The determinants of family harmony in family businesses

TJ VAN HEERDEN

Mini-dissertation submitted in partial fulfilment of the requirements for the degree Master in Business Administration at the North-West University, Potchefstroom Campus

Supervisor: Dr SP van der Merwe

November 2009
Potchefstroom

ABSTRACT

Small and medium-sized family businesses are the most common form of business structure in the world and they are becoming increasingly recognised as the main economic drivers in local and global economies. South Africa is no different to the rest of the world and approximately 80% of the businesses in South Africa are classified as family businesses and 60% of companies listed on the Johannesburg Stock Exchange are also classified as family businesses

The family business is a unique, complex and dynamic system that consists of a blend of two very different poles. On the one end there is the performance-based world of business and on the other end the emotion-based domain of the family that creates potential conflict and confusion. About 70 percent of all family businesses do not survive transformation from the first to the second generation and therefore cease to operate and close down before or after succession takes place. The longevity of family businesses are thus a major concern.

The main objective of this study is to determine and evaluate the determinants of family harmony of family businesses and to make recommendations to enable family businesses to obtain family harmony to ensure future continuity.

The study will focus on the investigation of the determinants of harmonious relationship between family members in family businesses. The research was conducted by means of a literature review and an empirical study. The literature review formed the basis for identifying the determinants influencing family harmony and to gain insight into the dynamics of the family business. Based on the literature review, 13 constructs, the independent variables, determining family harmony (the dependant variable), were identified. The variables were empirically tested at 31 family businesses by means of a structured measurement instrument (questionnaire).

The reliability of the research instrument (questionnaire) was determined by means of Cronbach alpha coefficients. None of the constructs' Cronbach alpha coefficients were lower than the routine cut-off value of 0.70. This indicates that the questionnaire

used in this study conformed to the criteria of acceptable reliability and can be regarded as internally consistent.

The evaluation of the constructs determining family harmony yielded an average mean score of $\bar{x} = 5.605$. The highest mean score calculated was for the construct **Family commitment** ($\bar{x} = 6.144$) and the lowest score for **Governance** ($\bar{x} = 4.663$). This means in practice a high level of agreement with the statements / items concerned with **Family commitment** and a relatively low agreement with the statements / items concerned with.**Governance**.

The evaluation of the construct **Perceived future continuity** was discussed and the average score for the construct **Perceived future continuity** was $\bar{x} = 5.841$. The coefficient of correlation for the construct **Perceived future continuity** was calculated at ($r = 0.557$), which also indicates the relatively strong linear relationship between the construct and **Family harmony**.

The correlation between the independent variables measuring the dependent variables were determined and it revealed that based on Cohen's rules, it is evident that the independent variables, **Non-family members** ($r = 0.288$), **Inactive family members** ($r = 0.289$), **Governance** ($r = 0.384$) and **Financial** ($r = 0.479$) have a medium or visible effect on the dependent variable, **Family harmony**. The rest of the independent variables have a large or practical significant effect ($r > 0.50$) on the dependent variable, **Family harmony**.

No practical significant differences could be found between the means of selected demographical variables on any of the variables.

Practical recommendations are suggested to improve family relationships in family businesses to reduce the impact of conflict on family harmony and to improve future continuity of the business.

ACKNOWLEGEMENTS

- Firstly I would like to thank the Lord for giving me the strength and courage to persevere through the challenges of studying an MBA.
- A special thanks to my wife, Anrie who encouraged me and supported me over the past three years to successfully complete this chapter in my life.
- My Study leader, Dr S.P. van der Merwe, for his guidance, support and insight in the preparation of this research project.
- Professor Jan du Plessis, thank you for your assistance in the statistical analysis of the data.
- My employer for support and participation in this research, without whom this study would not have been possible.

TABLE OF CONTENTS

ABSTRACT i

ACKNOWLEDGEMENTS iii

TABLE OF CONTENTS iv

LIST OF TABLES vii

LIST OF FIGURES viii

CHAPTER 1: NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION 1

1.2 PROBLEM STATEMENT 3

1.3 DEFINING SMALL AND MEDIUM-SIZED FAMILY BUSINESSES 4

1.4 OBJECTIVES OF THE STUDY 5

1.4.1 PRIMARY OBJECTIVE 5

1.4.2 SECONDARY OBJECTIVES 5

1.5 SCOPE OF THE STUDY 6

1.5.1 FIELD OF THE STUDY 6

1.5.2 GEOGRAPHICAL DEMARCATION OF THE STUDY 6

1.6 RESEARCH METHODOLOGY 8

1.6.1 LITERATURE REVIEW 8

1.6.2 EMPIRICAL STUDY 9

1.7 LIMITATIONS OF THE STUDY 13

1.8 LAYOUT OF THE STUDY 13

CHAPTER 2: LITERATURE REVIEW ON FAMILY BUSINESSES

2.1 INTRODUCTION 16

2.2 IMPORTANCE OF FAMILY BUSINESSES IN SOUTH AFRICA 17

2.3 DEFINING FAMILY BUSINESSES 20

2.3.1 FAMILY-OWNED AND FAMILY-MANAGED 23

2.3.2 FAMILY-OWNED BUT NOT FAMILY-MANAGED 23

2.3.3 FAMILY-MANAGED BUT NOT FAMILY-OWNED 23

2.4 THE INTEGRATION OF FAMILY AND BUSINESS 24

2.4.1 THE "FAMILY FIRST" APPROACH 25

2.4.2 THE "BUSINESS FIRST" APROACH 26

2.4.3 BALANCING FAMILY AND BUSINESS INTEREST 27

2.5 ADVANTAGES AND DISADVANTAGES OF FAMILY BUSINESSES 28

2.5.1 ADVANTAGES 30

2.5.2 DISADVANTAGES 33

2.6 FAMILY HARMONY **37**
2.7 DETERMINANTS OF FAMILY HARMONY **38**
2.7.1 OPEN COMMUNICATION 39
2.7.2 COMMITMENT 41
2.7.3 MUTUAL TRUST AND RESPECT 44
2.7.4 GOVERNANCE 46
2.7.5 CONFLICT 47
2.7.6 LEADERSHIP 49
2.7.7 FAIRNESS 51
2.7.8 DIVISION OF LABOUR 54
2.7.9 FINANCIAL PERFORMANCE 56
2.7.10 PERSONAL NEEDS ALIGNMENT 58
2.7.11 NON-FAMILY MEMBERS 60
2.7.12 SENIOR GENERATION OF FAMILY MEMBERS 63
2.7.13 INACTIVE FAMILY MEMBERS 66
2.8 FUTURE BUSINESS CONTINUITY **68**
2.9 SUMMARY **69**

CHAPTER 3: RESULTS AND DISCUSSION OF EMPIRICAL STUDY

3.1 INTRODUCTION **74**
3.2 GATHERING OF DATA **74**
3.2.1 DEVELOPMENT AND CONSTRUCTION OF THE QUESTIONNAIRE 74
3.2.2 DATA COLLECTION 75
3.3 RESPONSES TO THE SURVEY **76**
3.4 RESULTS OF BIOGRAPHICAL DATA **76**
3.4.1 INVOLVEMENT OF FAMILY MEMBERS 77
3.4.2 AGE GROUPS CATEGORIES OF FAMILY MEMBERS 78
3.4.3 GENDER OF FAMILY MEMBERS 79
3.4.4 MARITAL STATUS OF FAMILY MEMBERS 79
3.4.5 HIGHEST ACADEMIC QUALIFICATIONS OF THE FAMILY MEMBERS 80
3.5 RESULTS OF FAMILY BUSINESS INFORMATION **81**
3.5.1 NUMBER OF PERMANENT EMPLOYEES 81
3.5.2 FAMILY BUSINESS TURNOVER 82
3.5.3 FAMILY BUSINESS INDUSTRY FOCUS 83
3.5.4 LEGAL STATUS OF THE FAMILY BUSINESS 84

3.6 RELIABILITY OF THE QUESTIONNAIRE 86
3.7 EVALUATION OF THE DEPENDENT VARIABLE, FAMILY HARMONY 87
3.8 EVALUATION OF THE CONSTRUCT DETERMINING FAMILY HARMONY 87
3.9 EVALUATION OF THE CONSTRUCT PERCEIVED CONTINUITY 89
3.10 CORRELATION BETWEEN FAMILY HARMONY AND CONSTRUCTS 89
3.11 RELATIONSHIP BETWEEN DEMOGRAPHIC VARIABLES AND THE CONSTRUCTS 91
3.11.1 RELATIONSHIP BETWEEN FAMILY INVOLVEMENT AND THE CONSTRUCTS 92
3.11.2 RELATIONSHIP BETWEEN GENDER AND THE CONSTRUCTS 94
3.12 RELATIONSHIP BETWEEN THE DEMOGRAPHIC VARIABLES AND THE DEPENDENT VARIABLE, FAMILY HARMONY 95
3.13 RELATIONSHIP BETWEEN THE DEMOGRAPHIC VARIABLES AND THE CONSTRUCT, PERCEIVED FUTURE CONTINUITY 96
3.14 SUMMARY 97

CHAPTER 4: CONCLUSIONS AND RECOMMENDATIONS

4.1 INTRODUCTION 101
4.2 CONCLUSIONS ON THE EMPIRICAL STUDY 101
4.2.1 CONCLUSIONS ON BIOGRAPHICAL DATA ANALYSIS 101
4.2.2 CONCLUSIONS ON FAMILY BUSINESS INFORMATION 103
4.2.3 CONCLUSIONS ON THE CONSTRUCTS DETERMINING FAMILY HARMONY 104
4.2.4 CONCLUSIONS ON THE CRONBACH ALPHA COEFFICIENTS OF THE CONSTRUCTS 105
4.2.5 CONCLUSIONS ON THE CORRELATION BETWEEN FAMILY HARMONY AND CONSTRUCTS 105
4.2.6 CONCLUSIONS ON THE RELATIONSHIP BETWEEN DEMOGRAPHIC VARIABLES AND THE CONSTRUCTS 105
4.3 PRACTICAL RECOMMENDATIONS 106
4.4 CRITICAL EVALUATION OF THE STUDY 112
4.4.1 PRIMARY OBJECTIVE 112
4.4.2 SECONDARY OBJECTIVES 113
4.5 SUGGESTIONS FOR FUTURE RESEARCH 114
4.6 SUMMARY 115
REFERENCES 117
APPENDIX A 131
APPENDIX B 139

LIST OF TABLES

Table 2.1	2002 Top United States of America's family businesses	18
Table 2.2	Multiple roles of family members	21
Table 3.1	Involvement of participating family members	77
Table 3.2	Age groups of participating family members	78
Table 3.3	Gender distribution of family members	79
Table 3.4	Marital status of participating family members	80
Table 3.5	Highest academic qualifications of family members	81
Table 3.6	Permanent employees employed by family businesses	82
Table 3.7	Annual turnover of family businesses	83
Table 3.8	Family businesses' industry focus	84
Table 3.9	Legal status of family business	85
Table 3.10	Cronbach alpha coefficients of constructs	86
Table 3.11	Evaluation of the constructs measuring family harmony	88
Table 3.12	Correlation between family harmony and constructs	90
Table 3.13	Relationship between family involvement and the constructs	93
Table 3.14	Relationship between gender and the constructs	94
Table 3.15	Relationship between the demographic variables and the dependent variable, family harmony	95
Table 3.16	Relationship between the demographic variables and the construct, perceived continuity	96

LIST OF FIGURES

Figure 1.1	Map of South Africa highlighting the targeted area of the study	7
Figure 1.2	Detail map of Rustenburg, Brits, Thabazimbi and Lydenburg area	8
Figure 1.3	Layout of the study	14
Figure 2.1	Family business prevalence	19
Figure 2.2	Family business profit growth	20
Figure 2.3	Defining the family business	22
Figure 2.4	Key dimensions that distinguish family business from non-family business	24
Figure 2.5	"Family first" approach	25
Figure 2.6	"Business first" approach	26
Figure 2.7	Balancing family and business approach with conflicting goals between family and business systems	27
Figure 2.8	Balancing family and business approach with successful balance between family and business systems	28
Figure 2.9	Virtues and Vices	30
Figure 2.10	Model of determinants influencing family harmony	39
Figure 2.11	Cycle of conflict	49
Figure 2.12	Why founders and CE's of family businesses resist letting go	64

CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

It is very important for South Africa to find a workable solution for the unemployment crisis in the country. Venter, Boshoff and Maas (2003a: 1) stated that there is a major decline in the absorptiveness of large companies and the public sector has proven that it is unable to address the problems of unemployment and poverty as a result of global economics.

The standard form of business as it is known can be divided into two broad categories, namely ***family-owned*** and ***non-family-owned*** businesses. Small and medium-sized family businesses are the most common form of business structure in the world and they are becoming increasingly recognised as the main economic drivers in local and global economies (PricewaterhouseCoopers Family Business Survey, 2008: 5; Moores & Barrett, 2002: 7; Fleming, 2000: 12).

According to the PricewaterhouseCoopers Family Business Survey (2008: 7), Lansberg (1999: 1) and Kets de Vries (1996: 3), the percentage of family-owned businesses in various countries are: France (60%), Germany (60%), Netherlands (74%), Portugal (70%), Belgium (70%), United Kingdom (70%), Spain (75%), Sweden (79%), Finland (80%), Greece (80%), Cyprus (80%), Italy (93%), Australia (75%) and the United States of America (95%) (IFERA, 2003). Another business survey also reflected that about one third of the top 500 companies in the United States of America are indeed family businesses (IFERA, 2003: 236; Moores & Barrett, 2002: 7).

South Africa is no different to the rest of the world and approximately 80% of the businesses in South Africa are classified as family businesses and 60% of companies listed on the Johannesburg Stock Exchange are also classified as family businesses (Ackerman, 2001: 325; Dickenson, 2000: 3; Meyer, 1994: 1).

The family business is a unique, complex and dynamic system that consists of a blend of two very different poles. On the one end there is the performance-based world of business and on the other end there is the emotion-based domain of the family that creates potential conflict and confusion (Ibrahim & Ellis, 2004: 44; McCann, Hammond, Keyt & Fujiuchi, 2004: 203; Emens & Wolper, 2000: 3). The fact that family business is such a dominant form of business, has suggested to researchers that there is a possibility that their ownership and control structures might have an effect on the way they are managed (Sharma, Chua & Chrisman, 2000: 22, 233; Hume, 1999: 28; Neubauer & Lank, 1998: 133).

It has been empirically found (Sharma *et al.*, 2000: 22, 233; Hume, 1999: 28; Neubauer & Lank, 1998: 133) that a direct link between the survival of business entities over a long term and good governance does exist. The absence of harmony in any business can be destructive to its governance, survival, growth and long term profitability. According to the PricewaterhouseCoopers Family Business Survey (2008: 25) and Moores and Barrett (2002: 2), internationally as little as 30% of family businesses survive the transfer from first to second generation and less then 14% survive into the third generation (Bjuggren & Sund, 2001: 12; Matthews, Moore & Fialko, 1999: 159; Morris, Williams, Allen & Avila, 1997: 341-422; Leach, 1994: 147;). In South Africa only 25% of family businesses survive the transfer from first to second generation and only 10% make it into the third generation (Hugo, 1996: 8; Engine of Growth, 1994: 25).

It is of utmost importance to the survival of the family business that the determinants influencing family harmony are identified. Once these determinants have been identified they can then be managed and aligned to enhance family harmony that will ultimately impact the long term sustainability and profitability of the family business (Swart, 2005: 31; Ibrahim & Ellis, 2004: 44; Bork, Jaffe, Lane & Heisler, 1993: 23).

It is crucial for South Africa that economic growth and wealth creation is stimulated and the sustainability of the family business from one generation to the next will have a major impact on the economy. A drastic increase in the number of family businesses can be expected over the next few years and continued profitability and

sustainability of these businesses are essential to stimulate the economic growth in South Africa.

1.2 PROBLEM STATEMENT

South Africa has a social capital economic system that creates numerous opportunities in the country that allow individuals to start their own business. This creates a climate for the entrepreneur to explore the business market and start his or her own business. Despite the familiarity of the family business, in recent years the family business has tended to blend into the background. A great deal of attention and evaluation was focused on corporate governance, securities legislation, responsibilities of superannuation funds trustees, regulations covering the life and general insurance industries and accounting standards, to name just a few.

With only 30% of family businesses surviving beyond the first generation (PricewaterhouseCoopers Family Business Survey, 2008: 25) it are in the country's best interest that there is an increase in the survival rate of business transition from one generation to the next.

A certain degree of balance between the family and the business needs to be maintained, as any misunderstandings in communication or maybe a lack of commitment from any family member might result in family conflict. Conflict might be one of the major determinants influencing family harmony and bearing in mind that family harmony is a fundamental prerequisite for the future continuity of family businesses, it is of utmost importance to prevent any disruption of family harmony.

The study will focus on the harmonious relationship between family members and the family itself in relation to the family business. What is critical is not the percentage of family business failures but the reasons for such high failure rates. Family businesses are one of the most unique, complex and dynamic systems in our modern day society. The absence of family harmony in the business can only be detrimental to its own governance and thus its survival, growth and long-term prosperity (DeNoble, Ehrlich & Singh, 2007: 129; Neubauer & Lank, 1998: 142).

If it is possible to establish the majority of the determinants that contribute to the lack of family harmony within the family business and then focus on these determinants, it might be of assistance in evaluating the severity of the impact on the business itself. Studying and analysing these determinants in full can help set up a structure or specific guidelines that can assist the family members and the management team of the family business in reducing the impact that the determinants have on family harmony and business operations. If aspects such as communication, compensation, involvement of family and non-family members as well as the role of the family itself are not defined and therefore no systems are put in place, the family business will suffer and the survival rate of the family business will fail to improve.

A survey done by PricewaterhouseCoopers (2008: 26) reveals that 25% of the companies that were surveyed are expected to change hands from the first to the second generation within the next five years. The survey also revealed that 51% of the respondents who foresee changes in ownership of their company will remain in the family and nearly 50% of all the companies that were surveyed have no succession plans in place. These figures indicate that it is crucial to get systems in place to assist and guide family business owners and managers to implement a model or framework within the company to assist in governing these aspects. If the family business is not stimulated and the transfer from first to second generation survival rate is not improved, then the South African economy will not be able to benefit from the massive contribution that can be harvested from the family business.

1.3 DEFINING SMALL AND MEDIUM-SIZED FAMILY BUSINESSES

For the purpose of the study it is important to define the following terms such as **"small"**, **"medium-sized"** and **"family business"**. It is very important to ensure that any person reading this research has the same understanding as to what a small and medium-sized family business represents.

The definition of a "**family business**" as defined by Ibrahim and Ellis (2004: 5) has been adopted as the definition for the purpose of this study. To be classified as a family business, the following requirements must be met:

- At least 51 percent of the business must be owned by the family.
- At least two family members must be involved in the management of the business.
- The transfer of leadership to next generation family members must be anticipated.

The term "small and medium-sized businesses" are classified in the **South African National Small Business Act** (1996) and the **National Small Business Amendment Act** (29/2004:2) as micro, very small, small and medium-sized businesses with less then 200 full-time equivalent of paid employees.

1.4 OBJECTIVES OF THE STUDY

1.4.1 Primary objective

The primary objective of the study was to empirically explore and identify related determinants impacting directly or indirectly on family harmony within small and medium-sized family-owned businesses in the North-West and Mpumalanga provinces in South Africa.

1.4.2 Secondary objectives

In order to address the primary objective, the following secondary objectives were formulated:

- To investigate and identify the determinants impacting family harmony in small and medium-sized family business by means of a literature review.
- To gain insight into the driving forces of the family business by means of literature review.

- To assess the determinants of family harmony in small and medium-sized family businesses.
- To validate the diagnostic questionnaire by means of statistical analysis.
- Suggest practical recommendations on how to manage the various determinants to improve family harmony in family businesses.

1.5 SCOPE OF THE STUDY

The scope of the study is divided into two sections namely the field of study and the geographical demarcation of the study.

1.5.1 The field of the study

The field of study falls within the discipline of family harmony with specific relation to family businesses. The study focuses on various determinants impacting family harmony in small and medium-sized family businesses.

1.5.2 Geographical demarcation of the study

The targeted population for the study will include small and medium-sized family businesses in South Africa within the North-West and Mpumalanga provinces. **Figure 1.1** is a map of the greater South Africa indicating the geographical area in the North-West and Mpumalanga provinces where the study will be conducted.

Figure 1.1: Map of South Africa highlighting the targeted area of the study

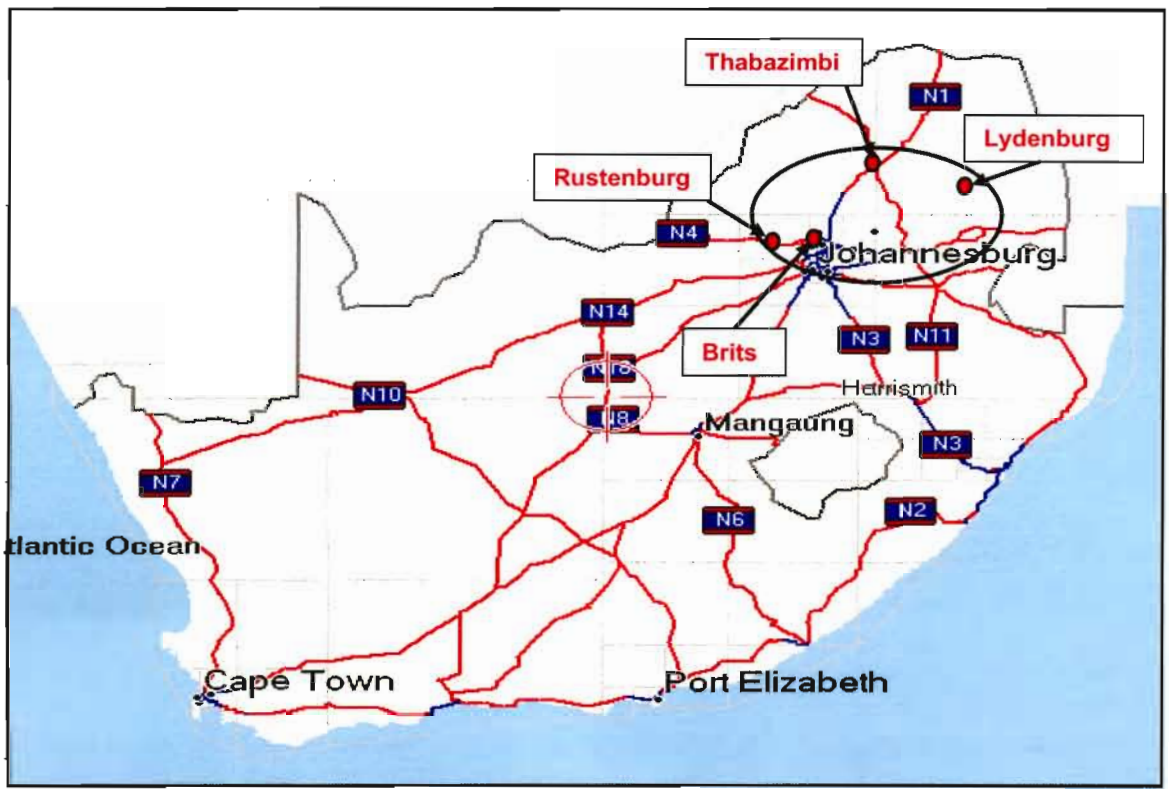
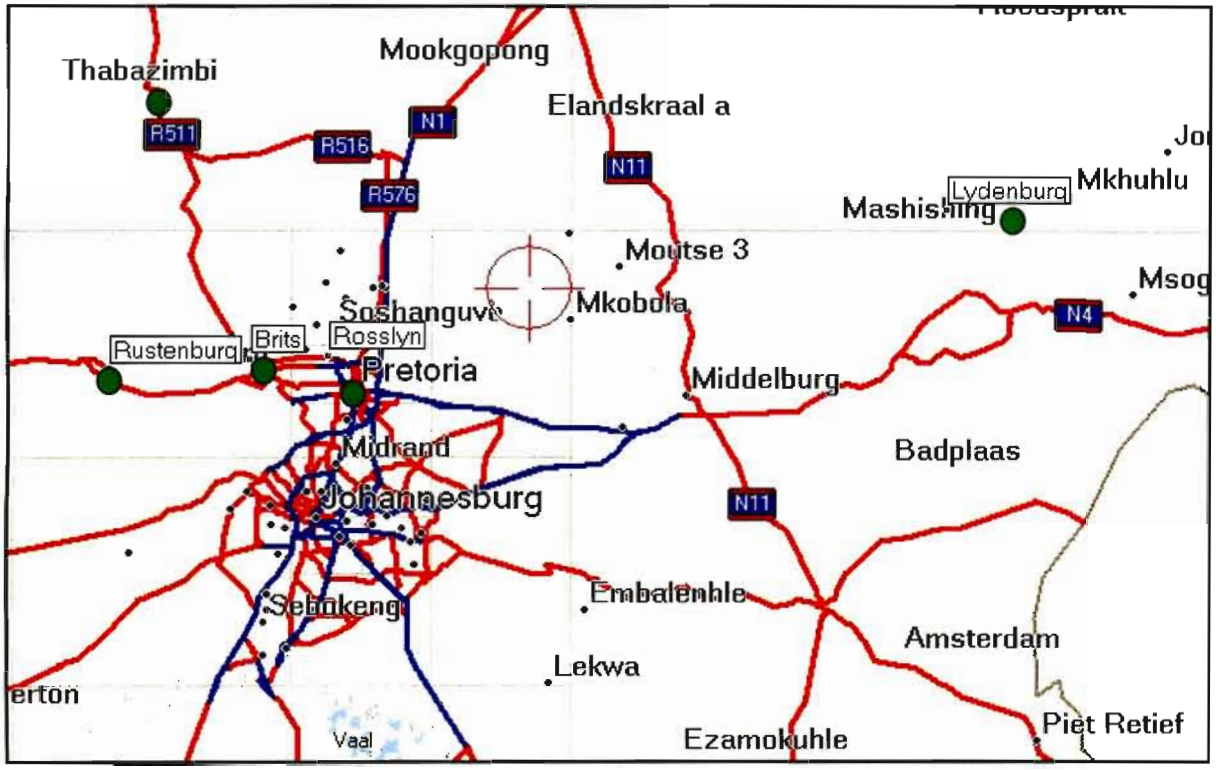


Figure 1.2 indicates the area where the identified businesses are located in and around Rustenburg, Brits, Thabazimbi and Lydenburg in the North-West and Mpumalanga provinces.

These participants are not restricted to any specific industry. The population includes all industries from retailing, service providers up to manufacturing and installation of goods.

Figure 1.2: Detail map of Rustenburg, Brits, Thabazimbi and Lydenburg area



1.6 RESEARCH METHODOLOGY

To be able to address the primary and secondary objectives of the study, the research was divided into two main components, namely the literature or theoretical review and the empirical study.

1.6.1 Literature review

In order to identify and analyse the determinants that impact family harmony in relation to family businesses, a comprehensive literature review was done. The literature review was done from text books, journals, dissertations and theses that will be mainly obtained from the Ferdinand Postma Library at the North-West University in Potchefstroom.

In chapter two, the literature review offered an introduction followed by clearly defining the term **"family business"**. The uniqueness of the family business as well as the advantages and disadvantages thereof was reviewed in obtaining a better understanding of why the family business is so successful. The last and most important part of the literature review looked at all the various determinants (factors) that impact family harmony.

The following determinants will be researched in the literature review:

- Open communication
- Mutual respect and trust
- Financial performance
- Commitment
- Senior generation family members
- Governance
- Conflict
- Leadership
- Non-family members
- Division of labour
- Personal needs alignment
- Fairness
- Inactive family members

1.6.2 Empirical study

The empirical study consists of defining the study population, the measuring instrument used in the study, the process to collect the data and the statistical analysis of the questionnaires that were obtained from active and inactive family members within the family businesses.

1.6.2.1 Study population

The study population for the study, small and medium-sized family businesses, are situated in the North-West and Mpumalanga provinces of South Africa. There is no

formal database of family businesses available for this area. A preliminary name list of businesses was obtained from the procurement departments of various companies in the Rustenburg, Brits, Thabazimbi and Lydenburg districts. It was decided to make use of a convenience sample, by means of a snowball sampling technique to identify supplementary participants for the study. A final list of 62 family businesses that were identified through the snowball sampling method was drawn up which served as a database for possible participants in the study.

1.6.2.2 Measuring instruments

A crucial part of good research design concerns making sure that the questionnaire design addresses the needs of the research. According to Zikmund (2000: 310), a questionnaire is "a formalised set of questions for obtaining information from the sampled respondents". Most researchers make the mistake of asking too many questions, which often arises from an incomplete analysis of how to meet the survey aims. This means that the questions being asked must be the right ones.

The questionnaire has several objectives such as (Zikmund, 2000: 310):

- It should convert the information needed into a set of specific questions that the respondents will be willing and able to answer.
- It should motivate respondents to cooperate and complete the interview.
- The response errors and inaccurate answers should be minimized.
- It should collect only the relevant information needed to solve the problem.

The following type of questions should be avoided to improve the questionnaire response rate (Zikmund, 2000: 310):

- Questions that is too personal.
- Questions that is too general and unclear.
- Questions that require a substantial amount of assessment before being answered.
- Leading questions.

- Questions that rely a great deal on the memory of the participant.
- Asking too many questions.

The measuring instrument used in this study consists of items whose reliability and validity had been confirmed in previous studies (Slaughter, 2008; Van der Merwe & Ellis, 2007; Venter *et al.*, 2003a). The questionnaire was developed by Professor Elmarie Venter (Nelson Mandela Metropolitan University), Dr Shelly Farrington (Nelson Mandela Metropolitan University) and Dr SP van der Merwe (North-West University).

The questionnaire consists of the following three sections:

- Section A of the questionnaire assesses the thirteen determinants of family harmony with 96 statements which are linked to a 7-point Likert-type scale where ***strongly agree*** was scored as 7 and ***strongly disagree*** as 1.

- Section B of the questionnaire will gather demographical data that will be used for statistical analysis of the data for comparisons among different interest groups. Information such as: age, gender, marital status, relationship to the senior generation owner-managers and percentage of shares in the business will be obtained in this section.

- Section C of the questionnaire will collect data that is relevant to the business itself such as: number of permanent employees, turnover per year, type of industry, age of the business, succession history and the legal status of the business.

1.6.2.3 Gathering of data

The gathering of the data is one of the most important processes in the study. It is very important to get a sufficient number of completed questionnaires back to ensure that it is a representative sample of the population. The completion of questionnaires must also be unbiased to ensure the credibility of the results.

A covering letter will be attached to the questionnaire pointing out the importance of the research and the value of the respondents' participation. Interviews will be conducted personally and questionnaires will be delivered and collected by the researcher himself. If needed, interviews and collection of missing data will be done telephonically or via e-mail.

The following bullet points indicate the process that will be followed when the questionnaires are sent out:

- **Pre-notification:** Pre-notification calls will be made to all the identified family businesses to establish if the business does in fact comply with the three basic guidelines of a family business that was previously discussed in **Chapter 1**, section **1.3**. The willingness of the owner/senior family member will be evaluated to determine his or her willingness to participate in the study.

- **Scheduling:** Appointments will be made with all business owners to deliver the questionnaire per hand and to answer any questions or concerns that might be raised by the owner. The time frame for collection will be discussed with the owner to try and increase reaction time on the completion of the questionnaire. Where hand delivery of questionnaires is not possible, the questionnaires will be emailed to the respective businesses. The schedule that will be compiled for control purposes will also allow for first and second time follow up calls to increase the response of participants.

- **Collection:** The collection dates will be confirmed with the owner prior to collection to ensure that collection will be possible. Family businesses that fail to complete the questionnaire will be recorded as non participants in the study.

1.6.2.4 Statistical analysis

In order to assess family harmony and the determinants of family harmony the data will be statistically analysed by means of Statistica (Statsoft, 2008) and SPSS (SPSS, 2008). The reliability of the measuring instrument will be assessed by calculating Cronbach Alpha Coefficients. Descriptive statistics will be used to asses

the 96 statements which will capture the information of the various constructs measuring family harmony. The correlation between the dependent and independent variables will also be assessed by calculating Pearson's correlation coefficients. Thereafter, the relationship between selected demographical variables and the variable assessing family harmony will be investigated.

1.7 LIMITATIONS OF THE STUDY

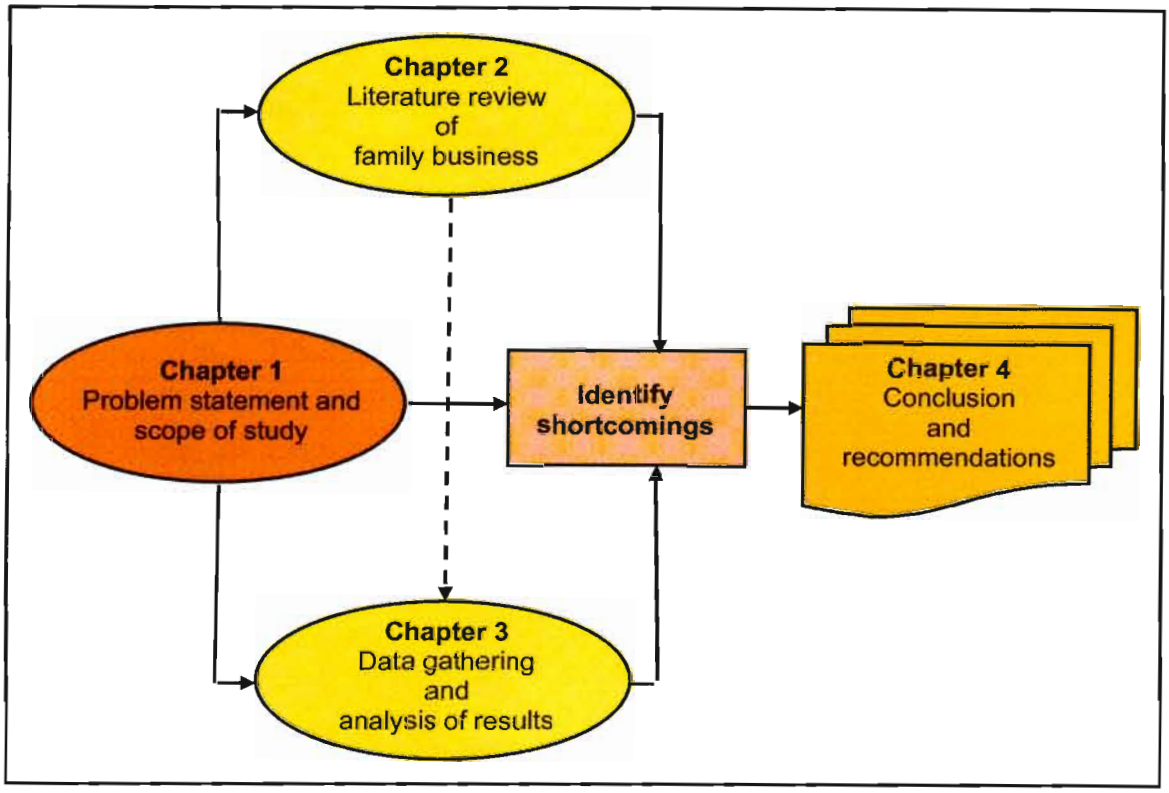
The following identified limitations might compromise the integrity of the data that will be collected:

- The majority of the information in the study is based on foreign literature due to very limited information that is available on family businesses in South Africa.
- The research is confined to the Rustenburg, Brits, Thabazimbi and Lydenburg area in the North-West and Mpumalanga provinces and thus certain findings can relate to the geographical area and therefore might not be representative of the rest of the country.
- There might be much more detail available on the different determinants that can be overlooked during the literature study as a result of the broad scope of the study.
- The focus was on the family, the ownership and business systems the operational aspects of the business were ignored for the purpose of the study.
- The snowball technique that was used might exclude certain businesses from different industries that are not directly related to the mining industry.

1.8 LAYOUT OF THE STUDY

The mini-dissertation consists of four chapters and is presented in **figure 1.3** which provides a graphical layout of the study:

Figure 1.3: Layout of the study



The following points provide a short overview of chapter contents:

- **Chapter 1:** Chapter 1 included an introduction that sketches a broad background to why the study is needed and the scope which it covers. The following topics were discussed in more detail namely the problem statement, the definition of small and medium-sized family businesses, the primary and secondary objectives, the scope of the study, the research methodology, the limitations and finally, the layout of the study.

- **Chapter 2:** This chapter will compile a comprehensive literature review including defining the family business, the importance of the family business, the uniqueness of the business and the advantages and disadvantages of the family business. The core of the chapter will focus on the determinants that impact family harmony coupled with an indicative model of the determinants that

influence this. An in depth literature review of all the identified determinants of family harmony with emphasis on how family harmony impacts profitability, growth and sustainability of the business will also be included.

- **Chapter 3:** The focus of the chapter will be on the process of constructing the questionnaire, the targeted population, the process to gather the data, the analysis and the presentation of the data. The chapter will conclude with a discussion of the results of the empirical study.

- **Chapter 4:** Conclusions and practical recommendations will be made to ensure harmonious family relationships in the family business based on the information acquired by both the literature review and the empirical study that will be performed. The chapter will conclude with a critical evaluation of the achievement of the study objectives and suggestions for further research.

CHAPTER 2

LITRERATURE REVIEW OF FAMILY BUSINESSES

2.1 INTRODUCTION

As family businesses generate almost 50 percent of the United States of America's gross national product and employ approximately 48 percent of the countries workforce it plays a crucial role in both the stability and health of the national economy (Allio & Allio, 2005: 1; Ibrahim & Ellis, 2004: 3; Leenders & Waarts, 2003: 686; Upton, 2001: 3). It is for this reason that over the past few years a significant number of professionals were drawn to studying the practise of family businesses.

Family-owned businesses are characterised by dual relationships of naturally separate institutions or functions such as the *social function* (the family) and the *business function* (the family business) (Sundaramurthy & Kreiner, 2008: 418; Emens & Wolper, 2000: 3). The family in its social function satisfies different social and emotional needs, including the need for belonging. The behavioural pattern and decision-making process within the business as determined by the social function are not always based on a rational model, but rather on emotion. The business function on the other hand is result-orientated (Ibrahim & Ellis, 2004: 44; Emens & Wolper, 2000: 3).

For the business to survive and compete in the global economic climate, the behavioural pattern and decision-making process of the business must be based on an objective and economical model. More specifically, it boils down to the fact that in some families it is evident that the *business serves the family*, as opposed to the *family serves the business*. Unfortunately the emotional side in the family tends to affect the decision-making process of the business. This results in unnecessary conflict, distrust, unfairness and even poor financial performance (Emens & Wolper, 2000: 2; Shanker, 2000: 4).

Chapter 2 will define the family business in the context as it will be referred to in the study and then a brief description of the importance and impact of the family business in the global economy. The middle part of the chapter focuses on the uniqueness of the business and the advantages and disadvantages of the family business in comparison to non-family businesses. The chapter will conclude with a discussion on the determinants of family harmony and the continuity of family businesses.

2.2 IMPORTANCE OF FAMILY BUSINESS

Family businesses play a crucial role in both the stability and health of the economy (Basu, 2004: 13). It is estimated that 90 percent of all businesses in the United States of America and Canada are family-owned and operated (Astrachan & Kolenko, 1994: 251). As a group, family businesses employ approximately 48 percent of the work force and generate almost 50 percent of the United States of America's Gross Domestic Product (Allio & Allio, 2005: 1; Ibrahim & Ellis, 2004: 3; Leenders & Waarts, 2003: 686).

According to Venter *et al* (2003a: 1), family businesses also play a crucial role in the economy of South Africa as it does across the rest of the world. Van der Merwe (1998: 3) states that family businesses have been making a positive contribution towards the South African economy for the last 300 years. Approximately 80 percent of the businesses in South Africa could be classified as family businesses and these businesses comprise 60 percent of the listed companies on the Johannesburg stock exchange (Ackerman, 2001: 325).

Maas, van der Merwe and Venter (2005: 7) state that the oldest known family business in South Africa is a farm called Boplaas in the Boland and it is still owned and managed by the Van der Merwe family since 1743. Some of the well known business in South Africa such as Anglo American, Pick n Pay, Rembrandt Group and the Altron Group are classified as family businesses.

Many of the well-known businesses in the world today are family-operated and continue to dominate their markets from generation to generation. **Table 2.1** supplies

a few examples of the top family businesses that were in operation in the United States of America during 2002 (Allio & Allio, 2005: 3).

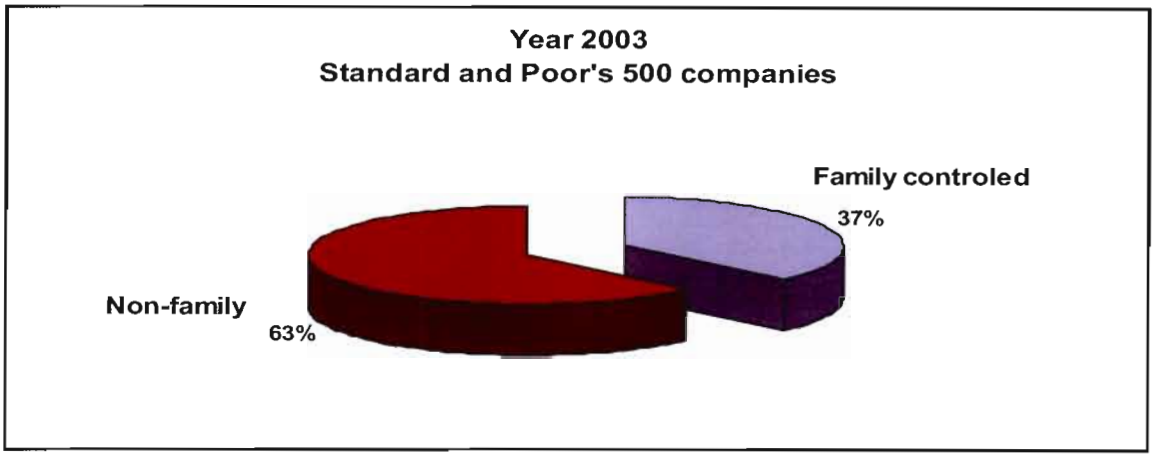
Table 2.1: 2002 Top United States of America's family businesses

Rank	Business	Focus	Rev ($B)	% Family
1	Wal-Mart	Retail	245	38 %
2	Ford	Automobiles	163	40 %
3	Cargill	Commodities	50	85 %
4	Koch	Oil, Gas, Agric	40	100 %
5	Motorola	Telecomm.	27	Not available
6	Viacom	Media	25	68 %
7	Tyson	Food	23	80 %
8	Weyerhaeuser	Timber	19	Not available
9	Loew's	Hotels / Tobacco	17	30 %
10	Mars	Candy	17	100 %

Source: Allio and Allio (2005: 3)

The perception was always that family businesses were very small and thought of as non-profitable small businesses. It is reported according to *Business Week,* that more then a third of the ***Standard and Poor's 500 companies*** are family controlled businesses and 37% of 2003' ***Fortune 500 companies*** are family-owned (Allio & Allio, 2005: 1; Ibrahim & Ellis, 2004: 3; Upton, 2001: 3) as shown in **Figure 2.1**. It is clear from the data in **Figure 2.1** that family businesses are indeed not small non-profitable businesses. Family businesses can hold hands with the largest of companies in the world and comprise the 37 percent of the top 500 companies in the United States of America. They thus earn their right in the business world.

Figure 2.1: Family business prevalence

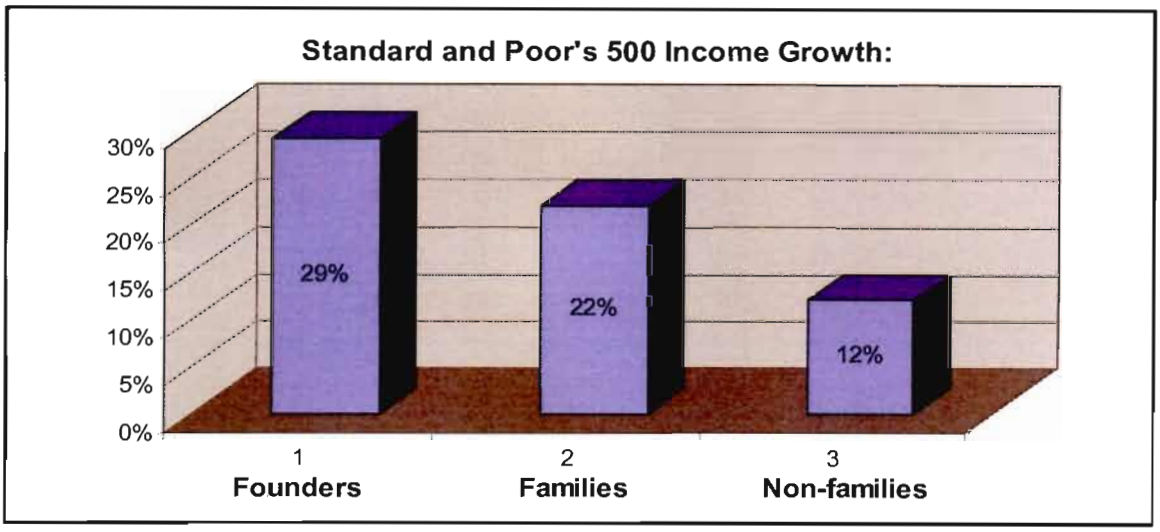


Source: Allio and Allio (2005: 2)

Over the past ten years a variety of measures such as **(1)** Return on assets **(2)** Shareholder return and **(3)** Revenue growth illustrates the growth of family businesses. **Figure 2.2** illustrates growth in profit of the 2003 ***Standard and Poor's 500 companies*** (Allio & Allio, 2005: 2; Upton, 2001: 3).

The data reflected in **Figure 2.2** illustrates the profit margin expressed as a growth rate. It is clear from this data that the growth experienced by family businesses that are still managed by the founder had the highest growth rate of 29 percent, followed by family businesses that are still under the control of the family with a growth rate of 22 percent. Non-family businesses had the lowest growth rate of only 12 percent. It is clear from the data that family businesses can definitely outperform non-family businesses.

Figure 2.2: Family business profit growth



Source: Allio and Allio (2005: 2)

Family businesses made their mark in various sectors within the economy such as manufacturing, retailing, wholesaling, construction, resources and services. Although family businesses have been in operation for centuries, it is only in the last decade that it became a serious consideration in terms of management consulting and in the academic field in terms of research and course offerings.

2.3 DEFINING THE FAMILY BUSINESS

Various authors like Sharma (2004: 3), Chrisman, Chua and Sharma (2003: 8), Hellriegel, Jackson and Slocum (2002: 137) and Jaffe (1991: 27), amongst others, compiled their own definitions of what a family business is but there is no one generally accepted definition of a family business due to a lack of conceptual clarity. Family businesses might range from a small informal business to large publicly traded organisations. One of the most accepted definitions is still the one of Handler (1989a: 262) that offered a broad definition of a family business: "*A family business is defined here as an organisation whose major operating decisions and plans for leadership succession are influenced by family members serving in management or on the board*" (Handler, 1989a: 262).

According to Corbetta and Montemerlo (1999: 366), studies in the United States of America and Italy indicate a strong tendency of family member's being involved in family businesses. **Table 2.2** reflect the data indicating the various positions (roles) that family members occupy in the business as well as the distribution of the family members in these positions (Corbetta & Montemerlo, 1999: 366).

Table 2.2: Multiple roles of family members

Roles	United States	Italy
Employee	22.50 %	11.80 %
Shareholder	6.50 %	11.10 %
Director	6.40 %	6.20 %
Manager	6.50 %	5.30 %
Shareholder & director	12.40 %	20.30 %
Shareholder & manager	7.50 %	6.90 %
Director & manager	5.20 %	8.80 %
Shareholder & director & manager	32.90 %	29.70 %
Total	**100 %**	**100 %**

Source: Corbetta and Montemerlo (1999: 336)

Table 2.2 shows the percentage of the level of involvement or various roles that family members occupy in the family business. This also clearly indicates that family members try to hold on to the control of the company in terms of directorships or by being a shareholder (Corbetta & Montemerlo, 1999: 366). Researchers began defining the family business operation by the components of the family's involvement in the business: ownership, management and trans-generational succession (Rogoff & Heck, 2003: 560).

Unfortunately, researchers have had problems making any of these components precise. For example, does family ownership require 100% ownership, controlling ownership or effective control? Does governance by the family serve as being sufficient or is management a necessary condition? Researchers following this

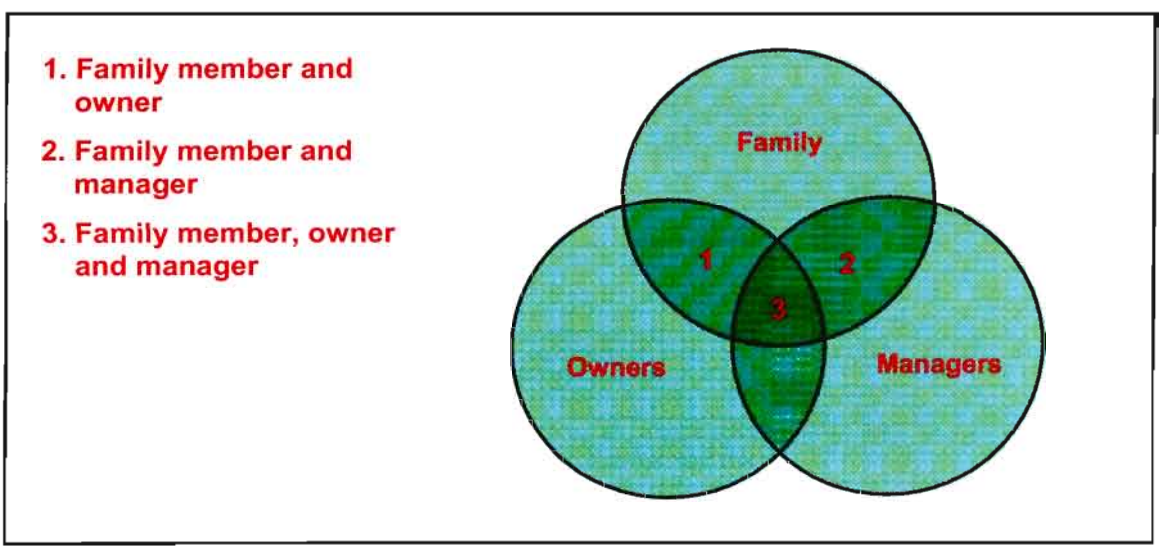
approach have proposed a wide variety of combinations of these components (Chrisman *et al.*, 2003: 8-12, Neubauer & Lank, 1998: 5).

Taking into account the various definitions and criteria that are set by scholars and researchers like Handler (1989a: 262), Corbetta and Montemerlo (1999: 363), Ibrahim and Ellis (2004: 5) and Chrisman *et al.* (2003: 8-12) it is clear that family business can be divided into three main categories to capture the definition of a family business namely:

- Family-owned and family-managed.
- Family-owned but not family-managed.
- Family-managed but not family-owned.

Figure 2.3 supplies a graphical illustration of how the three main objects such as owners, family and managers incorporate to define the various types of family businesses as we know it.

Figure 2.3: Defining the family business



Adopted from: Jaffe (1991: 54)

2.3.1 Family-owned and family-managed

The business is owned by one or more family members and is also in control of the day-to-day management, decision-making and operations of the business (Jaffe, 1991: 54).

2.3.2 Family-owned but not family-managed

The business is owned by more than one family member but they are not involved with the day-to-day management, decision-making and operations of the business (Jaffe, 1991: 54).

2.3.3 Family-managed but not family-owned

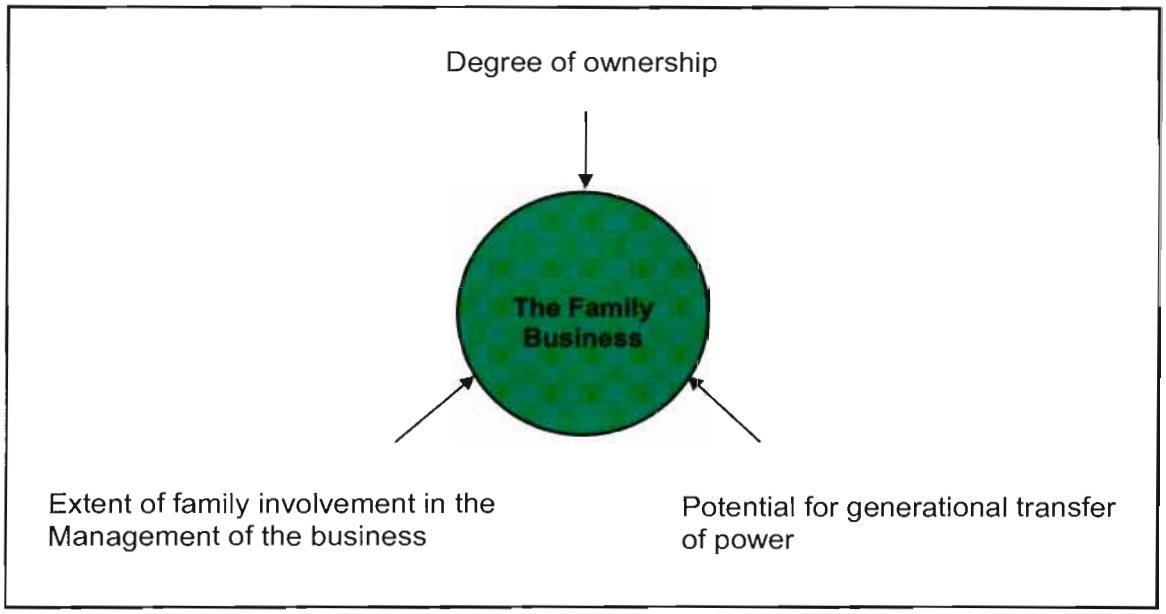
The business is owned by various shareholders that are not related to each other but the day-to-day management, decision-making and operations of the business is controlled by two or more family members that are employed in the business (Jaffe, 1991: 54).

The definition of a family business as defined by Ibrahim and Ellis (2004: 5) will be accepted as the definition of a family business for the purpose of this study. The definitions as set out by Ibrahim and Ellis (2004: 5), for a family business include:

- **Degree of ownership:** At least 51 percent of the business must be owned by one family.
- **Extent of family involvement in the management of the business:** At least two family members must be involved in the management of the business.
- **Potential for generational transfer of power:** Anticipation of transfer of leadership to next generation family members.

Figure 2.4 is a graphical illustration of the criteria that determines if a business complies with the requirements that are set out for a family business or not.

Figure 2.4: Key dimensions that distinguish family business from non-family organisations



Source: Ibrahim and Ellis (2004: 6)

2.4 THE INTEGRATION OF FAMILY AND BUSINESS

According to Swart (2005: 31), Basu (2004: 13-14) and Reid, Dunn, Cromie and Adams (1998: 55), there are several approaches to the integration or separation of the family and the business. The management of the relationship or link between the family and the business is of utmost importance to ensure profitability and long-term sustainability in the business.

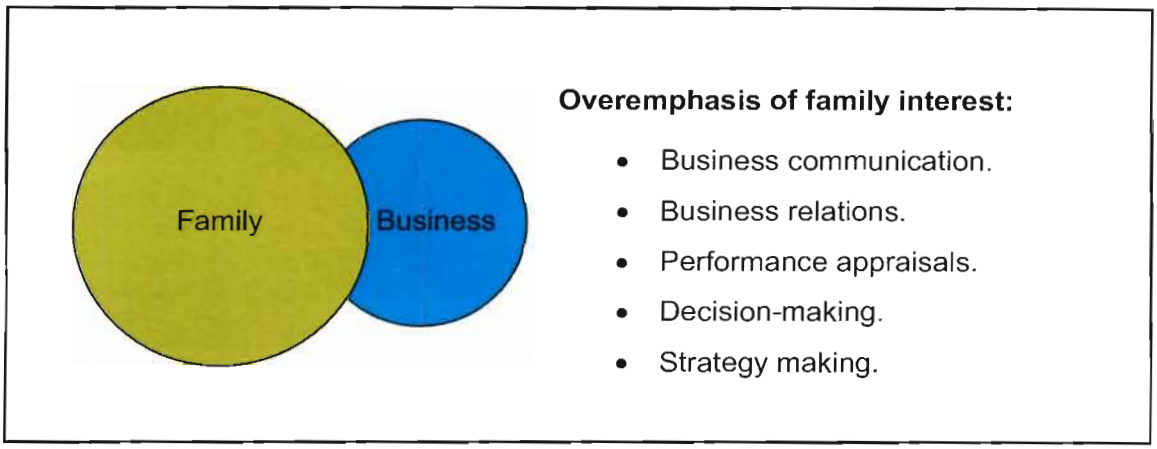
There are various approaches for separating "family" and "business" and it can be used to obtain family harmony and to ensure long-term sustainability of the business. The following bullet points reflect the three main approaches that are normally followed:

- The "family first " approach.
- The "business first" approach.
- Balancing family and business interests.

2.4.1 The "family first" approach

It is reflected by Reid *et al.* (1998: 55) and Aronoff and Ward (1996: 7) that the "family first" approach focus significantly on the needs of the family. The needs and opinions of the family and individuals are placed above the needs of the business even if it influences the business negatively. Business leaders also have to report back to the family in terms of critical decision-making within the business. **Figure 2.5** illustrates the effects of overemphasising family interests in the "family first" approach.

Figure 2.5: "Family first" approach



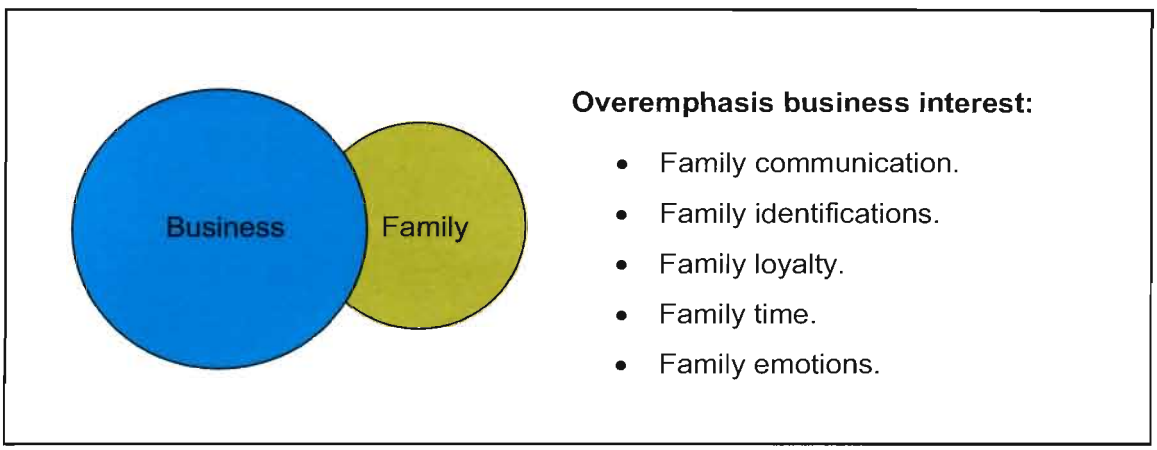
Source: Carlock and Ward (2001: 6)

This approach might be very destructive to the business and it can lead to conflict between managers and shareholders and also result in the business losing its competitive edge in the market. Keeping every one in the family happy might result in unavoidable conflict at a later stage that will definitely disrupt family harmony. Only if these issues are properly managed can it be to the advantage of the family and the business (Ibrahim & Ellis, 2004: 109; Carlock & Ward, 2001: 6). The "family first" approach has definite disadvantages that will generate conflict and influence family harmony in a negative way (Basu, 2004: 14; Reid *et al.*, 1998: 55-56).

2.4.2 The "business first" approach

The business first principle is most commonly found when certain family business leaders control the decision-making within the business and discriminates against family members due to their lack of necessary skills, lack of experience or if they have insufficient knowledge about certain aspects in the business (Basu, 2004: 14; Reid *et al.*, 1998: 55-56; Aronoff & Ward, 1996: 7). **Figure 2.6** illustrates the "business first" approach and it points out the effects of overemphasising business interests.

Figure 2.6: "Business first" approach



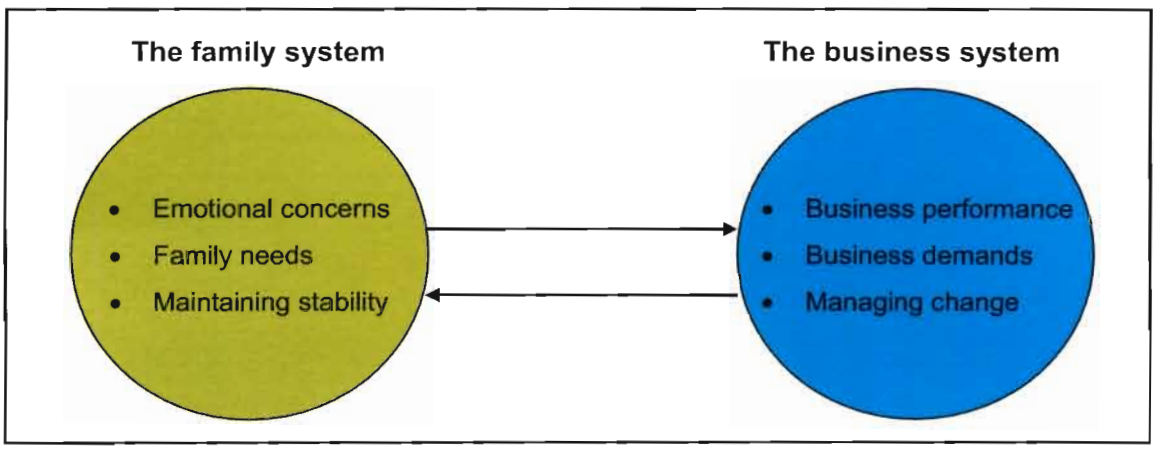
Source: Carlock and Ward (2001: 6)

This type of approach might result in neglecting to pay attention to family issues and needs. Passivity of shareholders and family members not relating to each other might result in family members entering in an emotional competition with the business itself, this can threaten the long-term sustainability of the business (Carlock & Ward, 2001: 6). The "Business first" approach will definitely also create tension, influencing long-term sustainability of the business and could destroy family harmony (Reid *et al.*, 1998: 55-56).

2.4.3 Balancing family and business interest

The "balancing family and business" approach is a very balanced system although you might end up with situations where there is an unbalanced or conflicting goal between family and business systems. A graphic illustration of the "Balancing family and business" approach that have conflicting goals between family and business systems is set out in **Figure 2.7**.

Figure 2.7: Balancing family and business approach with conflicting goals between family and business systems



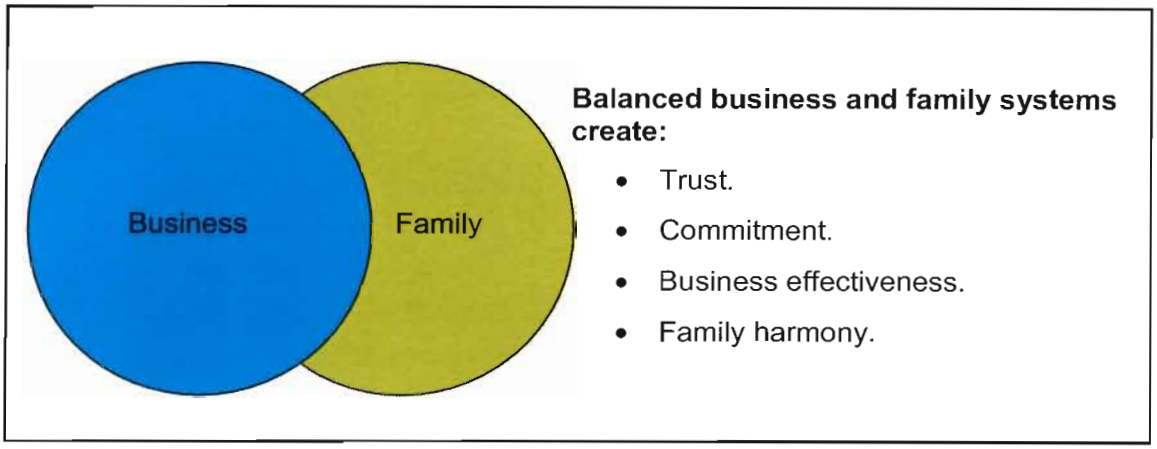
Source: Carlock and Ward (2001: 7)

The integration of the family and the business can lead to conflicting roles and confusion in the business or even in the family system that could affect relationships and influence effective communication within the family. These conflicting roles are a result of family emotions, focusing inwards and the family's general resistance to change whereby the business is task driven, focusing outwards on the external environment and exploiting change in order for the business to grow (Swart, 2005: 31; Emens & Wolper, 2000: 2; Reid *et al*, 1998: 55-56; Bork *et al*, 1993: 23).

Equal focus must be placed on the family and the business system as they should be equally important. It often requires a compromise between family and business perspectives to create a win-win situation for both systems. **Figure 2.8** contains a

graphic illustration of the "Balancing family and business" approach that can be achieved by having a balanced family and business relation.

Figure 2.8: Balancing family and business approach with successful balance between family and business systems



Source: Carlock and Ward (2001: 6)

Carlock and Ward (2001: 146), Shanker (2000: 4), Reid *et al.* (1998: 55-56) and Aronoff and Ward (1996: 9) stated that family members have to earn their position in the business by means of qualifications or dedication and exceptional performance. The family needs to set up a governance process to help the family manage the business in the best possible way to ensure that the business is profitable and sustainable over the long term to ensure good family relations and to reduce the impact of conflict on the family harmony.

2.5 ADVANTAGES AND DISADVANTAGES OF FAMILY BUSINESS

The uniqueness of family businesses arises from the integration of family and business life. There are quite a number of unique characteristics that are created due to the integration of the family and the business that are only associated with family businesses (Sundaramurthy & Kreiner, 2008: 415; Basu, 2004: 13; Sirmon & Hitt, 2003: 341-342; Habbershon & Williams 1999: 4). Family businesses can outperform non-family businesses on a number of levels due to these unique characteristics.

As several studies indicate, family businesses are more profitable, partially due to their long-term planning (Ehrhardt, Nowak & Weber, 2005: 2), their tendency to reinvest earnings and their low dividend payout ratio's (Upton, 2001: 7) and in fact as a group they significantly outperform non-family businesses.

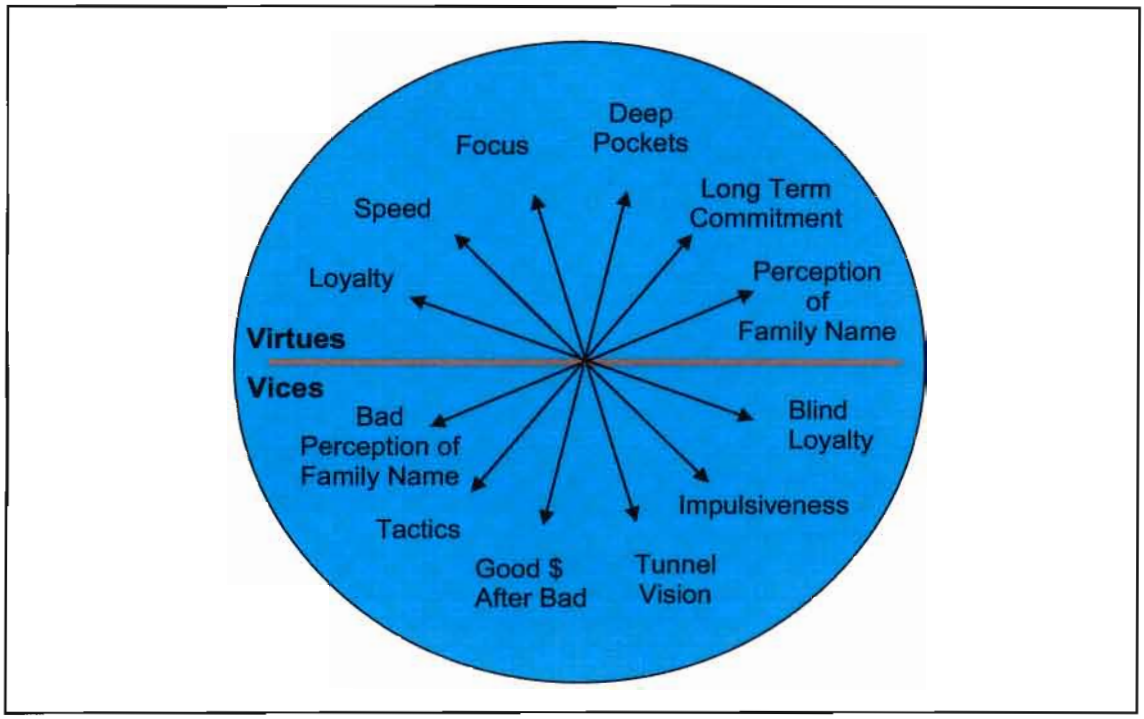
According to Chrisman, Steier and Chua (2006: 721), concerning personalism, there are at least four attributes of family controlled businesses that make long term investment orientations possible:

- Long CEO tenures.
- Concern for succeeding generations of the family.
- Discretion in decision-making due to voting control.
- Reduced information asymmetries due to intimate knowledge of the business.

But ironically, many of their outstanding strengths are also profound weaknesses that can threaten the sustainability and profitability of the business. It is generally agreed by scholars that family businesses differ from non-family businesses and need to be considered separately (Basu, 2004: 12). A more detailed analysis of the characteristics of family businesses reveals that too much of a good thing can impact the business performance in a negative way.

Figure 2.9 illustrates that the common vices of family businesses ironically stem from the virtues **loyalty**, **focus**, **speed**, **deep pockets for growth, long term commitment** and **perception of family name**, when taken to the extreme (Allio & Allio, 2005: 8).

Figure 2.9: Virtues and Vices



Source: Adopted from Allio and Allio (2005: 8)

Sections **2.5.1** and **2.5.2** present a short discussion that will take a look at the advantages and disadvantages of the family business focusing on virtues.

2.5.1 Advantages

Family controlled businesses need to follow the same sound business principles as any other non-family business but their advantage is that they may have less constraints on their ability to follow such principles or fewer motives to abandon them than non-family businesses (Chrisman *et al.*, 2006: 721). Family businesses are more likely to have long-term orientations in making strategic investments and said that the nature of these investments will help family controlled businesses develop sustainable capabilities (Chrisman *et al.*, 2006: 721; Shanker, 2000: 4; Leach & Bogod, 1999: 5).

The following virtues support the family business to provide them with the **advantage** above non-family businesses:

- **Loyalty, trust and family spirit:** Blood is thicker then water, thus the biological bond that connects all family members plays an important role in the success of the business (Allio & Allio, 2005: 4). Loyalty towards the business and the core family unit develop a sense of responsibility that results in driving harder, longer and to steer clear of self serving actions for the common family good (Ibrahim & Ellis, 2004: 8). Family businesses boast a highly developed sense of loyalty and family members tend to test their actions against a higher standard than do 9-to-5 managers. Loyalty is espoused as a core value and tends to reinforce itself over time as the family legacy grows (Chrisman *et al.*, 2006: 722; Allio & Allio, 2005: 4).

  Allio and Allio (2005: 4) and Ibrahim and Ellis (2004: 8) state that during difficult times the family spirit helps to overcome business crises and promotes family unity. If the business is in a downfall, family members are willing to give up perks, work additional hours and even take a cut in pay rates. It is not uncommon in the family business to hear phrases such as: "we will pitch in to help the family business." (Miller, Le Breton-Miller & Scholnick, 2008: 57; Chrisman *et al.*, 2006: 722).

- **Common goal, focus and vision:** Successful family businesses usually maintain exceptional focus on their core business or markets and family members are dedicated to the success of their family business (Ibrahim & Ellis, 2004: 7). Family business manager's gain from the habit of taking their work with them: it follows them to the dinner table and the golf course (Allio & Allio, 2005: 4). The deeply-rooted values and beliefs are the bond that holds the family together, this allows the family business to have a clear identity and a strong sense of mission to succeed (Ibrahim & Ellis, 2004: 7; Aronoff & Ward, 2001: 1). Everyone has high stakes in the family business in terms of investment, employment, inheritance, family name and local status and therefore family members must work hard to succeed (Chrisman *et al.*, 2006: 722; Allio & Allio, 2005: 4).

- **Speed:** Family businesses tend to move more quickly than bureaucratic non-family businesses due to their crystal-clear hierarchy that most of the time consists of the father as chairman and absolute sovereign and the sons and daughters as vice presidents. Due to their relatively small set of decision-makers, they make quick decisions with very little debate (Chrisman *et al.*, 2006: 722; Allio & Allio, 2005: 4; Ibrahim & Ellis, 2004: 7).

  The key managers know where to go to secure funding and they usually know how to package their proposals in the short hand that family members respond to. Family members do not waste their time writing memos to each other, or follow an office code of conduct, this informality is a result of growing up together (Ibrahim & Ellis, 2004: 8; Carlock & Ward, 2001: 192). This allows for efficient communication and effective running of the business (Allio & Allio, 2005: 4). Thus flexibility allows the family firm to respond quickly and effectively to a changing environment, be it one characterised by technological, market or socioeconomic change. (Chrisman *et al.*, 2006: 722; Allio & Allio, 2005: 4; Ibrahim & Ellis, 2004: 7).

- **Deep pockets for growth:** When resources like large amounts of cash is required to allow the business to move rapidly or to capitalise on current market conditions the manager can utilise family resources and turn to the family empire for quick access to considerable resources (Ibrahim & Ellis, 2004: 8). Quick responses and accelerated investments allow family businesses to dramatically enhance their competitive position in the market (Allio & Allio, 2005: 5; Ibrahim & Ellis, 2004: 6; Leach & Bogod, 1999: 7).

  Allio and Allio (2005: 4) and Ibrahim and Ellis (2004: 8) state that while emotions may run high, family businesses can often afford to sit back and make use of the so called "Patient investment" to ride out the market or implement changes without triggering bank contractual defaults or having to navigate venture capital return on investment imperatives. According to Chrisman *et al.* (2006: 722) and Ibrahim and Ellis (2004: 8), family businesses draw on capital by establishing relationships with other family businesses at board level to solve their family related agency problems such as succession and shirking.

- **Long-term commitment:** Senior managers or business owners are closely identified with the business and they care deeply about the long-term prospects of the business due to their family's fortune, reputation and future that is at stake (Allio & Allio, 2005: 4; Ibrahim & Ellis, 2004: 8). Failure to follow through with an idea or a project is more than a business shortcoming, it can become a question of family honour (Miller *et al.*, 2008: 57; Chrisman *et al.*, 2006: 722; Nowak & Weber, 2005: 2).

  Family members are not only employees or managers, but owners and part of the social concept known as the family. They do not just abandon the ship in times of crisis like non-family employees. Family members have a strong sense of loyalty and shared identity, and mutually partake in a social contract; they are in it for better or for worse (Miller *et al.*, 2008: 57; Chrisman *et al.*, 2006: 722; Allio & Allio, 2005: 4).

- **Perception of the Family Name:** The founder usually builds a strong entrepreneurial culture that becomes deeply entrenched in the family business. Over time the customers start to build a relationship with the family and the family business (Ibrahim & Ellis, 2004: 8). The family norms supply the customer with confidence in the family name and in the person, rather than in the business title. This phenomenon is behind the success of many family businesses. Numerous examples of such relationships with family businesses in the neighbourhood and town can be cited (Aronoff, Astrachan & Ward, 2002: 9). Confidence, trust, quality and personal involvement are common characteristics of many successful family firms (Chrisman *et al.*, 2006: 722; Allio & Allio, 2005: 4).

2.5.2 Disadvantages

Family politics can be a blessing or an utter burden, many disillusioned family members and staff have learned that family businesses can also become a nightmare especially when the virtues are taken to the extreme.

- **Blind loyalty:** When loyalty starts to overpower rationality, it becomes a major risk for the family business. One of the most common forms of **blind loyalty** is when it

comes to staff employment and appointments that can lead to nepotism (Miller *et al.*, 2008: 57; Allio & Allio, 2005: 8).

Aronoff *et al.* (2002: 5) and Aronoff and Ward (1996: 7) stated that nepotism is when a family member is appointed or promoted due to his relationship or connection with the family. Qualifications and performance of non-family members are often ignored in order to hire or promote a less qualified family member or to integrate an offspring into the family business (Allio & Allio, 2005: 8; Ibrahim & Ellis, 2004: 10; Aronoff & Ward, 1996: 7). Nepotism in today's tough market for gifted talent, at even the slightest hint of favouritism or a low ceiling will be enough to de-motivate professional managers which can impact the business negatively. The increasing competition and rapidly evolving channels of distribution demand professional managers, not necessarily those with the right last names (Miller *et al.*, 2008: 57; Allio & Allio, 2005: 8; Aronoff *et al.*, 2002: 5).

Decision-making is another common pitfall especially when certain strategic issues or decision-making is ignored as a result of a family traditional business model (Kets de Vries, 1996: 23). In today's global economy, it is crucial to listen and respond to what the market dictates and not what internally mandated ones dictate (Miller *et al.*, 2008: 57; Allio & Allio, 2005: 9; Ibrahim & Ellis, 2004: 9-10).

- **Impulsiveness:** The benefit of making speedy decisions that are seen as a virtue has a dangerous flipside namely **strategic impulsiveness**. According to Allio and Allio (2005: 9), the quickest response is not always the best, having to make decisions as a board or to go through the motions of calculating "return on investment", "net present value" and determining the "internal rate of return" of a project might just be the interaction that is required to balance perspectives. The formal process of articulating a strategy, market testing, constructing alternative future scenario's and generating essential data is needed for developing strategy and to engage key managers and cultivate buy-in in advance of implementation (Ibrahim & Ellis, 2004: 9). Very few family businesses have a formal written strategy that is known to the employees, which allows them to share the vision and give positive inputs when decisions are made (Allio & Allio, 2005: 9; Aronoff *et al.*, 2002: 5).

- **Tunnel vision:** Family business might focus too much on the past, things worked well in the past so why do you need to explore the unknown. Failing to acknowledge change and diversify, the business can find itself diminishing. The existence of 'stagnation perspectives' regard the family businesses form as inferior and subject to several critical weaknesses, all manifesting or resulting in stagnation (Allio & Allio, 2005: 10; Ibrahim & Ellis, 2004: 9).

  Too much focus on internal politics of the family business at the expense of market perspectives can lead to distorted judgement. It is no secret that tunnel vision inherent to family struggles is particularly painful and destructive. The siblings in the business run the risk of measuring their position in the family hierarchy based on their title or salary failing to see their value or importance in the family (Allio & Allio, 2005: 10; Aronoff *et al.*, 2002: 5).

- **Good money after bad.** Family businesses have the benefit of investing quickly but that brings with it the risk of emotional decisions that can result in enormous losses. Emotional rather than strategic investment decisions can be overcome when conventional sources of financing such as banks and existing shareholders are required to justify the investment. When the founder or owner of a business pursues a personal target or a goal that is not in the best interest of the company, they might lose track of reality and continue to chase a goal that can eventually lead to exhaustion of business funds or the destruction of their family relations (Allio & Allio, 2005: 10).

  According to Koenig (2000: 183), cat fights among children, spousal fights, sibling rivalry and intergenerational infighting as a result of differences could lead to undesirable behaviour, confusion, poor performance and goal conflict that result in the spending of business funds to try and resolve the conflict. Wasting business funds that are crucial for operational purposes can ultimately result in the death of the family firm (Allio & Allio, 2005: 10; Ibrahim & Ellis, 2004: 7).

- **Tactics over strategy:** The virtue "follow through" also has a dark side in the context of family business. It can be that the owner is so tied up in the day to day operations of the business that they fail to focus on the long term strategy and to follow market trends (Allio & Allio, 2005: 10; Ward, 2004: 3). Because the family capital is at stake, the family managers can forget to respect the boundaries in single-mindedly following the money. When decision-making and the rationale for setting priorities are reduced to a "family" issue, the impact on outsider-managers is devastating. Risk is averted and short term tactics become the order of the day and strategic long term thinking is abandoned (Allio & Allio, 2005: 10; Jaffe, 1991: 210).

  Miller *et al.* (2008: 57) and Ward (2004: 3) state that resource restriction and worries about family security can give rise to risk aversion and its various manifestations. Conflicts among family owners or managers can result in stalemates in decision-making, being very conservative and failure to change or respond to market changes.

- **Bad perception of the Family Name:** Customers sometimes have the perception that family businesses are sentimental and conflict-ridden, resource starved, subject to conservatism and cronyism and therefore slow-growing and often short lived (Ibrahim & Ellis, 2004: 9). These shortfalls that are experienced by some customers create an image of the business that results in customers being averse to doing business with them (Miller *et al.*, 2008: 57).

The above literature review clearly indicates that the advantages that a family business have above non-family businesses can indeed become their weak point if these advantages are over-emphasised. If great care is not taken, the virtues of the family business might become vices and eventually ruin the business, impacting negatively on business continuity.

2.6 FAMILY HARMONY

Astrachan and McMillan (2003: 52) state that one of the reasons why family members are together is that they want to work together and to enjoy the fruits of their labours as a family. It is normal for all families to experience relationship problems, but for family businesses, the problem is exaggerated as a result of the family that works so close together. The closeness often means that family disputes overshadow work and business even though the business continues to function normally (Carlock & Ward, 2001: 73). This implies that family relationships affect the business and the business relationships in turn affect the family (Voeller, Fairburn & Thompson. 2002: 30).

Rivers (2005: 100) stated that relationships are the key to family business success and sound relationships do not happen by themselves. According to Leach and Bogod (1999: 30), the degree of balance between the family and the business needs to be monitored and managed on a continuous basis to ensure that the correct balance is maintained. If the correct degree of balance can be maintained, it will be possible that the business can be effectively managed while family harmony is being achieved.

If family members work together in a perfectly balanced overlap of family and business atmosphere, it will create a harmonious environment and you will find a family that live and work in almost perfect harmony Pickard (1999: 5). Rivers (2005: 99) states that the desire to keep harmony in the family causes most families to go to desperate lengths to avoid discussing controversial or potentially hurtful issues.

Avoiding controversial issues do not make them go away; it simply means that members engage in wishful thinking and in this way, hope that the stressful issues will disappear (Rivers, 2005: 99). Conflict and competition between family members is not always a bad thing and the business depends on these determinants to be able to grow and be sustainable, but only if it is properly managed (Ward, 1987: 49).

Family members can promote family harmony amongst each other through spending time together to strengthen family bonds by means of social gatherings away from

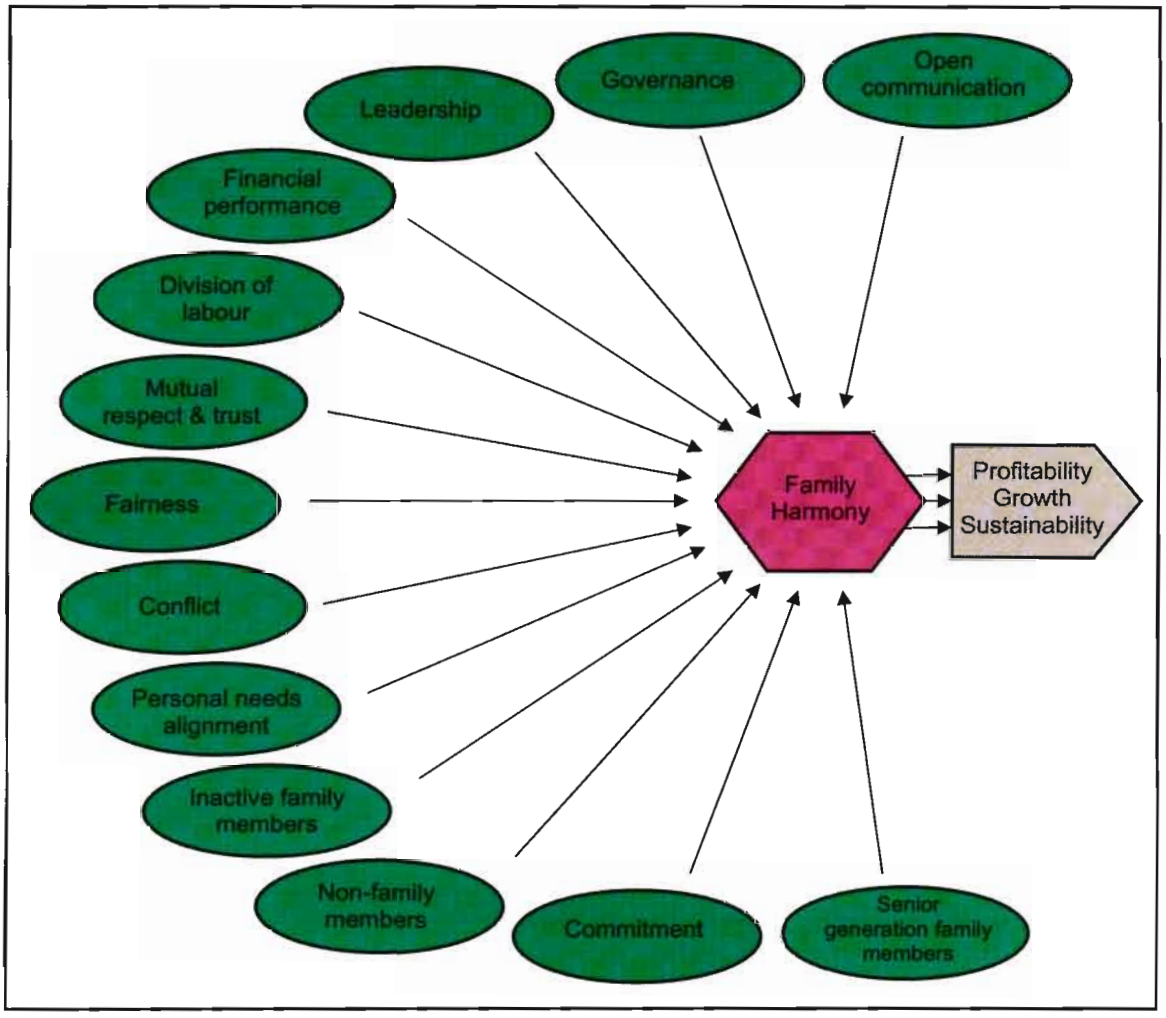
the office. This interacting will help them to understand each other better and to create mutual trust. Once this bond is formed there will be mutual support and family members will care about each other's well-being and a willingness to acknowledge each others achievements (Rivers, 2005: 100; Neubauer & Lank, 1998: 142; Handler, 1989a: 213).

By applying these simple prerequisites for family harmony, they could ensure the long-term sustainability of the family business, without even knowing it. Neubauer and Lank (1998: 136) stated if there is a fair amount of family harmony present it is much easier to discuss succession planning and to implement the necessary systems that can ensure a successful transition of the business from one generation to the next (Astrachan & McMillan, 2003: 2).

2.7 DETERMINANTS OF FAMILY HARMONY

Based on the literature review, 13 determinants were identified that can have an impact on family harmony. These determinants will be discussed in more detail in an attempt to understand the relationship between each specific determinant and family harmony. **Figure 2.10** is a graphical layout that illustrates the interaction of the 13 determinants in relation to family harmony that also impact on the sustainability of the business.

Figure 2.10: Model of determinants influencing family harmony



Source: Adopted from Slaughter (2008: 32)

2.7.1 Open communication

Adendorff, Venter and Boshoff (2008: 31) stated that communication is a very effective way of understanding and perhaps even agreeing on issues which are normally very sensitive. The sensitive and emotional issues are normally avoided and pushed aside. The more family members communicate and discuss their differences the more likely it will be that conflict is minimised and agreements might be more often reached (Friedman, 1998: 33).

The importance of effective communication in a family business is hard to overestimate. Family members who can openly communicate with each other are more likely to understand each other and with their common understanding work out their differences more effectively than those families that communicate poorly (Emens & Wolper, 2000: 8).

Failing to address important emotional issues can often become the root cause of business failures. Communication and discussions between family members in a family business should be an ongoing process (Ibrahim & Ellis, 2004: 164; Astrachan & McMillan, 2003: 1; Friedman, 1998: 33). Family businesses need to ask themselves the following questions in order to establish if open communication is satisfactory in the business to enhance family harmony:

- Do family members inside and outside the business communicate well on all important issues with each other and with non-family members?
- Is there sufficient discussion among family members prior to decisions being made?
- How much communication, if any, of the succession and compensation issues have there been?
- How will communication proceed in future?

If family communication is not very open and honest, it doesn't always affect the business immediately but when it does, it can be very destructive and create substantial damage. It also happens that the owner may say things to family members in a way that he would never speak to other employees or managers. This problem is compounded when communication is misread by the family members (Upton, 2001: 5). Parents are sometimes surprised by the negative reaction they receive from their children when they give them an instruction or when they do a performance evaluation. This reaction is probably because the individual perceived the instructions or evaluation as orders or criticism from Dad or Mom, not from the boss (Upton, 2001: 5).

According to Astrachan and McMillan (2003: 54), Upton (2001: 4) and Friedman (1998: 33), communication is the most crucial determinant for success in any family

business. Poor and nonexistent communication within a family business will lead to conflict and affect family harmony. It is important that family members sit down and feel comfortable talking about difficult issues or to be in disagreement with each other. This will ensure that family members will know how to handle conflict when it arises. If family members do not communicate well, then it can not be expected that they will be able to inter act any better in a business environment (Upton, 2001: 4; Friedman, 1998: 33).

All relationships need repair at some time or another, especially in the complex family business relational environment where there can be a strong pull towards regression, emotionality and internecine warfare. Both individual problems and interpersonal conflicts easily find breeding places within family businesses, which are extremely fertile fields for inhibiting individual freedom and developing hostile dependent systems, without open communication that allows the sharing and exchange of information to bridge these gaps and to create trust between individuals to eliminate conflict and to enhance family harmony (Venter & Boshoff, 2006: 28; McClendon & Kadis, 2004: 13).

To avoid conflict, both parties should be willing to communicate openly and honestly and share business information and ideas with each other (McClendon & Kadis, 2004: 13; Shanker, 2000: 14). Avoidance of interfamily conflict and putting it aside can avert a further escalation of conflict. Many successful family businesses have a weekly get-together by means of supper or any other form of entertainment to create a relaxed atmosphere to allow family members to communicate their point of view (Ward, 2004: 115). These sessions are used for discussing problems, resolving disputes and defusing tension and conflict before they bleed into other relationships. These sessions are perhaps the most effective conflict resolution technique a family business can employ in trying to improve family harmony (Ibrahim & Ellis, 2004: 164; Astrachan & McMillan, 2003: 34; Friedman, 1998: 22).

2.7.2 Commitment

Family commitment forms the core of the business and is particularly essential to the owner-manager that is directly involved with the planning process of ensuring continuity of the family business (Venter & Boshoff, 2006: 29). Family member's

commitment towards family harmony and the vision of the business is vital for the business continuity plan. The continuity plan plays an important role in giving clear vision to family members in terms of expectations and obligations towards the family business (Carlock & Ward, 2001: 54; Astrachan & Kolenko, 1994: 252).

Carlock and Ward (2001: 54) and Handler (1989a: 171) state that it is crucial for the success of the business that all the family members and non-family members are committed to the success of the business. The commitment of all the role players including non-family members and non-active family members that are involved with the business has a direct impact on the harmony in the business.

There are various forms of commitment that are normally determined by the environment or the impact of the family on individuals. To be able to understand these various types of commitment and the influence of commitment on family harmony, it is important to try and understand or define the term commitment:

- According to Meyer and Herscovitch (2001: 302), commitment is defined as a force experienced as a frame of mind or psychological state that compels an individual toward a course of action of relevance to one or more targets (Sharma & Irving, 2005: 14).
- Handler (1989b: 283) stated that commitment to family business perpetuation occurs when the family values the business and is willing to work together to ensure its future. This family value translates into the family's operating norms and is practiced through the family member's sharing, helping and contributing within the context of the business (Sharma *et al.*, 2005: 16).
- The individual must be willing to give 100 percent to the business, make it happen and sacrifice other activities that relates to entertainment and outside activities in order for the business to succeed (Emens & Wolper, 2000: 28).

According to Ward (2005: 47) and Santiago (2000: 30), a highly committed family have a common goal and aligned vision that will ensure a continuing legacy in which the family's traditions, identity and culture are embodied. The family are clear about the positive link between the longevity of the business and the well-being of the family (Venter & Boshoff, 2006: 29).

On the contrary, the low-commitment families are less concerned with business survival. This is mainly the case where business-owners are not in favour of their siblings continuing with the business. Communication about the business is discouraged by the owner and the children are encouraged to study or pursue careers outside the family business (Venter & Boshoff, 2006: 29).

The studies of Dickenson (2000: 70) and Chrisman, Chua and Sharma (1998: 23) as well as Smyrnios, Tanewski and Romano (1998:55) revealed that the family mission and family control are important issues in the commitment of a family to ensure the continuity of the business (Venter & Boshoff, 2006: 19). Family members often play a critical role in the decision-making and level of commitment experienced by family, non-family and inactive-family members (Sharma & Irving, 2005: 16). Family businesses are likely to display an unusual interest in behaviours that nurture a sense of community among non-family employees. Family businesses indicate that a culture of family commitment increases strategic flexibility and fundamental aspects of strategic performance and willingness to respond to external environments (Chrisman, Steier & Chua, 2008: 941).

Family businesses have a unique kind of durability that benefits the business during long-term crises when sales decline as a result of recession or other market related conditions. During these long-term crises, family members are willing to take salary cuts in order to save their business. These types of sacrifices are not very common in non-family businesses. During short-term crises that pinch operations, the team-spirited staff often comes together in support of the company (Chrisman *et al.*, 2008: 941).

External resources such as free labour, loaned labour, additional equity investment, or monetary loans are available to family businesses (Shanker, 2000: 4; Aronoff & Ward, 1996: 7). These types of resources are not available to non-family businesses as a result of commitment from family members. Survivability capital can help sustain the business during poor economic times or for example, after an unsuccessful extension or new market venture. This safety net is less likely to occur in non-family firms due to the lack of loyalty, strong ties, or long-term commitments on the part of

family members. These levels of commitment ensure the long-term sustainability of the business contributing towards family harmony (Sirmon & Hitt, 2003: 346).

2.7.3 Mutual trust and respect

According to Carlock and Ward (2001: 11) and Shanker (2000: 13), trust provides a powerful advantage to a family business, trust is the one thing that underlies the competitive advantage and distinctiveness of a family business. Business owners, parents, siblings and other family adults in the business **MUST** trust each other with the important facts that need to be known in the business, especially during tough times (Adendorff *et al*: 2008: 31; Venter & Boshoff, 2006: 27; Handler 1994: 213).

If there is absolute trust, respect, appreciation and care between family members, it is expected that there will be exceptional co-operation between these individuals in the business. They will support each other's decisions in both the family unit itself and in the family business that will enhance a high level of family harmony (Adendorff *et al*: 2008: 31; Venter & Boshoff, 2006: 27; Handler 1994: 213).

The family businesses have a competitive advantage above non-family businesses when it comes to mutual respect and trust in the business world. Very few owners or family members in the business have grounds to second-guess the motives of their partners or colleagues (Venter & Boshoff, 2006: 19; Carlock & Ward, 2001: 11; Shanker, 2000: 13). It is very seldom that any family member will run off to business opposition. According to Venter and Boshoff (2006: 19), it is found that trust has the right potential to make family partners more secure, more open and more informed than any team of unrelated people.

The following five points are listed by Shanker (2000: 13) to promote trust between family members:

- **Integrity:** Having a reputation for honesty and truthfulness.
- **Competence:** Requirements such as technical knowledge and interpersonal skills.
- **Openness:** Give recognition, praise people in public and punish them in privacy.
- **Loyalty:** Protect, support and encourage employees and family members.

- **Consistency:** Need to be reliable, predictable and practice good judgement.

According to Haynes (2005: 34), family relationships that are not built upon trust are risky and will harm relationships and could eventually destroy the family business. Trust and cooperation are necessary in all market activity. High trust can dramatically lower transaction costs, corruption and bureaucracy. While family capitalism may be successful, it must be accompanied by education and strong work ethics (Malone, 1989: 349). Mutual trust and respecting decisions made by senior family members in terms of business decisions is the one thing that underlies the competitive advantage and distinctiveness of a family business (Carlock & Ward, 2001: 11).

If family members trust one another and have the necessary respect for each other, it forms the foundation for long-term perspectives, loyalty, commitment and stewardship which provides an enormous advantage to the family business and towards family harmony (Aronoff *et al.*, 2002: 299; Shanker, 2000: 13; Cohen, 1992: 21-22).

Literature suggests that the relationships between family members in general are also important for the succession process (Sharma, 1997: 64; Malone, 1989: 349). It can be argued that a high degree of mutual respect, trust and understanding within the family business may enhance succession planning and make it a more tolerable task. Harmonious relationships may well emphasise the importance of succession planning in the owner's mind (Venter & Boshoff, 2006: 19).

A study by Stempler (1988: 80) of fifteen family-owned businesses indicated that respect, trust, understanding and complementary behaviour between the next-generation family members and the organisational leader are critical to effective succession.

Handler (1994: 213) observed that a high level of mutual respect and understanding is achieved by the predecessor, siblings, family members and the successor during a positive succession process. A positive succession processes like this reduces the impact of conflict and therefore has a very low impact on family harmony.

2.7.4 Governance

The board of directors or business owner is a crucial part of the corporate governance of any business including family businesses. Its role is by definition to add value by directing, controlling, guarding, monitoring, protecting assets and maximising share holder value (Adendorff, Boshoff, Court and Radloff, 2005: 43; Neubauer & Lank, 1998: 60).

According to Egan (1998: 3), businesses without any governance usually begin to experience problems when the business transfers from founder to second generation. Businesses that survive the transition phase normally have a sound and acceptable governance structure in place (Venter, Boshoff & Maas, 2003b: 5).

The family ethnic culture and environment conditions are key contextual drivers in the formulation of business governance. As corporate governance mechanisms are largely set by the internal participants within the business, they should be consistent with wealth maximisation (Bartholomeusz & Tanewski, 2006: 251).

The design of governance structures in a family business must be to safeguard the long-term interest of the family shareholders. The aim is to ensure growth, continuity, welfare and promoting family harmony in the family business (Lansberg, 1999: 281). This definition implies that both the business and the family are in need of sound governance to ensure succession (Venter *et al.*, 2003b: 5). It is also confirmed by Adendorff *et al.* (2005: 37), that family shareholder's long-term interest must be maintained through the effective design of the governance structures in the family business. Through proper governance, the growth and continuity of the business can be ensured and family's harmony and welfare are preserved (Adendorff *et al.*, 2005: 37; Aronoff & Ward, 1996: 54).

It is important for the business governance structure that a formal advisory board is elected to ensure the formalisation of guidelines describing the relationship between the family and the business to create direction and rules for family and non-family employees (Venter *et al.*, 2003b: 5). The benefit of such structures reduces unnecessary conflict by eliminating overlapping responsibilities and giving guidance to employees.

Regular meetings must be held concerning the family business to review business strategy and to discuss mutual interests, these actions will impact profitability and succession planning will benefit family harmony (Morris, Williams, Allen & Avila, 1997; 388). These regular meetings that need to be conducted must address various issues to stimulate the following (Ward, 1997: 330):

- **Assuring fresh strategic insights:** Long-term growth requires ongoing sources of fresh strategic insights. Family-business leaders can create an atmosphere that fosters and welcomes new ideas by means of promoting strategic experimentation.

- **Create a flexible innovative organisation:** Constant strategic experience requires a flexible, innovative organisation that can **(1)** share business information openly, **(2)** champion change and celebrate new ideas and **(3)** concentrate on business in which fast decision-making is a plus.

The governance structure of any business should also include the fair labour practise policies to ensure that any labour issues are dealt with consistently and that any situation is handled in a professional manner (Adendorff *et al.*, 2005: 37). The incorporation of these policies into the governance structure also reduces the intensity of conflict and improves family harmony. These policies should be communicated to the work force to inform them of all relevant standard work conditions and regulations (Aronoff & Ward, 1996: 7).

It is evident from the above information that good governance can in actual fact reduce conflict and improves family harmony. If policies and structures are in place, it eliminates all grey areas that make it much easier for management to manage and control the business. It also provides employees with guidelines within which they can operate and therefore reduce the possibility of unnecessary conflict impacting family harmony.

2.7.5 Conflict

According to Upton (2001: 28), family conflict is undoubtedly the number one cause of failure within a family business and is normally seen as one of the most destructive

determinants impacting on family harmony. If conflict is not properly understood and managed within the family and the business and the issues are not discussed on a regular basis (formally or informally) it can lead to the destruction of the business (Sorenson, 1999: 133).

There are various forms of conflict that are inflicted by conditions in and around the workplace and in the family structure as such (Vera & Dean, 2005: 329):

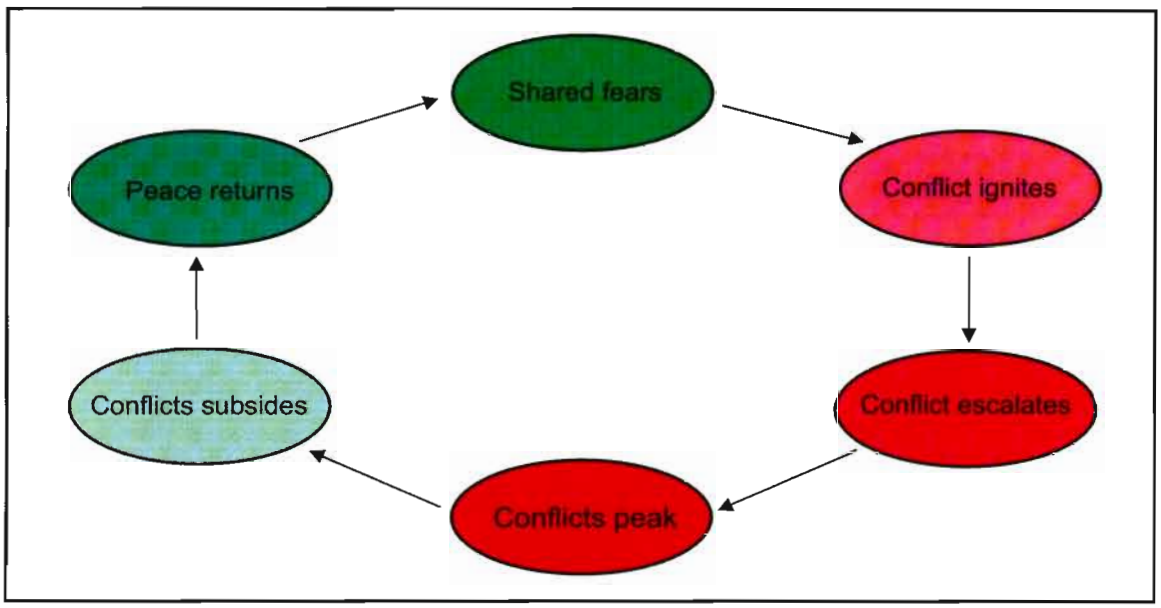
- Work conflict is defined as the extent to which an individual experiences incompatible role pressures within the work domain.
- Family conflict is defined as the extent to which an individual experiences incompatible role pressures within the family domain.
- Inter role conflict items pertained to excessive work time, schedule conflicts and fatigue or irritability.

Chrisman *et al.* (2003: 27) and Upton (2001:28) state that most people are scared of family conflict and they might try to resolve those issues in the business system. For example, instead of working out sibling rivalry in the family system, a brother will fight with his brother over money in the business. Family businesses have let family issues divide them and destroy the business. When conflict arises in family businesses, it usually involves money, management roles, long-term company vision and ownership or control of the company. However, the over-emphasis of harmony may also endanger the free flow of business ideas that can lead to stagnation of the business (Venter & Boshoff, 2006: 28).

The fact that there will always be conflict between relatives in the business is unavoidable. Avoiding conflict is not the answer, it needs to be managed to ensure that one finds the solution in reducing the impact of conflict on family harmony (Upton, 2001: 4). It is important for any family business owner or manager to be able to manage conflict. Conflict is needed in the work place to stimulate the flow of ideas but if it is not properly managed it can be devastating to the business (Ibrahim & Ellis, 2004: 137).

Family members need to understand the different stages of conflict to be able to manage conflict more effectively. All the various issues of decision-making, responsibility, accountability and succession have the potential to cause business conflict and family stress. **Figure 2.11** illustrates the different cycles of conflict and it is important for family members to identify and understand the symptoms and causes of conflict (Ibrahim & Ellis, 2004: 135).

Figure 2.11: Cycle of conflict



Source: Ibrahim and Ellis (2004: 135)

The following three steps can be taken to manage the conflict and stress in a family business (Upton, 1991: 6):

- Identify issues that may cause conflict and stress.
- Discuss these issues with the family.
- Formulate a policy to address the issues.

2.7.6 Leadership

Leaders have an extremely important influence on the culture of an organisation and therefore it is very important that leadership of the family business has the knowledge

regarding operational activities, experience, good judgement, interpersonal skills and credibility as related to business and business decisions (Chrisman *et al.*, 2008: 943; Aronoff & Baskin, 2005: 4; Aronoff, 1998: 183).

The following key characteristics of leadership that is required for leading an organisation is (Cummings & Worley, 2005: 155-166):

- The ability to create a vision between members of the team.
- The ability to create support.
- The ability to create readiness for change and transition in an organisation.
- The ability to outline the vision of the future.
- The ability to overcome the resistance to change and motivate people.
- The ability to motivate participation and contribution.
- The ability to get employees to understand and support.
- The ability to influence a group to accomplish goals.

Leaders that show transformational qualities normally have a positive impact on family harmony and they require four key characteristics that allow them to create a sense of ownership amongst the employees. The following characteristics are required (Chrisman *et al.*, 2008: 941):

- The ability to link his or her identity with that of organisational members, inspirational motivation.
- The ability to gain organisational buy-in for a strategic vision and intellectual stimulation.
- The willingness to involve and empower employees to meet challenging goals.
- Individualised consideration, a leader's willingness to contribute to employee's professional development and listen to their concerns.

Business managers that have the potential quality of being a transformational leader tend to obtain family commitment and have the ability to create a climate that stimulates achievement of superior strategic performance, which leads to an increase in employee loyalty, responsibility, effort and ultimately an increase in effectiveness of the business which enhances family harmony. Business founders that are transformational leaders are able to inspire and develop similar qualities among other

family members to sustain and enhance a culture of stewardship in the organisation that is beyond the founder's era (Chrisman *et al.*, 2008: 943; Harris, Reid & McAdam, 2004: 1427).

The success of a family business cannot rest entirely on the shoulders of one individual but should be done through cooperative efforts of all family members, if not it might end up in bitterness and the business might not expand and grow to its full potential. If the family leaders are able to convince all employees to become more involved, the business will progress with the support of all family members giving the business the vital support it needs (Aronoff & Baskin, 2005: 5).

The lack of hunger and drive in the next-generation as a primary cause of risk avoidance leads to the stagnation of the business (Ward, 1997: 327). There will always be a form of risk taking in leading the business into the future, formulating new strategies by incorporating the opinions of other family members and gaining from their expertise will give the family members a feeling of control and being involved in the decision-making. Thus behaviour will nurture healthy relationships amongst all employees in the business and therefore stimulate family harmony (Aronoff & Baskin, 2005: 4). This can lead to an increase in employee loyalty, responsibility and effort and ultimately to an increase in effectiveness of the business (Harris *et al.*, 2004: 1427).

2.7.7 Fairness

Compensation is a very sensitive issue in any business and a family business is in fact more sensitive to compensation issues than any other form of business (Spector, 2001: 7). Family businesses should not feel obligated to hire any incompetent relatives at all (Buchholz, Crane & Nager, 2000: 277). Neubauer and Lank (1998: 153) state that family members should not regard entrance to a family business as a right. A policy with ground rules for employment of family members should be put in place to monitor the appointment of family employees and also to ensure that remuneration is according to merits and accomplishments and not according to age, gender or family bond (Loeb, 2001: 59; Jaffe, 1991: 199).

It is very difficult as a manager of a family business to prove the fairness of the remuneration structure of the company if there are no guidelines available that are captured in policies and procedures (Spector, 2001: 9; Buchholz *et al.*, 2000: 262). Questions about the remuneration of family members can become very complex and it can become unmanageable as the business grows. The formulation of bonus structures and salary levels are hidden behind the veil of family privacy. The pay-for-performance culture does not leave room for unfair practises in terms of remuneration and performance management. Overtly favouring underperforming family members has a debilitating effect as does the contrary: underpaying top performing outsiders (Slaughter, 2008: 55; Upton, 2001: 4).

Buchholz *et al.* (2000: 262) and Rawls (1999: 57) suggested that family businesses should have a policy that dictates the structure of remuneration and a performance management system to ensure fair employment for all family and non-family employees. This system should result in an increase of productivity and employee morale is also boosted. Implementing this system also gives the non-family employee the confidence that they have control over their own destiny within the family business and that they can claim the same benefits as the family employees (Chrisman *et al.*, 2003: 26). The two issues namely remuneration and performance management will now be discussed in more detail.

One of the most common problems experienced in family businesses is the fact that family members are paid according to age and gender. All employees including family members, should be paid competitive market value compensation. If there are any benefits received by family members it should be labelled as such (Barrett, 2001: 19). These practises create an imbalance in compensation systems between family employees as well as family and non-family employees (Buchholz et al., 2000: 262). Once a compensation strategy is established it should be adopted, recorded, communicated and followed (Rawls, 1999: 57).

To summarise the following few important systems or structures need to be in place before a fair remuneration policy can be trusted by family and non-family employees:

- Job descriptions indicating the work roles and responsibilities need to be prepared with sufficient detail to serve as structuring wage classifications and as rating performances (Aronoff *et al.*, 2002: 425).
- Compensation policy needs to be in writing and compensation packages need to be fair and market related (Maas, *et al.*, 2005: 39; Spector, 2001: 7).
- There must be a written procedure that includes a form of a balanced scorecard that must be used during interviews. The procedure must include a standard interview format that allows one to evaluate candidates and compare them to each other and the evaluation process should assist in making the right decision.

Slaughter (2008: 60) states that it is very important that fair business practices are followed when it comes to compensation of family members. If family members feel that they are treated unfairly, it tends to build up and eventually it results in frustration, crumbling of relationships and bitterness amongst all parties involved. It is important that business owners realise the fundamental role of fairness in all business activities.

According to Driscoll and Korman (2001: 61) and Jaffe (1991: 199), family members are less likely not to conform to the required performance standard. By linking compensation to performance, family employees have incentives to work at an optimal level. Family members can not improve if they don't know how well they are doing. The performance of the family members should be objectively evaluated on a regular basis followed by honest feedback (Jonovic, 1997: xxiii). To be able to build trust and to enhance family harmony the following systems need to be in implemented:

- Performance standard evaluation measurements must be developed that will make it possible to measure individual performances (Loeb, 2001: 60).
- Individual performances should be assessed on a regular basis and adequate feedback needs to be given to all individuals to allow themselves to improve their weak points and to grow (Jonovic, 1997: xxiii).

- Disciplinary action also needs to take place if there are certain individuals that do not meet the minimum requirements (performance levels) that are set for the job. Failing to act against such employees creates suspicion in the fairness of the human resources practices, especially if it is a family member (Loeb, 2001: 60).

Family members also need to respect the systems and policies in place to be able to contribute towards family harmony. Their contribution can be achieved by means of (Slaughter, 2008: 60):

- Doing their fair share of work in relation to their compensation.
- Offering to work in an unbiased working environment.
- Remunerated according to the work performance.
- Be treated equally by external stakeholders.
- Be compensated according to contribution and not according to their gender and age.

2.7.8 Division of labour

Human capital is one of the most important assets of the family business and it has a direct as well as indirect effect on the business and its performance. Resources and capabilities required by the industry that are specific to the business and the technologies used in the business affects the performance and could be used to protect the competitive advantage of the business (Sirmon & Hitt, 2003: 341).

The unique phenomenon when hiring family members is the fact that they are involved in family emotions and are also tied up in business affairs (Sirmon & Hitt, 2003: 342). This duality of relationships increases their complexity and creates unique situations that can influence the family harmony in a positive or negative way. It is also said that the goal of employing family members could lead to hiring sub-optimal employees and also create a problem where the business then struggles to attract and retain highly qualified managers (Sirmon & Hitt, 2003: 342).

The basic rules for employment should be established before family members are appointed as an employee in the family business "It is not a right to be employed by

the family business" (Murak, 2001: 12). When a family member enters the business, his specific job position should be clearly defined (Jaffe, 1991: 199). By making use of job descriptions and measuring of performance it suggests that positions can be rewarded on merit and accomplishments and not as a result of family membership (Loeb, 2001: 59).

Job descriptions must clearly identify key duties, responsibilities and demarcated spans of authority in the family business (Brooks, 2001: 37). The job description and established scores that reflect the value of the job's value to the business must be in writing. Acknowledgement of both parties of the acceptance of the job description, *ad hoc* work that is a result of job requirements at the time and the performance criteria should be done in writing.

If a family member is not the best person, then he must be willing to hand over the management to an outsider that is competent to do the work, it does not make business sense if the family member does not add sufficient value to the business. If this is allowed to happen it can threaten family harmony and ultimately the sustainability of the family business (Van der Merwe, 2008: 4; Neubauer & Lank, 1998: 153).

The labour force can contribute towards business success and family harmony if they are encouraged to do things in a positive manner. It is of utmost importance that there are no overlapping of responsibilities that can lead to role confusion, insufficient communication and bad decision-making. If there are cases of overlapping the role should be given then to one individual to avoid conflict (Ibrahim & Ellis, 2004: 7). Employees need to trust each other to allow teamwork, innovation, taking risks and to ease necessary changes in the business and they must be willing to perform their duties. Family members also need to understand their role in the business to contribute to harmony within the family and the business (Aronoff & Ward, 1996: 10).

According to Aronoff *et al.* (1996: 10), employee excellence requires hard work, high performance standards and proper education through which respect could be earned amongst all employees. The ability to listen to others opinions and to understand that one is not always right creates open-mindedness that reduces defensiveness

amongst employees. The early involvement of children in the family business can generate deeper levels of tactical knowledge that is specific to the business. The best way to transfer this tactical knowledge is through experience or direct involvement in the business, this allows family businesses the potential to have deeper levels of firm-specific knowledge than non-family businesses (Sirmon & Hitt, 2003: 342).

2.7.9 Financial performance

According to Upton (2001: 20) and Aronoff (1998: 183), the financial management of the family business used to be straightforward. Sophisticated financial management was for Wall Street and not for Main Street, the family business was bootstrapped or started with a loan from Uncle Harry and typically had as its goal making plenty of cash (*but no profit*) and getting and staying out of debt (Aronoff, 1998: 183).

Family businesses can outperform a non-family business on a number of levels. Several studies indicated that reinvestments of earnings, low dividend payouts and long-term planning result in family businesses being more profitable than non-family businesses, in other words the family is not merely a social unit but also an economic unit (Upton, 2001: 7).

Financial performance is most probably one of the determinants that have the biggest impact on family harmony. As the business grows and moves from one generation to the next, new economic activities are generated and therefore are critical to administrate the growth of the business. Employee count also needs to grow with the business to ensure that overloading of existing employees does not happen, overloading the employees will cause a decrease in turnover (Timmons & Spinelli, 2007: 563; Brigham & Ehrhardt, 2005: 480).

According to Timmons and Spinelli (2005: 480), the following two indicators need to be monitored to establish if the business is growing and to ensure there is an increase in profits:

- Monitor growth in income and turnover as a result of an increase in sales and ways must be established to minimise expenses to ensure the maximisation of profits.
- Constant positive financial ratio's can predict future financial security of the business.

The following criteria must be met to ensure that family members can have Peace of Mind and that the financial well-being of the company is secured, resulting in total family harmony (Slaughter, 2008: 83):

- The family business needs to show constant growth in turnover for the past two years.
- The family business needs to show constant growth in profitability over the past two years.
- The family business needs to be financially successful.
- The family business well-being needs to be secured for the future.

There are several advantages that are related to family businesses in terms of financial benefits that can relate to financial benefit for the business. These benefits or advantages will then obviously have a positive contribution to family harmony. The following points are some of those benefits that are related to family businesses:

- **Long-term capital (Patient capital):** Family businesses provide an effective structure to manage financial capital because they generally have a much longer time horizon. Family business managers use the advantage of patient capital and therefore pursue more creative strategies. Family business managers do not have to align their strategy with short-term goals which are inflicted on them as a result of normal structured capital. The benefit of the long-term capital savings result in increased financial performance that can enhance family harmony in the long-term (Sirmon & Hitt, 2003: 343-347).

- **Stock control:** Controlling of stock is one of the most important assets of a family business and stock levels need to be kept as low as possible to save capital layout and free cash flow to enable managers to operate the business efficiently. The shortage of conventional finance that is available to non-family managers forces the family manager to effectively evaluate current resources, increasing knowledge of the business resources. The reduced stock value will be beneficial to the business' financial performance (Sirmon & Hitt, 2003: 346).

The retirement of senior members of the family need to be incorporated in the succession plan of the business to ensure that the business is financially secure after the successor takes over control of the company. The retirement cost of the owner-manager is normally a substantial amount that is required to ensure that the owner-manager can sustain his current life style. The financing of the retirement should be independent from the current business assets (Venter *et al.*, 2003b: 13).

If the retired owner-manager is still dependent on the profits and revenues of the family business it will inflict an enormous financial burden on the business. The additional cost inflicted on the business will put a strain on the business or if it is not possible for the owner-manager to retire in full he will always be involved in the business operations to protect his assets. The involvement of the predecessor will affect family harmony in a negative way (Venter *et al.*, 2003b: 13).

2.7.10 Personal needs alignment

According to Gilding (2000: 242), democratisation in the family implies that there is equality, mutual respect, autonomy, decision-making through communication and freedom from violence, thus allowing individuals to achieve self-fulfilment and personal growth. If individuals are forced unwillingly into the business it can have disastrous effects for the individual as well as the business (Carlock & Ward, 2001: 51).

Neubauer and Lank (1998: 174) stated that a vision could be explicitly formulated and written down but the vision must be communicated and shared by others in the family business. An old Brazilian saying goes that: "If one person dreams, it is only a

dream; if many dream jointly, it is the beginning of something new" (Neubauer & Lank, 1998: 185). A vision requires much more than being able to imagine various future alternatives, it involves getting the family to define the hopes and dreams that they share in the business. Members of the senior and younger generation must agree on why it is significant to be in the business (Solomon, 1998: 57).

It is very important that the personal needs of the individual must be aligned with the needs of the business to ensure that the family and the business remain a close unit (Maas *et al.*, 2005: 19). The individuals need to understand that they are involved in the family business because they want to be and not because they are forced to, or that they will fail to succeed outside the family business (Fox, Nilakant & Hamilton, 1996: 19; Stavrou, 1995: 173).

If there are other opportunities at non-family businesses they must feel like they want to work at the family business and not feel drawn to the outside opportunities (Slaughter, 2008: 51). It is very important that the roles and responsibilities are clearly defined to ensure that individuals can measure their own performance and perceive a sense of fairness in their employment (Sharma, 1997: 62).

There is a very old saying that goes "*What can I do for the business*" and not "*What can the business do for me*". It is very important that the individual must feel that he must give everything for the business and this can only happen if his goals, vision and needs are in line with what the business can offer him. The following issues are in line with the approach of "What can I do for the business" as listed by Aronoff and Ward (1997: 53):

- It is for the individual to align himself with the needs of the business, further education, learning new skills or gaining insight in various fields of the business. Gaining these skills will be to the advantage of the individual and the business.
- The business financial requirements should be addressed first to ensure business growth. Business needs first before personal financial needs.
- Family members need to carry out the image of the business to other families to increase credibility of the business.

- Continuous improvement in the business and long-term sustainability will be achieved if there is healthy conflict through discussions to challenge the status quo.

If the individual believes that their personal needs in terms of goals, vision and long-term planning are totally aligned with the needs of the business then he will be 100 percent committed to the business. These individuals will make a positive contribution towards family harmony due to their commitment and passion for the family business (Fox *et al.*, 1996: 19; Stavrou, 1995: 173).

2.7.11 Non-family members

Research indicated that over 80 percent of all employees working at family businesses are non-family members (Mitchell, Morse & Sharma, 2003: 534; Syms, 1992: 191). Taking this fact into consideration means that 80 percent of the work force do not think the same way as the family members and therefore do not share the same goals and vision for the company. This can result in non-family members making certain financial decisions that are not in line with the vision of the business as perceived by family members. It is important that owner-manager understands the circumstances that the non-family members are exposed too that will influence their perception and vision of what is good for the company and what is good for the family (Mitchell *et al.*, 2003: 535).

According to Sundaramurthy and Kreiner (2008: 419) and Kets de Vries (1993: 63), family businesses will normally hire persons who are "strongly dedicated to the beliefs and ideas of the senior family members. Workers of this firm share the family's point of view towards client service, excellence and production".

According to Carsud (2006: 855-857) and Sirmon and Hitt (2003: 342), experienced managers may avoid family firms due to the exclusive succession, restricted potential for professional growth, lack of perceived professionalism, and limitations on wealth transfer, while non-family firms emphasized outside work experience and university training in promotion decisions, family firms rarely did so.

There are normally two questions that are frequently asked by non-family members about family involvement in the business:

- How does the level of family influence affect human resources practices?
- How do family influence and human resources practices affect non-family employees' justice perceptions related to human resources policies in family firms?

Non-family employees working in a family business face a very complex environment that creates unique demands in comparison to employees working for non-family firms. The level of fairness of the human resources practices is also very dependent on the extent of family influence that is inherent in the business (Barnett & Kellermanns, 2006: 838, 847–848).

There is a stigma attached to family members that create certain perceptions with non-family members to believe that (Upton, 2001: 39):

- Family members are promoted to top spots in spite of competency.
- The family business is not as innovative as it could be.
- The family business does not have the processes and systems in place to support development.
- They received less compensation and benefits working at a family business.

These perceptions result in non-family members avoiding employment in family businesses. According to Ibrahim & Ellis (2004: 430) and Upton (2001: 4), the test of a family business is to recruit, retain and motivate non-family managers in an environment where they can never become shareholders or become the general manager of the business. In several cases the mechanics of bonus and salary levels are hidden behind the mask of family privacy, a routine that is more and more under fire in today's *"pay-for-performance"* society. It is also very demoralising to non-family members if underperforming family members are employed and overpaid by the business, the same happens when top performing outsiders are being underpaid (Maas *et al.*, 2005: 138; Upton, 2001: 4).

Owner-managers and family members are not very thrilled to have non-family members as shareholders in the business. It is therefore very important that before any non-family members are employed they need to be fully updated on the policy of the business and the role that the non-family members will play in the business (Upton, 2001: 38).

Even if non-family members know that they will not be able to obtain shares or be appointed in top positions they can still be motivated and encouraged by the following conduct (Upton, 2001: 38-39):

- Delegation of real authority and reasonable autonomy.
- Compensation related to contribution.
- Recognition of achievements and effort.
- They can be approached to advise family members on business matters.
- Courteous and consistent treatment.
- They can be employed to assist in managing the business.
- They can be involved when important strategic decisions are taken.
- They can form part of management.

Basu (2004: 26) and Aronoff and Ward (2000: 5-6) said that long-term growth demands a pool of talented non-family managers. It often happens that family members do not have the required skills needed in the operational or managerial activities. The only option then is to outsource the job to a suitable non-family employee to join the business (Maas *et al.*, 2005: 134; Ibrahim & Ellis 2004: 432). Business-orientated and money orientated entrepreneurs have a higher tendency in appointing professional managers especially when the business is growing and family members are not capable of filling the current positions. Businesses that do not hire professional managers said they want to hire them but due to financial constraints they cannot afford them now (Basu, 2004: 26).

Aronoff and Ward (2000: 5) and Ibrahim & Ellis (2004: 433) state that there are some very positive features in a family business that actually attracts non-family managers and employees.

The following bullet points give a brief summary of some of the main drivers that lure these non-family members to the business:

- Their competence and skills can allow them to act as advisors to the business owner.
- They take ownership of the business and can therefore give assistance to the employees and give direction to the business.
- Their managerial skills will assist them to professionalize the family business.
- They focus on the business and are not distracted by family disputes.
- They support the succession process and can supplement any family shortages in management skills, strategic thinking and decision-making.
- They work harder in order to obtain the trust of fellow employees and family members.

The presence of non-family members in executive positions carries several advantages for both the family and the business (Kets de Vries, 1996: 258). Family businesses need to professionalise, meaning that the family must make the mental leap and separate ownership from management and distinguish between the family's interest and the business interest (Westhead, Cowling & Howorth, 2001: 370). However there is a growing concern that such a transition cannot be successfully achieved because the owners of family businesses fail to separate family concerns from business issues.

It is very important that the correct combination of family and non-family employees are maintained to ensure top performance from employees and that the differences between family and non-family members can be overcome. Proper management will result in a competent, willing and committed work force (Slaughter, 2008: 73).

2.7.12 Senior generation family members

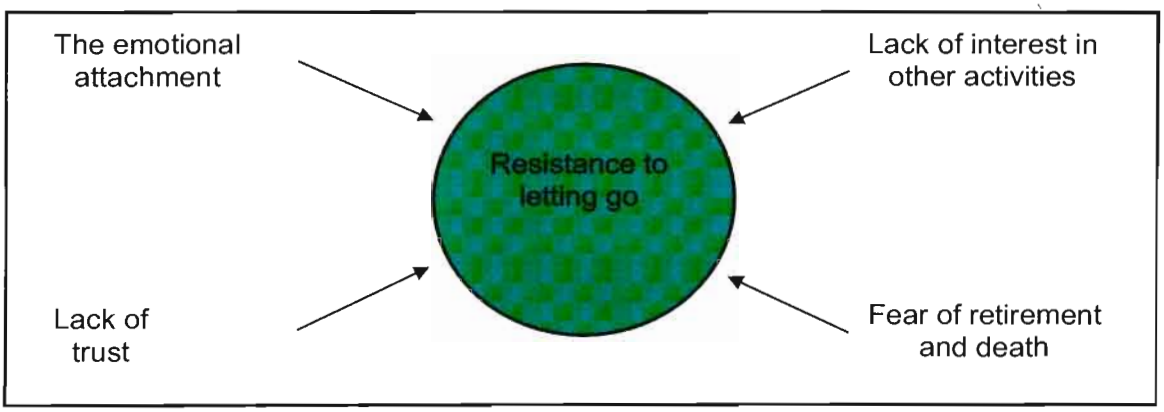
At the time when an entrepreneur starts a business he sets his mind on building up and growing a business to a successful enterprise and then hands it over to his siblings to continue his legacy (Aronoff; 1998: 184). Eventually the senior family member needs to transfer the business to his successor, meaning that he must "*let*

go". History showed us that it is not easy for the senior family member to hand over the control of his business to his successor (Ibrahim & Ellis, 2004: 212; Aronoff, 1998: 184). The mere fact that he started the business and nurtured it through his entire life and now has to hand it over and retires is a very difficult task. Retirement on its own is already a very sociological trauma and handing over your business makes it even worse (Ibrahim & Ellis, 2004: 283; Bjuggren & Sund, 2001: 11). The following points are some of the senior generation family member's fears that he must overcome:

- The senior family member needs to come to terms with his own mortality.
- Many entrepreneurs compare retirement with death.
- They fear that when they let go of the firm they will die. *"My work is done. Why wait?"*

Figure 2.12 illustrates the four main forces that work on the retiring entrepreneur which creates the resistance to let go the family business as defined by Ibrahim and Ellis (2004: 283).

Figure 2.12: Why founders and CEO's of family businesses resist letting go



Source: Ibrahim and Ellis (2004: 283)

The rest of the chapter will elaborate more on other elements that are connected to this trauma and why the entrepreneur doesn't want to let go. One of the main reasons is the fear of retirement. To understand this fear, it is crucial to appreciate

the relationship between work, the meaning of life and social evaluation. The intense participation the entrepreneur has with the business increases the importance of the job and his or her identity. Removal from work is like losing a part of ones self (Ward, 1997: 327-328; Sexton & Upton, 1991: 17). Work is important to the entrepreneur because it provides:

- Economic returns.
- Opportunities to contribute to society.
- Status and self-respect.
- Social interaction.
- Personal identity.
- Structured time.
- Escape from loneliness and isolation.
- Personal achievement.

Ward (1997: 327-328) states that when the entrepreneur grows old he becomes more and more risk averse and eventually reaches a point where he tries to save as much as possible to protect the current assets to secure funds for security purposes and to ensure that there are sufficient funds to retire (Sexton & Upton, 1991: 17). He will try to cling to his voting right for as long as possible to give him control over the assets. The result of his risk aversion will lead to successor frustration and will tie-up funds that will obstruct the successor in following new strategies and slow down the growth of the business which will also impact family harmony due to unnecessary conflict within the family and business environment (Venter *et al.*, 2003b: 6; Aronoff, 1998: 184; Ward, 1997: 327-328; McCollom, 1992: 146; Sexton & Upton, 1991: 17).

All family businesses must look at the problem of ownership succession at some point. When the time comes the choice must be made to let a younger age group of family members take over or sell the shares in the company to an outsider. Such an international succession can be initiated, planned and carried out within the lifetime of the entrepreneur or left to be decided at the time of his or her death (Bjuggren & Sund, 2001: 11; Aronoff, 1998: 183).

When the entrepreneur reaches the end of his term as owner-manager and retires, it is very important that he cut's himself loose from the business and hands over complete control and decision-making to his successor. If not the successor will feel that he is not trusted with the business and it can eventually affect his performance and the efficiency of the business which then will impact on family harmony (Venter *et al.*, 2003b: 6, 13; Aronoff, 1998: 184). The entrepreneur (senior family-members) who successfully lets go has:

- A sound financial plan for retirement.
- Activities outside the business that can provide social contact and power.
- Confidence in the successor.
- A willingness to listen to outside advisors.

Insufficient retirement provision will also affect the senior manager in terms of letting go and can lead to tension between the senior family-member and his successor. One of the most effective ways is to hand over total control of the business once the senior family-member retires (McCollom, 1992: 146). The retiree can still visit the business and give advice but he must not interfere and get involved in decision-making. If these rules are applied, the impact of the retirement on the senior family-member will be less and it will be a major contribution to family harmony (Slaughter, 2008: 81).

2.7.13 Inactive family members

Family owners consider the company to be a source of income for all members, whether or not they work for the business they accept it as a right. The inactive family members might be the most important people to the successor and their support is essential to his support (Venter *et al.*, 2003a: 3; Chrisman *et al.*, 1998: 20).

Kets de Vries (1996: 15) states that inactive family members often have to choose sides in the business and family environment due to feuds that arise between siblings, spouses, cousins and other in-laws. These family conflicts that arise, impact on family harmony which eventually spill over into the business environment. These inactive family members often meddle in family business matters through conflict

instigation, taking part in decision-making matters, direct meddling in day-to-day operational activities and they often play active family members off against each other (Kets de Vries, 1996:15). Possible reasons for this infectious, disruptive behaviour may include; jealousy, boredom and other emotional disorders. Experienced, reliable and committed employees begin to leave the family business as a result of these feuds which impact on the business environment. The end result can often cause family businesses to go from "*riches to rags*" within a single generation (Slaughter, 2008: 75; Kets de Vries, 1996:15).

According to Slaughter (2008: 75) and Kenyon–Rouvinez and Ward (2005: 24), there are certain family members that are under the impression that working for the family business is a "birthright". If they fail to be employed by the family business they feel that they are treated unfairly and then start with a disruptive behaviour which causes tremendous trouble in the day-to-day business activities and further disrupts family harmony. Since inactive family members are the origin of the feuds it is necessary that they spend more time on activities outside the business and interact with other people not related to the family. This should allow them to rather support their spouses who are actively working at the family business thus strengthening their relationship and improving family harmony which can improve sustainability of the business (Slaughter, 2008: 75; Kenyon–Rouvinez & Ward, 2005: 24).

According to Stanaland (2008: 45), most company owners know that a family business should be owned by those who are actively involved in the business and further know that passive shareholders have fundamentally different objectives for a company than those shareholders who are actively busy. In a normal family business the shareholders are employees. Wealth is normally extracted as salaries and benefits, not dividends (Stanaland, 2008: 45). If the owners do not prepare a progression plan keeping non-employee children out of the business, then those children may end up owning an interest in the family business in which they are not employed. This is typically not a good outcome since no employment means zero cash flow. Being a shareholder and acquiring no immediate benefit from the business is a good recipe for disaster that will impact family harmony negatively (Stanaland, 2008: 45).

2.8 FUTURE BUSINESS CONTINUITY

The business vision of a family business serves as a motivator to ensure that ambitions and goals are achieved. Facets include topics like; the family business continuing into the future, handing the family legacy and wealth over to future generations and creating opportunities for future generations to be employed by the family business.

Because family members might have different visions and aspirations of what the continuity of the family business should entail, there should be a parallel business and family strategic planning process (Ward, 2005: 44). This business planning process must ensure alignment of family and business plans for the present as well as for the future generations. To ensure a successful strategic planning all family members whom are actively involved in the family business must be part of the process. Family members must be in agreement with regards to the vision and future role of other family members in the business (Lansberg, 1998: 57).

In addition family members should be of the same mind regarding the management and commitment amongst themselves whether or not they want to remain active and engage in the family business for future generations to come. Families make various sacrifices and substantial investments, to ensure the sustainability of a business, it is therefore essential that family harmony and committed towards the future continuity of the business exist (Miller & Le Breton-Miller, 2005: 38).

Commitment of the family to the future continuity of the business is a priority as it supports the development of the shared future vision and the family business continuity plan (Carlock & Ward, 2001: 54). The future component of continuity needs to include the family's commitment to nurture the business and to support subsequent future generations with both employment opportunities and financial assistance (Miller & Le Breton-Miller, 2005: 38). This commitment therefore urges family members to conserve financial and other resources and build for the years to come.

Since the future continuity of a family business has distinct past and future components, family executives must ensure that a respected and established legacy is handed over from the previous generation to the next generation (Miller & Le Breton-Miller, 2005: 37).

2.9 SUMMARY

This chapter discussed the importance of the family business as well as the advantages and disadvantages of the family business. The focus was then shifted towards the various determinants that impacts family harmony. Any of these determinants impacting on family harmony ultimately influence the profitability and long-term succession of the business.

The family business is characterised by dual relationships such as a social function (the family) and a business function (the family business). Unfortunately the emotional side of the family tends to affect the decision-making process within the business. It is extremely important that all decision-making related to the business needs to be based on an objective and economical model to ensure that the business can survive and compete in the global economy.

Definition of a family business: The size of the family business can range from a small informal business to a large publicly traded firm. The three factors that are applied in classifying the business as a family business are:

- At least 51 percent of the business must be owned by one family.
- At least two family members must be involved in the management of the business.
- Transfer of leadership to next generation family members must be anticipated.

Importance of the family business: Family businesses play a crucial role in the stability and health of the national economy of any country whether it is a first world or a second world country. Several of the top performing businesses over the past decade such as Ford, Wal-Mart, Motorola and Viacom are so called family firms.

Family businesses dominated various industries over the world which includes retailing, wholesaling, construction, manufacturing, resources and services.

Advantages and disadvantages of family businesses: The uniqueness of the family business is as a result of the mixing of the family and the business. The four main attributes that were identified in giving the family business the advantage above non-family businesses are:

- Long CEO tenures.
- Concern for succeeding generations of the family.
- Discretion in decision-making due to voting control.
- Reduced information asymmetries due to intake knowledge of the business.

Unfortunately many of these outstanding strengths are also profound weaknesses that can threaten the sustainability and profitability of the business. Too much of a good thing is not always the best for the business.

Determinants influencing family harmony: There are 13 determinants identified during the literature review that affect family harmony and these determinants will also be statistically tested by means of a questionnaire.

Family Harmony (Section 2.6): The degree of balance between the family and the business needs to be monitored and managed on a continuous basis to ensure that the correct balance is maintained. If family members work together in a perfectly balanced overlap of family and business atmosphere it will create a harmonious environment and you will find a family that live and work in almost perfect harmony.

Open communication (Section 2.7.1): Family members that can openly communicate with each other are more likely to understand each other and succeed in working out their differences more effectively therefore reducing the impact of conflicting matters. If family communication is not very open and honest it doesn't always affect the business immediately but it does have a tendency to do a lot of damage over the long-term.

Commitment (Section 2.7.2): Family member's commitment towards the family and the vision of the business is vital for the success and growth of the business. The commitment of all role players like family members, non-family members and even inactive family members has a direct impact on the harmony in the business.

Mutual respect and trust (Section 2.7.3): Exceptional cooperation between family members and even between family and non-family members can be expected if there is absolute mutual trust and respect between them. Integrity, competency, openness, loyalty and consistency are some of the things that promote mutual trust and respect between individuals.

Governance (Section 2.7.4): The owners of a family business form a crucial part of the governance of the business and their role is to add value to the business by means of directing, controlling, guarding, monitoring and protecting assets to ensure growth and profitability of the business. Governing a business or a firm can be done by implementing policies and procedures into the governance structure ensuring growth, continuity, reducing intensity of conflict and therefore improving overall family harmony.

Conflict (Section 2.7.5): The on-going decision-making in a business that has to be made by owners and managers will always result in disagreements between family members and between family and non-family members. The most common cause of conflict arises when roles that are assumed in one system (family) intrude with roles in the other system (business). Avoiding conflict is not the answer, it needs to be managed to reduce the destructive force of conflict to ensure harmony in the family and the business.

Leadership (Section 2.7.6): Business leaders have an enormous impact on the culture of an organisation and therefore the leader must have knowledge of the operational activities, experience, good judgement, interpersonal skills and the credibility to make sound business decisions. Leaders have the ability to create a climate that stimulates superior strategic performance and achievement which then normally leads to loyalty and responsibility.

Fairness (Section 2.7.7): Non-family members work in a unique and complex environment that is not related to employees in a non-family business. One of the most common cases of unfair employment is the fact that family members are paid according to age and gender. Family businesses should have a policy that dictates the remuneration and performance structure of the business to ensure fair employment for all family and non-family employees and therefore contribute to family harmony.

Division of labour (Section 2.7.8): It is very important that family businesses professionalise, meaning that family businesses must distinguish between ownership and management. Family businesses that are business-orientated and money-orientated started to make the mental leap in appointing professional managers if there is not a qualified family member available to do the job efficiently.

Financial performance (Section 2.7.9): Studies indicated that family businesses can outperform non-family businesses. Reinvestment of earnings, low dividend payouts and long-term planning contribute to family businesses being more profitable than non-family businesses. There are important factors that family managers and family businesses posses that are superior to non-family businesses such as long-term capital or "*patient capital*" and a high level of stock control that save capital layout and improves free cash flow.

Personal needs alignment (Section 2.7.10): The individual's personal needs have to be aligned with the needs of the business to ensure that family and business stay a close unit. Once the individual decides that he is involved in the business because he wants to be and not because he has to, only then will he start to align himself with the goals and the visions of the business.

Non-family members (Section 2.7.11): Family businesses have a greater affinity for bringing in family members instead of non-family members. Shareholders also prefer to appoint family managers instead of professional managers to try and protect family assets. It is also difficult for family businesses to recruit, appoint and keep non-family members motivated due to the preference of appointing family members in the top positions.

Senior generation family members (Section 2.7.12): There are four main forces that affect the actions and retirement process of the senior family member. The following forces normally influence the individual and keep him from "*Letting Go*":

- Emotional attachment.
- Lack of interest in other activities.
- Lack of trust.
- Fear of retirement.

Inactive family members (Section 2.7.13): Inactive family members are often the origin of family feuds and they try to meddle in family business matters, trying to take part in business decision-making and day-to-day operations. These disruptive behaviours result in experienced and reliable employees resigning and leaving the business to avoid these family feuds.

Future business continuity (Section 2.8): Since the future continuity of a family business has distinct past and future components, family executives must ensure that a respected and established legacy is handed over from the previous generation to the next generation.

CHAPTER 3

RESULTS AND DISCUSSION OF EMPIRICAL STUDY

3.1 INTRODUCTION

The purpose of the chapter is to discuss the empirical research of the study. A structured questionnaire was used as the basis for the empirical research. A total of 31 businesses in the Rustenburg, Brits, Thabazimbi and Lydenburg area have returned their completed questionnaires. The Cities and towns are located in the North-West and Mpumalanga provinces in South Africa.

The data was captured, summarised and than presented in tabular form and appropriate graphs to allow accurate analyses of the data.

The chapter will also discuss the development and construction of the questionnaire, the process in collecting the data as well as the response of the family businesses. The chapter will conclude with presenting and discussing the empirical data.

3.2 GATHERING OF DATA

In this section the development and construction of the questionnaire will be discussed as well as the study population and the process of gathering information.

3.2.1 Development and construction of the questionnaire

Questionnaire design and administration is a crucial component of research and a well-designed questionnaire can provide the necessary data to address research questions. There were thirteen determinants identified during the literature review that could impact family harmony. The design of the questionnaire included 96 items that was identified to measure the 13 determinants as well as the future continuity of the family business.

It was necessary too design two questionnaires to evaluate these constructs, one designed for active and a second one for inactive family members. Both the questionnaires contain the same questions, but the active family member questionnaire contains also a Section C. This is an extra section to be completed by the senior generation owner-manager to gather structural information of the business.

The questionnaire used in this study assessed the determinants of family harmony on the basis of a 7-point Likert type scale ranging from Strongly Disagree (1) to Strongly Agree (7).

3.2.2 Data collection

The target population of this study was small and medium-sized family businesses in the Rustenburg, Brits, Thabazimbi and Lydenburg area in the North-West and Mpumalanga provinces in South Africa. Both active and inactive family members participated in the study.

A covering letter was attached to the questionnaire pointing out the importance of the research and the value of the respondents' participation in the research. Interviews were conducted in person and questionnaires was personally delivered and collected by the researcher himself. There were also telephonic discussion and email communication to obtain missing data from the participants.

Pre-notification calls were made to all the identified family businesses to establish if the business does in fact comply with the three basic criteria of a family business as previously discussed in **Chapter 1** section **1.3**. The willingness of the owner/senior family member was evaluated to determine his or her willingness to participate in the study.

Appointments were made with all business owners to deliver the questionnaire by hand and to answer any questions or concerns that might be raised by the owner. The time frame for collection was discussed with the owner to try and increase reaction time on the completion of the questionnaire. Where hand delivery of

questionnaires was not possible the questionnaires were emailed to the respective businesses.

The collection dates were confirmed with the owners a day prior to collection, this was to ensure that collection was possible. Family businesses that failed to complete the questionnaire were accordingly recorded as non participants in the study.

3.3 RESPONSES TO THE SURVEY

The snowball sampling technique was used to identify possible family businesses to participate in this study. A total of 62 businesses were identified for the study, of which six turned out not to be a family business, eight was not interested in taking part in the study. There were also 14 businesses that initially participated in the study but failed to complete the questionnaires. After scrutinising the questionnaires a further three businesses were removed from the participant list due to incompleteness of questionnaires. This left a total of 31 businesses being accepted as participants in the study. The end result was that from the 62 family businesses contacted a total of 31 family businesses completed the questionnaire; this represents a final response rate of 50%.

3.4 RESULTS OF BIOGRAPHICAL DATA

The "family business questionnaire" for active family members is divided into three sections (refer to Appendix A). The family business questionnaire for inactive family members is divided only into two sections (refer to Appendix B).

Section A: Both active and inactive members questionnaire contain identical questions on the different constructs of family harmony.

Section B: Both active and inactive members questionnaire contain identical questions on the biographical data of each participant.

The results obtained from the active and inactive questionnaires will be combined and discussed as such. The following biographical data that were obtained can have an influence on the results of this study:

- Age.
- Gender.
- Marital status.
- Relationship to the senior generation family member.
- Highest academic qualification.
- Percentage shareholding.

Section C: This section was only included in the active family members' questionnaire. This section enclosed questions on the structure of the family business and was only to be completed by one senior generation executive manager.

3.4.1 Involvement of family members

A total of 96 active questionnaires and 88 inactive questionnaires (184 in total) were completed correctly and received back from participants.

- **Purpose of the question:** The purpose of this section was to determine the involvement (active and inactive family members) of the family members in the participating family businesses.

- **Results obtained: Table 3.1** illustrates the relationship between active and inactive family members that participated in the study.

Table 3:1: Involvement of participating family members

Involvement	Total	Percentage
Active	96	52.17 %
Inactive	88	47.83 %
Total	**184**	**100 %**

Active family members are those who are permanently employed in the family business and they represent the majority of the study population and respondents. Inactive family members could include spouses, children, in-laws, brothers and sisters that are not permanently employed in the family business. Although the inactive family members were the minority in this study, they still form a fundamental part of the family dynamics.

- **Analysis of the results:** Out of 184 questionnaires, 52 percent were completed by active family members and 48 percent were completed by inactive family members.

3.4.2 Age group categories of family members

- **Purpose of the question:** The purpose of question B1 in Section B (refer to Appendix A & B) of the questionnaire was to determine the age group classifications of participants and it was predefined in five age groups.

- **Results obtained: Table 3.2** presents the age group classification of all the family members that responded to the survey.

Table 3.2: Age groups of participating family members

Age group	Total	Percentage
<29	37	20.11 %
30-39	41	22.28 %
40-49	47	25.54 %
50-59	37	20.11 %
60+	22	11.96 %
Total	**184**	**100 %**

- **Analysis of the results:** These categories include the active and inactive family members, the inactive members are included as they are also a major support function of the active members. About 20 percent of all family members that participated are younger than 29 years of age. This group is normally made up of

scholars, youngsters entering the business and people that are still busy with secondary education. The three middle groups combined add up to 68 percent and this group represent the actual team working and contributing to the success of the business. The last group makes up 12 percent of the participants that are 60 years and older and they represent the group that is preparing them self to retire or they might already be retired.

3.4.3 Gender of family members

- **Purpose of the question:** The purpose of question B2 in Section B (refer to Appendix A & B) of the questionnaire was to determine and to differentiate between the number of male and female participants.

- **Results obtained: Table 3.3** present both active and inactive family members' combined gender distribution.

Table 3.3: Gender distribution of family members

Gender	Total	Percentage
Male	96	52.17 %
Female	88	47.83 %
Total	**184**	**100 %**

- **Analysis of the results: Table 3.3** above indicates the ratio of male (52 %) and female (48 %) participants in the study.

3.4.4 Marital status of family members

- **Purpose of the question:** The purpose of question B3 in Section B (refer to Appendix A & B) of the questionnaire was to determine the marital status of all the participants. Participants had to choose between four marital status groupings: single, married, divorced and widow(er). It is important when analysing the statistics to know if active family members are married or not, as marriage influence the managing of the business.

- **Results obtained:** The marital status of family members that responded to the survey is presented in **Table 3.4**.

Table 3.4: Marital status of participating family members

Marital status	Total	Percentage
Single	37	20.11 %
Married	130	70.65 %
Divorced	8	4.35 %
Widow(er)	9	4.89 %
Total	**184**	**100 %**

- **Analysis of the results: Table 3.4** reflects the data of the marital status of participating family members. The participants that are still single makes up 20 percent of the sample and the majority of 71 percent of participants are married. Divorced family members make out 4 percent of participants and the other five percent of participants that remain are all widow(er).

3.4.5 Highest academic qualification of the family members

- **Purpose of the question:** The purpose of question B5 in Section B (refer to Appendix A & B) of the questionnaire was to determine the highest academic qualification of the participants. Participants had to choose between the different qualifications categories: lower than matric, matric, certificate, technical college or technicon diploma, university degree or post graduate degree. Formal qualification levels of family members have an impact on the way they make decisions and their way of thinking and that influence the management of the business. Participants were asked to indicate their highest academic qualification by selecting the applicable qualification category in the questionnaire.

- **Results obtained:** The highest academic qualifications of all participating family members are presented in **Table 3.5**.

Table 3.5: Highest academic qualifications of family members

Qualification	Total	Percentage
Lower than matric	29	15.76 %
Matric	66	35.87 %
Certificate	17	9.24 %
Diploma	46	25.00 %
Degree	13	7.07 %
Post graduate degree	12	6.52 %
Missing	1	0.54 %
Total	**184**	**100 %**

- **Analysis of the results:** The highest academic qualification distribution for family members in this study show that 16 percent did not finish matric or are still in school, 36 percent finished matric, 9 percent obtained a certificate, 32 percent have diploma's or university degrees and only 7 percent have post graduate degrees.

3.5 RESULTS OF FAMILY BUSINESS INFORMATION

Section C of the active family member questionnaire was only completed by the senior generation owner-manager of the participating family businesses. This section gathered information such as the number of permanent employees in the business, family business turnover, the business industry, age of the business, generation (e.g. 1st, 2nd or 3rd) family members involved in the business and the legal status of the participating family businesses.

3.5.1 Number of permanent employees

- **Purpose of the question:** The purpose of question C1 in Section C (refer to Appendix A) of the questionnaire was to obtain the number of employees employed in the family business and to determine whether the family business can be classified as a small or a medium-sized business.

- **Results obtained:** The number of employees employed by the family businesses is presented in **Table 3.6**.

Table 3.6: Permanent employees employed by family businesses

Number of employees	Total	Percentage
1 to 4	2	6.45 %
5 to 10	12	38.71 %
11 to 25	8	25.81 %
26 to 50	6	19.35 %
51 to 100	2	6.45 %
101 to 200	1	3.23 %
Total	**31**	**100 %**

- **Analysis of the results:** Family businesses with 1 to 10 permanent employees (very small businesses) were represented by 14 (45%) of the participating family businesses. Family businesses with 11 to 50 permanent employees (small businesses) were also represented by 14 (45%) of the participating family businesses. Only 2 (6%) of the participating family can be classified as medium-sized businesses (51-200 permanent employees) and only 1 (3%) as a large business (200 plus employees).

3.5.2 Family business turnover

- **Purpose of the question:** The purpose of question C2 in Section C (refer to Appendix A) of the questionnaire was to obtain information on the financial success of the family businesses, the turnover also give and indication of the size of the business.

- **Results obtained: Table 3.7** present the annual turnover of family businesses in this study.

Table 3.7: Annual turnover of family businesses

Turnover	Total	Percentage
Less than R1m	5	16.13 %
R1m to R2.5m	4	12.90 %
R2.5m to R10m	11	35.48 %
R10m to R50m	8	25.81 %
R50m to R100m	2	6.45 %
More than R100m	1	3.23 %
Total	**31**	**100 %**

- **Analysis of the results:** A total of 5 (16%) of the family businesses' annual turnover were less than R 1 million and 4 businesses was between the R 1 and R 2.5 million range, followed by 11 (36%) businesses between the R 2.5 and R 10 million range. The next category was made up of 8 (26%) businesses in the R10 to R 50 million range, 2 (6%) in the R 50 to R100 million ranges and 1 (3%) of the family businesses' annual turnover was more than R 100 million.

3.5.3 Family business industry focus

- **Purpose of the question:** The purpose of question C3 in Section C (refer to Appendix A) of the questionnaire was to obtain information on the industry that the family businesses operates in. The various industries may have an impact on the number of permanent employees required to operate the business. The type of industry also determines the academic qualifications that employees require as well as the expected annual turnover.

- **Results obtained:** The industries in which the family businesses in this study specializes in is presented in **Table 3.8**

Table 3.8: Family businesses' industry focus

Industry focus	Total	Percentage
Automotive	6	19.35 %
Agriculture	1	3.23 %
Construction	2	6.45 %
Food	2	6.45 %
Retail	3	9.68 %
Wholesale	1	3.23 %
Manufacturing	3	9.68 %
Services	5	16.13 %
Other	8	25.80 %
Total	**31**	**100 %**

- **Analysis of the results:** A total of 6 (19%) of the family businesses in the study operate in the automotive industry, 1 (3%) in agriculture, 2 (6%) in construction, 2 (6%) in food, 3 (10%) in retail, 1 (3%) in wholesale, 3 (10%) in manufacturing, 5 (16%) in services and 8 (25%) indicated that they operate in various other industries such as earth moving and excavation work and civil construction.

3.5.4 Legal status of the family business

- **Purpose of the question:** The purpose of question C6 in Section C (refer to Appendix A) of the questionnaire was to obtain information on the legal status of the family businesses that participated in this study. The legal status of the family businesses is important when succession planning in the family business takes place.

- **Results obtained:** The legal statuses of family businesses in this study are presented in **Table 3.9**.

Table 3.9: Legal status of family business

Legal status	Total	Percentage
Proprietorship	3	9.68 %
Company (Private)	9	29.03 %
Close corporation	18	58.06 %
Franchise	1	3.23 %
Total	**31**	**100 %**

- **Analysis of the results:** The majority of the businesses adding up to 18 (58%) are registered as close corporations, 9 (29%) are registered as private companies, 3 (10%) registered as sole proprietorships and only 1 (3%) is registered as a franchise.

3.6 RELIABILITY OF THE QUESTIONNAIRE

Cronbach alpha coefficients were calculated in order to establish the internal consistency between the items of the questionnaire (Table 3.10: refer to Page & Meyer, 2000: 292).

Table 3.10: Cronbach alpha coefficients of constructs

Constructs	Cronbach alpha coefficient
Open communication	0.854
Mutual trust and respect	0.870
Conflict	0.854
Family commitment	0.811
Personal needs alignment	0.868
Fairness	0.854
Leadership	0.916
Governance	0.846
Division of labour	0.777
Inactive family members	0.886
Non-family members	0.861
Senior generation of family members	0.900
Financial performance	0.868
Perceived future continuity	0.891
Harmony	0.828

According to Field (2005: 666), an instrument that produces different scores every time that it is used on the same person under the same conditions has low reliability. The Cronbach alpha coefficient is based on the average correlation of variables within a test (SAS Institute, Inc., 2005: 295). The greater the Cronbach alpha coefficient, the more reliable is the scale. If the Cronbach alpha coefficient is greater than 0.7 it could be interpreted as reliable and internally consistent (SAS Institute Inc., 2005).

All 184 participants' responses were used to determine the reliability of the different constructs. All the Cronbach Alpha values from **Table 3.10** are greater than the cut-off value of 0.70. This suggests that the questionnaire used in this study to measure the latent constructs has acceptable reliability and are internally consistent.

3.7 EVALUATION OF THE DEPENDENT VARIABLE, FAMILY HARMONY

The dependent variable **Family harmony** obtained a score of ($\bar{x}$ = 6.083) and a standard deviation of (s = 0.796) as presented in **Table 3.11**. This indicates a relatively high agreement with the statements / items concerned with perceived future continuity.

The Cronbach alpha for **Family harmony** was also very high (0.828) as being reflected in **Table 3.10**. The high Cronbach alpha of **Family harmony** indicates an acceptable level of reliability of the items measuring the construct.

3.8 EVALUATION OF THE CONSTRUCTS DETERMINING FAMILY HARMONY

The Likert scale type questionnaire (e.g. where 1 = Strongly disagree; 7 = Strongly agree), that was used in the study represent disagreement with the statement when the score is low, meaning closer to one. When the number is relatively high it represents agreement with the statement made in the questionnaire. Thus, a higher number representing agreement with the statement suggests that the statement is perceived to be true by the respondents. Likewise, a low number representing disagreement with the statement suggests that the statement is perceived to be false.

Table 3.11 present the average response or mean ($\bar{x}$) and the standard deviation (s) (variation around the mean) of each of the 13 constructs (independent variables) towards family harmony (dependent variable). The results are ranked from the highest mean ($\bar{x}$) to the lowest mean ($\bar{x}$) calculated for a specific construct.

Table 3.11: Evaluation of the constructs measuring family harmony

Construct	***n***	$\bar{x}$	***s***
Commitment	184	6.144	0.776
Family harmony	184	6.083	0.796
Mutual trust and respect	184	6.037	0.775
Leadership	184	5.886	0.847
Financial performance	184	5.798	0.916
Personal needs	184	5.736	0.834
Inactive family members	184	5.662	1.053
Open-communication	184	5.631	0.945
Fairness	184	5.624	0.941
Senior generation family members	184	5.524	0.991
Conflict	184	5.378	0.944
Division of labour	184	5.362	0.966
Non-family members	184	4.856	1.177
Governance	184	4.663	1.264
Future continuity	184	5.841	0.943
Total	**184**	**5.615**	**0.945**

The average score of the construct's, $\bar{x} = 5.605$, indicates that respondents, overall, strongly agree with the statements and suggests that the items measuring family harmony can be perceived as true. The construct **Commitment** ($\bar{x} = 6.144$) reflected a very strong tendency towards family harmony. The majority of the construct's had a strong tendency of agreement with the statements accept for the two constructs' namely **Non-family members** ($\bar{x} = 4.856$) and **Governance** ($\bar{x} = 4.663$) that had the lowest score. The low score for **Non-family members** and **Governance** indicates a relatively low agreement with the statements / items concerned with governance.

The standard deviations across all 13 constructs' averages are fairly high, ranging from 0.775 to 1.264 (on a 7-point scale).

3.9 EVALUATION OF THE CONSTRUCT PERCEIVED FUTURE CONTINUITY

The construct, **Perceived future continuity** obtained a score of $\bar{x}$ = 5.841 and a standard deviation of s = 0.943 as presented in **Table 3.11**. This indicates a relatively high agreement with the statements / items concerned with perceived future continuity.

The Cronbach alpha for **Perceived future continuity** was also very high (0.891) as being reflected in **Table 3.10**. The high Cronbach alpha of **Perceived future continuity** indicates an acceptable level of consistency and reliability of the items measuring the construct.

3.10 CORRELATION BETWEEN FAMILY HARMONY AND CONSTRUCTS

The Pearson correlation coefficients (r) were calculated and are presented in **Table 3.12** and are used to investigate the correlation between the dependent variable, **family harmony**, and the independent variables. Levine, Stephan, Krehbiel and Berenson (2007:131) indicate that the coefficient of correlation indicates the linear relationship between two numerical variables. When the coefficient of correlation gets closer to +1 or -1, the linear relationship between the two variables is stronger.

In order to determine whether the effect of the relationship between two constructs is important or meaningful, the size of the effect should be measured. Effect sizes are useful because they provide an objective measure of the importance of an effect (Field, 2005: 32). A correlation coefficient of 0 means there is no visible relationship, and a value of 1 means that there is a perfect relationship.

Table 3.12: Correlation between family harmony and constructs

Constructs	Coefficient of Correlation (r)	Coefficient of Determination (R^2)
Open communication	0.829	0.687
Mutual trust and respect	0.885	0.783
Conflict	0.591	0.349
Family commitment	0.755	0.570
Personal needs alignment	0.724	0.524
Fairness	0.716	0.512
Leadership	0.786	0.618
Governance	0.384	0.147
Division of labour	0.545	0.297
Inactive family members	0.289	0.084
Non-family members	0.288	0.083
Senior generation of family members	0.582	0.339
Financial performance	0.479	0.229
Perceived future continuity	0.557	0.310
Harmony	1	1

According to Field (2005: 32), Cohen (1992) made the following widely accepted suggestions about what constitutes a large or small effect:

- $r = 0.10$ (small effect): in this case, the effect explains 1% of the variance
- $r = 0.30$ (medium effect): the effect accounts for 9% of the variance
- $r = 0.50$ (large effect): the effect accounts for 25% of the variance

Based on Cohen's rules, it is evident from **Table 3.12** that the independent variables, **Non-family members** ($r = 0.288$) and **Inactive family members** ($r = 0.289$), have a small effect on the dependent variable, **Family harmony**.

The construct **Governance** ($r = 0.384$) have a medium effect on the dependent variable, **Family harmony,** while the rest of the independent variables (refer to

Table 3.9) have a practical and meaningful correlation between the independent variables and **Family harmony**.

Field (2005: 128) warns that care should be taken when interpreting correlation coefficient results because the direction of causality could not be determined. Furthermore, a third variable could also have an influenced on a specific bivariate correlation. In order to measure the amount of variability in one construct that is explained by the other, the coefficient of determination (R^2) were determined.

As an example, the results indicate that 78.3% ($r = 0.885$; $R^2 = 0.783$) of the variance between the independent variable, **Mutual trust and respect**, and the independent variable, **Family harmony**, is shared. The balance, 21.7%, can be ascribed to measurement errors in the variables **Mutual trust and respect** and **Family harmony**, together with the influence of other unknown factors.

3.11 RELATIONSHIP BETWEEN THE DEMOGRAPHIC VARIABLES AND THE CONSTRUCTS

According to Ellis and Steyn (2003: 51), the statistical significance tests have the tendency to yield small *p*-values (indication of significance) as the size of the data sets increases. If the variables have a *p*-value of ($p < 0.05$) one could assume that the variable is statistical significant regarding to that specific constructs' contribution towards family harmony.

The effect size, however, is independent of the sample size and is a measure of practical significance (Ellis & Steyn, 2003: 51). A natural way to comment on practical significance is to use the standardised difference between the means of two populations, i.e. the difference between the two means divided by the estimate for standard deviation, $d = \frac{|\bar{x}_{diff}|}{s_{diff}}$, where $|\bar{x}_{diff}|$ is the difference between the average scores of active and inactive family members, without taking the sign into consideration, and s_{diff} is the standard deviation of the difference.

In this study effect sizes (*d*-values) were calculated between the mean values to determine the relationship between the constructs and demographic variables, such as **family involvement** (Table 3.13) and **gender** (Table 3.14) respectively. The effect sizes are shown is each Table regarding a specific demographic variable.

For the purpose of this study, any statistical significant differences regarding the *p*-values (p-value ≤ 0.05) will only be mentioned, but any significant differences regarding the d-values will be discussed, since the d-value (or effect sizes) implies a stronger or more valid test than the *p*-value.

Effect sizes (*d*-values) will be interpreted, according to Cohen's guidelines, as follows: small effect (d-value = 0.2), medium effect (d-value = 0.5), and large effect (d-value = 0.8). Results with medium effects can be regarded as **visible effects** and with d-value ≥ 0.8 as **practical significant**, since it is the result of a difference having a large effect (Field, 2005:32; Ellis & Steyn, 2003:51-53; Thompson, 2001: 80-93).

The demographical data that will be used in this study are classified according to the following categories:

- **Family involvement:** Active (family members employed by the business); inactive (family members not employed by the business).
- **Gender:** Male and female.

Table 3.13 to **Table 3.14** shows the relationship between the different demographic variables and the constructs measuring family harmony with arithmetic mean ($\bar{x}$), standard deviation (s), statistical significance (p-value) and effect sizes (d-value).

3.11.1 Relationship between family involvement and the constructs

Table 3.13, on the following page, presents the relationship between the demographic variable, **family involvement**, and the constructs measuring family harmony.

- **Statistical significant differences (*p*-values): Table 3.13** indicates that there are statistical significant ($p < 0.05$) differences between the perception of **active** family members and **inactive** family members with regard to the following independent variables, i.e. **Open communication** ($p = 0.001$), **Mutual trust and respect** ($p = 0.013$), **Conflict** ($p = 0.024$), **Family commitment** ($p = 0.003$), **Personal needs** ($p = 0.000$), **Fairness** ($p = 0.000$) **Leadership** ($p = 0.001$), **Division of labour** ($p = 0.009$) and **Senior family members** ($p = 0.002$).

  There is, furthermore, definite statistical prove ($p > 0.05$) that there is agreement between **active** and **inactive** family members with regard to the following independent variables such as **Governance** ($p = 0.736$), **Inactive family members** ($p = 0.185$) and **Non-family members** ($p = 0.138$).

Table 3.13: Relationship between family involvement and the constructs

Construct	Active			Inactive			Comparison	
	n	$\bar{x}$	*s*	*n*	$\bar{x}$	*s*	*p*-value	*d*-value
Open communication	96	5.851	0.856	88	5.392	0.984	0.001	0.47
Mutual trust and respect	96	6.172	0.643	88	5.889	0.878	0.013	0.32
Conflict	96	5.527	0.905	88	5.214	0.964	0.024	0.32
Family commitment	96	6.306	0.628	88	5.969	0.877	0.003	0.38
Personal needs alignment	96	5.989	0.779	88	5.460	0.828	0.000	0.64
Fairness	96	5.859	0.721	88	5.367	1.080	0.000	0.46
Leadership	96	6.079	0.742	88	5.674	0.907	0.001	0.45
Governance	96	4.693	1.339	88	4.630	1.183	0.736	0.05
Division of labour	96	5.540	0.897	88	5.167	1.006	0.009	0.37
Inactive family members	96	5.760	1.051	88	5.554	1.051	0.185	0.20
Non-family members	96	4.979	1.223	88	4.721	1.115	0.138	0.21
Senior generation of family members	96	5.741	0.904	88	5.289	1.033	0.002	0.44
Financial performance	96	5.906	0.937	88	5.679	0.882	0.093	0.24

- **Practical significant differences (d-values):** Based on Cohen's guidelines the involvement variables (active and inactive) had no practical significant effect on any of the variables determining **Family harmony** The constructs with small to medium effects (*d*-value > 0.2) is that of **Open communication** (*d*-value = 0.47), **Fairness** (*d*-value = 0.46), **Leadership** (*d*-value = 0.45) and **Senior generation family members** (*d*-value = 0.44). Only one construct had a medium or visible effect (*d*-value = 0.5), that of **Personal needs alignment** (*d*-value = 0.64).

  There are thus no practical significant difference between the perceptions of the **active** and **inactive** family members in the businesses with regard to any constructs since none of the constructs have *d*-values close to (*d*-value = 0.80).

3.11.2 Relationship between gender and the constructs

Table 3.14 shows the relationship between the demographic variable, **gender**, and the constructs measuring family harmony.

Table 3.14: Relationship between gender and the constructs

Construct	Male			Female			Comparison	
	n	$\bar{x}$	*s*	*n*	$\bar{x}$	*s*	*p*-value	*d*-value
Open communication	96	5.649	0.943	88	5.611	0.953	0.789	0.04
Mutual trust and respect	96	6.027	0.786	88	6.048	0.768	0.856	0.03
Conflict	96	5.341	0.931	88	5.418	0.961	0.583	0.08
Family commitment	96	6.175	0.738	88	6.111	0.818	0.573	0.08
Personal needs alignment	96	5.851	0.764	88	5.611	0.909	0.054	0.26
Fairness	96	5.627	0.864	88	5.621	1.024	0.966	0.01
Leadership	96	5.936	0.794	88	5.829	0.903	0.390	0.12
Governance	96	4.691	1.188	88	4.633	1.347	0.754	0.04
Division of labour	96	5.297	0.951	88	5.432	0.983	0.348	0.14
Inactive family members	96	5.641	1.047	88	5.685	1.066	0.778	0.04
Non-family members	96	4.851	1.234	88	4.862	1.118	0.949	0.01
Senior generation of family members	96	5.544	0.966	88	5.503	1.023	0.784	0.04
Financial performance	96	5.771	0.898	88	5.826	0.939	0.687	0.06

- **Statistical significant differences (*p*-values): Table 3.14** indicates that there are no statistical significant ($p < 0.05$) differences between the perception of **male** and **female** family members with regard to the independent variables, since none of the constructs had *p*-values smaller than 0.05.

- **Practical significant differences (d-values):** Based on Cohen's guidelines the **gender** variables (male and female) had no practical significant effect on any of the variables determining **Family harmony**. The only construct with a small effect (*d*-value > 0.2) is that of **Personal needs alignment** (*d*-value = 0.26).

There are however no practical significant differences between the perceptions of the **male** and **female** family members in the businesses with regard to any constructs, since none of the constructs yielded d-values close to a *d*-value = 0.80.

3.12 RELATIONSHIP BETWEEN THE DEMOGRAPHIC VARIABLES AND THE DEPENDENT VARIABLE, FAMILY HARMONY

Table 3.15: Relationship between the demographic variables and the dependent variable, family harmony

Classification	n	$\bar{x}$	*S*	*p*-value	*d*-value
Family involvement					
Active family members	96	6.263	0.673	0.001	0.43
Inactive family members	88	5.888	0.875		
Gender					
Male	96	6.117	0.754	0.552	0.08
Female	88	6.047	0.842		

- **Statistical significant differences (*p*-values): Table 3.15** indicates that there are a statistical significant ($p < 0.05$) difference between the means values of **active family members** and **inactive family members** with regard to the dependent variable **Family harmony** ($p = 0.001$).

No statistical significant differences ($p < 0.05$) exist, however, between the mean values of **male** and **female** respondents with regard to the dependent variable **Family harmony** ($p = 0.552$).

- **Practical significant differences (d-values):** The demographical variable related to **active** and **inactive family members** (d-value = 0.43) have a medium effect on the independent variable **Family harmony**. The effect, however, could thus not be regarded as a practical significant difference regarding the dependent variable **Family harmony.**

3.13 RELATIONSHIP BETWEEN THE DEMOGRAPHIC VARIABLES AND THE CONSTRUCT, PERCEIVED FUTURE CONTINUITY

Table 3.16: Relationship between the demographic variables and the construct, perceived future continuity

Classification	n	$\bar{x}$	*s*	*p*-value	*d*-value
Family involvement					
Active family members	96	5.989	0.903	0.025	0.32
Inactive family members	88	5.678	0.964		
Gender					
Male	96	5.986	0.875	0.028	0.31
Female	88	5.682	0.993		

- **Statistical significant differences (*p*-values): Table 3.16** indicates that there are a statistical significant ($p < 0.05$) difference between the mean values of **Active family members** and **Inactive family members** ($p = 0.025$) as well as between the mean values of **Male** and **Female** ($p = 0.028$) respondent with regard to the construct **Perceived future continuity**.

- **Practical significant differences (d-values):** The demographical variable related to **Active** and **Inactive family members** (d-value = 0.32) and variable of **Male** and **Female** ($p = 0.031$) with regards to the construct **Perceived future continuity** have a medium to small effect on the independent construct

Perceived future continuity. The effect, however, could thus not be regarded as a practical significant difference regarding the independent variable **Perceived future continuity**.

3.14 SUMMARY

The empirical study was conducted by means of a field study using a structured questionnaire as the main component. The purpose of the literature review was to gain insight and align the determinants of family harmony in family businesses according to a structured questionnaire developed by Prof. Elmarie Venter (NMMU), Ms. Shelly Farrington (Van Eeden) (NMMU) and Dr. Stephan van der Merwe (NWU).

The "family business questionnaire" included all thirteen constructs and identical questions for both active and inactive family members regarding the thirteen constructs were measured and it also gathered bibliographical data of the respondents in Section B. There was an additional Section C included in the active family members' questionnaire. This section consisted of questions regarding the structure of the family business and was only applicable to the senior generation executive manager. The data collected from the completed questionnaires were processed by the North-West University using Statsoft Inc (2008) and SPSS (2008).

Chapter three presented and analysed the empirical results of this study. This chapter comprised of an introduction and a section gathering data that included the development and construction of the questionnaire and the process of data collection. The next part of the chapter looked at the responses to the survey, results and analysis of the biographical data, results and analysis of the family business information and the reliability of the questionnaire.

The chapter concludes with the evaluation of the constructs determining family harmony, an evaluation of the construct perceived future continuity, the correlation between family harmony and the constructs measuring family harmony, the relationship between the demographic variables and the constructs, including family harmony and the perceived future continuity of the businesses.

The research instrument used in this study is a structured questionnaire named **Family Harmony Diagnostic Questionnaire**, this questionnaire was developed by Prof. Elmarie Venter (NMMU), Ms. Shelly Farrington (Van Eeden) (NMMU) and Dr. Stephan van der Merwe (NWU). The total of 96 questionnaires for active family members and 88 questionnaires for inactive family members were received from 31 family businesses in the Rustenburg, Brits, Thabazimbi and Lydenburg area in South Africa.

The statistical analyses of the data were done by the North-West University. The data included the following data:

- The Cronbach alpha coefficients (refer to Table 3.10).
- The mean ($\bar{x}$) (refer to Table 3.11).
- The standard deviation (s) (refer to Table 3.11).
- The coefficient of correlation (r) (refer to Table 3.12).
- The coefficient of determination (R^2) (refer to Table 3.12).
- The statistical significance (p-values) (refer to Table 3.13 – 3.16).
- The effective size (d-values) (refer to Table 3.13 – 3.16).

The reliability of the research instrument "questionnaire" was determined by means of the Cronbach alpha coefficient of each of the constructs. None of the constructs' Cronbach alpha coefficients were lower than the routine cut-off value of 0.70. This indicates that the questionnaire used in this study to measure the latent constructs has acceptable reliability and can be accepted as internally consistent.

The evaluation of the constructs determining family harmony was discussed in **paragraph 3.8**. The highest mean score calculated was for the construct **Family commitment** ($\bar{x}$ = 6.144) and the lowest score was **Governance** ($\bar{x}$ = 4.663). The average mean score was $\bar{x}$ = 5.605. This means in practice a high level of agreement with the statements / items concerned with **Family commitment** and a relatively low agreement with the statements / items concerned with **governance**.

The evaluation of the construct **Perceived future continuity** was discussed in **paragraph 3.9**. The average score for the construct **Perceived future continuity** was $\bar{x} = 5.841$. The coefficient of correlation for the construct **Perceived future continuity** was calculated at (r = 0.557), which also indicate the relatively strong linear relationship between the construct and **Family harmony**.

The correlation between family harmony and the constructs (**paragraph 3.10**) can be summarised as follows:

- The correlation between family harmony and the constructs were discussed in **paragraph 3.10** and revealed that Based on Cohen's rules, it is evident from **Table 3.12** that the independent variables, **Non-family members** (r = 0.288), **Inactive family members** (r = 0.289), **Governance** (r = 0.384) and **Financial** (r = 0.479) have a visible effect on the dependent variable, **Family harmony**. The rest of the independent variables (refer to **Table 3.12**), however, have a large or practical significant effect (r > 0.50) on the dependent variable, **Family harmony**.

The relationship between **family involvement** and the constructs (**paragraph 3.11.1**):

- **Statistical significant differences (p-values):** There is definite statistical prove (p > 0.05) that there is agreement between **active** and **inactive** family members with regard to the following independent variables such as **Governance** (p = 0.736), **Inactive family members** (p = 0.185) and **Non-family members** (p = 0.138).
- **Practical significant differences (d-values):** There are however no practical significant difference between the perceptions of the **active** and **inactively** family members in the businesses, since none of the other constructs have d-values close to (d-value = 0.80).

Relationship between gender and the constructs (**paragraph 3.11.2**):

- **Statistical significant differences (p-values): Table 3.13** indicates that there are no statistical significant (p < 0.05) difference between the perception of **male** and **female** family members with regard to the independent variables, since none of the constructs had p-values smaller than 0.05.

- **Practical significant differences (*d*-values):** There are no practical significant difference between the perceptions of the **male** family members and the **female** family members in the businesses, since none of the other constructs have *d*-values close to (*d*-value = 0.80).

Relationship between the demographic variable and the dependent variable, **Family harmony** (**paragraph 3.12**):

- **Statistical significant differences (*p*-values): Table 3.15** indicate that there are a statistical significant ($p < 0.05$) difference between the demographical value of **active family members** and **inactive family members** with regards to the following dependent variable **Family harmony** ($p = 0.001$).

  No statistical significant differences ($p < 0.05$) exist between the demographical values ($p = 0.552$) of **male** and **female** respondents with regards to the dependent variable **Family harmony**.

- **Practical significant differences (*d*-values):** The demographical variable related to **active** and **inactive family members** (*d*-value = 0.43) have a visible effect on the independent variable **Family harmony**.

Relationship between the demographic variables and the construct, **Perceived future continuity** (**paragraph 3.13**):

- **Statistical significant differences (*p*-values): Table 3.16** indicates that there are a statistical significant ($p < 0.05$) difference between the mean values calculated for the **Active family members** and **Inactive family members** ($p = 0.025$) as well as the difference between **Male** and **Female** ($p = 0.028$) with regard to the construct **Perceived future continuity**.

Practical significant differences (*d*-values): The demographical variables related to **Active** and **Inactive family members** (*d*-value = 0.32) and **Male** and **Female** ($p = 0.031$) with regard to the construct **Perceived future continuity** have a small to visible effect on the independent construct **Perceived future continuity.**

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

4.1 INTRODUCTION

In this chapter conclusions and recommendations will be discussed based on the determinants family harmony in family businesses as discussed in the literature study (Chapter 2) and investigated in the empirical study (Chapter 3). The chapter will conclude with a critical evaluation of the achievement of the objectives of this study and suggestions for future research.

4.2 CONCLUSIONS ON THE EMPIRICAL STUDY

The empirical research included 31 family businesses in the Rustenburg, Brits, Thabazimbi and Lydenburg area situated in the North-West and Mpumalanga provinces. The conclusion of the study will be based on the literature review presented in Chapter 2 and the results of the empirical study presented in Chapter 3. The conclusion will focus on the identified determinants influencing harmonious family relationships in the family and the businesses.

4.2.1 Conclusions on biographical data analysis

A total of 96 active and 88 inactive family members from 31 family businesses participated in the research study. The following biographical factors were analysed:

- Age.
- Marital status.
- Relationship to the senior generation family member.
- Highest academic qualification.

Active family members (52%) are those who are permanently employed in the family business and they represent the majority of the study population and respondents. Inactive family (48%) members could include spouses, children, in-laws, brothers

and sisters that are not permanently employed in the family business. Although the inactive family members were the minority in this study, they form a fundamental part of the family dynamics. They have immense impact on the behaviour and attitude of the active family members.

About 20 percent of all family members that participated in this study are younger than 29 years of age. This entail that there is a major portion of the family that just entered the family business, are still in school or busy completing their secondary education. Only 46 percent of the participants are between 30 to 49 years old. This group do not even make out 50 percent of the work force and they form part of the potential future successors of the business. The age group 50 to 59 years old constitutes 20 percent of the total participants and are still active in the family business. They should, however, start to prepare themselves to transfer the business within the next 10 tot 15 years to the younger generation family members.

When analysing the business it is important to know if active family members are married or not, as marriage influence the managing of the business and several decision making processes in the business. Unmarried family members (20%) might effortlessly leave the family business or avoid joining the business at all, this might put pressure on successful succession. Married people (71%) tend to be more risk averse and they will tend to stick with the business, but being married also influence the family member's judgement and commitment towards other family members.

The category of participants with qualifications lower than matric is in the order of 16 percent, this indicate that a substantial number of family members are dependent on the family business to sustain themselves. The group that have matric and certificates add up to about 45 percent of the family members. These high numbers help to form a reliable and solid basis for the family business as formal qualification levels of family members have an impact on the way they make decisions and the way they think. The group with secondary qualifications (39%) such as a technicon diploma, university degree or post graduate degree could ensure that the family business is build on a solid platform of expertise, skills and knowledge.

4.2.2 Conclusions on family business information

A total of 31 family businesses participated in the study, and they were all located in the Rustenburg, Brits, Thabazimbi and Lydenburg area. Section C in the active family member questionnaire was only completed by the senior generation owner-manager of the participating family businesses. This section gathered information such as:

- The number of permanent employees in the business.
- The family business turnover.
- The business industry.
- The age of the business.
- The generation (e.g. 1st, 2nd or 3rd) family members involved in the business.
- The legal status of the participating family businesses.

Family businesses with 1 to 10 permanent employees (very small businesses) represented 45 percent of the participating businesses. Family businesses with 11 to 50 permanent employees (small businesses) also represented 45 percent of the participating businesses. Only 6 percent of the participating family businesses can be classified as medium-sized businesses (51-200 permanent employees) and only three percent as a large business (200 plus employees).

The fact that only 16 percent of the businesses' turnover is less than R 1 million is a positive sign indicating that the fairly young businesses show substantial growth to be able to push turnover above the R 1 million mark. The middle group of businesses that have a turnover between R 1 million and R 50 million represent 75 percent of the participating family businesses. Unfortunately the larger businesses represent only 10 percent of the participating businesses. This might be an indication that the smaller businesses do not transfer from first to second generation and therefore close down, or they were not able to develop into larger businesses.

The industries that participated in the study represent various industries such as automotive, agriculture, construction, food, retail, wholesale, manufacturing and

services. The various industries may have an impact on the number of permanent employees required to operate the business and it determines the academic qualifications that employees require.

The legal status of the family businesses is important when management succession and ownership planning in the family business takes place. The majority of the participating businesses are registered as close corporations (58%). This is also due to the fact that most of the micro and small business are registered as close corporations. The tendency is that larger businesses transform their structures into private companies (29%).

4.2.3 Conclusions on the constructs determining family harmony

During the literature review in Chapter two it was clearly defined that various determinants or constructs influence the harmonious relationship within the family and the family business. Based on a comprehensive literature review two measuring instruments were developed by prof E. Venter (NMMU), Dr S. Farrington (NMMU) and Dr S.P. Van der Merwe (NWU) (questionnaires, refer to Appendix A and B). These two instruments (active and inactive) were used to assess the determinants of family harmony in the participating family businesses.

Overall, the scores on all the constructs were quite high, between 4 and 5 on a 7-point Likert scale, indicating that family members have a positive perception of the determinants of family harmony, family harmony and the perceived success of the business.

The family members evaluated the construct **Commitment** ($\bar{x}$ = 6.144) the most positive (on a 7-point Likert scale). They, however, in general disagree with the statements measuring the two constructs **Non-family members** ($\bar{x}$ = 4.856) and **Governance** ($\bar{x}$ = 4.663).

4.2.4 Conclusions on the Cronbach Alpha coefficients of the constructs

The Cronbach alpha coefficients of the constructs were calculated in order to establish the internal consistency between the items of the questionnaire. The Cronbach alpha coefficient is based on the average correlation of variables within a test (SAS Institute, Inc., 2005: 295). The greater the Cronbach alpha coefficient, the more reliable is the scale. If the Cronbach alpha coefficient is greater than 0.7 it could be interpreted as reliable and internally consistent (SAS Institute Inc., 2005). All 184 participants' responses were used to determine the reliability of the different constructs. All the Cronbach Alpha values (refer to **Table 3.10**) are greater than the cut-off value of 0.70. This suggests that the questionnaire used in this study to measure the determinants of family harmony has acceptable reliability and are internally consistent.

4.2.5 Conclusions on the correlation between family harmony and constructs

The only two constructs or independent variables that did not have a strong correlation with the independent variable was **Non-family members** (r = 0.288) and **Inactive family members** (r = 0.289). Both of the constructs had a small effect on the dependent variable, **Family harmony**, the rest of the constructs showed a strong tendency towards the dependent variable family harmony. Therefore it indicates that the family members that participated in the study agreed that these determinants do in fact influence family harmony.

4.2.6 Conclusions on the relationship between demographic variables and the constructs

The results indicate that, although the average scores for active members are higher than those for inactive members, it could not be regarded as a practically significant difference between the perceptions of active and inactive family members regarding conflict management and harmonious family relationships.

The results furthermore, indicate that, although the average scores for male family employees differs in some instances from those for female family employees, it could

not be regarded as a practically significant difference between the perceptions of male and female family employees regarding any of the constructs measuring family harmony in the participating family businesses.

4.3 PRACTICAL RECOMMENDATIONS

The primary objective of this study is to formulate recommendations that will enhance family harmony, and ultimately impact future continuity of the business. The recommendations are based on the information gathered during the literature review and the analysis that was drawn from the empirical study.

Establish communication channels

Often the family gets so bogged down in the day-to-day running of the business or other occupations that there is no time left to discuss important matters or to build human relationships. This study underlines the fact that urgent attention should be given to building healthy interpersonal relationships among all family members. Family forums are an excellent communication improvement tool to prevent conflict from becoming a full-blooded argument and to end existing differences of opinion, however small or insignificant they may seem (Van der Merwe & Ellis, 2007).

Many people find discussing business matters and the unique involvement of the family in the business around a table a daunting prospect. The majority of business families avoid discussions about family and business matters as they feel it may result in conflict, assuming that quiet and clandestine decision-making will preserve the family relations. Usually the opposite happens, as it often results in major differences of opinion, which tend to become more difficult to resolve in the long run.

Communication and discussions between family members in a family business should be an ongoing process that must be promoted by senior members in the family. It is important that family members sit down and feel comfortable talking about difficult issues or to be in disagreement with each other, this will ensure that family members will know how to handle conflict when it arises. If family members do not

communicate well, then it can not be expected that they will be able to inter act any better in a business environment

Establishing and maintaining a family forum in the family business, therefore, should be encouraged actively. Aspects such as the vision of the family and the business, communication enhancement among all family members, their individual dreams and needs, conflict management, corporate governance in the business, performance measurement, the compensation of family members and succession and ownership planning are all urgent and weighty issues to put on the table for discussion.

The family forum usually meets for one or two days at a family gathering in relaxed surroundings, away from day-to-day work and home activities. All the adult family members – including active and non-active members and children-in-law – constitute the family forum. The forum should be held at a place where everyone is on an equal footing. It would be unwise, for instance, to hold the meeting at the home of a dominant family member.

Where family members live far apart, the family forum could meet during a school holiday or over a weekend. It is important to make every effort to find a time that will suit everyone. The difficult task of finding a suitable date should not, however, be used as an excuse not to convene a meeting.

At the family forum meeting ample time should be set aside for formal discussions and feedback sessions, but social activities should also be catered for. The aim of a family forum should also be to improve communication between active and non-active family members. Non-active members should therefore be encouraged to have their say. The family forum should focus on those aspects that are important for the continued survival of the family business – including family as well as business matters. The forum can also be used very constructively to provide information to the non-active members.

During the first family forum meeting, it is preferable not to discuss sensitive issues. The members should first get used to this type of interaction, and the focus should rather be on general matters such as the purpose of the family forum, how it will

operate, whether an executive committee will be necessary and feedback regarding business operations. At this stage the aim is to build mutual trust and respect. The family should realise that the family forum is there for all family members. It is not a forum where the active members may enforce their opinions upon the non-active members.

Conflict management

The fact that there will always be conflict between relatives in the business is unavoidable. Avoiding conflict is not the answer, it needs to be managed to ensure that one finds the solution in reducing the impact of conflict on family harmony. Family conflict is undoubtedly the number one cause of failure within a family business and is normally seen as one of the most destructive determinants impacting on family harmony. It is therefore that all family members need to communicate and clear any misunderstandings.

To avoid conflict, both parties should be willing to communicate openly and honestly and share business information and ideas with each other. All relationships need repair at some time or another, with the constant communication these repair work on relations will happen automatically without anyone noticing. Avoidance of inter-family conflict and putting it aside can avert a further escalation of conflict. It is suggested that the family have a weekly get-together by means of supper or any other form of entertainment to create a relaxed atmosphere to allow family members to communicate their point of view and the senior family members need to encourage this behaviour.

Senior family members need to act as mediator and help to resolve conflict to minimize the impact. Regular meetings in the form of family forums, discussing issues such as prevention and management of conflict, succession and ownership planning, vision of the business, performance management and corporate governance. It is evident that regular family forums are an important tool to foster harmony in family businesses, but encourage feedback by every member, followed by enough time for social activities.

The following three steps are suggested to manage conflict and stress in a family business:

- Identify issues that may cause conflict and stress.
- Discuss these issues with the family.
- Formulate a policy to address the issues.

Commitment to the family and the business

Family member's commitment towards family harmony and the vision of the business is vital for the business continuity plan. The continuity plan plays an important role in giving clear vision to family members in terms of expectations and obligations towards the family business.

The commitment of all the role players including non-family members and non-active family members that are involved with the business has a direct impact on the harmony in the business. The family have to have a common goal and aligned vision that will ensure a continuing legacy in which the family's traditions, identity and culture are embodied. The family must be clear about the positive link between the longevity of the business and the well-being of the family. It is important that senior family members discuss the vision of the family business on a regular basis

Mutual trust and respect

Trust provides a powerful advantage to a family business, trust is the one thing that underlies the competitive advantage and distinctiveness of a family business. Family members **MUST** be able to trust each other with the important facts that need to be known in the business. The following five points will promote trust between family members:

- **Integrity:** Having a reputation for honesty and truthfulness.
- **Competence:** Requirements such as technical knowledge and interpersonal skills.
- **Openness:** Give recognition, praise people in public and punish them in privacy.
- **Loyalty:** Protect, support and encourage employees and family members.
- **Consistency:** Need to be reliable, predictable and practice good judgment.

Governance

Corporate governance is a very important aspect of the family business. Families must design a protocol and establish a framework for outlining the basic values and beliefs of the family. Family forums provide a platform to inform the inactive members on the rules and regulations of the business. The role of the family forum is to add value by directing, controlling, guarding, monitoring, protecting assets for the future continuity of the business.

The governance structure of any business should also include the fair labour practise policies to ensure that any labour issues are dealt with consistently and that any situation is handled in a professional manner

The design of governance structures in a family business must be to safeguard the long-term interest of the family shareholders. The aim is to ensure growth, continuity, welfare and promoting family harmony in the family. Regular meetings must be held concerning the family business to review business strategy and to discuss mutual interests, these actions will impact profitability and succession planning will benefit family harmony

Promote fairness in the business

A policy with ground rules for employment of family members should be put in place to monitor the appointment of family employees and also to ensure that remuneration is according to merits and accomplishments and not according to age, gender or family bond. Questions about the remuneration of family members can become very complex and it can become unmanageable as the business grows.

The formulation of bonus structures and salary levels should have a policy that dictates the structure of remuneration and a performance management system to ensure fair employment for all family and non-family employees. This system should result in an increase of productivity and employee morale should also be boosted. Implementing a well thought through and professional system also gives the non-family employee the confidence that they have control over their own destiny within

the family business and that they can claim the same benefits as the family employees.

Job descriptions indicating the work roles and responsibilities need to be prepared with sufficient detail to serve as structuring wage classifications and as rating performances. There must be a written procedure that includes a form of a balanced scorecard that must be used during interviews. The procedure must include a standard interview format that allows one to evaluate candidates and compare them to each other and the evaluation process should assist in making the right decision.

Disciplinary action also needs to take place if there are certain individuals that do not meet the minimum requirements (performance levels) that are set for the job. Failing to act against such employees creates suspicion in the fairness of the human resources practices, especially if it is a family member.

Succession and ownership planning

Management succession is an emotional issue that could create serious conflict in the family business. Family businesses should, therefore, start to plan for management succession on an early stage just after the younger generation entered the family business. It is important to address the issue of succession before it become personal and emotional and can therefore be addressed more comfortable and more rationally (Van der Merwe, Venter & Ellis, 2009).

Management succession is an ongoing process and a family should never postpone addressing the issue – rather sooner than later. Planning should start as early as possible. It is recommended that family businesses establish a task team to plan for management succession. This team could include the senior generation owner-managers (parents), the prospective successor, other key family members, directors and non-family managers. Such a task team could be appointed during a family forum meeting to obtain a mandate from the entire family. The process should be planned meticulously and the issue of management succession should receive urgent attention.

The discussion of management succession on a regular basis during family forum meetings can also play a pivotal role to ensure the success of the family business (Van der Merwe *et al.*, 2009).

Retirement and estate planning is also an emotional issues. Therefore, thoughts and feelings about ownership succession need to be discussed through honest and open communication. Family members should become comfortable sharing ideas and different perspectives regarding retirement and estate planning. It is recommended that family businesses discuss ownership succession at an official family forum meeting. The family forum comprises all the adult family members, including inactive offspring and children-in-law. It is a good forum for expression of thoughts and feelings about ownership succession. When family members feel included and can voice their complaints, it is often possible to resolve problems and challenges collaboratively (Van der Merwe, 2009: 24).

4.4 CRITICAL EVALUATION OF THE STUDY

The measurement of success of this study is based upon the achievement of the primary and secondary objectives, as indicated in **Section 1.4** of this study.

4.4.1 Primary objective

The primary objective of the study was to empirically explore and identify related determinants impacting directly or indirectly on family harmony within small and medium-sized family-owned businesses in the North-West and Mpumalanga provinces in South Africa.

The achievement of the primary objective was depended upon the realising the secondary objectives.

4.4.2 Secondary objectives

As indicated in paragraph 1.4.2, the secondary objectives had to be met to be able to achieve the primary objectives. The following secondary objectives were formulated:

Secondary objectives

In order to address the primary objective the following secondary objectives were formulated:

- To investigate and identify the determinants impacting family harmony in small and medium-sized family business by means of a literature review.
- To gain insight into the driving forces of the family business by means of literature review.
- To assess the determinants of family harmony in small and medium-sized family businesses.
- To validate the diagnostic questionnaire by means of statistical analysis.
- Suggest practical recommendations on how to manage the various determinants to improve family harmony in family businesses.

The **first objective** was achieved by establishing the determinants and gaining insight into these determinants impacting family harmony in the family and family business as presented in **paragraph 2.7** in **chapter 2** of this study.

The **second objective**, to obtain insight into the dynamics of family businesses by means of a literature review, was achieved by means of the literature review as presented in **paragraph 2.5** and **paragraph 2.7** in **chapter 2**.

The **third objective** was to assess the determinants of family harmony in small and medium-sized family businesses, was achieved by means of a detailed literature review (refer to **section 2.7**), followed by an evaluation thereof in chapter three (refer to **paragraph 3.8**), as well as conclusions made in chapter four (refer to **paragraph 4.2.3**).

The **fourth objective** was to determine the reliability of the existing questionnaire. This objective was achieved as it was concluded that the existing questionnaire has acceptable reliability. The empirical study in **paragraph 3.6** discussed the calculated Cronbach alpha coefficients and the conclusions were put forward in **section 4.2.4** of this study.

The **fifth objective** was to suggest practical recommendations on how to manage the various determinants to improve family harmony in family businesses, this was achieved by presenting practical recommendations in **paragraph 4.3** of this study.

The conclusion can thus be made that all of the secondary objectives were achieved. Based on the realising of the secondary objectives, as well as the recommendations for future study put forward in **paragraph 4.5**, it can be concluded that the primary objective of this study was achieved.

4.5 SUGGESTIONS FOR FUTURE RESEARCH

Research on family businesses in South Africa is far behind the advanced studies done in the United States of America and in Europe. The following are some recommendations for future research studies:

- The study attempted to make a contribution to the body of knowledge on the determinants of family harmony in small and medium-sized family businesses and can be regarded as a small step towards moving away from the current dependence on anecdotal evidence and case studies. This study, however, only assessed some of the determinants of family harmony in a relative small sample of family businesses and can be regarded as an exploratory study. More comprehensive research is still needed to clarify all the underlying dimensions of management succession planning in family businesses to enhance our understanding of these issues.
- Based on the fact that published evidence of a quantitative nature (premised on empirical evidence of the determinants of management succession planning in small and medium-sized family businesses) both nationally and

internationally is still limited, the findings of this study presents challenges for further research.

- A major concern detected in this study is that almost half the respondents' shareholding distribution did not add up to 100%; future study could aim to determine what the reason for this is and how it can affect the success of family businesses.
- All family businesses that participated in this study were "white" owned. A big entrepreneurial issue, however, is that large institutions require that a traditional "white" business must acquire a Black Economic Empowerment (BEE) partner. Future studies could do research on mixed partnerships to determine the effect, if any, on the successes of especially small and medium family businesses.
- Future studies could aim to develop a comprehensive database on family businesses, from which probability samples can be drawn.
- It is recommended that further research should be conducted to determine the validity of the questionnaire by means of exploratory and confirmatory factor analysis.

4.6 SUMMARY

In this chapter, conclusions and recommendations were drawn based on the determinants of family harmony in family businesses, as identified during the literature review in chapter two and the empirical study in **chapter 3**.

An existed structured questionnaire was administrated to 31 family businesses in the Rustenburg, Brits, Thabazimbi and Lydenburg area. The data was processed and the conclusions were determined from these statistics.

The total number of family members that participated in the study came to 184 people from which 96 were active family members and 88 were inactive family members. The biographical factors were analysed and conclusions were drawn based on the statistics and are explained in **paragraph 4.2.1**.

Paragraph 4.2.2 reflect the data of the family business structure such as the number of permanent employees in the business, family business turnover, the business industry, age of the business, generation family members involved and the legal status of the participating family business.

Conclusions of the 13 determinants of family harmony can be drawn from the results and are presented in **paragraphs 4.2.3.** The reliability of the questionnaire is analysed by means of the Cronbach alpha coefficients and the conclusion is presented in **paragraph 4.2.4**. In **paragraph 4.2.5** the correlation between family harmony and the independent variables (constructs) are reflected and **paragraph 4.2.6** reflects the relationship between the demographic variables and the constructs.

Practical recommendations were formulated in chapter two. The literature review and the empirical results were analysed and then used as basis to generate the recommendations reflected in **paragraph 4.3**. The recommendations are focused on the determinants that have the most severe impact on harmonious family relations. The determinants that were addressed in the **paragraph 4.3** were, Commitment, Trust, Governance, Fairness and Senior family members (succession planning).

The realisation of the study objectives was tested against outcomes achieved in the study. The primary objective was achieved as was depicted through the conclusions and recommendations. The secondary objectives were achieved through the definition of a family business, through obtaining information on the determinants of family harmony in family businesses by means of a literature study and an empirical study (refer to **paragraph 4.4**).

The chapter concluded with recommendations made for future research studies presented in **paragraph 4.5**.

REFERENCES

ACKERMAN, R. 2001. Hearing grasshopper's jump: The story of Raymond Ackerman as told to Denise Prichard. Cape Town: David Phillip.

ADENDORFF, C., BOSHOFF, C., COURT, P. and RADLOFF, S. 2005. The impact of planning on good governance practices in South African Greek family businesses. *Management Dynamics*, 14 (4): 34-46

ADENDORFF, C., VENTER, E & BOSHOFF, C. 2008. The impact of family harmony on governance practices in South African Greek family businesses. *Management Dynamics,* 17 (3): 28-44.

ALLIO, M.K. & ALLIO, R.J. 2005. Practical Strategy for family business. New Delhi: Tata McGraw-Hill.

ARONOFF, C.E. 1998. Megatrends in family business. *Family Business Review*, 11 (3): 181-186.

ARONOFF, C.E., ASTRACHAN, J.H. & WARD, J.L. 2002. Family business sourcebook. 3rd ed. Marietta, GA: Family Enterprise Publishers.

ARONOFF, C.E. & BASKIN, O.W. 2005. Effective leadership in the family business. Marietta, GA: Family Enterprise Publishers

ARONOFF, C.E. & WARD, J.L. 2001. Family business ownership: How to be an effective shareholder. Marietta, GA: Family Enterprise Publishers.

ARONOFF, C.E. & WARD, J.L. 2000. More than family: Non-family executives in the family business. Marietta, GA: Family Enterprise Publishers.

ARONOFF, C.E. & WARD, J.L. 1996. Family business governance: Maximising family and business potential. 4th ed. Marietta, GA: Family Enterprise Publishers.

ASTRACHAN, J.H. & KOLENKO, T.A. 1994. A neglected factor explaining family business success: Human resource practises. *Family Business Review*, 7 (3): 251-262.

ASTRACHAN, J.H. & MCMILLAN, K.S. 2003. Conflict and communication in the family business. Marietta, GA: Family Enterprise Publisher.

BARNETT, T. & KELLERMANS, F. W. 2006. Are we family and are we treated as family? Non-family employee's perceptions of justice in the family firm. *Entrepreneurship Theory and Practise,* 30 (6): 837-854.

BARRETT, J.E. 2001. Are you paying to much – or too little? *In* the family business compensation handbook. Ed. B. Spector. Philadelphia, PA: Family Business Publishing.

BARTHOLOMEUSZ, S. & TANEWSKI, G.A. 2006. The relationship between family firms and corporative governance. *Journal of Small Business Management*, 44 (2): 245-267.

BASU, A. 2004. Entrepreneurial aspirations among family business owners, *International Journal of Entrepreneurial Behaviour & Research,* 10 (1/2): 12-33.

BJUGGREN, P. & SUND, L. 2001. Strategic decision making in intergenerational successions of small- and medium-sized family-owned businesses, *Family Business Review,* 14 (1): 11-23.

BORK, D., JAFFE, D., LANE, S.H. & HEISLER, G. 1993. Consulting to family businesses: a guide for the attorney and other professionals. San Francisco, CA: Jossey-Bass.

BRIGHAM, E.F. & EHRHARDT, M.C. 2005. Financial management: Theory and practise. 11th ed. Boston, MA: Thompson South-Western.

BROOKS, G. 2001. Reviewing compensation policies and procedures, In Spector, B (ed.) Philadelphia, PA: Family Business Publishing.

BUCHHOLZ, B.B., CRANE, M. & NAGER, R.W. 2000. Arthur Andersons answers the 101 toughest questions about family businesses. Paramus, NJ: Prentice Hall.

CARLOCK, R.S. & WARD, J.L. 2001. Strategic planning for the family business: Parallel planning to unify the family and the business. Hampshire: Creative Print & Design.

CARSUD, A.L. 2006. Commentary: Are we and are we treated as family? Nonfamily employee's perceptions of justice in the family firm: It all depends on perceptions of family, fairness, equity, and justice. *Entrepreneurship Theory and Practise*, 30 (6): 855-860.

CHRISMAN, J.J., CHUA, J.H. & SHARMA, P. 2003. Succession and non-succession concerns of family firms and agency relationship with nonfamily managers. *Family Business Review*, XVI (2): 89-107.

CHRISMAN, J.J., CHUA, J.H. & SHARMA, P. 1998. Important attributes of success in family businesses: An exploratory study. *Family Business Review*, 12 (1): 19-34.

CHRISMAN, J.J., STEIER, L.P. & CHUA, J.H. 2008. Towards a theoretical basis for understanding the dynamics of strategic performance in family firms. *Entrepreneurship Theory and Practise,* 32 (6): 935-947.

CHRISMAN, J.J., STEIER, L.P. & CHUA, J.H. 2006. Personalism, particularism and the competitive behaviours and advantages of family firms: An introduction. *Entrepreneurship Theory and Practise,* 30 (6): 719-729.

COHEN, M. 1992. Passing the torch: Succession, retirement and estate planning in family owned business. 2nd ed. New York, NY: McGraw-Hill.

CORBETTA, C. & MONTEMERLO, D. 1999. Ownership, governance, and management issues in Small and Medium-size Family Businesses: A comparison of Italy and the United states. *Family Business Review,* XII (4): 361-374.

CROSBIE, A. 2000. Don't leave it to the children: Starting, building and sustaining a family business. Dublin: Mercler Press.

CUMMINGS, T.G. & WORLEY, C.G. 2005. Organisational development and change. 8th ed. Cincinnati, OH: South-Western.

DENOBLE, A., EHRLICH, S. and SINGH, G. 2007. Toward the development of a family business self-efficacy scale: A resource-based perspective, *Family Business Review,* 20 (2): 127-140.

DICKENSON, T.M. 2000. Critical success factors for succession planning in family businesses. Unpublished research report in partial fulfilment of the degree of Master in Business Administration, Faculty of Business Administration, University of Witwatersrand, Johannesburg.

DRISCOLL, M. & KORMAN, M. 2001. 'Achieving competitive advantage through performance management', In Spector, B. (Ed.) *The family business compensation handbook.* Philadelphia, PA: Family Business Publishing.

DWYER, D. 2001. This business of family. Sainte-Anne-de-Bellevue, Quebec: Shoreline.

DYER, W.G. & WHETTEN, D.A. 2006. Family firms and social responsibility: Preliminary evidence from the S&P 500. *Entrepreneurship Theory and Practice,* 30 (6): 785-802

EGAN, R.D. 1998. Governance in a family business. *The Family Business Network Newsletter*, 20 (5): 3-5.

EHRHARDT, O., NOWAK, E. & WEBER, F. 2005. The evolution of Ownership, control and performance in German family-owned firms 1903-2003. Swiss Frane Institute Research Paper Series, 6 (13): 1-44.

ELLIS, S.M. & STEYN, H.S. 2003. Practical significance (effect sizes) versus or in combination with statistical significance (*p*-values). *Management Dynamics*, 12 (4): 51-53

EMENS, J.R. & WOLPER, B.E. 2000. Family business basics: The guide to family business financial success. New Albany, OH: AASF Publications.

ENGINE OF GROWTH. 1994. *Finance Week,* 4-40 August: 25.

FIELD, A. 2005. Discovering statistics using SPSS. London: Sage.

FLEMMING, Q.J. 2000. Keeping the family baggage out of the family business: Avoiding the seven deadly sins that destroy family business. New York, NY: Fireside.

FOX, M., NILAKANT, V. & HAMILTON, R.T. 1996. Managing succession in family-owned businesses. *International Small Business Journal*, 15 (1): 15-25.

FRIEDMAN, S.E. 1998. The successful family business. Amherst, NY: The NGP Publishers LLC.

GILDING, M. 2000. Family business and family change: Individual autonomy, democratisation and the new family business institutions. Family business review, XIII (3): 239-249.

HABBERSHON, T.G. & WILLIAMS, M.L. 1999. A resource-based framework for assessing the strategic advantages of family firms. *Family Business Review*, 12 (1): 1-25.

HANDLER, W.C. 1994. Succession in family business: A review of the research. *Family Business Review*, 7 (2): 133-157.

HANDLER, W.C. 1989a. Managing the family firm succession process: The next generation family member's experience. Unpublished doctoral thesis, Boston University, Boston.

HANDLER, W.C. 1989b. Methodological issues and considerations in studying family business, *Family business Review,* II (3): 257-276.

HARRIS, R.I.D., REID, R.S. & McADAM, R. 2004. Consultation and communication in family business in Great Britain. *The international journal of human resource management*, 15 (8): 1424-1444.

HAYNES, M. 2005. Preserve your business and family bonds for generations and generations. *Professional Remodeler*, August 2005.

HELLRIEGEL, D., JACKSON, S.E. & SLOCUM, J.W. Jr. 2002. Management: a competency-based approach. 9th ed. Cincinnati, OH: South-Western.

HUGO, P.F. 1996. The alternative business entities available to family business with succession as the ultimate goal. MBA treatise, Business School of Stellenbosch, Bellville.

HUME, S.A. 1999. An assessment of the risk of family business failure. Unpublished doctoral thesis, Antioch University, New Hampshire.

IBRAHIM, A.B. & ELLIS W.H. 2004. Family business management: Concepts and practice. 2nd ed. Dubuque, LA: Kendall / Hunt

IFERA, 2005. International Family Enterprise Research Academy, *Journal of the Family Institute,* 16 (3) Sept.

JAFFE, D.T. 1991. Working with the ones you love: Strategies for a successful family business. Berkeley, CA: Conari Press.

JONOVIC, D.J. 1997. The ultimate legacy: how owners of family and closely held business can achieve real purpose. Cleveland, OH: Jamieson.

KENYON-ROUVINEZ, D. & WARD, J.L. 2005. Family business key issues. New York, NY: MacMillan Publishing Company.

KETS DE VRIES, M.F.R. 1996. Family Businesses: human dilemmas in the family firm. London: International Thompson Business Press.

KOENIG, N.N. 2000. You can't fire me I'm your father: What every family business needs to know for success. Washington, DC: Kiplinger Books.

LANSBERG, I. 1998. A step-by-step guide to successful planning, *In* Family Business Magazine (eds.). The family business leadership handbook: The complete resource for improving your leadership skills and developing leaders in your family and business. Philadelphia, PA.: Family Business Publishing.

LANSBERG, I. 1999. Succeeding generations: realising the dream of families in business. Boston, MA: Harvard Business School Press.

LEACH, P. 1994. The Story Hayward Guide to the family business. Second edition. London, UK: Kohan Page.

LEACH, P. & BOGOD, T. 1999. Guide to family businesses. Third edition. London, UK: Kogan Page.

LEENDERS, M. & WAARTS, E. 2003. Competitiveness and evolution of family business: The role of family and business orientation. *European Management Journal*, 21 (6): 686-697

LEVINE, D.M., STEPHAN, D.F., KREHBIEL, T.C. & BERENSON, M.L. 2007. Statistics for managers using Microsoft Excel. 5th ed. Upper Saddle River, NJ: Pearson Prentice Hall.

LOEB, M.E. 2001. Employee evaluations and promotions in the family firm, In Spector, B. (Ed.) The family business compensation handbook. Philadelphia, PA: Family Business Publishing.

MAAS, G., VAN DER MERWE, S. P. & VENTER, E. 2005. Family business in South Africa: a practical governance guide. Stellenbosch: Content Solution.

MALONE, S.C. 1989. Selected correlates of business continuity planning in the family business. *Family Business Review*, 2 (4): 341-353.

MATTHEWS, C.H., MOORE, T.W. & FIALKO, A.S. 1999. Succession in the family firm: A cognitive categorisation perspective, *Family Business Review,* 12 (2): 159-169.

McCANN, G., HAMMON, G., KEYT, A. & FUJIUCHI, K. 2004. A view from afar: Re-thinking the director's role in university-based family business programs. *Family Business Review,* 17 (3): 203

McCLENDON, R. & KADIS, B. 2004. Reconciling relationships and preserving the family business: Tools for success. Binghamton, NY: The Haworth Press.

McCOLLOM, M. 1992. The ownership trust and succession paralysis in the family business. *Family Business Review*, 5 (2): 145-160.

MEYER, L. 1994. The influence of the family-business interaction on strategic management in family business. A Masters technical report, University of Stellenbosch, Stellenbosch.

MEYER, J.P. & HERSCOVITCH, L. 2001. Commitment in the work place: Toward a general model. *Human Resource Management Review*, 11 (3): 299-326.

MILLER, D. & LE BRETON-MILLER, I. 2005. Managing for the long run: lessons in competitive advantage for great family businesses. Boston, Mass.: Harvard Business School Press.

MILLER, D., LE BRETON, I. & SCHOLNICK, B. 2008. Stewardship vs. stagnation: An empirical comparison of small family and non-family businesses. *Journal of management studies,* 45: 51-78.

MITCHELL, R.K., MORSE, E.A. & SHARMA, P. 2003. The transacting cognitions of nonfamily employees in the family business setting. *Journal of Business Venturing,* 18 (4): 533-551

MOORES, K. & BARRETT, M. 2002. Learning family business: Paradoxes and pathways. Aldershot, Hampshire: Ashgate Publishing Limited

MORRIS, M.H., WILLIAMS, R.W., ALLEN, J.A. & AVILA, R.A. 1997. Correlates of Success in Family Transitions. *Journal of Business Venturing,* 12 (5): 341-422.

MURAK, G. 2001. The seven-alarm fire of family business compensation. In Spector, B. (Ed.). The family compensation handbook. Philadelphia, PA: Family Business Publishing.

NEUBAUER, F. & LANK, A.G. 1998. The family business-its governance for sustainability. New York, NY: Routledge.

PAGE, C. & MEYER, D. 2000. Applied research design for businesses and management. Roseville: McGraw-Hill.

PICKARD, L. 1999. Family business: United we stand divided we fall. Scottsdale, AZ: Avant-Courier Press.

PRICEWATERHOUSECOOPERS. 2008. Making a difference. The Pricewaterhouse-Coopers Family Business Survey, 2007 / 08.

RAWLS, L.H. 1999. Seeking succession: how to continue the family business legacy. Maitland, FL: Horizon Business Press.

REID, R., DUNN, B., CROMIE, S. & ADAMS, J. 1998. Family orientation in family firms: A model and some empirical evidence. *Journal of Small Business and Enterprise Development*, 6 (1): 55-67.

RIVERS, D.W. 2005. Perceptions for a healthy family business, Raleigh, NC: The Family Business Institute.

ROGOFF, E.G. & HECK, R.K.Z. 2003. Evolving research in entrepreneurship and family business: Recognising family as oxygen that feeds the fire of entrepreneurship. Journal of Business Venturing, 18 (5): 559-566.

SANTIAGO, A.L. 2000. Succession experiences in Philippine family businesses. *Family Business Review*, 8 (1): 15-40.

SAS INSTITUTE INC., 2005. SAS Institute Inc., SAS OnlineDoc, Version 9.1, Cary, NC: SAS Institute.

SEXTON, D. & UPTON, N. 1991. Entrepreneurship: Creativity and Growth. New York, NY: MacMillan.

SHANKER, M. 2000. The best of the family advisor. Marietta, GA: Family Enterprise Publishers.

SHARMA, P. 2004. An overview of the field of family businesses studies: Current status and directions for the future. *Family Business Review*, 17 (1): 1-36.

SHARMA, P. 1997. Determinants of the satisfaction of the primary stakeholders with the succession process in family firms. (Unpublished Ph.D thesis). Calgary, Canada: University of Calgary.

SHARMA, P. & IRVING, P.G. 2005. Four basis of family business successor commitment: Antecedents and consequences, *Entrepreneur Theory and Practice,* 29 (1): 13-33.

SHARMA, P., CHUA, J.H. & CHRISMAN, J.J. 2000. Perceptions about the extent of succession planning in Canadian family firms. *Canadian Journal of Administrative Sciences*, 17 (3): 233-244.

SIRMON, D.G. & HITT, M.A. 2003. Managing resources: Linking unique resources, Management and wealth creation in family firms. *Entrepreneurship Theory and Practise*, 27 (4): 339-358.

SLAUGHTER, W.S. 2008. An exploratory study of the determinants of family harmony in family business. Unpublished MBA dissertation, North-West University, Potchefstroom.

SMYRNIOS, K., TANEWSKI, G. & ROMANO, C. 1998. "Development of a measure of the characteristics of family business". Family Business Review, 11(1): 49-60.

SPSS INC. (2008) SPSS **R** 16.0 for Windows, Release 16.0.0 Copyright **c** by SPSS Inc., SPSS Inc.: Chicago, IL.

STATSOFT, INC. (2008) Statistica (Data Analysis Software System). Version 8. [www.statsoft.com]

STEMPLER, G.L. 1988. A study of succession in family owned businesses. Unpublished Ph.D thesis. The George Washington University, Washington.

SOLOMON, S.D. 1998. The family business leadership handbook: the complete resource for improving your leadership skills and developing leaders in your family and business. Philadelphia, PA: Family Business Publishing Co.

SORENSON, R.L. 1999. Conflict management strategies used by successful family businesses, *Family Business Review*, 12 (2): 133-145.

SPECTOR, B. 2001. Rational approaches to an emotional topic. In Spector, B. (Ed.). The family business compensation handbook. Philadelphia, PA: Family business Publishing.

STANALAND, T.B. 2008. The importance of separating family wealth from the family business. *Journal of Financial Service Professionals*, November 2008: 45-55.

STAVROU, E. 1995. The next generation's dilemma: To join or not to join the family business. *Family Firm Institute Conference Proceedings*. October 11-14, St. Louis, MO: 168-185.

SUNDARAMURTHY, C. & KREINER, G.E. 2008. Governing by managing identity boundaries: The case of family business. Entrepreneurship Theory and Practice, 32 (3): 415-436.

SWART, H.C. 2005. Evaluation of the factors that ensures long-term sustainability of family businesses. (Unpublished MBA mini-dissertation) North-West University, Vanderbijlpark, South Africa.

SYMS, M. 1992. Mind your own business: and keep it in the family. New York, NY: Master Media Limited.

THOMPSON, B. 2001. Significance, effect sizes, stepwise methods, and other issues: Strong arguments move the field. *Journal of Experimental Education*, 70: 80-93.

TIMMONS, J.A. & SPINELLI, S. 2007. New venture creation: Entrepreneurship for the 21st Century. 7th ed. New York. NY: McGraw-Hill International edition.

UPTON, N. 2001. Family Business Survival Kit: Preserve your legacy for generations. McLean, VA: National Institute of Business Management.

VAN DER MERWE, S.P. 2009. The assessment of the family vision generation process in small and medium-sized family businesses. *Southern African Business Review*, 18(2): 32-57.

VAN DER MERWE, S.P. 2008. Determinants of family employee work performance and compensation in family businesses. *Business Management*, 40 (1): 15-27.

VAN DER MERWE, S.P. 1998. Formal planning in family businesses in the Vaal Triangle (Unpublished Ph.D. thesis). North-West University, Potchefstroom, South Africa.

VAN DER MERWE, S.P. & ELLIS, S.M. 2007. An exploratory study of some of the determinants of harmonious family relationship in small and medium-sized family businesses. *Management dynamics,* 16 (4): 24-35.

VAN DER MERWE, S.P., VENTER, E. & ELLIS, S.M. 2009. An exploratory study of some of the determinants of management succession planning in family business. *Management Dynamics*, 18(4): Dec.

VENTER, E. 2002. The succession process in small and medium-sized family businesses in South Africa. Unpublished Ph.D. Thesis, University of Port Elizabeth.

VENTER, E. & BOSHOFF, C. 2006. The influence of family-related factors on the succession process in small and medium-sized businesses. *South African journal of management and economic sciences*, 9(1): 17-32.

VENTER, E., BOSHOFF, C. & MAAS, G. 2003a. The influence of relational factors on successful succession in family business: a comparative study of owner-managers and successors. *South African journal of business management,* 34 (4): 1-13.

VENTER, E., BOSHOFF, C. & MAAS, G. 2003b. The influence of organisational factors on successful succession in family business. *Management dynamics,* 12 (4): 2-17

VERA, C.F. & DEAN, M.A. 2005. An examination of the challenges daughters face in family business succession. Family Business Review, XVIII (4): 321-345.

VOELLER, M., FAIRBURN, L. & THOMPSON, W. 2002. Exit right: a guided tour of succession planning for families-in-business-together. 2nd ed. Ontario: Summit Run Inc.

WARD, J.L. 2005. Unconventional wisdom: Counter intuitive insight for family business success. Chickester: Wiley

WARD, J.L. 2004. Perpetuating the family business: 50 lessons learned from long-lasting, successful families in business. New York, NY: Palgrave Macmillan.

WARD, J.L. 1997. Growing the family business: Special challenges and best practices. *Family Business Review,* 10 (4): 323-338.

WARD, J.L. 1987. Keeping the family business healthy: How to plan for continuing growth, profitability and family leadership. San Francisco, CA: Jossey-Bass.

WESTHEAD, P., COWLING, M. & HOWORTH, C. 2001. The development of family companies: Management and ownership imperatives. *Family business review*, Vol. XIV (4) December 2001: 369-385.

WIKLUND, J. 2006. Commentary: Family firms and social responsibility: Preliminary evidence from the S&P 500, *Entrepreneurship Theory and Practice*. 30 (6): 803-808

ZIKMUND, W.G. 2000. Business Research Methods. 6th ed. Forth Worth: The Dryden Press, Harcourt College Publishers.

APPENDIX A

FAMILY HARMONY DIAGNOSTIC QUESTIONNAIRE

ACTIVE FAMILY MEMBERS

Developed by:

Prof Elmarie Venter (NMMU)
Ms Shelley Farrington (Van Eeden) (NMMU)
Dr SP van der Merwe (NWU)

Contact details:

Tel: (018) 299 1414 (w)
Tel: (018) 297 7591 (h)
Fax: (018) 299 1416
Cell: 082 335 0578
E-mail: stephan.vandermerwe@nwu.ac.za

Copyright reserved

FAMILY HARMONY DIAGNOSTIC QUESTIONNAIRE

A major concern in most family businesses is the question of it's longevity. History is filled with instances of family businesses that failed to survive to the next generation because family members could not resolve their differences or communicate successfully with each other. Harmonious family relationships are, therefore, critical for the sustainability of the family businesses. This questionnaire is designed to collect information to assess the family harmony in a family business and may form the basis for corrective and proactive steps to ensure harmonious family relations, and ultimately, a sustainable family business.

Once you have completed the questionnaire, please place it in the envelope provided. Seal the envelope. The person who co-ordinates the survey in your business will collect the envelopes which will be collected from him/her.

Thank you for your co-operation. We hope that you will find the questionnaire interesting and stimulating.

GENERAL INSTRUCTIONS

This questionnaire must be completed by the **active family members (employed by the business).** Virtually all the questions may be answered by making a cross in the relevant block. Use the following key: **1** = Strongly disagree; **2** = Disagree; **3** = Slightly disagree; **4** = Neutral view; **5** = Slightly agree; **6** = Agree; **7** = Strongly agree. **You must select the number which best describes how you feel about the item.** For example, should you be asked the extent to which you agree with the statement:

"Family members discuss all issues that may arise between them."

and you feel that you slightly agree, you will mark the number 5 **(5 = Slightly agree)** as in the example:

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A1	Family members discuss all issues that may arise between them.	1	2	3	4	X	6	7

It is essential you indicate your choice clearly with a **pen**.

TERMINOLOGY

Peruse the definitions (terminology). Ensure that you understand all the definitions before you complete the questionnaire.

TERM	DEFINITION
Family member	A **family member** for the purpose of this diagnosis does not only include the family members of origin (fathers, mothers, brothers and sisters), but also the extended family (uncles, aunts, cousins, nieces, nephews and in-laws).
Active family members	**Active family members** are family members who are **permanently** employed by the family business.
Inactive family members	**Inactive family members** refer to family members **not in the service** of the business and could include spouses, children, in-laws and siblings.
Senior generation	The **senior generation** family members (parents) are those family members who are currently in control of the business and who plan to transfer the management and ownership of the business to the **younger generation** family members (children) in future.
Senior generation executive manager	The **senior generation executive manager** is the person responsible for the executive management of the family business. Sometimes a management team manages the business, i.e. more than one executive manager.
Younger generation	The **younger generation** family member refers to a younger generation family member (children).

SECTION A

Indicate to what extent does you agree or disagree with the statements. Mark the applicable block with a cross (X).

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A1	Family members discuss all issues that may arise between them.	1	2	3	4	5	6	7
A2	Family members involved in our family business are willing to put in a great deal of effort beyond that which is normally expected of them, in order to help the family business to be successful.	1	2	3	4	5	6	7
A3	I prefer to work in the family business even if I have other career options to choose from.	1	2	3	4	5	6	7
A4	Family members involved in our family business understand their specific roles and responsibilities.	1	2	3	4	5	6	7
A5	In our family business we employ non-family members to supplement our skills.	1	2	3	4	5	6	7
A6	I am able to influence the family business or effect change in it.	1	2	3	4	5	6	7
A7	The family member(s) who takes/take the lead in our family business encourages/encourage others involved in the business to voice their opinions.	1	2	3	4	5	6	7
A8	When conflict arises between family members it is dealt with quickly/ immediately.	1	2	3	4	5	6	7
A9	I see our family business as a means to sustain harmonious family relationships for future generations.	1	2	3	4	5	6	7
A10	Our family business has experienced growth in profits over the past two years.	1	2	3	4	5	6	7
A11	Our family members are emotionally attached to one another.	1	2	3	4	5	6	7
A12	In our family business no overlapping of responsibilities exists between members involved in the business.	1	2	3	4	5	6	7
A13	I have confidence in the integrity of my family members.	1	2	3	4	5	6	7
A14	Our family members acknowledge each other's achievements.	1	2	3	4	5	6	7
A15	The senior generation is willing to relinquish control of the family business.	1	2	3	4	5	6	7
A16	It is my own choice to be involved in our family business.	1	2	3	4	5	6	7
A17	Conflict between family members is resolved effectively.	1	2	3	4	5	6	7
A18	Family members have the ability to communicate effectively.	1	2	3	4	5	6	7
A19	Given their compensation, each family member does his/her fair share of work in our family business.	1	2	3	4	5	6	7
A20	Family members in our family business respect each other's opinions.	1	2	3	4	5	6	7
A21	Family members involved in our family business are deeply committed to continuing the business.	1	2	3	4	5	6	7
A22	I see our family business as a legacy to be handed over to future generations.	1	2	3	4	5	6	7
A23	The family member(s) who takes/take the lead in our family business is/are always considerate towards others working in the business.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A24	Family members involved in our family business are proud to tell others that they work for the family business.	1	2	3	4	5	6	7
A25	Sufficient provision is being made to ensure that the senior generation will be financially secure after retirement.	1	2	3	4	5	6	7
A26	Family members not actively involved in the day-to-day operations of our family business DO NOT interfere in day-to-day business operations.	1	2	3	4	5	6	7
A27	In our family business we involve non-family members to assist us in managing our business.	1	2	3	4	5	6	7
A28	In our family business a clearly defined division of labour exists between members involved in the business.	1	2	3	4	5	6	7
A29	Family members hold regular scheduled meetings concerning our family business.	1	2	3	4	5	6	7
A30	Family members involved in our family business are dedicated to ensuring the success of the family business.	1	2	3	4	5	6	7
A31	I trust the judgement of my family members in making business decisions.	1	2	3	4	5	6	7
A32	Our family members support each other.	1	2	3	4	5	6	7
A33	Our family members care about each other's wellbeing.	1	2	3	4	5	6	7
A34	In our family business we involve non-family members when we have to make important strategic decisions about our business.	1	2	3	4	5	6	7
A35	Family members involved in our family business have agreed on each other's roles or positions in the business.	1	2	3	4	5	6	7
A36	Our family business has a standing agreement on how to address issues that may arise in the business.	1	2	3	4	5	6	7
A37	Our family members trust each other's ability to manage our family business.	1	2	3	4	5	6	7
A38	Differences of opinion between family members rarely lead to serious conflict.	1	2	3	4	5	6	7
A39	The senior generation is willing to share with other family members information concerning the business.	1	2	3	4	5	6	7
A40	We undertake formal strategic planning for our family business.	1	2	3	4	5	6	7
A41	In our family business each family member does his/her fair share of work.	1	2	3	4	5	6	7
A42	The family member(s) who takes/take the lead in our family business considers/consider the opinions of others when making decisions.	1	2	3	4	5	6	7
A43	Family members listen to each other's opinions.	1	2	3	4	5	6	7
A44	I can realise my ambitions through my involvement in our family business.	1	2	3	4	5	6	7
A45	In our family business we sometimes approach non-family members for advice on business matters.	1	2	3	4	5	6	7
A46	Our family members respect each other.	1	2	3	4	5	6	7
A47	Our family members appreciate each other.	1	2	3	4	5	6	7
A48	Conflict between family members is rare.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A49	In our family business clearly demarcated areas of authority and responsibility exist between members involved in the business.	1	2	3	4	5	6	7
A50	My involvement in the family business provides me with job security.	1	2	3	4	5	6	7
A51	Our family business is profitable.	1	2	3	4	5	6	7
A52	The family member(s) who takes/take the lead in our family business has/have the ability to lead the business effectively.	1	2	3	4	5	6	7
A53	Family members involved in our family business are willing to make personal sacrifices to ensure the success of the business.	1	2	3	4	5	6	7
A54	Our family business has a formal document that describes the relationship between the family and the business.	1	2	3	4	5	6	7
A55	Our family business has experienced growth in employee numbers over the past two years.	1	2	3	4	5	6	7
A56	Family members involved in our family business really care about the future of the family business.	1	2	3	4	5	6	7
A57	Our family members prefer to cooperate with each other rather than compete with one another.	1	2	3	4	5	6	7
A58	Family members rarely have serious differences of opinion.	1	2	3	4	5	6	7
A59	I see our family business as a means to create wealth for future generations.	1	2	3	4	5	6	7
A60	If necessary we draw on the expertise of non-family members to assist us with business matters.	1	2	3	4	5	6	7
A61	Our family business has written plans (e.g. estate and/or succession and/or business plans) to guide actions and decisions in the business.	1	2	3	4	5	6	7
A62	Family members involved in the family business have clear work roles and responsibilities.	1	2	3	4	5	6	7
A63	Family members are able to constructively manage conflict between them.	1	2	3	4	5	6	7
A64	Continuing the business into the future will provide employment opportunities for future generations.	1	2	3	4	5	6	7
A65	Family members communicate openly with each other.	1	2	3	4	5	6	7
A66	Our family business has policies (i.e. entry/exit and compensation policies, job descriptions) that guide our actions and decisions in the business.	1	2	3	4	5	6	7
A67	I find my involvement in the family business fulfilling.	1	2	3	4	5	6	7
A68	Family members involved in our family business have agreed on each other's positions of authority and responsibility in the business.	1	2	3	4	5	6	7
A69	Family members not actively involved in the day-to-day operations of our family business DO NOT interfere in business decision-making.	1	2	3	4	5	6	7
A70	Our family members trust each other.	1	2	3	4	5	6	7
A71	Our family members encourage each other to put in their best efforts.	1	2	3	4	5	6	7
A72	Family members freely express to each other their opinions about matters concerning the business.	1	2	3	4	5	6	7
A73	The family has a family forum that meets to discuss family and business	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	matters.							
A74	Family members are compensated according to their contribution to our business and not according to age and/or gender.	1	2	3	4	5	6	7
A75	The senior generation is willing to delegate authority to other family members.	1	2	3	4	5	6	7
A76	Our family business has experienced growth in turnover over the past two years.	1	2	3	4	5	6	7
A77	The financial wellbeing of our family business is secure.	1	2	3	4	5	6	7
A78	External stakeholders (customers, suppliers etc.) treat family members involved in our business equally.	1	2	3	4	5	6	7
A79	The family member(s) who takes/take the lead in our family business inspires/inspire loyalty among those working in the business.	1	2	3	4	5	6	7
A80	Continuing the business into the future will give future generations the opportunity to be involved in the family business.	1	2	3	4	5	6	7
A81	The working arrangement between family members in our business is equitable.	1	2	3	4	5	6	7
A82	Our family business has a formal advisory board (board of directors).	1	2	3	4	5	6	7
A83	Family members meet regularly to discuss matters of mutual interest.	1	2	3	4	5	6	7
A84	I can realise my personal goals through my involvement in our family business.	1	2	3	4	5	6	7
A85	I see our family business as continuing into the future.	1	2	3	4	5	6	7
A86	Expressing different views and opinions is encouraged by our family members.	1	2	3	4	5	6	7
A87	I regard our family business as being financially successful.	1	2	3	4	5	6	7
A88	Family members not actively involved in the day-to-day operations of our family business DO NOT become involved in disagreements between family members working in the business.	1	2	3	4	5	6	7
A89	In our family business each family member is compensated fairly for the work that he/she does.	1	2	3	4	5	6	7
A90	Our family members get along well both inside and outside the working environment.	1	2	3	4	5	6	7
A91	The family member(s) who takes/take the lead in our family business is/are very knowledgeable about the family business operations.	1	2	3	4	5	6	7
A92	The senior generation shows confidence in the ability of other family members to manage the family business.	1	2	3	4	5	6	7
A93	Family members not actively involved in the day-to-day operations of our family business DO NOT play active family members off against each other.	1	2	3	4	5	6	7
A94	In our family business non-family employees form part of the management team.	1	2	3	4	5	6	7
A95	Family members share information with each other.	1	2	3	4	5	6	7
A96	My career needs and interests are closely aligned with opportunities within the family business.	1	2	3	4	5	6	7

SECTION B

The following information is needed to help us with the statistical analysis of the data for comparisons among different interest groups. All your responses will be treated confidentially. Individual responses will not be seen by any one in the business. We appreciate your help in providing this important information.

Mark the applicable block with a cross (X). Complete the applicable information.

B1	**In which age group do you fall?**	≤ 29	30 - 39	40 - 49	50 - 59	60+

B2	**What is your sex?**	Male	Female

B3	**What is your marital status?**	Single	Married	Divorce	Widow(er)

B4	**What is your relationship to the family? (Owner/senior generation executive as the basis)**						
	Owner	Spouse	Brother	Sister	1st son	2nd son	3rd son
	1st daughter	2nd daughter	3rd daughter	In-law	Other: Specify:		

B5	**State your highest academic qualification. Mark the applicable block with a cross (X).**	
	Lower than matric	
	Matric	
	Certificate	
	Diploma (Technical College or Technicon)	
	University degree	
	Post graduate degree	

B6	**State other jobs/careers before you entered the family business (if applicable)**
	Specify

B7	**Percentage shares you own in the business?**	%

SECTION C

This section should be completed by the **senior generation executive manager** of the family business.

Mark the applicable block with a cross (X). Complete the applicable information.

C1	How many permanent employees are employed by the family business?							
	1-4	5-10	11-25	26-50	51-100	101-200	201-500	500+

C2	What is the turnover of the family business per year?					
	< R 1 m	R 1 – R 2.5 m	R 2.5 – R 10 m	R 10 – R 50 m	R 50 – R 100 m	> R 100 m

C3	In which industry does the business operates?				
	Automotive	Agriculture	Farming	Construction	Food
	Real estate	Retail	Wholesale	Manufacturing	Services
	Other: (Specify):				

C4	What is the age of the business (years)?
	Specify:

C5	How many generations of the family managed and owned the family business over the years (number)?
	Specify:

C6	What is the legal status of the business?			
	Proprietorship	Partnership	Company (private)	Company (public)
	Close Corporation	Co-operative	Business Trust	Franchise
	Other or combination (specify):			

THANK YOU FOR YOUR TIME.

APPENDIX B

FAMILY HARMONY DIAGNOSTIC QUESTIONNAIRE

INACTIVE FAMILY MEMBERS

Developed by:

Prof Elmarie Venter (NMMU)
Ms Shelley Farrington (Van Eeden) (NMMU)
Dr SP van der Merwe (NWU)

Contact details:

Tel: (018) 299 1414 (w)
Tel: (018) 297 7591 (h)
Fax: (018) 299 1416
Cell: 082 335 0578
E-mail: stephan.vandermerwe@nwu.ac.za

Copyright reserved

FAMILY HARMONY DIAGNOSTIC QUESTIONNAIRE

A major concern in most family businesses is the question of it's longevity. History is filled with instances of family businesses that failed to survive to the next generation because family members could not resolve their differences or communicate successfully with each other. Harmonious family relationships are, therefore, critical for the sustainability of the family businesses. This questionnaire is designed to collect information to assess the family harmony in a family business and may form the basis for corrective and proactive steps to ensure harmonious family relations, and ultimately, a sustainable family business.

Once you have completed the questionnaire, please place it in the envelope provided. Seal the envelope. The person who co-ordinates the survey in your business will collect the envelopes which will be collected from him/her.

Thank you for your co-operation. We hope that you will find the questionnaire interesting and stimulating.

GENERAL INSTRUCTIONS

This questionnaire must be completed by the **inactive family members (not employed by the business).** Virtually all the questions may be answered by making a cross in the relevant block. Use the following key: **1** = Strongly disagree; **2** = Disagree; **3** = Slightly disagree; **4** = Neutral view; **5** = Slightly agree; **6** = Agree; **7** = Strongly agree. **You must select the number which best describes how you feel about the item**. For example, should you be asked the extent to which you agree with the statement:

"Family members discuss all issues that may arise between them."

and you feel that you slightly agree, you will mark the number 5 **(5 = Slightly agree)** as in the example:

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A1	Family members discuss all issues that may arise between them.	1	2	3	4	✗	6	7

It is essential you indicate your choice clearly with a **pen**.

TERMINOLOGY

Peruse the definitions (terminology). Ensure that you understand all the definitions before you complete the questionnaire.

TERM	DEFINITION
Family member	A **family member** for the purpose of this diagnosis does not only include the family members of origin (fathers, mothers, brothers and sisters), but also the extended family (uncles, aunts, cousins, nieces, nephews and in-laws).
Active family members	**Active family members** are family members who are **permanently** employed by the family business.
Inactive family members	**Inactive family members** refer to family members **not in the service** of the business and could include spouses, children, in-laws and siblings.
Senior generation	The **senior generation** family members (parents) are those family members who are currently in control of the business and who plan to transfer the management and ownership of the business to the **younger generation** family members (children) in future.
Senior generation executive manager	The **senior generation executive manager** is the person responsible for the executive management of the family business. Sometimes a management team manages the business, i.e. more than one executive manager.
Younger generation	The **younger generation** family member refers to a younger generation family member (children).

SECTION A

Indicate to what extent does you agree or disagree with the statements. Mark the applicable block with a cross (X).

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A1	Family members discuss all issues that may arise between them.	1	2	3	4	5	6	7
A2	Family members involved in the family business are willing to put in a great deal of effort beyond that which is normally expected of them, in order to help the family business to be successful.	1	2	3	4	5	6	7
A3	Family members prefer to work in the family business even though they have other career options to choose from.	1	2	3	4	5	6	7
A4	Family members involved in the family business understand their specific roles and responsibilities.	1	2	3	4	5	6	7
A5	In the family business non-family members are employed to supplement the skills of family members.	1	2	3	4	5	6	7
A6	Family members are able to influence the family business or to effect change in it.	1	2	3	4	5	6	7
A7	The family member(s) who takes/take the lead in the family business encourages/encourage others involved in the business to voice their opinions.	1	2	3	4	5	6	7
A8	When conflict arises between family members it is dealt with quickly/immediately.	1	2	3	4	5	6	7
A9	I see the family business as a means to sustain harmonious family relationships for future generations.	1	2	3	4	5	6	7
A10	The family business has experienced growth in profits over the past two years.	1	2	3	4	5	6	7
A11	Family members are emotionally attached to one another.	1	2	3	4	5	6	7
A12	In the family business no overlapping of responsibilities exists between members involved in the business.	1	2	3	4	5	6	7
A13	I have confidence in the integrity of my family members.	1	2	3	4	5	6	7
A14	Family members acknowledge each other's achievements.	1	2	3	4	5	6	7
A15	The senior generation is willing to relinquish control of the family business.	1	2	3	4	5	6	7
A16	It is a family member's own choice to be involved in the family business or not.	1	2	3	4	5	6	7
A17	Conflict between family members is resolved effectively.	1	2	3	4	5	6	7
A18	Family members have the ability to communicate effectively.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A19	Given their compensation, each family member does his/her fair share of work in the family business.	1	2	3	4	5	6	7
A20	Family members in the family business respect each other's opinions.	1	2	3	4	5	6	7
A21	Family members involved in the family business are deeply committed to continuing the business.	1	2	3	4	5	6	7
A22	I see the family business as a legacy to be handed over to future generations.	1	2	3	4	5	6	7
A23	The family member(s) who takes/take the lead in the family business is/are always considerate towards others working in the business.	1	2	3	4	5	6	7
A24	Family members involved in the family business are proud to tell others that they work for the family business.	1	2	3	4	5	6	7
A25	Sufficient provision is being made for the senior generation to be financially secure after retirement.	1	2	3	4	5	6	7
A26	Family members not actively involved in the day-to-day operations of the family business DO NOT interfere in day-to-day business operations.	1	2	3	4	5	6	7
A27	In the family business non-family members are involved in assisting to manage the business.	1	2	3	4	5	6	7
A28	In the family business a clearly defined division of labour exists between members involved in the business.	1	2	3	4	5	6	7
A29	Family members hold regular scheduled meetings concerning the family business.	1	2	3	4	5	6	7
A30	Family members involved in the family business are dedicated to ensuring the success of the family business.	1	2	3	4	5	6	7
A31	I trust the judgement of my family members in making business decisions.	1	2	3	4	5	6	7
A32	Family members support each other.	1	2	3	4	5	6	7
A33	Family members care about each other's wellbeing.	1	2	3	4	5	6	7
A34	In the family business non-family members are involved when important strategic decisions about the business are made.	1	2	3	4	5	6	7
A35	Family members involved in the family business have agreed on each other's roles or positions in the business.	1	2	3	4	5	6	7
A36	The family business has a standing agreement on how to address issues that may arise in the business.	1	2	3	4	5	6	7
A37	Family members trust each other's ability to manage the family business.	1	2	3	4	5	6	7
A38	Differences of opinion between family members rarely lead to serious conflict.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A39	The senior generation is willing to share with other family members information concerning the business.	1	2	3	4	5	6	7
A40	Formal strategic planning is undertaken for the family business.	1	2	3	4	5	6	7
A41	In the family business each family member does his/her fair share of work.	1	2	3	4	5	6	7
A42	The family member(s) who takes/take the lead in the family business considers/consider the opinions of others when making decisions.	1	2	3	4	5	6	7
A43	Family members listen to each other's opinions.	1	2	3	4	5	6	7
A44	Family members can realise their ambitions through their involvement in the family business.	1	2	3	4	5	6	7
A45	In the family business family members sometimes approach non-family members to advise them on business matters.	1	2	3	4	5	6	7
A46	Family members respect each other.	1	2	3	4	5	6	7
A47	Family members appreciate each other.	1	2	3	4	5	6	7
A48	Conflict between family members is rare.	1	2	3	4	5	6	7
A49	In the family business clearly demarcated areas of authority and responsibility exist between members involved in the business.	1	2	3	4	5	6	7
A50	The involvement of family members in the family business provides them with job security.	1	2	3	4	5	6	7
A51	The family business is profitable.	1	2	3	4	5	6	7
A52	The family member(s) who takes/take the lead in the family business has/have the ability to effectively lead the business.	1	2	3	4	5	6	7
A53	Family members involved in the family business are willing to make personal sacrifices to ensure the success of the business.	1	2	3	4	5	6	7
A54	The family business has a formal document that describes the relationship between the family and the business.	1	2	3	4	5	6	7
A55	The family business has experienced growth in employee numbers over the past two years.	1	2	3	4	5	6	7
A56	Family members involved in the family business really care about the future of the family business.	1	2	3	4	5	6	7
A57	Family members prefer to cooperate with each other rather than compete with one another.	1	2	3	4	5	6	7
A58	Family members rarely have serious differences of opinion.	1	2	3	4	5	6	7
A59	I see the family business as a means to create wealth for future generations.	1	2	3	4	5	6	7
A60	If necessary family members draw on the expertise of non-family members to assist them with business matters.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A61	The family business has written plans (e.g. estate and/or succession and/or business plans) to guide actions and decisions in the business.	1	2	3	4	5	6	7
A62	Family members involved in the family business have clear work roles and responsibilities.	1	2	3	4	5	6	7
A63	Family members are able to constructively manage conflict between them.	1	2	3	4	5	6	7
A64	Continuing the business into the future will provide employment opportunities for future generations.	1	2	3	4	5	6	7
A65	Family members communicate openly with each other.	1	2	3	4	5	6	7
A66	The family business has policies (entry/exit and compensation policies, job descriptions, etc.) that guide actions and decisions in the business.	1	2	3	4	5	6	7
A67	Family members find their involvement in the family business fulfilling.	1	2	3	4	5	6	7
A68	Family members involved in the family business have agreed on each other's positions of authority and responsibility in the business.	1	2	3	4	5	6	7
A69	Family members not actively involved in the day-to-day operations of the family business DO NOT interfere in business decision-making.	1	2	3	4	5	6	7
A70	Family members trust each other.	1	2	3	4	5	6	7
A71	Family members encourage each other to put in their best efforts.	1	2	3	4	5	6	7
A72	Family members freely express their opinions to each other about matters concerning the business.	1	2	3	4	5	6	7
A73	The family has a family forum that meets to discuss family and business matters.	1	2	3	4	5	6	7
A74	Family members are compensated according to their contribution to the business and not according to age and/or gender.	1	2	3	4	5	6	7
A75	The senior generation is willing to delegate authority to other family members.	1	2	3	4	5	6	7
A76	The family business has experienced growth in turnover over the past two years.	1	2	3	4	5	6	7
A77	The financial wellbeing of the family business is secure.	1	2	3	4	5	6	7
A78	External stakeholders (customers, suppliers etc.) treat family members involved in the business equally.	1	2	3	4	5	6	7
A79	The family member(s) who takes/take the lead in the family business inspires/inspire loyalty among those working in the business.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A80	Continuing the business into the future will give future generations the opportunity to be involved in the family business.	1	2	3	4	5	6	7
A81	The working arrangement between family members in the business is equitable.	1	2	3	4	5	6	7
A82	The family business has a formal advisory board (board of directors).	1	2	3	4	5	6	7
A83	Family members meet regularly to discuss matters of mutual interest.	1	2	3	4	5	6	7
A84	Family members can realise their personal goals through their involvement in the family business.	1	2	3	4	5	6	7
A85	I see the family business as continuing into the future.	1	2	3	4	5	6	7
A86	Expressing different views and opinions is encouraged by family members.	1	2	3	4	5	6	7
A87	I regard the family business as being financially successful.	1	2	3	4	5	6	7
A88	Family members not actively involved in the day-to-day operations of the family business DO NOT become involved in disagreements between family members working in the business.	1	2	3	4	5	6	7
A89	In the family business each family member is compensated fairly for the work that he/she does.	1	2	3	4	5	6	7
A90	Family members get along well both inside and outside the working environment.	1	2	3	4	5	6	7
A91	The family member(s) who takes/take the lead in the family business is/are very knowledgeable about the family business operations.	1	2	3	4	5	6	7
A92	The senior generation shows confidence in the ability of other family members to manage the family business.	1	2	3	4	5	6	7
A93	Family members not actively involved in the day-to-day operations of the family business DO NOT play active family members off against each other.	1	2	3	4	5	6	7
A94	In the family business non-family employees form part of the management team.	1	2	3	4	5	6	7
A95	Family members share information with each other.	1	2	3	4	5	6	7
A96	The career needs and interests of family members are closely aligned with opportunities within the family business.	1	2	3	4	5	6	7

SECTION B

The following information is needed to help us with the statistical analysis of the data for comparisons among different interest groups. All your responses will be treated confidentially. Individual responses will not be seen by any one in the business. We appreciate your help in providing this important information.

Mark the applicable block with a cross (X). Complete the applicable information.

B1	**In which age group do you fall?**	≤ 29	30 - 39	40 - 49	50 - 59	60+

B2	**What is your sex?**	Male	Female

B3	**What is your marital status?**	Single	Married	Divorce	Widow(er)

B4	**What is your relationship to the family? (Owner/senior generation executive as the basis)**						
	Owner	Spouse	Brother	Sister	1st son	2nd son	3rd son
	1st daughter	2nd daughter	3rd daughter	In-law	Other: Specify:		

B5	**State your highest academic qualification. Mark the applicable block with a cross (X).**	
	Lower than matric	
	Matric	
	Certificate	
	Diploma (Technical College or Technicon)	
	University degree	
	Post graduate degree	

B6	**State other jobs/careers before you entered the family business (if applicable)**
	Specify

B7	**Percentage shares you own in the business?**	%

THANK YOU FOR YOUR TIME.