perception affected the amount of knowledge in the company. 8% of respondents disagreed that owner perceptions of managers have an impact on the firm's degree of knowledge. The data in figure 3 above shows how owner perceptions of managers affect the organization's level of knowledge. According to Jensen and Meckling (2016), managers and shareholders have different interests because they both work to maximize their own utility and wealth. 24% of respondents are not sure about the influence of owners' attitude towards managers on the level of knowledge in the organization. On the other hand, 12% disagreed with the opinion that the owner's attitude towards managers affects the level of knowledge. According to Yeung (2013), the owners of most small businesses such as agricultural enterprises stick to their old ways of doing business and resist change and resist change for organizational innovation.

## **4.4** **How owner management of firms affect accountability and financial performance**

### **4.4.1 How owner management slows decision making and growth of Farming companies**

**Figure 4 Managing own company slows decision making**

According to the data in figure 4 above, 5 out of 25 respondents strongly agreed that managing one's own business causes decision-making to take longer since tasks are completed later. 40% of respondents concurred. Most owner managers, according to Mureithi (2015), tend to centralize decision-making out of a fear of failing. Twelve percent were unsure of how running one's own business affected their ability to make decisions. Five respondents, however, disagreed with the idea that managing a business hinders decision-making. Out of the twenty-five, two had a strong disagreement with the same opinion. According to Gibson and Doty (2017), a firm can create its structure by deciding how it wants its employees to behave, the attitudes they want to spread, and the outcomes it wants them to achieve. Therefore, it may be inferred that managing one's own business slows decision-making, even though some respondents disagreed with this conclusion. Additionally, since the organization would be small, managers may elect to make decisions independently without consulting other employees.

### **4.4.2 Centralisation of Decision Making**

**Figure 5 Decision making in farms is centralised**

Information about the idea that small businesses centralize decision-making is shown in Figure 5 above. 7 respondents, or 28%, strongly agreed that small businesses tend to centralize decision-making. Evans (2016) provided support for this idea when he outlined how internal policies, norms, and rules make up organizational bureaucracy. He went on to define centralization as the hierarchy level that has the power to make decisions. This was consistent with the interview responses on decision-making at the company under study, where 70% of respondents said they had never participated in those processes and that management makes decisions and instructs employees on how to carry them out. This indicates that employees are not involved in decision-making. This further demonstrates that the business owner is the one who makes decisions. However, just 4% of respondents disagreed strongly with the idea that small businesses had centralized decision-making. 4% of respondents were unsure about whether farms had centralized decision-making or not. Smith (2014) asserted that there is no correlation between worker performance and the degree of control but added that decentralization promotes higher job satisfaction. In conclusion, farms and other small businesses often centralize decision-making, while decentralizing would increase performance.

## **4.5** **Determinants of financial performance**

### **4.5.1 Firm Performance**

**Table 7 Farming companies understand the measurement of firm performance**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Response | Strongly  Agree | Agree | Not Sure | Disagree | Strongly  Disagree |
| Respondents | 3 | 5 | 2 | 9 | 6 |

According to Table 7 above, 3 out of 25 respondents firmly concur that farming units comprehend how to monitor business performance. 25% also concurred that farming units are aware of how businesses are measured. According to this, 28% of all respondents said that farming units comprehend how to monitor business performance. This number was further backed by 30% of the interviewers, who demonstrated their comprehension of financial performance by stating that it is a gauge of how successfully an organization can use its resources to generate income. This was reinforced by Ndiba (2016), who defined financial performance as a judgment of how effectively a company can utilise resources from its core way of operation and generate income. 2 respondents were unsure of the statement that farming units comprehend performance measurement. However, fifty percent of the organization's respondents disagreed. These are supported by Copeland (2014), who argued that most of the financial performance measures are not applicable to small businesses due to their complexity and typically apply only to large firms with well-established systems. From their responses, 70% also demonstrated a lack of understanding of financial performance. Given that many respondents disagreed, it is possible to draw the conclusion that farming businesses do not comprehend the measurement of firm performance. This means that farming businesses need to learn how to measure financial performance or hire professionals who can do it for them.

### **4.5.2 ROA as performance measurement tool**

**Figure 6 ROA is a better performance measurement tool**

Different perspectives on ROA as a performance measurement tool are illustrated in the material in figure 6 above. ROA is a superior performance measurement method, according to 8/25 (28%) of respondents. 9 out of 25 people (38%) concurred. In the organization, 17% of respondents expressed uncertainty about this stance. There were 4/25 (16%) respondents who disagreed that ROA is a superior performance measuring instrument. One respondent, or 4% of the total of 25, strongly disagreed with this statement. According to further investigation, 68% of respondents believed that ROA is a superior performance indicator. According to Lechner et al. (2016), ROA is a better assessment tool since it considers all firm assets, including those resulting from liabilities to creditors and capital contributions from investors. However, 20% of people disagreed with the opinion that ROA is a better performance measurement tool. Byne (2014) suggested that ROA can demonstrate both under-capitalization and good asset use. The research's findings support the assertion that ROA is a superior tool to others like ROE. Since it is preferred by management when they need to evaluate how all the funds are used in various purposes, Jacobs (2015) favoured the inclusion of all assets, including those derived from stock and debt.

## **4.6** **Factors** **which** **influence** **financial** **performance**

**Regression** **Analysis**

***Table 8 Model summary***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R  Square | Std Error of the  Estimate |
| 1 | 0.842a | 0.708 | 0.679 | 0.05729940 |

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 8 above indicates that the coefficient of determination, R square is 0.842 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 as shown in table 4.8 below

**Table 9 Analysis of Variance (ANOVA)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of  squares | Df | Mean square | F | Sig |
| 1 Regression | 0.319 | 4 | 0.080 | 24.272 | 0.000a |
| Residual | 0.131 | 40 | 0.003 |  |  |
| Total | 0.450 | 44 |  |  |  |

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 test statistic has a value of 10.72. The F statistic in this instance shows that greater variation in the dependent variable is explained by the study independent variables since the F test statistic simply represents the ratio of the explained variation to the unexplained variation in the dependent variable. The significance value for the test statistic is 0.0001. Since the significance value of the test statistic is materially lower than the significance level at which the hypothesis of model significance was tested, the regression model can be deemed to be significant at the 0.05 level of significance at which it was tested for significance. As a result, the variance in the dependent variable, ROA, is explained by the link between organizational size and Turnover, Staff Number, Structure Formalization, Structure Centralization, and Structure Complexity.

The following table of coefficients and related output is the regression's most important output.

**Table 10 Regression coefficients Results**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Standardised**  **coefficients** |  |  |
| **Model** | **Beta** | **t** | **Sig** |
| 1 (Constant) | 0.637 | 2.513 | 0.016 |
| Organisational size | 0.023 | -0.064 | 0.949 |
| Structure  formalisation | -0.057 | -5.280 | 0.000 |
| Board complexity | 0.358 | 6.731 | 0.000 |
| Structure centralisation | 0.309 | 9.259 | 0.000 |

***Source:******Research******findings***

Dependent variable: Return on assets (ROA)

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

ROA = 0.637 +0.000 OZ -0.57 SF +0.358 BC +0.309 SC+ εi

Except for structure formalization, which has a negative coefficient, the model suggests that independent variables have positive coefficients. The model's intercept, which indicates that the return on equity would be -73.49% if all independent variables in the regression model had values of zero, is -73.49. The p-value for the t statistic that was used to determine if the intercept was significant is 0.0125. Given that the p-value of the test statistic is materially lower than the significance level at which the test of hypothesis was conducted, intercept is significant at the 0.05 significance level. The findings show that the dependent variable, ROA, and the independent factors (organizational size- Turnover and number of employees, structure formalization, structure centralization, and structure) have a connection with structure formalisation showing a negative connection.

According to the findings, an increase in the firm's financial performance of 0.023 units occurs for every unit change in organizational size. A company's financial performance declines by 0.057 units for every unit of structure formalization. A further shift in structure centralization by one unit will result in an improvement in financial performance of 0.309. A further unit rise in structure complexity will result in a 0.358 increase in the firm's financial performance. The relative relevance of each variable in the model is ascertained with the help of the t statistics. Regression analysis revealed that the model is important since its coefficient of determination (R), which is 0.842, is noteworthy. This demonstrates that the independent variables can account for the variation in Chako Farm Pvt Ltd.’s financial performance.

# **CHAPTER FIVE**

**SUMMARIES, CONCLUSIONS AND RECOMMENDATIONS**

## **5.0 Introduction**

Using Chako Farm Pvt Ltd as a case study, this study was done to investigate how owner management affects a company's financial performance. This chapter contains summaries, conclusions, and advice that the researcher developed because of the investigation. The results were reached based on the analysis of the study objectives, and the researcher then made suggestions based on the information gathered and the research's findings. These suggestions are anticipated to assist the organization in implementing various financial performance improvement techniques.

## **5.1 Summary of Chapters**

The context of the study was presented in Chapter 1 utilizing Chako Farm as a case study to examine the effect of owner management on a company's financial performance. The study was conducted because of the recognized research issue that the firm has been run by the owner since incorporation but has since outgrown his or her management, posing a threat to the company's financial performance. The research challenge led to the study's objectives, which were evaluated as the investigation progressed. The study's goals were to determine how owner management effects performance accountability, determine the impact of competence and monitoring on owner-managed enterprises' financial performance, and determine how owner management hinders the development and decision-making of agricultural companies. The other goals were to create the metrics for measuring company success as well as the link between management structure and financial performance. The researcher also discussed the study's limitations and delimitations as well as its assumptions and reasoning. The impact of owner management on a company's financial success was the primary research question.

The examination of previous research on the topics covered in Chapter one's research objectives was a major focus of Chapter 2. When considering these goals, some authors believed that owner management of businesses had an impact on accountability, which in turn had an impact on financial success, while others believed that there was a good relationship between monitoring and financial performance. Some authors discussed the way that owner management stifles decision-making while others established the financial performance metrics. ROE, ROA, and EVA were a few of the measures that were addressed. Some researchers went on to determine whether there is a link between agricultural companies' financial success and management structure. According to Antoniou et al. (2014), the association between ownership structure and financial performance is favourable.

The primary academics in chapter two are Shleifer and Vishny (2012), who argue that the agency theory explains why there should be sufficient monitoring measures in place to shield shareholders from managers' self-interest. They stated that the hired external managers ought to act as watchdogs of the owners' interests through oversight. Additionally, Morck, Strangeland, and Yeung (2013) provided an explanation of how owner ownership results in a capital restriction that prevents corporate expansion. They went on to say that the heirs of sizable owner-managed businesses could struggle to come up with novel ideas, might try to solidify their management, and might even use political lobbying to protect their wealth.

The research methodology used by the researcher to collect data was described in chapter three. It included a summary of the data presentation and analysis as well as information on the targeted population, validity, and reliability of the collected data. It also covered the research methods used in the data collection process. Due to the small size of the organization, it was manageable for the researcher to conduct the research using a census of 18 respondents from management, administration, and officers. The model and techniques for data presentation, including tables, pie charts, and graphs, were also covered in the chapter. In terms of research design, the researcher used a mixed methodology that combined both qualitative and quantitative approaches to get enough trustworthy information.

Data was gathered through interviews and questionnaires, with an acceptable response rate. During this investigation, only primary sources of information were employed. The association between management structure and a firm's financial performance was also examined using the analytical model and linear regression analysis.

The presentation and analysis of the research findings were illustrated in Chapter 4. Questionnaires and interviews were used to collect the raw data, which was subsequently analysed and presented as data in graphs, tables, and pie charts. To analyse the qualitative data obtained through interviews, inferences were drawn based on the data provided by the respondents within the organization. The data examined in Chapter 4 served as the foundation for the summary and conclusion.

The information in chapter four that was analysed served as the foundation for the summary and conclusion and gave the researcher a direction for framing the recommendations.

## **5.2 Major Findings**

To gather data, the researcher used Chako Farm Pvt Ltd as a case study to administer questionnaires and conduct interviews in order to investigate the effect of owner management on the financial performance of an organization. The study was effectively completed, and the researcher concluded that owner management has a negative impact on financial performance, necessitating the need for experts to handle managerial duties on the owners' behalf.

### **5.2.1 How Owner Management Affects Accountability and Performance**

The study's findings indicated that most agricultural companies have subpar accounting procedures and do not maintain accurate accounting records because they place less importance on financial reporting and more emphasis on generating a profit. Small businesses need to be educated on the value of having sound accounting practices and appropriate financial reporting procedures, according to Uwalomwa and Olamide (2016), who noted that the main causes of poor accounting practices by small firms are attributed to a lack of resources and expertise. Some small businesses are unable to pay the fees for an accountant, which results in subpar financial reporting.

### **5.2.2 How expertise and oversight affect the financial performance of owner-managed businesses.**

According to the research's findings, board composition has an impact on how a company's performance is monitored. A high percentage of outside managers on the board can improve the financial performance of a company through their monitoring functions, according to Munichilli (2015), who provided backing for this. Due to the requirement for superior management services from professionals, Chako Pvt Ltd must hire an outside manager to improve financial performance. As argued in a study by Basco and Voordeckers (2015) managers hired outside the owner’s area of influence were seen as educated and very influential because they typically have the experience to link organization and the environment it operates in.

### **5.2.3 How Owner Management Slows Growth and Decision Making**

The study's findings suggested that small businesses tend to use centralized decision-making, which slows down decision-making. Since the lower-level employees must wait for the owner to approve the final decision, delays in task completion occur. Standards, regulations, and internal practices make up control in organizational bureaucracy, according to Evans (2016). He went on to define centralization as the hierarchy level that has the power to make decisions. The owner of the business should offer lower-level employees some decision-making authority and assign them specific duties to increase their motivation, which will increase the organization's efficiency.

### **5.2.4 Measures of business performance**

It was determined from the data collected in the research study that most companies do not grasp the measurement of business performance because they lack the knowledge of measuring the performance. According to Copeland (2014), most financial performance measurements do not apply to small businesses due to their complexity, and they often only apply to large companies with established processes. For small businesses to develop and become competitive in the business sector, they must be educated on these methods.

### **5.2.5 The connection between managerial structure and financial performance**

According to the research's findings, an entity's performance is determined by the management structure of the organization. According to Freedman and Godwin (2012), there is a link between a company's ownership structure and its financial performance. Inelo (2013) came to the additional conclusion that the degree of centralization, which in turn impacts financial performance, is significantly influenced by the size of the firm.

## **5.3 Main Aim**

The main goal of this study was to use Chako Farm Pvt Ltd as a case study to investigate how owner management affects a company's financial performance. The researcher gave questionnaires, conducted interviews, and studied pertinent literature on this issue. Since the research's aims were met, it was successful in its goal.

## **5.4 Recommendations**

* The company must hire knowledgeable management who can make choices that will ensure the long-term sustainability of the company.
* To conduct audits, the company needs practice proper financial reporting.
* The business should try to develop a solid finance division so that money is managed effectively.
* Delegation or consultation should also centralize decision-making.
* To establish a formal communication channel within the organization, the management structure needs to be formalized.

## **5.5 Further Research Area**

Despite only using Chako Farm Pvt Ltd as a case study, this research was successful. Other scholars ought to think about other organizations and the effects of various aspects on a company's financial performance.

## **5.6 Summary**

The chapter summarized the earlier chapters, described the study's primary findings, drew conclusions, and provided suggestions for the whole research. Company. Since this research was only limited to one organization, the chapter's conclusion offered recommendations for additional investigation.

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# **­ APPENDICES**

## **Appendix A**

**Letter of Approval**

LETTER FOR REQUEST FOR PERMISSION TO CONDUCT RESEARCH

**Bindura University of Science Education**

Faculty of Commerce

Department of Accountancy

P. Bag 1020

Bindura

Zimbabwe

05 October 2022

THE MANAGING DIRECTOR

Chako Farm Pvt Ltd

P. Box 323

Headlands

Dear Sir/Madam

**RE: APPLICATION FOR AUTHORITY TO CONDUCT AN ACADEMIC RESEARCH**

I am a student studying towards a Bachelor of Accountancy Honours degree at Bindura University of Science Education. As partial fulfilment of my degree I am doing a research project titled: the effects of owner management on the financial performance of a firm, with your firm as the case study.

All information that I will gather will be used for academic purpose exclusively and treated in strict confidential.

I will be grateful if you consider my application.

Yours sincerely

B1129223

## **Appendix B**

**QUESTIONNAIRE: THE EFFECTS OF OWNER MANAGEMENT ON THE FINANCIAL PERFORMANCE OF A FIRM.**

To the respondent

My name is Dennis Alubembe, student number is B1129223 and I am currently studying towards a Bachelor of Accountancy at Bindura University of Science Education. The questionnaire attempts to obtain information for academic purpose only hence may you kindly complete the following questions. The evidence gathered shall be strictly used for academic purposes and it shall be kept confidential. Your cooperation in this regard will be highly appreciated.

**Instructions**

1. Do not sign your name on the questionnaire
2. Indicate response by ticking where appropriate.
3. If not sure of your response leave the question
4. **Work Experience**

How long have you been with Chako Farm Pvt Ltd?

□ < One Year □ 1 - 5 years □ 5 - 10 years □ Over 10 years

1. **Qualifications**

Which Qualification have you attained. (*If attained more than one, please tick them all)*

□ Ordinary Level □ Advanced Level □ Diploma or Certificate

□ Bachelor’s Degree □Master’s Degree □ Professional Course

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 the flow of business and growth which affect performance?**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Strongly**  **Agree** | **Agree** | **Not Sure** | **Disagree** | **Strongly**  **Disagree** |
| Most farming units have bad accounting practices |  |  |  |  |  |
| Farming companies do not have proper accounting records |  |  |  |  |  |
| Farming companies have no proper management of cash flow |  |  |  |  |  |

1. **What is the relationship between management structure and financial performance**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Strongly**  **Agree** | **Agree** | **Not Sure** | **Disagree** | **Strongly**  **Disagree** |
| Management structure has effects on financial performance |  |  |  |  |  |
| Owner perception towards the managers affect the level of expertise in the firm |  |  |  |  |  |

1. **How owner management of firms affect accountability and financial performance**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Strongly**  **Agree** | **Agree** | **Not Sure** | **Disagree** | **Strongly**  **Disagree** |
| Managing own company slows decision making |  |  |  |  |  |
| Decision making in small firms is centralised |  |  |  |  |  |

1. **Determinants of financial performance**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Strongly**  **Agree** | **Agree** | **Not Sure** | **Disagree** | **Strongly**  **Disagree** |
| Farming companies understand the measurement of firm performance |  |  |  |  |  |
| ROA is a better performance measurement tool |  |  |  |  |  |

## **Appendix C**

**INTERVIEW QUESTION GUIDE**

I am kindly seeking your help and views to the following questions for the interview. The interview questions aim for the respondent’s comments about an analysis on the effects of owner management on the financial performance of a firm, the case of Chako Farm Pvt Ltd. All your contributions will be treated with confidentiality and will be solely used for academic purpose only.

1. Does the company comply or adhere to the accepted accounting practices?
2. What do you understand by the term financial performance?
3. What is you view of organisational size as compared to financial performance
4. Do you think the company could perform better if it was not owner managed?
5. How often are employees involved in the decision-making process?