Evaluation of the factors that ensures long-term sustainability of family businesses

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Evaluering van die faktore wat die langtermyn voortbestaan van familiebesighede verseker

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ABSTRACT

Family businesses are an integral sector in the economy of all countries, and will increasingly become major role players in the employment needs of their countries, as the entrepreneurial spirit evolves in the minds of the people to create their own wealth and lose their dependency on state funds and large corporations as main providers of jobs.

It becomes evident that the unique and very valuable traits of family businesses should be developed and preserved for everyone's sustainable economic, social and personal prosperity. This study identifies and evaluates the factors that ensure lasting family business value. The primary objective of the research study is to offer practical recommendations to family business owners and other family or non family members to nurture their new or inherited businesses.

The reality that faces family businesses is the complexity and dualism of balancing the needs of both the family (emotional) and the business (rational) to prolong and preserve all interest for the benefit of both parties. It just so happen that family issues, values and expectations often clash with sound business decisions. Business managers and family mentors need to be aware and skilled to steer everyone in the proper direction where the goals of the business and the family converge. The ultimate goal is harmony among family through effective communication and conflict resolution by employing the formal business and personal tools to fix any irregularity or obstacle that keeps the family business from sustaining itself for future generations.

The research was conducted by means of a literature and empirical study. The literature study entails literature on the key dynamics of family businesses and factors that ensure long-term sustainability of family businesses. The literature review formed the basis for evaluating the factors that ensure the long-term sustainability of family businesses. These factors were empirically tested in practice by means of a measurement instrument and subsequently evaluated.

Based on the evaluation of the empirical study, it was concluded, that the four most neglected factors or sub-factors in ensuring the long-term sustainability of family businesses are: disciplinary procedures for the family members, transfer of management to the younger generation, estate tax of the family business and establishing and maintaining communication forums.

ABSTRAK

Familiebesighede is 'n integrale sektor in die ekonomie van alle lande en sal toenemend belangriker rolspelers word in the werkloosheidvraagstukke wat in die meeste lande, ook in Suid-Afrika, 'n werklikheid is. 'n Entrepreneuriese gees wat mense anders laat dink oor hul eie welvaart gaan in die toekoms die ou denke oor die staat as verskaffer en werkgewer, en groot maatskappye as lewenslange werkgewers laat verdwyn namate mense vir hulself en hul families se welvaart verantwoordelikheid neem.

In die lig van nuwe denke en metodes van welvaartskepping tree 'n aantal unieke karaktereienskappe van familiebesighede na vore wat, indien die familie en bestuurders nie kundig en voorbereid is op moontlike struikelblokke nie, hierdie uiters positiewe beginsel in familiebesighede nie optimaal benut kan word nie. Die doel van hierdie studie is om faktore wat 'n rol speel in die voortgesette sukses van familiebesighede te belig deur dit te identifiseer en evalueer ten einde 'n gesaghebbende "padkaart" te word op die weg na die suksesvolle voortbestaan en groei van familieharmonie en die besigheidsdoelwitte.

Die realiteit wat familiebesighede in die gesig staar is die ingewikkeldheid, en dikwels dualisme, wat verwikkel omdat die familiebehoeftes en verwagtinge dikwels nie in formasie met die besigheidsdoelwitte en praktyke is nie. Daarom moet familiementors en ander familielede, sowel as die besigheidsbestuurders kundig te werk gaan met die werktuie wat hierdie studie aandui om moeilike sake soos konflik en effektiewe kommunikasie sodanig te belyn dat dit ten doel het om beide partye te bevoordeel.

'n Literatuur- en empiriese studie het die basis van die studie gevorm. Die literatuurstudie het op die dinamika van familiebesighede, asook die faktore wat die langtermyn voortbestaan van familiebesighede verseker, gefokus. Dus, die literatuurstudie het die fondament vir die evaluering van die faktore wat die langtermyn voortbestaan van familiebesighede verseker, gevorm. Die faktore is empiries in die praktyk getoets en geëvalueer, deur die gebruik van 'n bestaande vraelys.

Gebaseer op die evaluering soos tydens die empiriese studie uitgevoer, is die gevolgtrekking gemaak dat die vier mees verwaarloosde faktore die beskikbaarheid van 'n dissiplinêre beleid, duidelikheid oor die finale oordrag van bestuur na die jonger geslag, berekening en minimalisering van boedelbelasting en die gebruik van forums vir effektiewe kommunikasie.

DEDICATIONS

Dedicated to:

Pieter Swart
Lourens Swart
Jan Swart
Pieter Swart
Jakomi Swart

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CHAPTER 1: NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Family businesses make a substantial contribution towards the global economy. It is estimated by Aronoff *et al.* (2002:ii) and Bareither and Reischl (2003:20) that over 90% of the businesses in the United States of America remain family owned and family controlled. Kets de Vries (1996:3) stated that in Europe, the percentage range from 52% (Netherlands) to more than 80% in Germany and Austria.

These same businesses account for 50% of the gross domestic products of the world's most advanced economies, they employ more than 50% of the working population and have created the bulk of new jobs in the last two decades (Ibrahim & Ellis, 1994:4; Ward, 1987:xv).

South Africa is no exception. Today's economic realities and unemployment have forced many people to start their own businesses or, on completion of secondary or tertiary training, enter an existing family business (Maas *et al.,* 2005:6). Acknowledgement of family businesses in South Africa is critical for overall wealth creation with the reservation that the community and social system also benefit from family business initiatives.

Although many family businesses are small, a substantial proportion is major companies, including over one-third of the Fortune 500 companies (Bareither & Reischl, 2003:20; Ibrahim & Ellis, 1994:4; Ward, 1987:xv).

Involvement of family adds a unique dimension to the business. Maas *et al.* (2005:6) said that in ideal circumstances a family business can be considered successful when the business is making a profit, the family is happy, the full potential of family members is realised, wealth is created for the entire family and the continued existence of the business is ensured for generations to come.

Based on all of the above, one can support Fleming's statement that family businesses are the major driving force in the economy of the world (Fleming, 2000:12).

1.2 IMPORTANCE OF FAMILY BUSINESSES IN SOUTH AFRICA

The oldest family business in South Africa is Boplaas in the Boland, owned by the Van der Merwe family since 1743 (Maas *et al.*, 2005:7). At present, the farm is managed by two brothers who are members of the ninth generation. The biggest business in the world, according to Maas *et al.* (2005:7), Wal-Mart Stores, with 1.4 million employees, is a family business. The business was established in 1962 by Sam Walton.

Well-known family businesses in South Africa include Anglo American, Pick and Pay, the Rembrandt Group and the Altron Group (Maas *et al.*, 2005:8).

Family businesses are unique in the sense that family interests should be aligned with the interests of the business (Maas *et al.*, 2005:8). A non-family business is run solely on a business only basis, but where family members are working together, disputes in the business usually have a ripple effect on family relations, and vice versa. If the interaction between family and business is not managed efficiently, a serious conflict of interest may arise, which may jeopardise the sustainability of the business (Ibrahim & Ellis, 1994:109; Maas *et al.*, 2005:8).

A strong, cohesive family brings a multitude of potential strengths to a business (Aronoff & Ward, 1993b:1). According to Aronoff *et al.* (2002:i), family businesses are a vibrant and growing area of interest of which the advantages are increasingly recognised as real competitive advantages. Ibrahim and Ellis (1994:9) said that a business run by a team of family members is more resilient and more likely to succeed than any other kind of company. The effectiveness of family businesses and the quality of their management are clearly significant contributors to the economy and the society. The family business is a vital part of our economy and culture.

Only one third of family businesses do make it beyond the founding generation under the ownership and control of the same family, and only about 10% to 13%, survive the third generation (Bareither & Reischl, 2003:20; Ibrahim & Ellis, 1994:3; Lansberg, 1999:1; Ward, 1987:1). Bareither and Reischl (2003:20) contributed to these statistics by saying that only 3% of all family businesses continue to operate at the fourth generation level and beyond.

1.3 PROBLEM STATEMENT

All businesses, family owned or otherwise, find it difficult to continue long-term (Carlock & Ward, 2001:3). Based on the statistics of the survival of family businesses as described in section 1.2, it is vital to evaluate the factors that ensure the successful transition from one generation to another.

The time has come to appreciate and acknowledge the role and positive contribution that family businesses have played over the past years. Many South Africans have been forced to start their own businesses due to economic and unemployment realities. The survival of family businesses in South Africa is critical for overall wealth creation, with the reservation that the community and social system also benefit from family business initiatives.

This study is specifically focused on evaluating factors that ensure long-term sustainability of family businesses in South Africa. The easier and more successful the transition, the better are the chances of success. So far, relatively little research has been carried out on family owned businesses (Thornton, 1998:5). The outcome of the study can therefore help to increase the efficacy of family businesses and can also form the basis for further research on the topic.

1.4 OBJECTIVES OF THIS STUDY

The *primary objective* of this study is to make recommendations, on how to improve the factors that ensure long-term sustainability of family businesses.

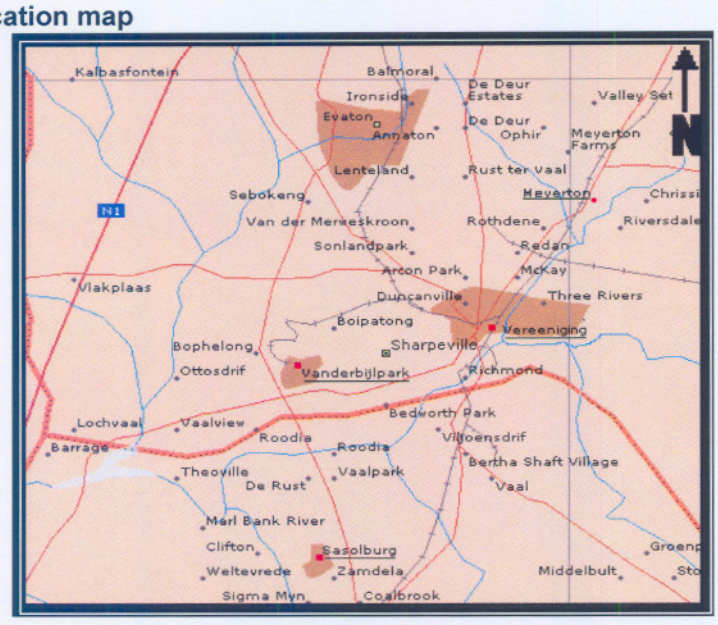
The primary objective will be realised by meeting the following *secondary objectives:*

- Determining what a family business is.
- Obtaining insight into the factors that ensure long-term sustainability of family businesses by means of a literature study.
- Obtaining information on the factors that ensure long-term sustainability of family businesses by means of an empirical study.
- Determining the alignment of the measurement instrument that were used and the information obtained in the literature study.
- Analysing and evaluating the factors that ensure long-term sustainability of family businesses.

1.5 SCOPE OF THIS STUDY

The scope of this study focused on family businesses in Southern Gauteng, the Sedibeng District of the Metsimaholo Municipality (previously known as the Vaal Triangle), with a specific interest on family businesses in Vanderbijl Park, Vereeniging, Sasolburg and Meyerton (refer Figure 1.1 for a location map of the Sedibeng District of the Metsimaholo Municipality area).

Figure 1.1: Location map



Source: Anon (2006)

The growth in this area stems from the 1870's when coal was discovered on the banks of the Vaal River by George William Stow. The coal deposits and the close proximity of water led to the area becoming a major industrial region, which is now home to Mittal Steel, the giant steel manufacturer of South Africa; and Sasol, the world's largest oil-from-coal processing plant. Although Mittal Steel and Sasol are not family businesses, their existence leads to the establishment of many huge family businesses in the Sedibeng District of the Metsimaholo Municipality.

The Sedibeng District of the Metsimaholo Municipality (previously known as the Vaal Triangle) was chosen for the following reasons:

- As part of Gauteng with the largest concentration of industries it can be seen as representative of businesses in South Africa.
- The location is convenient for the researcher to conduct the research with relative ease and cost associated with the research.
- The area has a diverse range of business in all types of sectors.

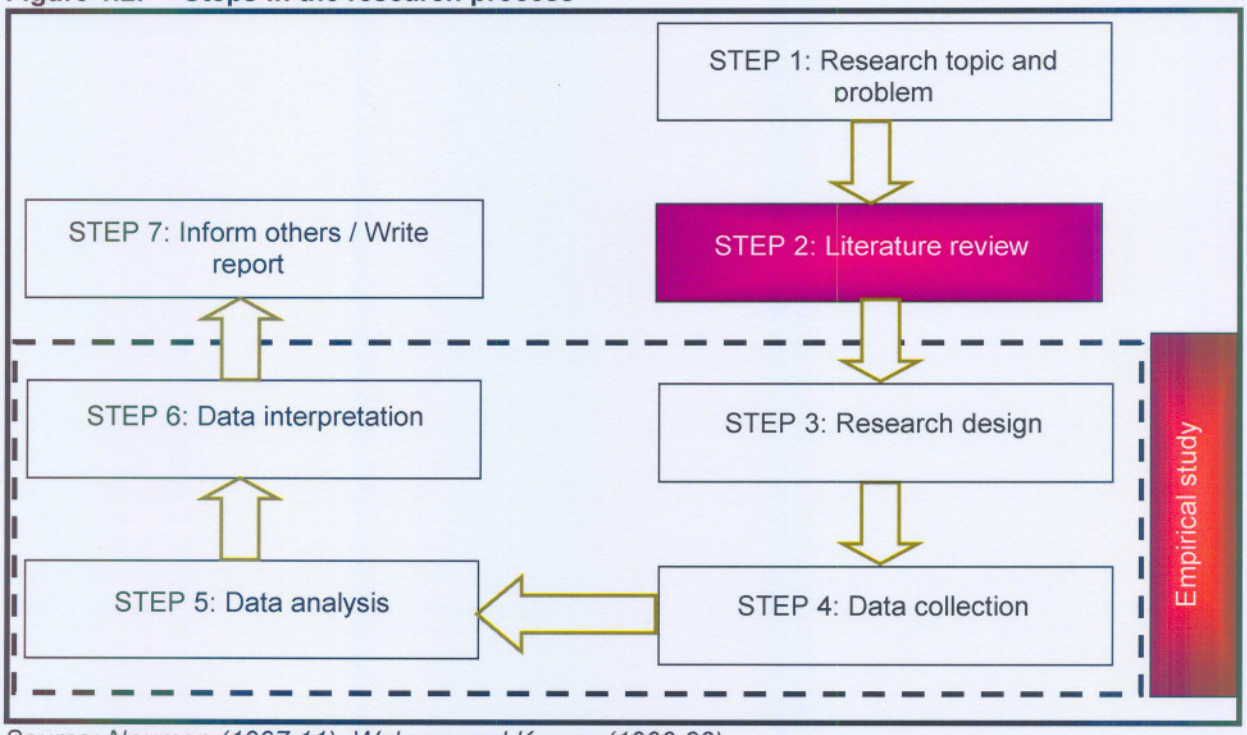
This study focuses on family businesses that are controlled by one family (51% share ownership), at least two family members are in the management cadre, and the family having the intention to pass ownership to a next generation.

1.6 RESEARCH PROCESS

According to Neuman (1997:1) research is a way of going about finding answers to questions or, according to Welman and Kruger (1999:2), the process in which scientific methods are used to expand knowledge in a particular field of study.. Social research is to find out something new and original about the social world. Researchers combine theory and ideas with facts in a systematic way by also using their imagination and creativity (Neuman, 1997:2).

Research consists of a number of steps; this study has been approached following the steps as described in Figure 1.2 (Neuman, 1997:10; Welman & Kruger, 1999:33).

Figure 1.2: Steps in the research process



Source: Neuman (1997:11); Welman and Kruger (1999:33)

The family business study consists of two main stages, namely a literature review study as well as an empirical study that will be discussed in subsequent chapters.

1.6.1 Literature review

In order to conceive the research topic in a way that permits a clear formulation of the problem, some background information is necessary. In conducting a literature review, the following three broad issues should be kept in mind: the purpose of the review, the literature sources and the reviewing techniques (Bless & Higson-Smith, 1995:22).

Previous research studies and publications on family businesses provide, amongst other, information on the background and importance of family businesses, dynamics and challenges facing family businesses, roles individuals are playing in family businesses, family harmony, performance measurement and compensation, ownership and management succession.

The literature review provides a survey of the literature pertinent to the study and specifically examines factors that ensure long-term sustainability of family businesses.

1.6.2 Empirical study

The empirical study is based on steps three to six as described in Figure 1.2.

- Research design (decide whether to use a survey or do observations in the field).
- Data collection (ask the people questions and record the answers).
- Data analysis (see any patterns that emerge).
- Data interpretation (give meaning to the data).

Statistical terminology mentioned in this study has been defined in Appendix B of this research document.

1.6.2.1 Research design

Research design is the plan according to which research participants are obtained (sampling), information is collected, and conclusions about the research problem are reached (Bless & Higson-Smith, 1995:63; Welman & Kruger, 1999:46).

Welman and Kruger (1999:67) distinguish between various types of research: experimental research, quasi-experimental, non-experimental research and qualitative research. The research design of this study is based on non-experimental research, which means that there is no planned intervention and that the relationship between variables is examined.

Several possible units of analysis - individuals, groups, organisations, period of time and social artefact - can be used during research design. This study was aimed at all family members, actively and inactively involved in a family business.

Sampling

The compilation of a satisfactory sampling frame presents problems in large-scale survey research. A list, which is comprehensive and accurate for a particular population at a specific point in time is simply not available (lists that could be considered as sampling frames could be telephone directories, mailing lists, list of SMME's in a specific area) (Welman & Kruger, 1999:50). According to Venter (2003:221), no listing distinguishing family businesses from their non-family counterparts, is available in South Africa or most other countries.

Non-probability samples, which mean that one cannot specify the probability that any element or member of the population will be included in the sample, were used for this study. Non-probability samples make it difficult to determine how sample results (e.g. sample means) deviate in differing degrees from the corresponding population values (Welman & Kruger, 1999:48). The advantage however, of non-probability samples is that they are less complicated and more economical than probability samples (Welman & Kruger, 1999:62). The snowball non-probability sample was used for this study.

The snowball sampling technique, used in this study, entailed approaching a few family businesses from the family business population in Southern Gauteng, the Sedibeng District of the Metsimaholo Municipality. These businesses then acted as informants and identified other family businesses from the same population for inclusion in the sample; the latter then identified a further set of family businesses in the Sedibeng District of the Metsimaholo Municipality so that the sample, like a rolling snowball, grows in size.

A very important issue in sampling is to determine the most adequate size of the sample. A large sample is more representative but very costly. A small sample, on the other hand, is much less accurate but more convenient. A major criterion to use when deciding on sample size is the extent to which the sample is representative of the population. This extent can be expressed in terms of probability; one usually expects to have a 95 percent chance that the sample is distributed in the same way as the population (Bless & Higson-Smith, 1995:96).

The target population used in this empirical study is small and medium sized family businesses in the Southern Gauteng, Sedibeng District of the Metsimaholo Municipality. Because of the

impracticality to include all family businesses in the Sedibeng District of the Metsimaholo Municipality, data obtained for this study represents only a sample (37 family businesses) of the population. However, before a business was added to the sample it was first determined if the business adheres to the criteria of a family business as depicted in section 1.5.

Preparation of the questionnaires

It is important in any research project that researchers evaluate the measures that they have used; this can be done by evaluating reliability and validity of measures (Bless & Higson-Smith, 1995:130; Page & Meyer, 2000:84).

Reliability is concerned with the consistency of measures. An instrument that produces different scores every time it is used to measure an unchanging value, has low reliability. The greater the consistency of the results the greater the reliability of the measuring procedure. Few instruments ever produce entirely consistent results (Bless & Higson-Smith, 1995:130; Page & Meyer, 2000:84). Validity asks the questions such as: "What does the instrument measure and what does the result mean (Bless & Higson-Smith, 1995:136; Page & Meyer, 2000:84)?"

Both reliability and validity are important to every instrument. It does not help the researcher to use a highly reliable instrument which has no validity. Similarly, instruments with a very high validity are useless unless it is shown to be reliable (Bless & Higson-Smith, 1995:139).

Structuring of the questionnaire

For this study an existing questionnaire, called Fampro (van der Merwe, 2004), included in Appendix A, (designed by Dr. S.P. van der Merwe and already used in various previous research studies) was used. This questionnaire was originally designed taking into account the factors that ensure long-term sustainability of family farming businesses. The instrument proved to adhere to the requirements of reliability and validity as was described above. This questionnaire was reviewed, and minor changes were made.

The family business questionnaire is divided into the following sections (refer Appendix A):

- Section A: this section was developed to gather information about the relationship and other issues between active (family members permanently employed by the family business) and inactive (family members not in the service of the family business) family members. The questions address aspects such as communication, the fairness of the senior generation family member's will, policies and procedures to ensure sound

governance, communication, commitment, procedures to address conflict, commitment of younger generation family members and conflict. Section A consists of fifty three questions and was completed by all active and inactive family members.

- Section B was developed to gather information on the conflict among family members, roles and responsibilities, family meetings, separation of family and business matters, compensation of family members, performance and recognition of family members, impact of the retirement of the senior generation on the family business, impact of capital gains tax on the family business, goals of the estate plan, trust among family members, the existence of signed wills, financial dependence, existence of formal job descriptions, disciplinary actions when family members malperform, impact of estate tax, family members' compensation and the link between performance and compensation. Section B consists of eighty-two questions and was completed by all active family members.
- Section C was developed to gather information on younger generation family members actively involved in the family business. The purpose of the section was to gather information on the skills of the successor, the academic qualification, the opportunities to grow, mentoring of the younger generation, selection criteria to identify successors, the senior generation members' willingness and readiness to pass on ownership, the faith of the senior generation members that the younger generation can successfully continue to operate the family business, timescales of succession, the network of advisors maintained by younger generation family members and the expected support of the employees. Section C consists of eighty-nine questions and was completed by all active family members (employed by the business).
- Section D was developed to gather specific information on the family members such as age group, sex, and marital status, relationship to the owner / senior executive, highest academic qualification and the percentage share they own in the business. Section D consists of seven questions and was completed by all active and inactive family members.
- Section E was developed to gather specific information on the family business such as number of permanent employees, turnover of the family business, the industry in which the family business operates, the age of the family business, the generation and the legal status of the family business. Section E consists of five questions and was completed by the senior generation executive manager of the family business.

The questionnaire was designed using a seven point Likert scale. The summated or Likert scale was introduced by Likert and is presently the most popular type of scale in social sciences research studies. Its popularity stems from the fact that it is easier to compile than any of the other attitude scales (Welman & Kruger, 1999:155). A summated attitude scale consists of a collection of statements about the attitudinal object. In respect of each statement, subjects have

to indicate the degree to which they agree or disagree with its content on, say, a certain scale. Some statements may reflect a positive attitude while others reflect a negative attitude (Welman & Kruger, 1999:156).

The main reason for the seven point Likert scale is to force the participants to make a decision by making a cross in a relevant block. The following keys were used: 1 = strongly disagree; 2 = disagree; 3 = slightly disagree; 4 = neutral view; 5 = slightly agree; 6 = agree; 7 = strongly agree.

The questionnaire (refer to Appendix A) was made available in Afrikaans and English to enable active and inactive family members to complete the questionnaire in the language of their choice. Due to the confidentiality of the questionnaire it was distributed to family members and returned to the researcher in a sealed envelope.

The benefit of the questionnaire was the promotion of dialogue between active family members and inactive family members. An opportunity to include key managers and personal assistants of key family members could also have added value and could be considered for future studies.

1.6.2.2 Data collection

Bless and Higson-Smith (1995:99) said when researchers collect their own data for the purpose of the research, such data is called primary data. Data collected in this way is the most adequate to fulfil the aims of any research, since the gathering of the data is directed towards answering precisely the questions raised by the researcher.

Throughout the process of data collection the problem of persuading participants to co-operate with the researcher is ever present. A lack of co-operation leads to non-response, to incomplete filled-out questionnaires and to unreliable results. It can be disastrous in a research project, and participants also have the right to refuse to participate (Bless & Higson-Smith, 1995:102).

Huysamen (1994:139) and Bless and Higson-Smith (1995:96) refer to five methods that can be used to collect data: direct, systematic observation, personal visits / interviews, communication per telephone, postal dispatch and group administration. Some techniques proved to be more successful than others and the research technique was changed during this study to ensure a higher return of the questionnaires that were distributed. Techniques used to distribute and complete questionnaires included: distribution of questionnaires via e-mail or facsimile, personal delivery of questionnaires followed up by structured interviews and telephonic interviews.

Distribution of questionnaires via e-mail or facsimile: the initial techniques that were used to collect data was to e-mail or fax questionnaires to all participants; after limited response and various excuses from participants the researcher decided to change the data collection technique. This was necessary due to time constraints for completion of the study. The revised data collection technique entailed:

- Personal delivery of questionnaires to participants, followed up by appointments to complete questionnaires by using the structured interview technique for active family members.
- Telephonic interview techniques for outstanding questionnaires from inactive participants.

The structured interview technique involves direct personal contact with the participant who is asked to answer questions (Bless & Higson-Smith, 1995:106). The scheduled structured interview is based on an established questionnaire, a set of questions with fixed wording and sequence of presentation, as well as more or less precise indications on how to answer each question (Bless & Higson-Smith, 1995:106). The researcher manipulates no situation or condition; people simply answer questions (Neuman, 1997:31).

The telephonic interview technique was also used to complete the questionnaires of inactive family members that were geographically spread across the globe. The following method was followed to complete these questionnaires: the purpose of the survey was explained; the researcher read the questions to the participant and recorded the respondent's responses. Because it may be difficult for respondents to remember all the alternatives they were asked to write them down before the telephonic interview started. Telephonic interviews took about ten to fifteen minutes.

The best results were achieved through structured personal interviews and telephonic interviews. The advantages and disadvantages of personal (face to face) and telephone interviews are discussed in Table 1.1 and Table 1.2 respectively (Huysamen, 1994:146; Neuman, 1997:253).

Table 1.1: Advantages and disadvantages of personal interviews

Advantages	Disadvantages
Highest response rate - face to face interviews have the highest response rates and permit the longest questionnaires	*High cost* – training, travel, supervision and personnel cost
Nonverbal communication and visual aids can be used	*Interviewer bias* – the appearance, tone of voice, and question wording may effect the interviewer
Flexibility and high quality - well trained interviewers can ask all types of questions, can explain the complex and vague ones, and can use extensive probes	*Time consuming* – time taken up by the interviews, arranging appointments, may return several times before the interview actually takes place
Complete control over the interview situation – if respondents or interviewees are evasive, the interviewer may attempt to gain their confidence	
More accurate completion of questionnaires – the interviewer can make sure that all responses are recorded, that all questions are answered and that someone else does not provide the responses on the respondent's behalf	

Source: Huysamen, 1994:146; Neuman, 1997:253

Table 1.2: Advantages and disadvantages of telephone interviews

Advantages	Disadvantages
Ease of application - popular survey method because about 95 percent of the population can be reached by telephone	*High cost* - relative high cost and limited interview length
Lower cost – although more expensive than a mail questionnaire, flexible method with all the advantages of face to face interviews but with half the cost	*Less control over the interview situation* - respondents without telephones are impossible to reach, and the calls may come at inconvenient times
Speed – especially beneficial if respondents over a fast geographical area needs to be contacted	*Anonymity* - the use of telephone interviews reduces anonymity and introduces potential interviewer bias
Quality – interviewer can make sure that all questions are asked and answered	Open-ended questions are difficult to use, and questions requiring visual aids are impossible

Source: Neuman, 1997:252

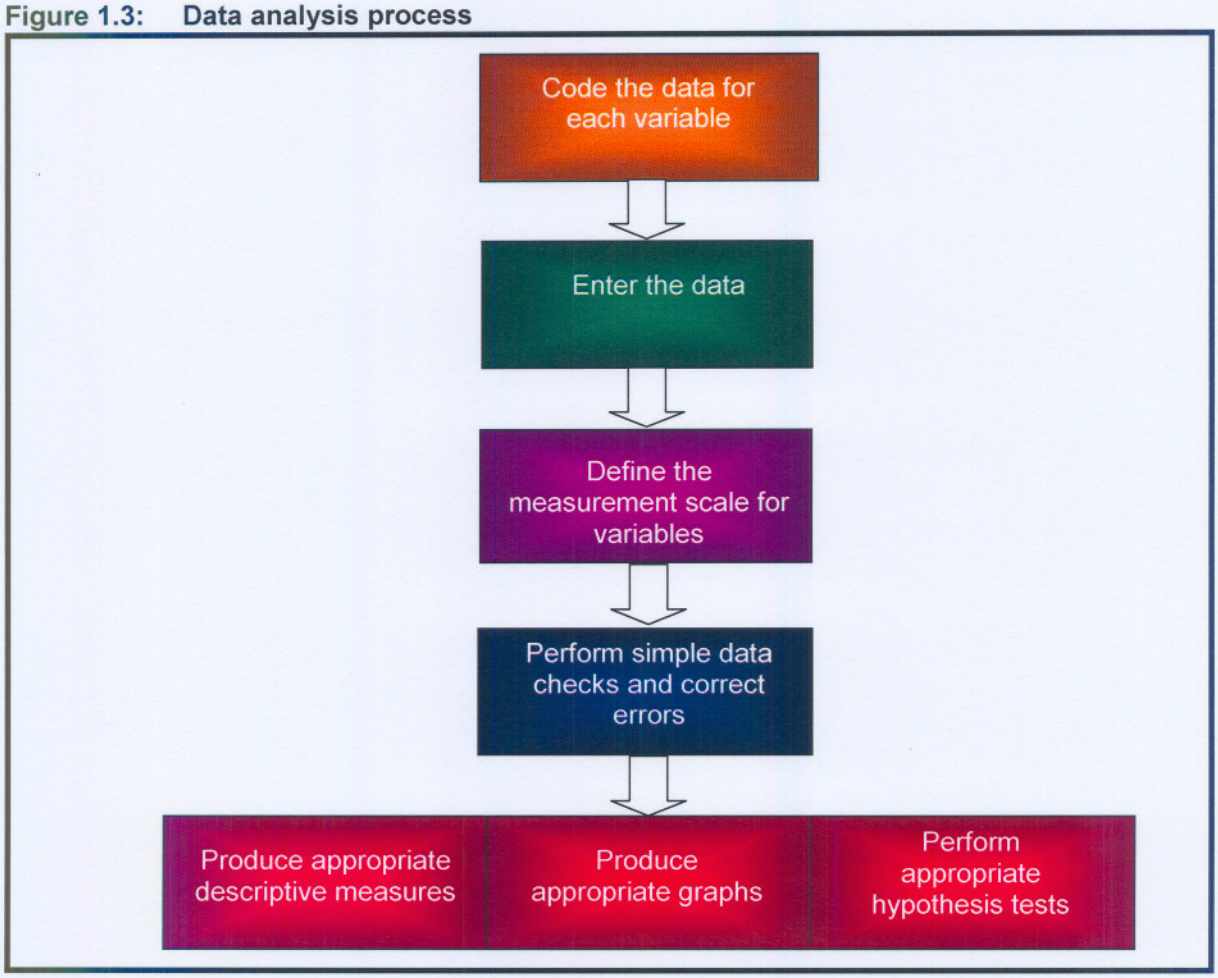
The return of questionnaires, which were not completed through personal and telephonic interviews, was followed up to ensure a high return rate. According to Neuman (1997:247), most researchers consider a response rate below 50% to be poor and over 90% as excellent. All questionnaires were treated confidentially to ensure that facts were not being distorted.

1.6.2.3 Data analysis

In order to analyse the data successfully, the data was captured and the measurement scales for each variable were identified. This is because different analysis procedures have to be used for the different measurement scales. In addition, the data was thoroughly checked, data checking involved detecting errors in the data and then deciding what to do about these errors (Page & Meyer, 2000:147). Appropriate graphs such as pie charts, bar charts and histograms were used to illustrate the data distribution.

Figure 1.3 explains the process to be followed for data analysis.

Figure 1.3: Data analysis process



Source: Page and Meyer (2000:162)

All data, including biographical and company specific information was captured and summarised where relevant. The results of the questionnaires were statistically analysed, using Statsoft, Inc (2004). The arithmetic mean, standard deviation and Cronbach alpha coefficient for each factor and sub-factor were determined, the dependent t-test and the d-value were also calculated based on the data that was captured. Validity of the research instrument can be determined through factor analysis but was considered to be outside the scope of this study. The validity and reliability of the measuring instrument (questionnaire) were already tested in previous research studies.

The descriptive measures used for this study are explained within the research study.

Biographical information

The purpose of these questions was explained, results were presented and finally an interpretation was done. Results are presented in tabular and / or graphical format in Chapter 3.

Family business information

The purpose of these questions was explained, results were presented and finally an interpretation was done. Results are presented in tabular and graphical format in Chapter 3.

Arithmetic mean

Arithmetic means are useful instruments for all types of data, except nominal data (Page & Meyer, 2000:147). The arithmetic mean was calculated by summing all the observations in a batch of data, and then dividing the total by the number of items involved (Wisniewski, 2002:96). In the research study the mean indicates where the average response for a specific statement lies relative to the Likert scale. The issues were identified by arranging the arithmetic means from high to low. The factors / sub-factors with the highest means were considered as strengths of family businesses, while the factors / sub-factors with the lowest mean were considered to be the ones that need attention.

Standard deviation

Standard deviation measures the square root of the average deviation from the mean, using square distances to emphasise the influences of unusual data (Page & Meyer, 2000:151). The standard deviation requires an interval or ratio level of measurement. It is based on the mean and gives an "average distance" between all scores and the mean. Standard deviation is used for comparison purposes (Neuman, 1997:301).

Cronbach alpha analysis

To assess the soundness of the measuring instrument that was used the internal consistency between the variables in the questionnaire was evaluated, the Cronbach alpha coefficient was used for this evaluation. In this study, the Cronbach alpha reliability coefficient was used to assess the consistency of the individual items or indicators of the scale. The Cronbach alpha coefficient is based on the average correlation of variables within the test, e.g. a reliability coefficient of 0.669 means that 66.9 percent of the variance in the observed scores is due to the variance in the true scores. The generally agreed lower limit for the Cronbach alpha coefficient is 0.70, although it may be decreased to 0.60 in the case of exploratory research. Reliable scores of lower than 0.60 are seen as questionable whereas a reliable score of more that 0.80 would indicate high reliability; anything in between is acceptable (Page & Meyer, 2000:198).

The Cronbach alpha coefficient was calculated for each of the 12 factors that were tested in the study. The results obtained are discussed in Chapter 3.

Effect Sizes

In many cases, according to Ellis and Steyn (2003:1), researchers are forced to consider their obtained results as a sub-population of the target population, due to the weak response of the planned random sample. In other cases, data obtained from convenience sampling are erroneously analysed as if it were obtained by random sampling. Such data should be considered as small populations for which statistical inference and *p*-values are not relevant. Statistical inference draws conclusions about the population from which a random sample was drawn, using the descriptive measures that have been calculated. Instead of only reporting descriptive statistics in these cases, effect sizes can be determined.

Practical significance can be understood as a large enough difference to have an effect in practice. The effect size is independent of sample size and is a measure of practical significance (Ellis & Steyn, 2003:1). A small *p*-value (e.g. smaller than 0.05) is considered as sufficient evidence that the result is statistically significant.

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 that is called the effect size. The following guidelines for the interpretation of the effect size were given by Ellis and Steyn (2003:4): small effect if $d = 0.2$, medium effect if $d = 0.5$ and large effect if $d = 0.8$. Data with d >= 0.8 are considered as practically significant, since it is the result of a difference having a large effect.

Statistical significance tests (dependent t-test)

An advantage of drawing a random sample is that it enables one to study the properties of a population with the time and money available (Ellis & Steyn, 2003:1). In such cases, the statistical significance tests (e.g. dependant t-tests) are used to show that the result (e.g. difference between two means) is significant. The *p*-value is a criterion of this, giving the probability that the obtained value (or more extreme) could be obtained under the assumption that the null hypothesis (e.g. no difference between the populations means) is true. A small *p*-value (e.g. smaller than 0.05) is considered as sufficient evidence that the result is statistically significant. Statistical significance does not necessarily imply that the result is important in practice as these tests have a tendency to yield small *p*-values (indicating significance) as the sizes of the data sets increase (Ellis & Steyn, 2003:1).

The purpose of the statistical significance test is to determine whether the observed data patterns are sufficiently strong to suggest general applicability in the research population. A significant result means that the sample results can be generalised to the research population (Page & Meyer, 2000:166).

1.6.2.4 Data interpretations

Practical substantiated recommendations were made to improve the family businesses' chances for success and conclusions were drawn. These are described in Chapter 4 of this study.

1.7 LIMITATIONS

Due to the nature of the study, the following limitations were identified:

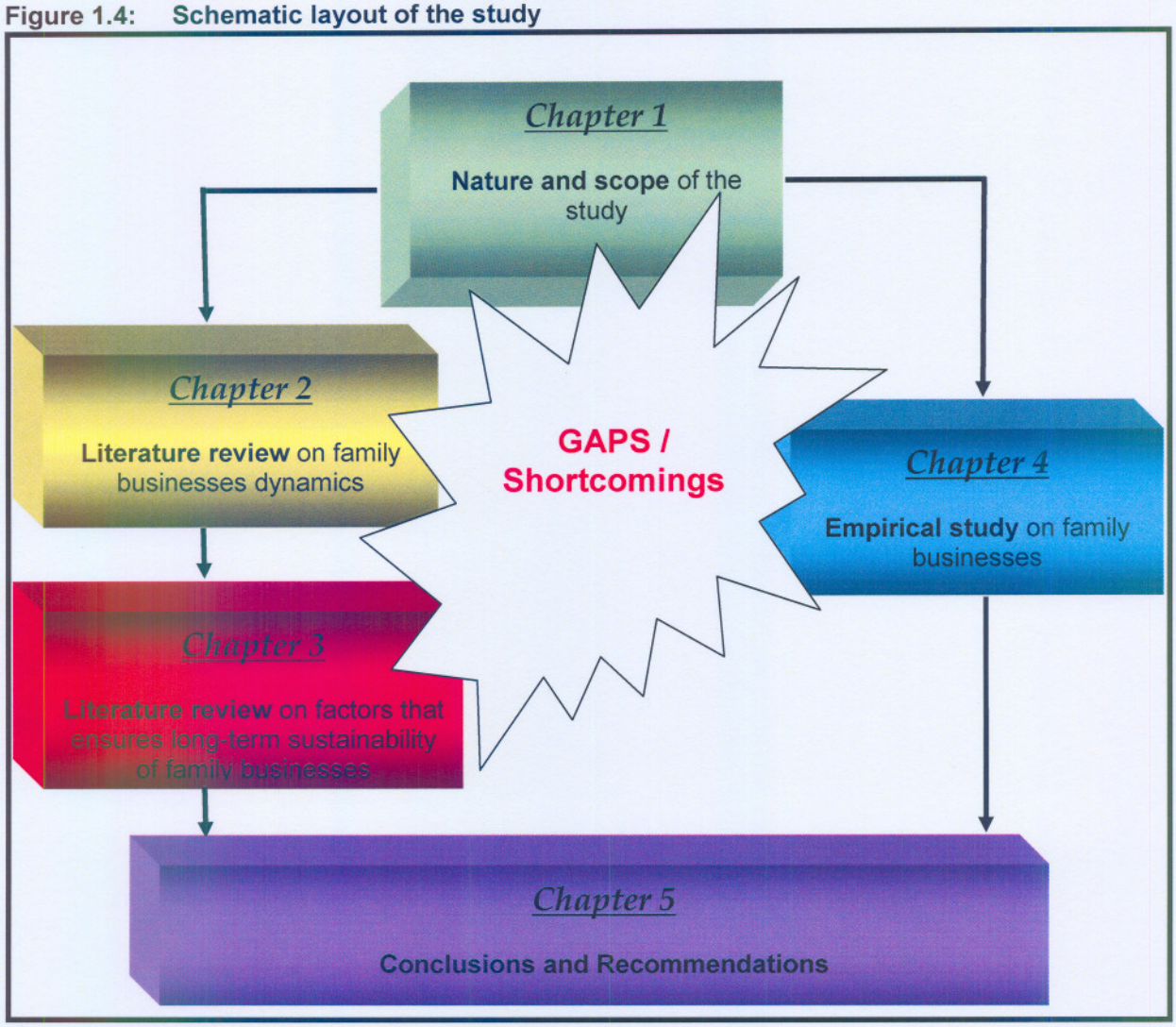
- The research was confined to the Sedibeng District of the Metsimaholo Municipality and the results are typical to the circumstances of the geographical scope; it can therefore not be accepted as an overall reflection of family businesses in South Africa.
- The focus was on the family, the ownership and business systems. The operational aspects of the business were ignored for the purposes of this study.
- The scope of family business, with specific reference to the scope of this study, was too comprehensive to cover all aspects of family businesses in detail. The results and conclusions made are therefore only broad guidelines that can be used for future research.
- The snowball sample technique that was used can cause certain family businesses to be excluded from this study.
- The literature study is mainly based on foreign literature because very limited research is available on family businesses in South Africa.

The limitations of the study must be taken into consideration when the results and conclusions of this mini-dissertation are applied to family businesses in a broad sense.

1.8 LAYOUT OF THIS STUDY

The layout of the study is depicted in Figure 1.4.

Figure 1.4: Schematic layout of the study



The study consists of the following five chapters:

- *Chapter 1* provides an overview of the study. The chapter includes an introduction to family businesses, importance of family businesses, the problem definition, the study objectives, scope of the study, the research process that was followed and the limitations of the study.
- *Chapter 2* entails literature on the key dynamics of family businesses. Topics that are discussed include: definition of a family business, advantages and disadvantages of family businesses, characteristics of successful family businesses, family, management and ownership systems and family harmony among family members.

- *Chapter 3* entails the literature study on the factors that ensure long-term sustainability of family businesses. Topics that are discussed include: performance measurement and compensation of family members, continuation of the business as a family business, successful contribution and participation of successors, development of successors, analysing important factors for succession and estimating the odds, readiness of the CEO to implement succession, ownership succession and governance for continuity of the family business.
- *Chapter 4* discusses the results from the empirical study. In this chapter the statistical analysis of the results are presented and interpreted.
- *Chapter 5* presents the conclusions from the study. Recommendations are made to address the shortcomings identified in the previous chapters.

2.1 INTRODUCTION

Jaffe (1991:28) stated that family businesses are as old as society; ancient kingdoms were actually family businesses. Jaffe (1991:28, 29) further stated that most of the mega-companies of today started as family businesses, and many of them have remained so through several generations.

The most important reason for the prevalence and success of a family business is that family closeness and understanding is a powerful resource in the business world (Aronoff *et al.*, 2002:4; Jaffe, 1991:31). Family dynamics have a tremendous impact, either positive or negative, on a family business (Emens & Wolper, 2000:2). Each family business and each family member is unique in many ways. The family members can draw from each other and promote family unity in difficult times (Ibrahim & Ellis, 1994:5).

However, family businesses are so complex, that they are frequently misunderstood - even by its members (Shanker, 2000:4). They face increasingly complex issues that affect not only the destiny of the family business itself, but also those of the proprietor, his family, and his employees (Leach & Bogod, 1999:xv).

Thus, to be successful, owners of family businesses need to recognise the special dynamics involved in their organisation, adopt the favourable structures and practice to deal with them. Emens and Wolper (2000:2) identified four key dynamic issues that should be addressed in a family business: communication, compensation, succession of management and ownership.

2.2 WHAT IS A FAMILY BUSINESS?

A family business is any business where more than one member of a family takes on management or active ownership responsibility (Jaffe, 1991:27). According to Aronoff *et al.* (2002:2) the simplest definition of a family business is a business that includes two or more members of a family that have financial control of the company. According to Jaffe (1991:27) there are two major types of family businesses, namely single generational and cross-generational businesses.

Single generational businesses can be twofold. In the one instance, it begins when one entrepreneur invites other family members of his or her generation to share in management /

ownership of the business. In the second instance, two (or more) relatives of the same generation start a business.

Cross-generational family businesses usually arise later in a business life cycle, when the founding generation has grown the business to a point where it can accommodate the next generation (Jaffe, 1991:27).

There is no single definition of a family business (Hellriegel *et al.*, 2002:137), but most often the term is used to describe a business owned and managed mostly by people who are related by blood and / or marriage. Often these businesses are passed down from one generation to the next.

Based on the literature review it became evident that various authors constructed their own definitions. Neubauer and Lank (1998:5) summarised the most common elements of the myriad definitions of family businesses found as follow:

- The percentage of share capital (voting or otherwise) owned by a family.
- Employment of owning family in executive or other positions.
- The existence of non-family executives or employees.
- The extent to which the intention is to maintain family involvement in the future.
- The number of generations of the owning family involved in the business.
- The number of families involved in either management and / or ownership.
- Whether a given family accepts that it controls its own enterprise.
- Whether non-family employees accept that it is a family enterprise.
- Whether direct descendants of the founder have management and / or ownership control; and
- The size of the business, particularly the number of employees.

Given all the above definitions and viewpoints, the definition of Ibrahim and Ellis (1994:4) will be adopted for this study. They defined a family business as follows:

- At least 51% of the business is owned by a single family.
- At least two family members are involved in management activities.
- The transfer of leadership to next generation family members is anticipated.

2.3 ADVANTAGES AND DISADVANTAGES OF FAMILY BUSINESSES

The success of those involved in managing family businesses determines the performance of the family business. These managers have a number of business-related advantages working in their favour, but at the same time face up to and battle with a range of serious disadvantages (Leach & Bogod, 1999:5; Shanker, 2000:4).

2.3.1 Advantages of family businesses

The overriding characteristic that distinguishes most family businesses is a unique atmosphere that creates a sense of belonging and enhances common purpose among the whole workforce (Leach & Bogod, 1999:5). Although intangible, this factor manifests itself in a number of very concrete and positive advantages that give family businesses a competitive edge over non-family businesses (Ibrahim & Ellis, 1994:5). Some of the major advantages of family businesses are discussed below.

2.3.1.1 Shared values, beliefs and vision

Family members are likely to share the same ethos and beliefs on how things should be done. This gives them an extra sense of purpose and pride as well as a competitive business edge. The deeply entrenched values and beliefs of a family are the glue that holds them together. It also allows the family to have a clear identity and a strong sense of mission to succeed (Ibrahim & Ellis, 1994:5).

2.3.1.2 Knowledge

Kets de Vries (1996:23) stated that family businesses often have specific ways of doing things, e.g. special technological and commercial know-how not possessed by other competitors. Knowledge that would normally become general in a regular commercial environment can be coveted and protected within the family.

2.3.1.3 Long-term view on strategy and investments

Family members behave as stewards of the business and its capital needs for the benefit of the next generation. So they tend to take a long-term view regarding their investments (Leach & Bogod, 1999:9).

2.3.1.4 Strong and long-term commitment and orientation

According to Aronoff and Ward (1996:7) and Kets de Vries (1996:23) building a lasting family business means family members are more likely to put in the extra hours and effort needed to make the family business a success. Shanker (2000:4) supported the above statement and stated that when things get tough, family members will do what is needed to make the business work. Thus, hiring family members means hiring people who are more committed to the success of a business than non-family employees.

Ibrahim and Ellis (1994:5) said that family members are not only employees and managers, but owners as well, and, above all, part of the social concept known as family. Leach and Bogod (1999:5) are of the opinion that family enthusiasm develops added commitment and loyalty from the workforces, people care more and feel that they are part of a team, all contributing to a common purpose.

2.3.1.5 The family spirit and common goals

The biological bond that connects family members is a major ingredient in the success of the family business. The family spirit helps overcome business emergencies and promotes family unity in difficult times (Ibrahim & Ellis, 1994:5).

Due to the biological bond, family members have common goals and are all dedicated to the success of their family business in the long run (Ibrahim & Ellis, 1994:5; Fleming, 2000:18).

2.3.1.6 Flexibility

Family businesses are less hierarchical and bureaucratic than professionally managed businesses, thus more flexibility that allows the family business to respond quickly and effectively to a changing environment (Aronoff & Ward, 1996:334; Ibrahim & Ellis, 1994:6). Leach and Bogod (1999:10) stated that the flexibility of family businesses speeds up and enhances decision-making.

2.3.1.7 Perception of the family name

The confidence that customers have in a family name and in a person, rather than a title, is behind the success of many family businesses (Ibrahim & Ellis, 1994:6). Important community and business relationships stem from a respected name (Aronoff *et al.*, 2002:9).

2.3.1.8 Economic independence

Family members of successful family businesses most likely will enjoy economic independence that will possibly be passed on to next generations (Aronoff & Ward, 1996:334; Kets de Vries, 1996:23). Ibrahim and Ellis (1994:5) said that family members working in a family business feel more independent in terms of monetary rewards.

Often a family business defines success not only in terms of profit but also in providing employment and benefits to the community. A business, can offer employment to qualified relatives and opportunities to bond with them, as well as put cherished beliefs into practice.

2.3.1.9 Entrepreneurial and stable culture

Ibrahim and Ellis (1994:5) feel that the founder usually builds a strong entrepreneurial culture that becomes deeply entrenched in the family business. Family members get involved directly or indirectly in the business at an early stage of their lives (Aronoff & Ward, 1996:334)

Studies show that most entrepreneurs come from entrepreneurial families (Kets de Vries, 1996:23). Entrepreneurial culture emphasises innovation, idea generation, flexibility, risk taking, the ability to solve problems creatively, to recognise opportunities, are goal orientated, are committed to the business and have the desire to compete and succeed. The continuous exposure to the family business creates an entrepreneurial spirit and culture among younger generation family members (Leach & Bogod, 1999:8).

2.3.2 Disadvantages of family businesses

Family businesses are prone to some serious and endemic disadvantages (Leach & Bogod, 1999:11). These disadvantages are not unique, but family businesses are extremely vulnerable to these failing. The major disadvantages of family businesses are discussed below.

2.3.2.1 Conflict

Conflict occurring between the interests of the family and those of the business as a whole, can create emotional issues unheard of in non-family businesses (Aronoff *et al.*, 2002:5). Almost always in a family business the family has the proprietary and / or management power to pursue its own objectives and aspirations, even when they are at variance with the best interest of the company.

2.3.2.2 Family infighting

Family infighting is a major disadvantage of family businesses (Ibrahim & Ellis, 1994:7). Hostility among children, spousal fights and sibling rivalry can lead to undesirable behaviour, confusion, poor performance, goal conflict and, ultimately, the demise of the family business.

2.3.2.3 A lack of discipline

Being exerted over profits and performance in all parts of the organisation, family businesses may tend to concentrate on product quality, sales, "empire building" and personnel relationships beyond the contribution of these factors to the long-term profits of the business (Aronoff *et al.*, 2002:5).

2.3.2.4 Nepotism

Situations where nepotism rules unchecked by objective standards of meritorious managerial performance can be a major disadvantage to a family business (Aronoff *et al.*, 2002:5; Aronoff & Ward, 1996:7). Nepotism entails dominance of family reasons over business logic and can include an inequitable reward system (Kets de Vries, 1996:23).

2.3.2.5 Breeding ground for family problems

A business can be a breeding ground for family problems, e.g. jealousy, anger and resentment. There is less reservation about letting feelings out among family members and family problems can therefore easily spill over into the workplace (Kets de Vries, 1996:25).

2.3.2.6 Abusing family ties

The manager of a family business may find it hard turning down relatives as employees regardless of lack of qualifications. Relatives who are allowed into the company may abuse family ties and feel that they can under-perform simply because they are family (Aronoff *et al.*, 2002:5).

2.3.2.7 Boundary problems

Being a member of the family and an employee of the family business may create boundary problems, according to Ibrahim and Ellis (1994:7). Poorly defined boundaries can cause individuals to be caught in the middle and give rise to conflict situations.

2.3.2.8 Role confusion

Roles and responsibilities of family members involved in the business may be unclear or not defined at all (Kets de Vries, 1996:23). Some family members are also fulfilling multiple roles (e.g. family, business and / or owner) at the same time. As emotions are more evident in family businesses, it may be difficult to put on the right hat at the right time. Ibrahim and Ellis (1994:7) warned that role confusion often leads to inefficient communication and poor decision-making.

2.3.2.9 Lack of objectivity

A number of family members are so involved in the family intrigues that they find it difficult to express their objective opinion when business decisions need to be taken. Thus, decisions are often based on emotions rather than an objective assessment of the situation (Ibrahim & Ellis, 1994:7).

2.3.2.10 Supervising relatives

Family members supervising relatives may find it difficult to apply the same rules and be consistent in the management of family and non-family members. They might also find it difficult to criticise family members or to evaluate their performance (Ibrahim & Ellis, 1994:7).

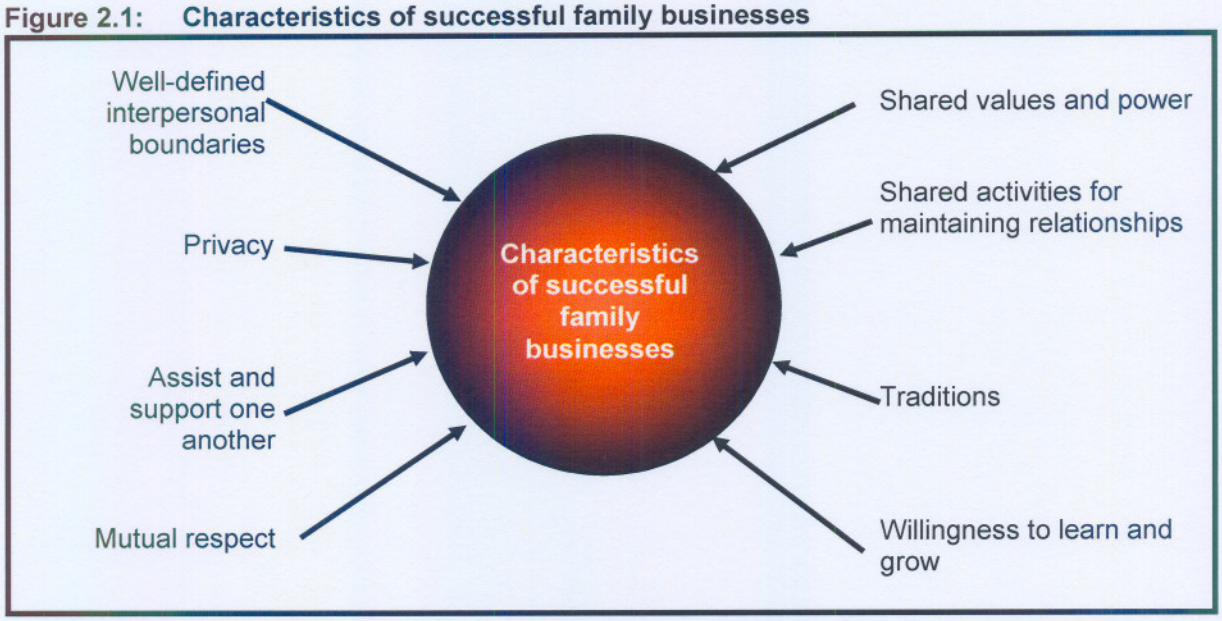
2.3.2.11 Inward-looking

Family businesses may tend to focus inward. Therefore, involvement from objective board members is critical to ensure that the family business pays attention to the environment they are operating in, deciding what business they are in, developing a strategy of how they will operate, setting goals and creating a business to reach them.

2.4 CHARACTERISTICS OF SUCCESSFUL FAMILY BUSINESSES

According to Jaffe (1991:xiv), families that succeed in work and at home share certain characteristics. These characteristics are graphically depicted in Figure 2.1.

Figure 2.1: Characteristics of successful family businesses



Source: Jaffe (1991:xiv)

Based on the work of Jaffe (1991:xiv), the characteristics of successful family businesses are briefly described as follows:

- **Shared values** about people, work and money.
- **Shared power** across generations, between spouses, among siblings.
- **Shared activities for maintaining relationships:** Families that maintain their sense of humour, demonstrate ability to have fun, and play together are putting "relationship currency" into the family bank so there is a reserve to draw upon during times of disagreement.
- **Traditions:** Those traditions that make the family special and set it apart from all other families.
- **Willingness to learn and grow:** The family that is open to new ideas and approaches is one that, as a group, can solve any problem.
- **Mutual respect:** Mutual respect is evident in the trust between and among family members that is built on a history of keeping one's word.
- **Assist and support one another**, especially at times of grief, loss, pain and shame.
- **Privacy:** Respect for one another's individual space and for the private space required in each family unit within the extended family.

- **Well-defined interpersonal boundaries**. To keep individuals from being caught in the middle of the family and the business.

2.5 FAMILY, MANAGEMENT AND OWNERSHIP SYSTEMS

Family businesses differ in a variety of critically important ways from non-family businesses and family businesses function differently from non-business families (Leach & Bogod, 1999:3). There are three interrelated and completely different and distinct systems involved in a family business (Bork *et al.*, 1996:73; Carlock & Ward, 2001:4; Fleming, 2000:21; Jaffe, 1991:53; Ibrahim & Ellis, 1994:44), namely the family, management and ownership systems.

Ibrahim and Ellis (1994:45) and Jaffe (1991:53) explained the difference between the three systems as follows:

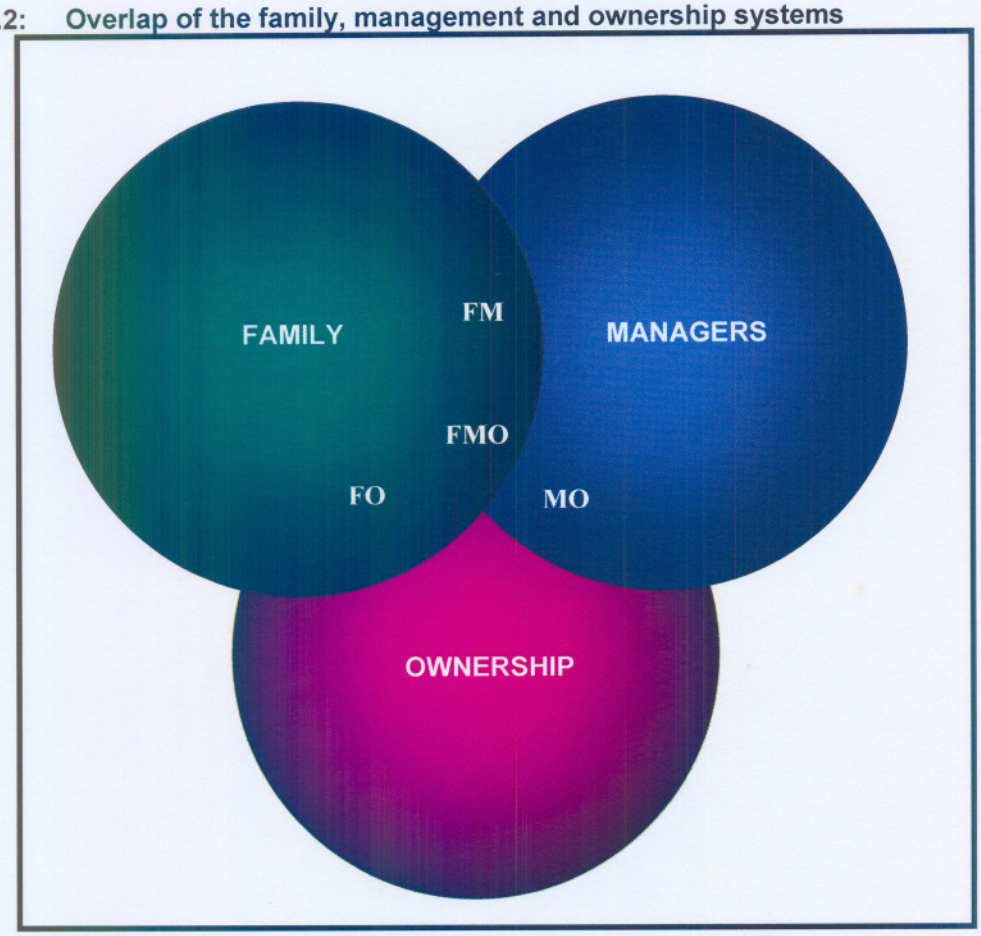
- As *family* they are interested in the welfare and the unity of the family.
- As *managers* they work towards the business's operational effectiveness.
- As *owners* they are interested in the return on investment and the viability of the business.

Family members can be part of any one of the three systems, or of all three. These three systems are interrelated and support each other to a certain degree. Problems arise when it is unclear which system takes precedence (Frankenberg, 1999:32; Jaffe, 1991:53). Experts who have worked with family businesses over the last few decades have found that the most effective long-term treatment of family problems is the systems approach (Bork *et al.*, 1993:23).

The family, management and ownership systems are graphically depicted in Figure 2.2 on the following page.

Viewing the three systems as three interlocking circles, there are several possible overlaps (Jaffe, 1991:53). The middle space, labelled FMO, includes people who are family, manager and owner members. The members of this group may get particularly confused in their relationship and the boundaries between family, management and ownership decisions, may be unclear.

Figure 2.2: Overlap of the family, management and ownership systems



Source: Jaffe (1991:54)

The area labelled FM consists of family members who work in the business, but don't own shares. They may be sons, daughters, nephews, nieces or in-laws who expect to become owners in the future. FO indicates family members who owns parts of the business, but don't work in it, e.g. passive shareholders and children or spouses who inherit part of the business (Voeller *et al.*, 2002:19). MO refers to employees who can also own shares in the business.

Each of the three positions in a family business impacts on personal relationships. Individuals situated in the different segments will have totally different experiences and expectations of the family business as a whole (Voeller *et al.*, 2002:19). Ibrahim and Ellis (1994:45) describe the three simultaneous roles - family members, managers and owners - as one of the key characteristics of family businesses. The key success factor is how the family manages this overlap of the three systems.

2.5.1 Separating family and business

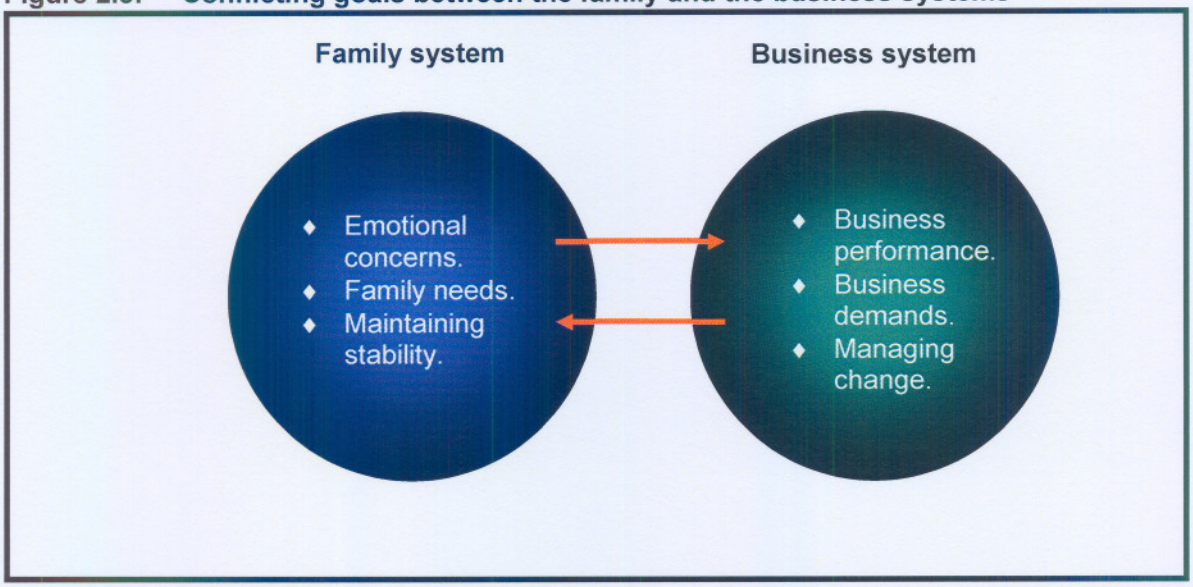
All members of a family business, active or inactive, form an integral part of the family dynamics that play themselves out within and around the business. These dynamics make a family business unique. The following dynamics must be carefully managed in order to ensure a healthy, long-term sustainable family business.

2.5.1.1 Balancing family and business interests

Many problems occur because family and the family business are two separate systems with different and competitive needs and objectives (Spector, 2003:35). The family system involves emotional acceptance and the business system rationality and results (Bork *et al.*, 1993:23). The interaction between the two systems can lead to role conflict and confusion, which causes stress to relationships and effective communication.

Thus, the family and business are concerned about different goals (Carlock & Ward, 2001:5). These conflicting goals between the family and the business systems are depicted in Figure 2.3.

Figure 2.3: Conflicting goals between the family and the business systems



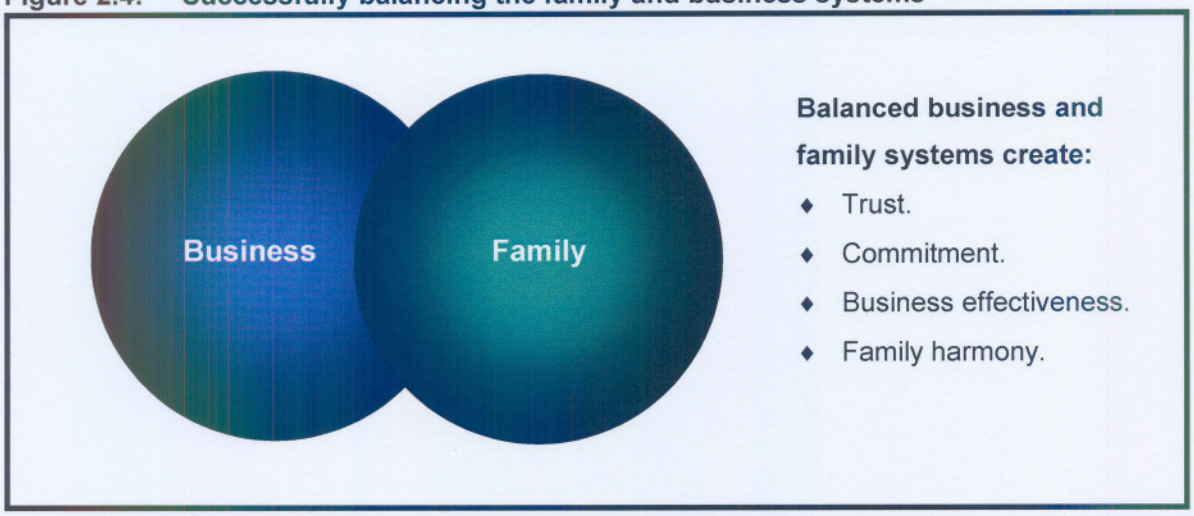
Source: Hubler and Ayres (in Carlock & Ward, 2001:5)

Families are concerned about emotions, they focus inward and generally they resist change. Business systems must take the opposite approach if they are to survive; accomplishing tasks, focusing outwards on the external environment, and looking for ways to exploit change are key success factors for business systems.

Shanker (2000:4) stated that balancing family and business interests often requires compromise between family and business perspectives. In the best of situations, dynamic tensions create new "win-win" solutions that compromise neither the business nor the family. Jaffe (1991:26) is of the opinion that separation of business from family, and the clarity of the rules by which the business operates, are characteristics of successful family businesses.

The successful balancing of the family and business systems is schematically depicted in Figure 2.4.

Figure 2.4: Successfully balancing the family and business systems



Source: Hubler and Ayres (in Carlock & Ward, 2001:7)

Successful family businesses create their own special worlds, a certain style of business culture and rules for moving between the family and business systems. For example, "Family ties are important, but the family agrees that the business comes first" (Aronoff & Ward, 1996:7).

In fact, both family and business domains are crucial to long-term family business prosperity. Both require equal care. Neither needs to assume a dominant role. Instead, respect for the needs of the business must be balanced with legitimate family concerns if the family business, and the family, is to endure. Appropriate corporate governance can provide a balance, responsive to all.

Carlock and Ward (2001:7) emphasised that the family who equalises the family and business systems, can create a positive environment where the family thrives and the business performs. The balanced approach to addressing these two subsystems becomes the foundation for healthy family business relations and for the creation of a family business legacy.

Aronoff and Ward (1996:7) stated that a major stumbling block for family business leaders is the assumption that they must choose one set of interests over another, thus embracing a "family first" or "business first" philosophy.

2.5.1.2 Impact of "family first" approach

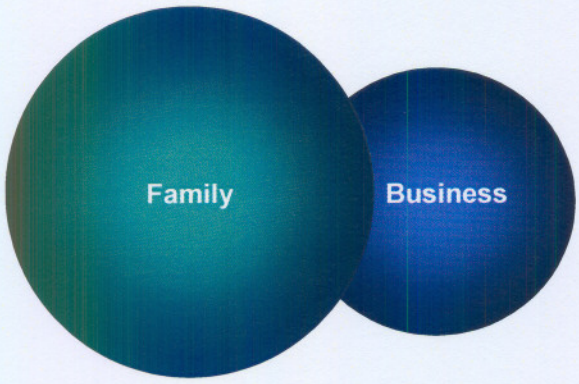
Aronoff and Ward (1996:7) said that some business leaders put "family first" and operate on the premise that family members have a *right* to be heard under any circumstances, no matter how disruptive to the business their self-expression may be. They proceed on the assumption that family members' ideas always should be taken seriously and that business leaders should report back to the family. In this line of thinking, the business should compromise to avoid potential family conflict and assure family harmony.

Figure 2.5, on the following page, show the outcome of "family-first" thinking.

Ibrahim and Ellis (1994:109) are of the opinion that a "family first" view can distract and drain management and undermine the competitiveness of the business and sharply increase the likelihood of conflict between managers and shareholders. Thus, when the family system is pre-eminent, business issues and needs are neglected.

Family businesses can over-emphasize their thinking about matters at home to the detriment of their business concerns. A desire to make everyone happy can result in unqualified family employees entering the business, threatening effective next-generation leadership (Carlock & Ward, 2001:6). The business that places the family first often neglects making objective performance appraisals and leadership development plans for family members.

Figure 2.5: Off-balance, "family first"



Overemphasis on the family erodes:

- Business communication.
- Business relations.
- Performance appraisals.
- Decision-making.
- Strategy making.

Source: Hubler and Ayres (in Carlock & Ward, 2001:6)

2.5.1.3 "Business first" decision

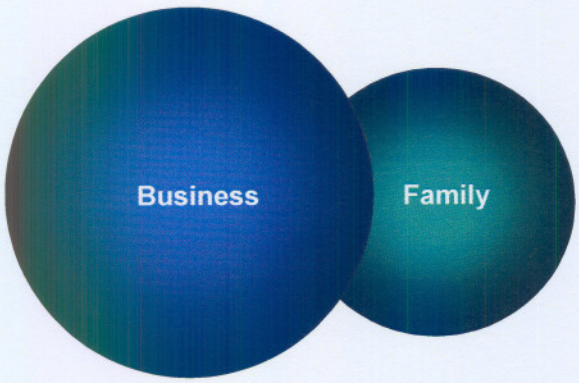
Some family business leaders put their "business first" (Aronoff & Ward, 1996:7). They discriminate against family members who lack skill, knowledge and proven experience and they assume some family members' comments on the business are always inappropriate and disrupt management (Aronoff & Ward, 1996:7).

Figure 2.6 on the following page shows the outcome of "business first" thinking. When the business system is pre-eminent, family issues and needs are neglected.

With this line of thinking, shareholders should be passive. Over time, either a "family first" or "business first" mode of operation can cause serious problems. A "business first" perspective allows family concerns to fester and erupt into clashes that can threaten the future of the business.

Family businesses that over-emphasize the business system, and consequently diminish attention to the family system, often end up with families that do not relate to each other and psychologically compete with the business. These families report that the business dominates all of the family's time together (Carlock & Ward, 2001:6).

Figure 2.6: Off-balance, "business first"



Overemphasis on the business erodes:

- Family communications.
- Family identification.
- Family loyalty.
- Family time.
- Family emotions.

Source: Hubler and Ayres (in Carlock & Ward, 2001:6)

2.6 FAMILY HARMONY AMONG FAMILY MEMBERS

A challenge to the future success of the family business may lie in the family's desire to avoid conflict in the interest of family harmony (Ward, 1987:49). While in many ways this is a laudable goal, conflict and healthy competition among family members may in fact be important to the growth of the company. Family harmony among all family members (active and inactive) entails effectively managing the overlap of the family and business systems.

To be able to effectively manage the overlap takes special awareness, careful communication and extreme effort. There is a positive correlation between family harmony and continuation planning. Neubauer and Lank (1998:136) said that if the family is in harmony, it is much easier to discuss succession and set up appropriate systems for preparing the next generation to take over. According to Ward (1987:50) the cost of maintaining family harmony is high.

2.6.1 Relationships among family members

Family relationships affect the business and business relationships affect the family (Voeller *et al.*, 2002:30). According to Jaffe (1991:274), effective family and business relationships contain the following elements:

- Individuals in the family and in the business must have a basic respect and caring for one another as people.
- The family business should provide secure employment for employees who are committed to the business.

- Employees should share in the profits of the business.
- People in the family need to grow, develop their talents and realise their unique potential.

Healthy family business relations begin with a structure to organise the family, to keep in touch with what each person wants (vision), what the family stands for (culture), and what the family wants (individual needs and dreams) from the business (Jaffe, 1991:25). These relations are shaped by many factors, including the order of birth of children. Competition is likely to be sharpened further by the business owner's need to ultimately select one child as his or her successor.

Signs that unhealthy family relationships are developing include (Ward, 1987:157):

- Family members are constantly arguing with one another.
- Family members are avoiding one another.
- Family members are making disrespectful remarks about one another.

In such a case, or to help prevent such a case, the family needs to develop a "code of understanding" or "code of conduct," which would include caveats against arguing with or criticising another family member in public, passing judgment on the private lives or parenting practices of other family members.

On the positive side, the code would ask that family members always strive for consensus when faced with difficult decisions and, even more important, always treat one another with respect. Such codes are often passed on from one generation to the next and become essential when younger generation family members are working together in the business and their value increases as cousins and in-laws also become involved in the family business (Ward 1987:157).

Family members (active and inactive) need to nurture their personal relationships with one another. Having fun, enjoying one another's company, and finding shared interests outside the business will help them weather rough patches inside the business. Emphasising common ground and focusing on a goal larger than themselves will go a long way toward holding families together as a team and enabling them to deal with individual differences (Aronoff *et al.*, 1997:65).

According to Astrachan and McMillan (2003:53) wise business-owning families know that their relationships with each other are more important than their grievances. One of the reasons they are in business together is that they want to work together and to enjoy the fruits of their labour

as a family. As much as family members love one another, however, relationships can be difficult.

2.6.2 Communication among family members

Conflict and the failure of communication contribute to the fall of a business-owning family (Astrachan & McMillan, 2003:21; 53). Only through sound communication does conflict get satisfactorily resolved. Healthy communication can often prevent the misunderstandings around which conflict occur.

Communication is not a "soft" subject. Good communication does more than keeping families and business going; it is the essence of relationships (Aronoff & Ward, 2001:53). Communication makes relationships meaningful, fun and in the long run, it helps make life worthwhile.

Communication is critical to long-term family harmony and business success. According to Shanker (2000:14), many family businesses' unique and most difficult issues arise from a lack of communication. Lack of communication causes lost opportunities, misunderstandings, and distrust, lack of involvement and buy-in and incomplete planning. One way to begin improving communication skills is to take stock, to conduct an inventory of how well the family communicates.

If the communication inventory suggested real problems, one needs to take action as quickly as possible, possibly calling in outside professional help. When communication is going well, it is a sign that a lot of other things are going well too; however, there is always room for improvement (Astrachan & McMillan, 2003:22).

To improve communication, Voeller *et al.* (2002:30) proposes the following:

- Family councils.
- Facilitated family retreats.
- Written codes of conduct.
- Attending communication skills courses.

Families will benefit from programs and readings to help them develop sound tools for communication (Ibrahim & Ellis, 1994:113). In worst-case scenarios, if a family is afflicted by lack of trust and honesty, communication is not merely inadequate, but it is also destructive.

Families in this situation almost invariably need to turn to outside professional help or admit the situation and leave.

2.6.3 Conflict among family members

The potential for conflict in family businesses can be greater than for many other businesses. The reason for this conflict is mainly due to the overlap between the family and the business system (Astrachan & McMillan, 2003:53). Shanker (2000:4) supported this and stated that some members of the family business system think as family members, others as managers and the other as owners.

However, conflict in a family business can be seen as a challenge, or, even as a positive driver for change (Astrachan & McMillan, 2003:53). Family members need to learn to deal with conflict, to hold each other accountable and to work for clear, shared goals (Jaffe, 1991:25). Differences in perspective, not personality, are the source of most conflict.

Since family businesses are more prone to conflict than non-family businesses, the ability to manage conflict in a family business is crucial (Ibrahim & Ellis, 1994:123). Ibrahim and Ellis (1994:113) further said that the conflict in family businesses is seen as self-interest and thus as running against the basic tenets of shared values, vision and common objectives in the family business.

Authoritative research indicates that conflict management is more important than decision making, leadership or any other managerial function (Ibrahim & Ellis, 1994:113). The traditional school of thought that conflict is unhealthy for the business must be avoided. Rather follow the contemporary view that argues that conflict is unavoidable and is not necessarily a negative force, but necessary for the effectiveness of the business.

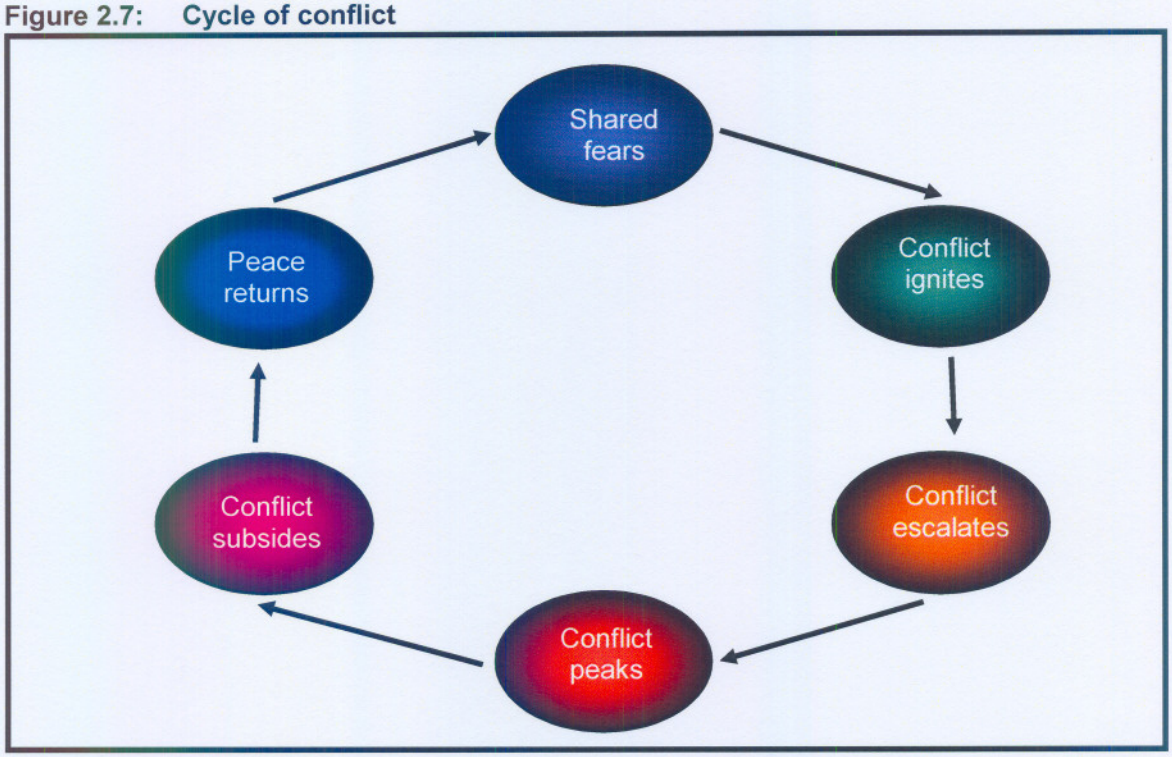
Functional conflict and open communication stimulates innovation, creativity and energy in the business, and ultimately enhances the performance of the business (Ibrahim & Ellis, 1994:113). Conflicts arise, many of it as a result of unresolved issues based in childhood, such as perceived unfairness and / or the desire to be taken seriously. Often a family's ability to resolve its differences is obstructed by its conflict and communication patterns and poor communication skills (Astrachan & McMillan, 2003:53).

2.6.3.1 The cycle of conflict

Conflict that mask hidden fears have the tendency to follow predictable circle patterns (Ibrahim & Ellis, 1994:135).

Refer to Figure 2.7 for a schematic illustration of the cycle of conflict.

Figure 2.7: Cycle of conflict



Source: Ibrahim and Ellis (1994:135)

As anxiety builds, family members initiate arguments that distract them from critical issues. This escalates into destructive battles, which create more anxiety. Eventually tempers cool down. The only way to break this vicious pattern is for families to confront the very issues they have diligently avoided. Sometimes, families know painfully well what those issues are and merely need a sensitive advisor to help them to talk through it frankly and constructively.

2.6.3.2 Techniques for avoiding, managing and resolving disputes

To handle simmering conflict, the following techniques for avoiding, managing and resolving it are proposed:

- The best way to avoid conflict is to prevent misunderstandings from happening in the first place, and drawing up a code of conduct, can help achieve this (Ward, 1987:157).

- Invest time in learning conflict resolution skills. Once the family has some experience in applying its skills and mechanisms, then the lessons and precedents need to be promoted broadly (Ward, 1987:156).
- Plan how to deal with particular types of disputes and set this out in the family business constitution. A good plan for conflict resolution requires anticipation of sensitive issues, as well as mechanisms that have been agreed upon in advance (Ward, 1987:156).
- Conducting management meetings may be appropriate for relatively minor disputes with decisions made by majority vote. However, for serious matters family businesses can get an outside adviser to act as a mediator or employ a professional (e.g. the family lawyer or the family consultant) to guide the family through difficult decisions (Ward, 1987:157).

According to Jaffe (1991:41), a family business has certain vital signs that indicate ill-health, namely communication difficulty, rivalries and frustrated expectations, coping with rapid growth, balancing business with family, and passing the business to the next generation. In order to build an effective business, the family must not only develop a business plan and business goals, but a corporate governance system that will ensure good communication between them (Jaffe, 1991:24).

2.6.4 Trust among family members

According to Shanker (2000:13), the one thing that underlies all the competitive advantages and distinctiveness of family businesses is trust. Trust is the source of long-term perspectives, the "family effect", loyalty, commitment, stewardships and family harmony. Trust provides a powerful advantage to family businesses (Shanker, 2000:13).

Unfortunately, too many family business leaders take trust for granted. However, they would be wise to view trust as much as they view capital (Shanker, 2000:13). Like capital, trust can be accumulated or depleted. An action that is acceptable under conditions of high trust would not be tolerated when trust is low. Not every family business is characterised by trust (Shanker, 2000:13).

Shanker (2000:13) describes the five components of trust as:

- **Integrity**: Having a reputation for honesty and truthfulness.
- **Competence**: Possessing technical knowledge and interpersonal skill required to get the job done.
- **Consistency**: Acting with reliability, predictability and good judgement.
- **Loyalty**: Willingness to protect, support and encourage.

- **Openness**: Freely sharing ideas and information and allowing others access to a person's thoughts.

When actions and behaviours are consistent with these components, trust is enhanced; when those components are contradicted, trust is depleted. Trust then becomes the new basis for family businesses.

2.6.5 Effective communication and conflict resolution through family meetings

Family meetings are the vehicle to address and explore family concerns that influence the family and the business, and it is a valuable tool for enhancing family relationships and improving communication (Jaffe, 1991:122; Voeller *et al.*, 2002:39). Many families mistakenly feel that the best way to promote harmony is to avoid discussion on upsetting topics.

Ward (1987:131) said that the starting point of family business planning is the family meeting. This is the mechanism through which most plans are made and the forum at which the family's future hopes and ideals are developed. However, formal planning (i.e. setting policies, making decisions and establishing direction for the future that affect the whole family) is not the only purpose these meetings can serve. (Voeller *et al.*, 2002:39).It provides a vehicle to communicate any topic of general concern. As a result, they make a vital contribution in keeping a family business healthy (Voeller *et al.*, 2002:39). These meetings may be used to help educate and govern the family through the discussion of topics, such as the nature of the business, the kind of leadership skills it needs, conditions for coming into the family business, decision making and resolving disputes (Ward 1987:131).

2.7 SUMMARY OF FAMILY BUSINESSES IN PERSPECTIVE

The main purpose of this chapter was to conduct a literature study on what a family business is. Topics discussed include: an introduction to family businesses, what family businesses are, advantages and disadvantages of family businesses, characteristics of successful family businesses, the family, management and ownership systems in a family business and family harmony. The literature study on family harmony entails harmony in the family, relationship, communication, conflict, trust and family meetings.

Family businesses are as old as society; ancient kingdoms were actually family businesses. Most of the mega-companies of today started as family businesses. To be successful, owners

of family businesses need to recognise the special dynamics involved in their organisation, adopt the favourable structures and practise to deal with them.

For the purpose of this study, the criteria to define a family business are that at least 51% of the business is owned by a single family, at least two family members are involved in management activities, and the transfer of leadership to next generation family members is anticipated.

Characteristics of a successful family business include shared values and power, shared activities for maintaining relationships, family traditions, the willingness to learn and grow, mutual respect, support of each other in the family, tolerance of the privacy of the other family members and well-defined boundaries between the family and the business. The success of those involved in managing family businesses determines the performance of the family business. These managers have a number of business-related advantages working in their favour, but at the same time face up and battle with a range of serious disadvantages.

There are three interrelated and completely different and distinct systems involved in a family business, namely the family, management and ownership systems. The family is interested in the welfare and the unity of the family, the managers' work towards the business's operational effectiveness and the owners are interested in the return on investment and the viability of the business. Each of the three systems in a family business impacts on personal relationships. Individuals situated in the different segments will have totally different experiences and expectations of the family business as a whole. The key of the success is how the family balances this overlap of the three systems.

Balancing family and business interests often requires compromise between family and business perspectives. In the best of situations, dynamic tensions create new "win-win" solutions that compromise neither the business nor the family. A major stumbling block for many family business leaders is the assumption that they must choose one set of interests over another, thus embracing a "family first" or "business first" philosophy.

A challenge to the future success of the family business may lie in the family's desire to avoid conflict in the interest of family harmony. While in many ways this is a laudable goal, conflict and healthy competition among family members may in fact be important to the growth of the company. Sustaining family harmony among all family members (active and inactive) means effectively managing the overlap of the family and business systems.

Family relationships affect the business and business relationships affect the family. Active and inactive family members need to nurture their personal relationships with one another. Having

fun, enjoying one another's company, and finding shared interests outside the business will help them weather rough patches inside the business.

Conflict and the failure to communicate contribute to the fall of a business-owning family. Only through sound communication does conflict get satisfactorily resolved. Healthy communication can often prevent the misunderstandings around which conflict occur. Communication is critical to long-term family harmony and business success. Lack of communication causes lost opportunities, misunderstandings, and distrust, lack of involvement and buy-in, and incomplete planning. The reason for this conflict is mainly due to the overlap between the family and the business systems.

The one thing that underlies all the competitive advantages and distinctiveness of family businesses is trust. Trust is the source of long-term perspectives, the "family effect", loyalty, commitment, stewardships and family harmony. Trust provides a powerful advantage to family businesses.

Family meetings are the vehicle to address and explore family concerns that influence the family and the business, and it is a valuable tool for enhancing family relationships and improving communication. Many families mistakenly feel that the best way to promote harmony is to avoid discussion on upsetting topics.

The above issues are all directly or indirectly factors that ensures long-term sustainability of family businesses.

The following chapter discusses more of the factors that ensure long-term sustainability of a family business. Topics discussed in Chapter 3 are compensation in a family business, management and ownership succession of a family business as well as corporate governance.

CHAPTER 3: FACTORS THAT ENSURE LONG-TERM SUSTAINABILITY

3.1 INTRODUCTION

As discussed in Chapter 2, the three systems, namely the family, management and ownership systems, are three completely different systems with three different goals, while containing many of the same people. Conflict and problems are encountered when the three systems are not in its healthiest condition, i.e. when something has agitated the status quo. It is during these times that family businesses meet their greatest challenges (Bork *et al.*, 1993:5). Thus, as discussed in Chapter 2, family harmony and the management of the family and management systems, are major challenges to a family business.

Based on the literature study, separating family and business matters (as discussed in section 2.5.1) and family harmony among all family members (as discussed in section 2.6), together with the following factors, were identified as important to ensure long-term sustainability of family businesses:

- **Compensation of family members**: According to Bork *et al.* (1996:75), Emens and Wolper (2000:7), Maas *et al.* (2005:35) and Spector (2001:9), there is no greater source for family business problems, nor more fertile ground for their cure, than the family business compensation system.
- **Continuation of the business as a family business**: The basic decision whether to continue the family ownership of the business is extremely difficult to discuss and is typically avoided (Solomon, 1998:56). Voeller *et al.* (2002:30) also highlighted the importance of the decision to keep the business as a family business.
- **Management succession**: Poorly managed succession is regarded as one of the most common causes of family business failure (Aronoff & Ward, 1992:40; Bork *et al.*, 1993:119; Neubauer & Lank, 1998:133).
- **Ownership succession**: To manage succession successfully is crucial to the survival of the family business. The most common source of family business conflict comes from a lack of co-ordination between management succession and ownership succession (Cohn, 1992:24; Jaffe, 1991:216; Leach & Bogod, 1999:233).
- **Corporate governance**: Family businesses with effective governance practices are more likely to do strategic and succession planning. On average, they grow faster and live longer (Carlock & Ward, 2001:140; Lansberg, 1999:281; Maas *et al.*, 2005:65; Neubauer & Lank, 1998:ix).

These factors are subsequently discussed in the following sections.

3.2 COMPENSATION OF FAMILY MEMBERS

According to Aronoff and Ward (1993a:59) compensation is second only to succession as a concern in the mind of a family business owner. The importance of the issue is growing, as more second and third generation heirs enter the family business. Questions about paying family members and others can become increasingly complex and unmanageable as a family grows and passes from generation to generation.

3.2.1 Market related compensation

According to Spector (2001:9) family business owners compensate family employees differently from non-family employees. Whether relatives are overcompensated, under compensated or paid equally, family payment practices can create problems (Buchholz *et al.*, 2000:262). When non-family employees perceive that unproductive family members are overpaid, the result can be a demoralised workforce and mass defections. On the other hand, if qualified family members feel they're being paid less than market value, they can become disillusioned (Spector, 2001:9).

According to Jaffe (1991:199), salaries of family members should be based on service to the business and comparable to that of other employees doing the same work. Many families give every family member the same salary. Sometimes, this makes sense as younger generation family members have similar responsibilities. To solve the problem, rewarding family and non-family employees require a systematic approach (Spector, 2001:7). As a result, many business owners are embracing rational, systematic compensation policies aimed at encouraging both professional growth among employees and strategic accomplishment in the business.

The purpose of a good compensation plan is to keep everyone involved in the business, working for what is best for all (Aronoff & Ward, 1993a:59). Designing such a plan can force business owners to express their most fundamental goals. A philosophy of compensation that conveys positive values such as stewardship of assets, personal initiative and teamwork, can have a powerful impact on everyone it touches.

The best compensation policies blend responses to unique family circumstances, high ethical standards and good business practices. When compensation policies achieve this balance, all the stakeholders are served in positive ways (Spector, 2001:51) and, perhaps the most important, exceptions to the compensation policy should be avoided, as it risks destroying credibility and trust (Aronoff & Ward, 1993a:60).

Aronoff and Ward (1993a:60) said that as the family business and the number of shareholders grow, many family businesses adopt more open and professional compensation policies similar to those in public companies. Some bring in a compensation consultant, or name an active outside board to help resolve disagreements over pay between family members who are active in the business and those who are not.

Most business owners build a compensation philosophy on a framework that "pays the job", thus rewarding employees based on the market value of their position. Others employ additional "qualitative" criteria that include certain leadership, analytical, communication or other skills required to do the job within that particular business (Aronoff & Ward, 1993a:59). Beyond that, larger family businesses may use various combinations of short and long-term incentives to tie employees' pay to the performance and strategic goals of the business.

3.2.2 Merit based awards

To base compensation on a framework that "pays the job", roles and responsibilities, with the accompanying performance measurement criteria, need to be in place. This is supported by Jaffe (1991:199) whom stated that when any family member enters a family business, there should be a clear position for them and potential for growth should be clearly delineated. Jaffe (1991:199) further stated that family members should have real responsibilities for a clear area of the business and performance should be reviewed regularly.

Voeller *et al.* (2002:73) recommended that performance expectations must be drawn up to help ensure that all employees meet the same standards and receive the same support. This will remove any legitimate grievances on the part of their peers and the frustration that comes from being held to a higher standard than anyone else.

Spector (2001:37), as well as Aronoff *et al.* (2002:425) believes that a compensation program has no foundation unless job descriptions have been prepared in sufficient detail to serve as a means of structuring wage classifications and as a means of rating performance. The job description must identify key duties, responsibilities and spans of authority in the organisation. It is by no means complete, because casual tasks and informal expectations are constantly being introduced and deleted by supervisors and peers alike. However, the job description must be sufficiently detailed to allow knowledgeable parties to value the core job elements (Spector, 2001:37).

3.2.3 Performance agreement

Aronoff *et al.* (2002:95) recommended that to enhance employee performance and commitment, a performance evaluation process with a written evaluation for each employee, including family members, should exist. It begins with definitions of job responsibilities and objectives – arrived at with their participation – and are periodically followed up by a constructive assessment of their progress. All employees want to know what is expected of them, how they are doing, and how they can improve their performance.

Neubauer and Lank (1998:153) stated that potential successors have the right to demand clear goals, objectives and expectations. They need to know on what basis their performance is to be evaluated. In family businesses it can be extremely difficult for family members to receive objective performance evaluation from non-family superiors. Neubauer and Lank (1998:153) advises successors to get honest feedback on their performance and also advise to ask for a mentor (often a trusted non-family manager) who can track the potential successor's progress and provide regular and unbiased feedback.

A formalised employee appraisal system is a valuable management tool that can help bring objectivity to the process (Spector, 2001:59). Creating job evaluations – assigning a score for each job – are the key tasks in establishing the wage / salary classification. Each family business needs to define its own unique variables, ensuring that they are meaningful both to the company and to its employees, that performance can be measured against a standard expectation, and that the family member can understand and perform within the value system (Spector, 2001:37).

Performance standards that are applied uniformly strengthen employee morale, enhance productivity and help avoid strained family relationships. Family businesses that use employee performance management systems are forced to resolve some of the inherent conflicts that exist when family and business are mixed.

Successfully addressing personal issues may help the company survive beyond the first generation (Spector, 2001:59). Jaffe (1991:199) recommended that either inside the family or in the business, performance should be assessed. Family members can't improve if they don't know how well they are doing. Reporting lines of the family members must be clearly defined and communicated to relevant parties in the family business.

3.2.4 Disciplinary policy

Some family members find it difficult to criticise or discipline other family members, in particular, older ones such as uncles and aunts. Others might find it extremely hard to evaluate close family members and to supervise them in general (Ibrahim & Ellis, 1994:113). Effective performance management is a results-driven system. Employees should see a correlation between discussions with their supervisors and direct actions.

If an employee, even if it is a family member, isn't performing to expectations, action should be taken. Transfer to a more appropriate job or additional training may be needed. Dismissal of any low-performing employee may be necessary for the overall good of the company and, ultimately, for the owners. A company's failure to cull low-performing employees (including family members) discourages higher performers and hinders the overall productivity of the business.

When standards are established at the time of employment, and non-performance implications are clearly explained as set out in a supportive disciplinary policy, employees and family members are less likely not to adhere to performance standards (Spector, 2001:60). When compensation is linked to performance, both family and non-family employees have incentives to work at an optimal level. Many owners are pleased to find out that the overall morale actually improves when less-than-optimal performance is not accepted and is neither changed nor removed (Spector, 2001:60).

3.2.5 Buy-in in the compensation policy

Once a compensation strategy is established, the business owner must work to build trust in it. The philosophy must be communicated clearly to family members and other employees. This can be done in individual sessions, executive meetings, and / or staff and family meetings. The message should be conveyed in a way that makes the business owner's priorities clear and stresses the relationship between employee pay and broader strategic goals (Aronoff & Ward, 1993a:59).

Thus, remuneration needn't be a thorny issue. The trick is to have a remuneration strategy which is consistent, fair and open. Resentment and conflict tend to occur when these three attributes are missing (Buchholz *et al.*, 2000:262).

3.3 CONTINUATION OF THE BUSINESS AS A FAMILY BUSINESS

The basic decision whether to continue the family ownership is extremely difficult to discuss and is typically avoided (Solomon, 1998:56). Voeller *et al.* (2002:30) also highlighted the importance of the decision to keep the business as a family business. Continuity in a family business depends on instilling a sense of stewardship in every generation.

The relationship of family commitment to the family business continuity plan is schematically depicted in Figure 3.1 on the following page.

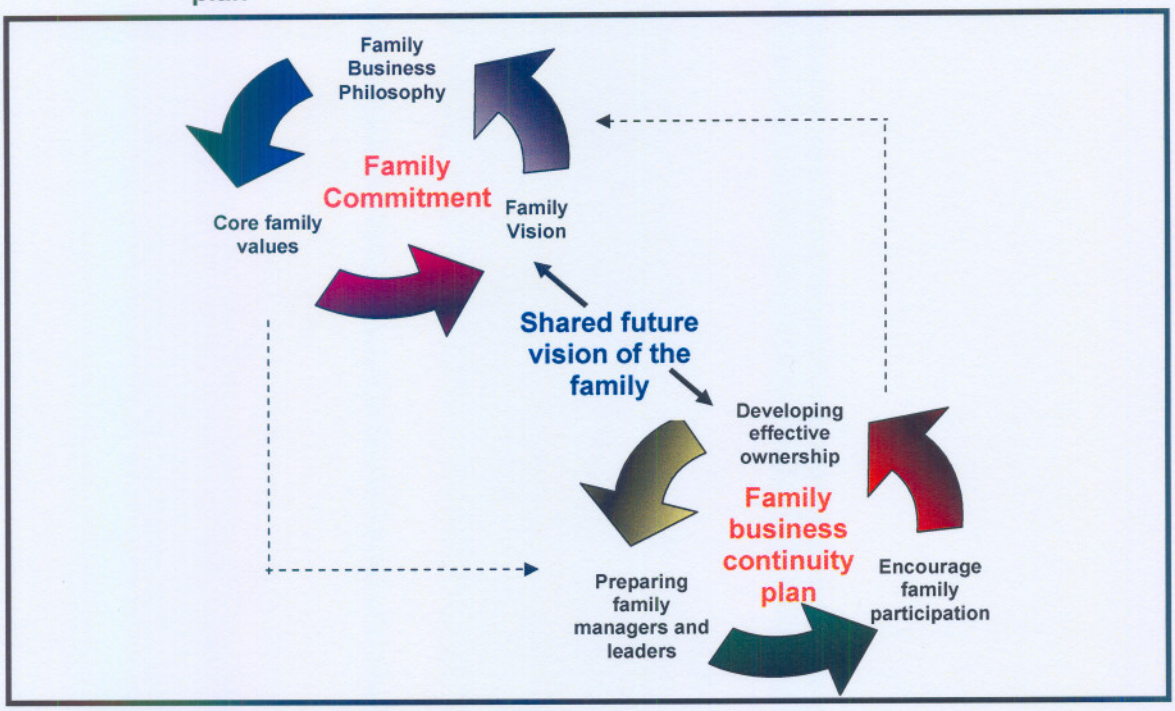
Carlock and Ward (2001:51) stated that family commitment requires the family to consider the following two questions:

- Does the family have an interest in maintaining ownership based on the financial and social benefits they will receive?
- Is the family willing and able to accept the responsibilities of active ownership?

Commitment requires a "yes" answer to both these questions if there is to be an optimisation of business performance and family harmony.

Carlock and Ward (2001:54) said that family commitment is a priority discussion for the family as it supports the development of the shared future vision and the family business continuity plan. Family commitment usually requires a series of meetings that include a complete discussion of critical issues the family will face regarding core values, family business philosophy and the family vision. The family commitment plan clarifies the family's expectations from, and obligations to, the business.

Figure 3.1: The relationship of family commitment to the family business continuity plan



Source: Carlock and Ward (2001:56)

3.3.1 Shared future vision of the family

Neubauer and Lank (1998:174) stated that a vision is defined as "a mental image of the desirable state of the business in five or ten year's time" or a statement that defines the long-term goals of the business (Voeller *et al.*, 2002:63). Visions are broad, vivid, ideal pictures of possibilities that inspire, provide direction, and create meaning (Jaffe, 1991:138).

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 for the business. Members of the older and younger generation must agree on why it is significant to be in the business, why it is an activity worth perpetuating. Solomon (1998:57) remarked that the vision may be left vague, so that all family members can hook their dreams to it.

In many family businesses, the original owner has a clear idea, vision, or dream, of what the business should be or do (Emens & Wolper, 2000:11). It is the family vision that determines what will eventually be accomplished and what motivates people to achieve their goals (Ward, 1987:145).

Jaffe (1991:138) said that, firstly there is a dream, a vision of a family business and as the business grows, the vision is modified, becomes larger and often focus is shifted. The vision

usually incorporates and adds to shared family values, by specifying not only the kind of business the family is in, but also how it will do business, where it wants the business to go to and what it wants the business to mean to others. The owner will need to identify successors who are committed to the vision of a family business as a legacy.

Neubauer and Lank (1998:174) said that a vision could be explicitly formulated and written down. The vision must be communicated and shared by others in the family business. The strength of the interactive approach to the vision is captured in the following Brazilian saying: "If one person dreams, it is only a dream; if many dream jointly, it is the beginning of something new "(Neubauer & Lank, 1998:185).

Voeller *et al.* (2002:34) highlights that success will follow if the business owner can embrace a vision of the business as a legacy that will live on and change with the passage of time. Without such a vision, it is doubtful that continuity planning can be sustained (Solomon, 1998:57).

3.3.2 Family commitment

The issue of who is committed to keeping the business in the family is probably one of the most important questions facing the individual family members. Family commitment is at the heart of the family business (Carlock & Ward, 2001:51).

Without the commitment of the family there can be no parallel planning process, if the family cannot develop a shared commitment, then it is time to sell or liquidate (Carlock & Ward, 2001:51). Carlock and Ward (2001:51) said that assessing the family's commitment to the business and its willingness to work together is necessary for family harmony and individual satisfaction.

Family commitment can create several possible outcomes. There may be a family, investment or business issue that motivates the entire family to agree to keep or sell the business. Whatever the decision, it is important to respect the wishes of all members related to commitment. The worst possible scenario for the family is not to recognise and address individual needs or demands (Carlock & Ward, 2001:52). Voeller *et al.* (2002:30) feels that a related and even more sensitive topic has to do with who is committed to family ownership of those that are not running the business.

The senior generation family members' commitment to the family business are demonstrated by their willingness to immerse him / her in the business, understand the business, and at times, sacrifice outside personal pleasure in order for the business to succeed (Emens & Wolper,

2000: 11). True commitment is demonstrated by true caring for all family members, especially when difficulties arise. The senior generation leader must have the ability and courage to make decisions, especially the tough ones.

Voeller *et al.* (2002:30) highlights the importance of having a family business to secure the children's future. Unfortunately, too frequently the offspring of business owners enter the business to please their parents, or because they feel that they do not have a choice. The end result of this can be a next generation that runs the business with half a heart or dies a slow emotional death because they never had a chance to follow their own dreams (Voeller *et al.*, 2002:48).

Cohn (1992:62) believes that owners must focus on the mental and the emotional commitment of the successors to the business. Owners looking for evidence of commitment and entrepreneurial qualities in their children focus on vision (ability to see the big picture) and passion (devotion to a task with enough energy to accomplish a personal vision, willingness to work, and an enthusiasm for the task (Cohn, 1992:64).

The successor's initial commitment to the business is due both to the parents' work towards family succession and from the successor's early experiences within the family business itself. Successfully implementing a business transfer strategy requires creativity, flexibility and above all, commitment. The parents' desire for the successor to become an executive must be communicated clearly to the successor. However, this desire of the parent must not be communicated as a demand, because the successor must know that they can choose whether or not to join the family business.

Therefore, a successor's strong commitment to the family business should reflect an appropriate match between their personal goals and ambitions and available opportunities (Gray, 2004:57). The support of inactive family members is critical to continuity in most businesses; owners or investors can come or go based mostly on financial expectations. In family businesses, gaining the long-term, voluntary commitment to the business, of non-employee family shareholders, is essential for stability and security (Shanker, 2000:4).

For many families, the family business is an important vehicle for family connectedness – the primary hub around which family life resolves. Solomon (1998:56) agrees that continuity requires, that those who will be in charge of the business's future develop, shows business commitment to the business and to one another.

3.3.3 Pitfalls that prevent continuity planning

The pitfalls that prevent continuity planning and cause the downfall of many family businesses include the following:

- Old rivalries spilling over into the business.
- Political infighting that sometimes divides branches of the extended family.
- Perks and family "toys and hobbies" that deplete businesses of the cash needed to stay afloat.
- Unconscious resistance of aging leaders against stepping aside.

All these factors can conspire against continuity unless the lesson is instilled in young people from an early age that the family business is not there to be milked for all it's worth, they are the fortunate custodians of a legacy that has been created and kept alive by the hard work of others. As stewards, their responsibility is to pass on to their descendants a business that is even stronger and more admired than the one that was vouched safe to them by their elders (Shanker, 2000:18).

3.4 MANAGEMENT SUCCESSION

According to Aronoff and Ward (1992:40), preparing to pass the family business on to the next generation is perhaps the toughest and most critical challenge facing the business owner, and balancing the needs of the Chief Executive Officer, the family members and the business is important (Jaffe, 1991:221).

Not many family businesses survive intact beyond the first and the second generation (Ibrahim & Ellis, 1994:223). The succession question is a central factor in family disputes and lack of succession has led to the demise of many family businesses (Kets de Vries, 1996:23; Ibrahim & Ellis, 1994:7).

The odds of transferring a business to the next generation are greatly improved when the process begins early and families get into the habit of discussing their dreams (Shanker, 2000:18). Succession is a journey, with the choice of destination determined by the family's shared dream (Lansberg, 1999:7). To succeed, the family has to keep the final destination in mind and understand what it needs to do to get there.

3.4.1 Management succession planning

Succession planning entails the process of choosing a successor (Aronoff & Ward, 1992:40). Once a potential successor or successors have been developed and a choice has been made, leadership and ownership control of the business should be transferred in a step-by-step process that allows both founder and successor to assume their new roles smoothly and with a minimum of disruption. The founder should devote time and thought to prepare for a secure retirement, plotting activities that will be at least as creative and exciting as those he or she has left behind.

Lansberg (1999:329) and Neubauer and Lank (1998:60) stated that there are numerous reasons why businesses are sold or close their doors after only one generation of family ownership. Many simply lack a qualified successor who wants to continue the business. Others are in rapidly consolidating industries and lose out to larger competitors. But, most important, large numbers fail because they don't engage in succession planning (Ibrahim & Ellis, 1994:224; Lansberg, 1999:37). Also, family and non-family members do not contribute to the process of selecting the successor (Ibrahim & Ellis, 1994:224).

Jaffe (1991:221) believes that there are several reasons why planning for succession should be initiated as early as possible, maybe many years before the actual transition.

The reasons as stated by Jaffe (1991:221) are:

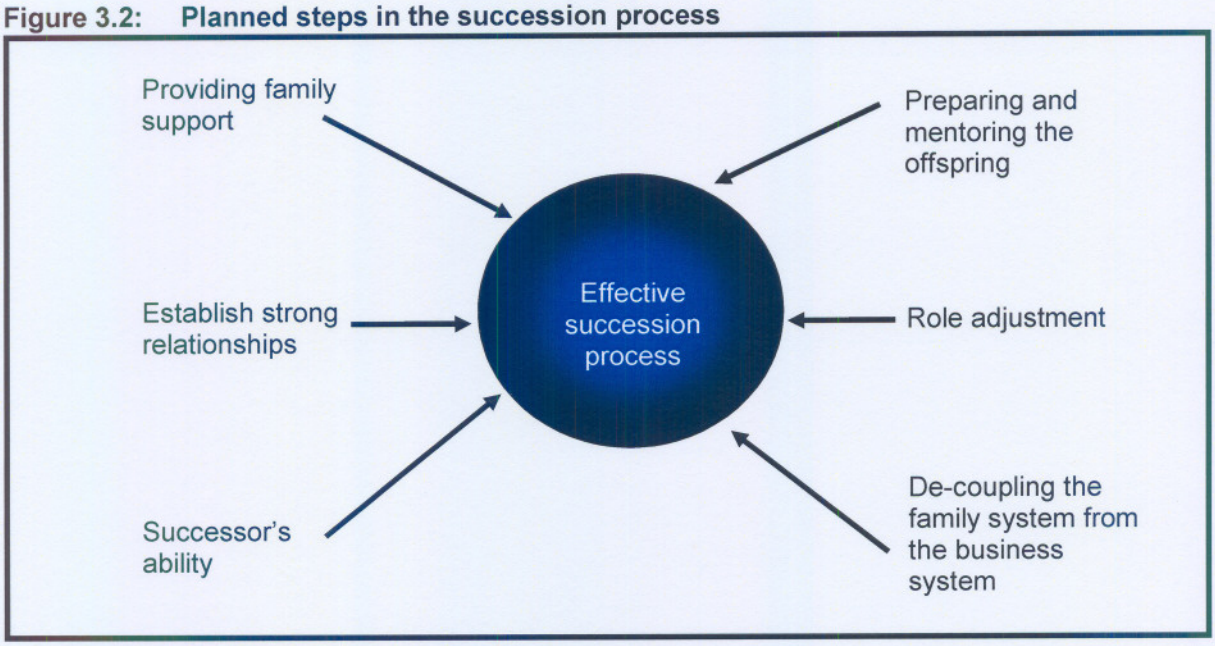
- There is always the possibility of disaster, disability, or death.
- The potential successor must be prepared to seize the reins of the business and to establish continuity.
- The business must remain vital by renewing itself continually, constantly changing and keeping up with new pressures and shifts in the marketplace.
- If the business is to be sold, either to an outside person or to its own managers, the prospective buyer needs time to prepare to find financing, or to raise money.

3.4.2 Succession process

Ibrahim and Ellis (1994:226) said an effective succession process is the result of a number of planned steps.

Refer to Figure 3.2 for a schematic representation of the planned steps in the succession process.

Figure 3.2: Planned steps in the succession process



Source: Ibrahim and Ellis (1994:226)

3.4.2.1 Preparing and mentoring the offspring

Preparing the offspring to assume their future roles starts at a very early age. This can be even before they join the family business. It includes their participation in different business events such as the family weekend get together, dinner table discussions and family business retreats. Pre-entry acculturation allows offspring to become exposed to the family business (Ibrahim & Ellis, 1994:226).

Once active in the business, a well-chosen mentor can teach the proposed successors much of what they need to know to run a business. Jaffe (1991:199) is of the opinion that a offspring should be supervised by a non-family manager, who can play a mentoring role. The learning process is better, according to Jaffe (1991:199), if you have a person outside the family who can show the new member the ropes. The mentor should be someone who everyone trusts and who is willing to be a teacher. Some companies even hire experienced executives for the mentor role.

Through the mentorship relationship, offspring will learn how to manage people and time, as well as gain valuable business principles (Ward, 1987:61).

3.4.2.2 Role adjustment

A gradual succession process allows both the owner and the successor to adjust to their new roles. The departing owner must reconcile himself or herself to the changing role and the

diminishing level of involvement and power in the family business (Ibrahim & Ellis, 1994:226). The reluctance to pass the baton to the next generation can lead to bitter family fights (Ibrahim & Ellis, 1994:7) and Jaffe (1991:39) found that the older generation find it difficult to let go and be succeeded by their children (Leach & Bogod, 1999:8).

Giving up business control means the owners need new outlets for involvement. The business founder has to learn that his career does not end with leaving the business (Jaffe, 1991:223). The owner's willingness to surrender control may be the key issue for the entire succession planning process (Voeller *et al.*, 2002:88).

The resistance of the founder to let go is quite common and usually emotional. The resistance to let go is attributed to the following factors (Ibrahim & Ellis, 1994:211, 212):

- **Emotional attachment**: Founders usually have a strong sense of attachment to the business. Studies have shown that many owners experience stress, withdrawal and a general sense of loss during transition due to decreased responsibility (Ibrahim & Ellis, 1994:212).
- **Lack of trust**: The owner has a lack of trust in other people's skills and competence, including his or her own family. Entrepreneurs see their business as part of themselves and, therefore, find it difficult to let someone else assume control (Ibrahim & Ellis, 1994:212).
- **Fear of retirement**: Retirement is a reminder of aging and death and owners tend to think that they can hang around forever (Ibrahim & Ellis, 1994:212). Another fear of retirement is whether the owner has sufficient savings to ensure his or her security in retirement (Aronoff *et al.*, 2002:95).
- **Lack of other interests**: The resistance to let go also stems from a lack of other interests beyond the business. Business owners are known to work many hours and thus lose interest in other activities, such as travelling and hobbies (Ibrahim & Ellis, 1994:213).

A smooth transition in power seems to require, first of all, that owners plan for an active, fulfilling retirement. Owners who wish to pass the company on smoothly to their offspring need to seriously consider ways in which they can free themselves from their businesses (Ward, 1987:66). Owners should relinquish control publicly while still in full command of their abilities.

3.4.2.3 De-coupling the family system from the business system

The ability to de-couple the family system from the business system is critical for an effective succession process. De-coupling of the family from the business allows the family business to avoid tension and conflict that may arise as a result of social interactions among family members (Ibrahim & Ellis, 1994:227).

The emotional duress of the overlap of the family and the business system can be reduced by creating an infrastructure of governance, policies, and procedures that provides the framework for effective planning, decision making and accountability. Such an infrastructure also supports harmony in the family by making decisions less personal and more professional (Aronoff et al., 1997:65).

The infrastructure includes having a board of directors with respected, independent outsiders on it and conducting a variety of family and business meetings that enhance communication and decision making. Younger generation family members will need to take action to make sure that all spouses are made to feel part of the sibling partnership.

3.4.2.4 Successor's ability

The successor's ability to work independently and provide leadership for the entire business is important and the successor must also be able to understand and respect the needs, motives, channel rivalry and conflict and manage career stages of family and non-family employees (Ibrahim & Ellis, 1994:227).

Coping successfully with the offspring's "burden" requires a strong sense of self. It requires self-esteem to retain their sense of confidence in the face of mistakes in judgement. It requires assertiveness, the ability to state their position and ask for what they need (Voeller *et al.*, 2002:74).

As potential successors, family members need to know the business. They meet employees, become familiar with problems, and develop skills by moving into different areas (Jaffe, 1991:199). The successor should be genuinely interested in the business and the products and services it offers (Buchholz, 2000:26).

Successors in many family businesses often get jobs that give them power before they have even earned authority that comes with perceived competence in the eyes of the employees. Owner- managers can help successors to gain authority and credibility by publicly supporting them and communicating trust in their abilities.

Family members should come into the family business with between two and five years' experience of the outside world. This will enable them to gain self-confidence and a sense of interdependence. It will also bring a wider perspective into the business, thereby adding real value. It is also likely to enhance the individual's credibility in the eyes of non-family executives and employees (Thornton, 1998:35).

3.4.2.5 Establish strong relationships

The strength of the relationship between next generation members is crucial to the succession process. Strong relations usually allow for smooth transition and help to ease tension (Ibrahim & Ellis, 1994:227). Mutual understanding and respect are key ingredients for a strong relationship between older and younger generations, as well as between younger generation family members.

Successors must earn respect on their own, through their educational attainment, through their performance inside and outside the business and by demonstrating that they have the long-term interest of the business and its employees at heart (Solomon, 1998:58).

Younger generation family members need to make sure that they all speak with one voice to non-family employees, giving them the respect due to them, but not letting them play one against the other.

3.4.2.6 Providing family support

The role of family members in the succession process is important for effective succession (Ibrahim & Ellis, 1994:227). Family members must make every effort to understand and respect each other's needs, motivation and skills. Aronoff *et al.* (1997:65) stated that successful sibling partnership requires enormous dedication and hard work on the part of parents, spouses, and - most especially - the younger generation family members themselves.

Parents can help by treating the younger generation family members as a unit, giving them challenging tasks to work on as a team, and resisting the temptation to intervene when things don't go smoothly. Instead of taking sides with their spouses over family grievances, husbands and wives can help keep relationships on track by asking good questions and getting their spouses to look at issues from several sides.

Jaffe (1991:234) said a related fear of business owners is that other managers and family members will feel upset, betrayed, or unmotivated if they are not chosen as the successor. Very often people not selected agree with the choice, recognising they were not right for the job.

3.4.3 Selection criteria

Selecting a successor is a watershed event and the most critical decision that will ever be made in a family business (Ibrahim & Ellis, 1994:229; Voeller *et al.*, 2002:79; Ward, 1987:62). It is a serious task and a moment that should mark the joyful passage of the business from one

generation to the next (Voeller *et al.*, 2002:79). Yet, it is a choice many families find so difficult and complex that many family business owners choose to avoid the issue of succession entirely (Lansberg, 1999:33; Voeller *et al.*, 2002:79).

3.4.3.1 Key criteria for selecting a replacement

Neubauer and Lank (1998:150) argue that the key criteria for selecting the replacement must be competence and not blood. However, if the most competent successor turns out to be a member of the owning family, so much better (Neubauer & Lank, 1998:150).

Families have several alternatives at their disposal when selecting a successor. Research suggests that daughters are overlooked as possible successor (Ibrahim & Ellis, 1994:229). When selecting a successor, they may (Ibrahim & Ellis, 1994:230; Voeller *et al.*, 2002:90; Ward, 1987:63):

- Create a fixed rule, such as "the oldest child will be president".
- Select the best candidate from the group.
- Develop an interim, non-family leader.

Complications can be avoided by developing generic criteria such as a list of minimum qualifications required for the job of succession, and implementing a well thought through process as many years in advance as possible (Voeller *et al.*, 2002:79). Some qualifications for succession might include that the proposed successor (Voeller *et al.*, 2002:79):

- Possesses a minimum amount of education.
- Has relevant experience within the industry.
- Has relevant prior work experience outside the company.
- Has worked inside the business in positions of increasing responsibility.

Before selecting a successor, the following questions need to be asked in order to determine the readiness and willingness of the successor:

- Does the intended successor have the right skills and abilities?
- Does the intended successor want to take over?

If the answers to both these questions are "Yes", then the proposed successor might be suitable to take over the business.

Above and beyond the general succession criteria that have already been developed, competencies the new leader will require, need to be identified. Voeller *et al.* (2002:79) recommended that the owner starts by determining what kind of leadership (entrepreneurial or

managerial leader) the business needs for the years ahead and then define what specific qualities and skills that type of leadership will require. Criteria that allow the owner to make an objective selection can then be set to assess the capabilities of the possible successors.
Solomon (1998:13) said that leading an organisation, requires at least four sets of knowledge and skills in order to be competitive, credible, helpful to employees and confident in one-self.

The four sets of knowledge and skills include the following (Solomon, 1998:13):

- **Knowledge of the industry**: In order to hold one of the top positions in a business it is important to develop a clear understanding of the industry in which one operates.
- **Technical and business skills**: It is crucial for any future leader to understand all aspects of the business. For example: What are the mission and the philosophy of the business? What are the products? Who are the key customers?
- **Influence skills**: Leadership involves the willingness to take responsibility for the direction of the business and the associated risks. It is the ability to create a vision and communicate it effectively to others, to transfer energy and enthusiasm, to listen with empathy, to build consensus, and to make decisions. It requires the capacity to motivate people, to align interest and to form coalitions with people for the purpose of achieving the goals of the organisation.
- **Self-awareness**: Self-knowledge and understanding is the foundation for leadership. The most successful leaders have acquired an understanding of their own strengths and weaknesses. They have developed the flexibility to lead and be led, to be tough and compassionate, and to combine confidence with humility.

3.4.3.2 Suggestions to successors to increase their competence

Voeller *et al.* (2002:74) made several suggestions in helping successors increase their competence. These include:

- Help the successors to gain self-awareness through mentoring.
- Allow for a feedback process and the use of professional, personal mentors.
- Encourage family members to assume personal responsibility for their own development.
- Make sure offspring joins the business because they truly want to, not because they wish to please anybody or because they have an ensured job.
- Require the offspring to go out into the world and acquire their own experiences and successes before joining the family business.
- Allow the offspring freedom to change their minds.
- Encourage their choice of management development or executive MBA programs.

3.4.3.3 Bridging the competence level gaps

Voeller *et al.* (2002:83) recommended the assistance of a career consultant to assist with defining the competencies required to develop successors and to facilitate a process to make sure successors acquire these competencies.

To help successors bridge the gap between their current levels of competence and those they will need to successfully carry on the business, Voeller *et al.* (2002:84) made the following suggestions:

- Define possible career paths for successors, e.g. a progression of related jobs, each with more responsibilities.
- Create job descriptions and performance expectations and introduce a process for regular reviews.
- Identify further educational and training opportunities that will augment on-the-job training.
- Acquire exposure to others in similar situations through trade association groups and family business forums.
- Develop enhanced industry knowledge through seminars and trade group meetings.
- Gain leadership experience by assuming responsibility for special projects.

3.4.4 Development of successors

Care given to the career paths of the next generation is an essential part of the development of successors (Neubauer & Lank, 1998:60). Thus, owners must help successors to develop the necessary skills to actively participate and contribute to the overall successful operation of the business and also be able to lead the business in new directions (Buchholz, 2000:26). Jaffe (1991:25) believes that founders must help their sons and daughters develop their skills to lead the business in new directions. This can only be achieved if they start early enough and plan carefully.

The owner must be supportive of the needs of any family member when they enter the family business. Systems must be established so that all family members have the opportunity to gain expertise over time (Neubauer & Lank, 1998:150). This requires the setting of realistic objectives and standards, providing challenging assignments and diverse experiences, offering education and training as appropriate.

Successors learning experiences must be carefully monitored, receive the right mix of challenges and responsibilities, be rotated through different areas of the business and must receive feedback on their performance (Jaffe, 1991:198). Therefore, in order to successfully

make the transition from one generation to the next, family businesses must design a process of grooming and developing the successor generation of the family into the skilled leaders who can shepherd the business through the inevitable crises, changes, and growth of the competitive future (Solomon, 1998:13).

Neubauer and Lank (1998:153) are of the opinion that whether or not a family member intends to become the next Chief Executive Officer, acquiring a solid education is a must in today's competitive world. If the intention is to go into the business, relevant technical training and management education will be a definite advantage.

3.4.4.1 Personal development plan for the successor

Ward (1987:192) stated that a personal development plan is useful, no matter what situation a successor finds him or her in. Such a plan prepares the successor for leadership and helps to smooth the shift of power from one generation to the next, and also provide enormous personal satisfaction (Ward 1987:193). It will further help the successor recall long-term goals in the face of short-term setbacks (Ward 1987:193).

An effective development plan for successors must inculcate the skills they will need to run the company and allow the successor to develop his or her own identity by progressively gaining managerial responsibility. At best, it must also provide for outside evaluation or clear accountability.

The development plan must further include the following skills:

- Running a profit centre.
- Building one's own organisation.
- Goal setting, preferably with outside review.
- Continuing professional education.
- Finding support groups.

Successors can undertake many of these initiatives on their own. Others, such as running a profit centre, will need the blessing of the outgoing generation (Ward, 1987:193). In order to properly develop a successor, family businesses must create an environment that provide challenges, have a support system available and give recognition when earned.

3.4.4.2 Unlocking the successor's full potential

To develop the full potential of successors, different common development modes of entry are suggested before their entry into the family business. These development modes include

summer jobs, gaining outside experience, shop-floor level experience and assuming a specific job.

Summer jobs entail that the offspring work in different jobs during summer times to gain the necessary experience before joining the family business on a permanent basis. This allows the offspring to gain basic skills and familiarity in the way a business is run (Ibrahim & Ellis, 1994:227).

Neubauer and Lank (1998:153), Ibrahim and Ellis (1994:226), as well as Ward (1987:59) feel that it is advantageous for the family, the business and the successor to delay entry of the successor in the family business for some years. Ward (1987:59) suggested that successors might therefore consider seeking a job in another business immediately after graduation.

They should stay long enough to receive one or more promotions, work for several bosses and reach a point of sufficient responsibility to implement their own ideas on a particular project. This development may take three to five years (Ward, 1987:59).

The overall benefits of outside experience to successors include:

- Learning their market value as measured by salary (Neubauer & Lank, 1998:153; Ward, 1987:59).
- Establishing a professional identity apart from the family business and making mistakes away from the watchful eyes of the family and future colleagues.
- Developing expertise and self-assurance.
- Knowing that they have been evaluated and / or promoted exclusively on their own merits, and finding out that the grass is not always greener in other businesses (Ward, 1987:60).
- If successors prove successful in someone else's business and then decide to work for the family business, their entry will be enormously facilitated.
- Family members, non-family employees and other stakeholders will know that they have proved their competence and that their entry into the business is not based solely on possession of the family name (Neubauer & Lank, 1998:153).

Outside work experience will also benefit the business. These experiences broaden the successor's view of the world and better enable them to identify new opportunities. All in all, gaining experience outside the business is one of the strongest recommendations that can be made for successors (Ward: 1987: 60).

Shop floor level is the most common type of offspring entry into family businesses. This mode is recommended as it allows the potential successor to learn the necessary skills and to gain

are not members of the family.

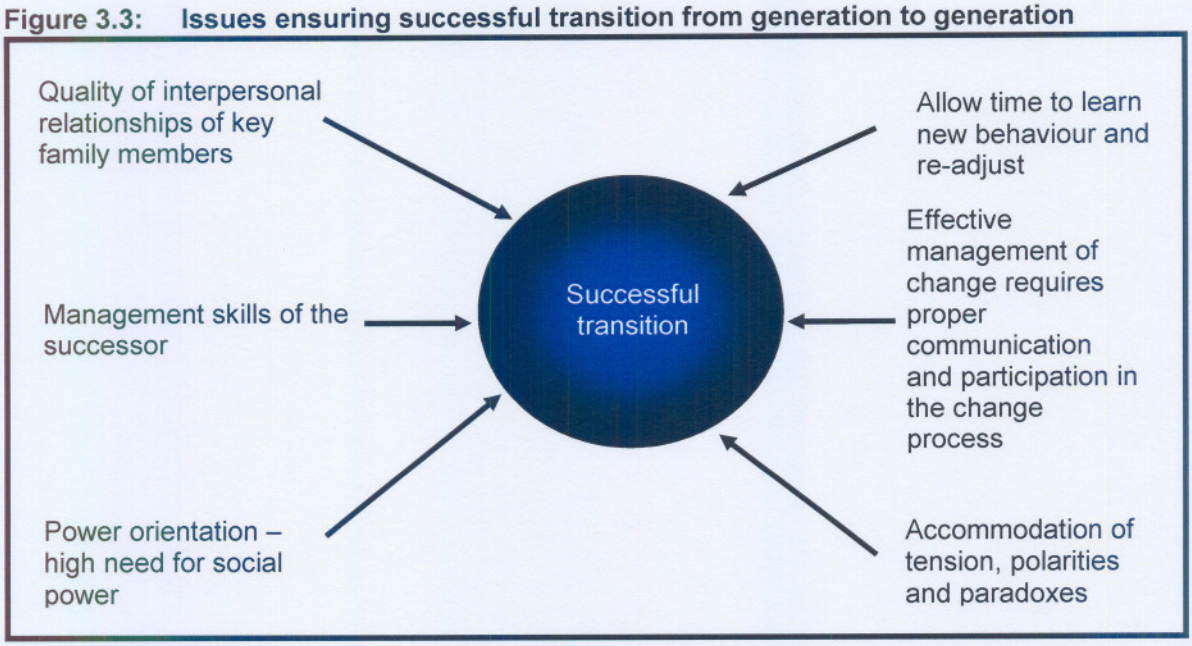
Once the successor is known, they are no longer uncertain about the future destiny of the business and who will run it. This is particularly valuable knowledge in these days of rampant mergers and acquisitions, since employees know more and more people who have been fired by the new ownership of acquired businesses. Suppliers and customers are reassured for the same reason. Family continuity is intended and planned.

According to Jaffe (1991:238), it is especially important to amass a good team of advisors during the succession era. The owner needs advisors (board of directors, bankers, accountants and lawyers) that act as a team and help him to make decisions and check the accuracy of information. Outside advisors add expertise to that of the owner and fill in if there is a crisis or a vacuum. They have skills the owner does not have and an objective perspective that can be invaluable. Advisors can spot new opportunities, offer fresh ideas and help mediate differences of opinions among owners or between successors.

3.4.6.1 Issues ensuring successful transition from generation to generation

The successful transition from one generation to the next, according to Ibrahim and Ellis (1994:237), is the result of a number of issues as shown in Figure 3.3.

Figure 3.3: Issues ensuring successful transition from generation to generation



Source: Ibrahim and Ellis (1994:231)

The issues ensuring the successful transition from one generation to the next are subsequently discussed:

- **Time to re-adjust**: Time to re-adjust to new norms and management style is necessary for the transition to work effectively. Changing behaviour, which is a difficult task and requires skills and insight from the successor, is the most effective part of effective succession (Ibrahim & Ellis, 1994:237).
- **The successor's ability to effectively manage change**: The successors ability is critical to successful transition. Forcing radical change will cause tension and hostility during the transition. A smooth transition requires an effective communication of the change process and its underlying rationale to members of the family business and a smooth transition requires participation of family and non-family members (Ibrahim & Ellis, 1994:238).
- **Accommodation of tension, polarities and paradoxes**: Accommodation of tension, polarities and paradoxes is at the heart of a successful transition. It is important that the successor understands and utilises consensual decision-making approaches as well as conflict bargaining procedures (Ibrahim & Ellis, 1994:238).
- **Smooth transition is a function of the successor's power orientation**: An entrepreneur with a social power orientation is more accommodating to the needs of others as well as his own needs (Ibrahim & Ellis, 1994:238).
- **Successor's management skills:** Of particular importance is the successor's management skills, thus his or her capacity to provide leadership and to work independently. Pre-planning the integration of the offspring for the day when the owner hands over the reins to a younger generation makes both the coronation day and the transition smooth and effective. This requires grooming the future leader who will cultivate family values and be prepared to perpetuate them (Ibrahim & Ellis, 1994:239).
- **Quality of interpersonal relationships**: The quality of interpersonal relationships of key family members, healthy relationships between younger generation family members - based on mutual respect and understanding - is critical to a smooth transition. Sibling rivalry can lead to conflict and undesirable behaviour (Ibrahim & Ellis, 1994:239).

3.4.6.2 Basic rules to facilitate successful transition

There are a few basic "rules", which if followed, can greatly facilitate the successful transition between the generations. These rules include (Neubauer & Lank, 1998:150):

- Management succession should be seen as both a process and an event where better results are achieved the earlier the transition is planned.
- Career development systems must be established through identifying the most competent successors, setting of objectives and standards, challenging assignments, diverse experiences, education and training and by providing feedback on performance.

- The advice of an independent board of directors who are trusted senior non-family members and others, should be used to compile the short list of successors and also to get consensus about the choice of the successor. This will ease the eventual transition enormously.
- The intentions of the business owner with the new successor need to be communicated to all stakeholders, e.g. family members, non-employees, suppliers, consumers, clients, customers and friends.
- The retirement plan and date for the outgoing business owner must be clear.
- Once the phasing-out process is announced and the retirement plan is finalised, the owner and the successor must stick to the plan.

3.4.7 Expected outcome of succession

According to Ward (1987:65), the single most important factor in the success of any transition is the business owner. He or she sets the tone for the rest of the business; he or she has the power to make the shift rough or smooth. Yet, more often than not, the business owner has difficulty in retiring gracefully.

In fact, many simply cannot bring themselves giving up their businesses and therein lies the trouble for many attempted successions. There is, for example, the phenomenon of "semi-retirement," or "return of the parent". This has a devastating effect on family businesses as working under different bosses at different times and facing the likelihood that one will contradict the other are very confusing to employees. The lack of clear leadership encourages fear that the business may eventually be sold and there is a waste of valuable business time and family members lose their commitment to building the business.

Ward (1987:65) said that the return of the owner is especially tough on successors. It disrupts the successors' ability to take charge of the business. They begin to take fewer chances. They are no longer as willing to make changes. And, they are in the shadow of the parent and / or owner. These problems are so severe that "letting go" by the older generation was identified as the number one problem by successors (Davis, 1982:133).

Ibrahim and Ellis (1994:216) recommend the following guidelines for a smooth transfer of management and active retirement to ensure a positive outcome of management succession:

- The CEO (Chief Executive Officer) must reconcile himself or herself to the fact that sometime soon his or her association with the business will end, at which point the baton

must be passed to the younger generation at least out of biological necessity, given the morality of mankind.

- Change is not necessarily bad for the family business, but it may reflect differences in values between generations; such organisational change brings new ideas and innovations, and makes the family business more competitive and responsive to the external environment.
- The founder must make plans for retirement early enough to facilitate his exit from the business.
- Family members should be conscious of possible emotional difficulties before the founder / CEO finally retires. They have an important role to play in facilitating the founder's exit, which may include providing emotional support and assurance, and keeping the departing founder involved.

Once the successor has been announced and the transition has taken place it is very important that everyone is clear about the future role of the founder, his / her responsibilities and authority (Voeller *et al.*, 2002:88).

3.5 OWNERSHIP SUCCESSION

Emens and Wolper (2000:42) stated that all precautions should be taken to ensure that the family and not the government has control of the family business as it passes from generation to generation, or from owner to owner. Passing down ownership of the family business to the next generation without incurring huge tax liabilities, requires careful and detailed planning (Leach & Bogod, 1999:231).

The family business owner and family who apply the same energy and concentration utilised in growing the family business to understanding and using the techniques of wealth transfer and estate planning, can expect their family business to survive for many generations (Emens & Wolper, 2000:57).

3.5.1 Estate planning

Jaffe (1991:217) defined estate planning as planning for the family's future by creating an estate plan that implements the owner's wishes for how the business and other inheritance will be passed along to the family and other heirs. Estate planning comes down to a single key aspect, namely how can the family and business be left in the best possible financial shape (Voeller *et al.*, 2002:79). Bork *et al.* (1996:199) is of the opinion that estate planning involves the creation of documents that direct the transfer of property from owners to others in the most tax-efficient manner.

Jaffe (1991:227) stated that through dilution and loss of vitality and focus, family fortunes tend to dissipate in three generations. Thus, as summarized by Voeller *et al.* (2002:79), the general goals of estate planning are to create and protect personal wealth, to ensure that wealth is distributed according to the wishes of the owner, and to protect the business from the family and the family from the business.

3.5.1.1 Guiding principles for estate planning

Regardless of which techniques and tools are used in estate planning, there are three guiding principles that must always be taken into account (Leach & Bogod, 1999:231):

- **Continuity**: The goal of protecting ownership assets and planning their transfer is continuity and not the saving of taxes or even the manipulation of power. This statement is also supported by Jonovic (1997:130).
- **Liquidity**: Effective estate planning requires estimates of the family's future needs and that means to provide for them, including the necessary liquid resources to cover the payment of personal estate taxes.
- **Family needs**: evaluating the financial needs of the family, as well as their future role in the business is the most important part of estate planning. The financial wellbeing of each family member must be kept in mind, including contingencies such as birth, death, marriage and marriage breakdown.

The biggest mistake made in estate planning is dying without a valid will. It is vital that the owner and his or her spouse have valid wills (Emens & Wolper, 2000:42). Owner-managers often have a joint will with their spouse that adopts the principle of "share and share alike". The "equal value principle" should be reconsidered in order to prevent the potentially problematic situation of share-owning family members who are not active in the business (Thornton, 1998:69).

Family business owners should review their latest wills and trusts to make sure all major life changes have been taken care of and that the documents reflect any new benefits available in the law; this should be done at least every five years, and as often as there are major tax changes in the law or major life changes in the family (Emens & Wolper, 2000:46; Thornton, 1998:69). Most people today still believe that having a properly drawn will and a bypass or credit shelter trust is sufficient to give them maximum estate tax benefits (Cohn, 1992:231).

3.5.1.2 The goals of estate planning

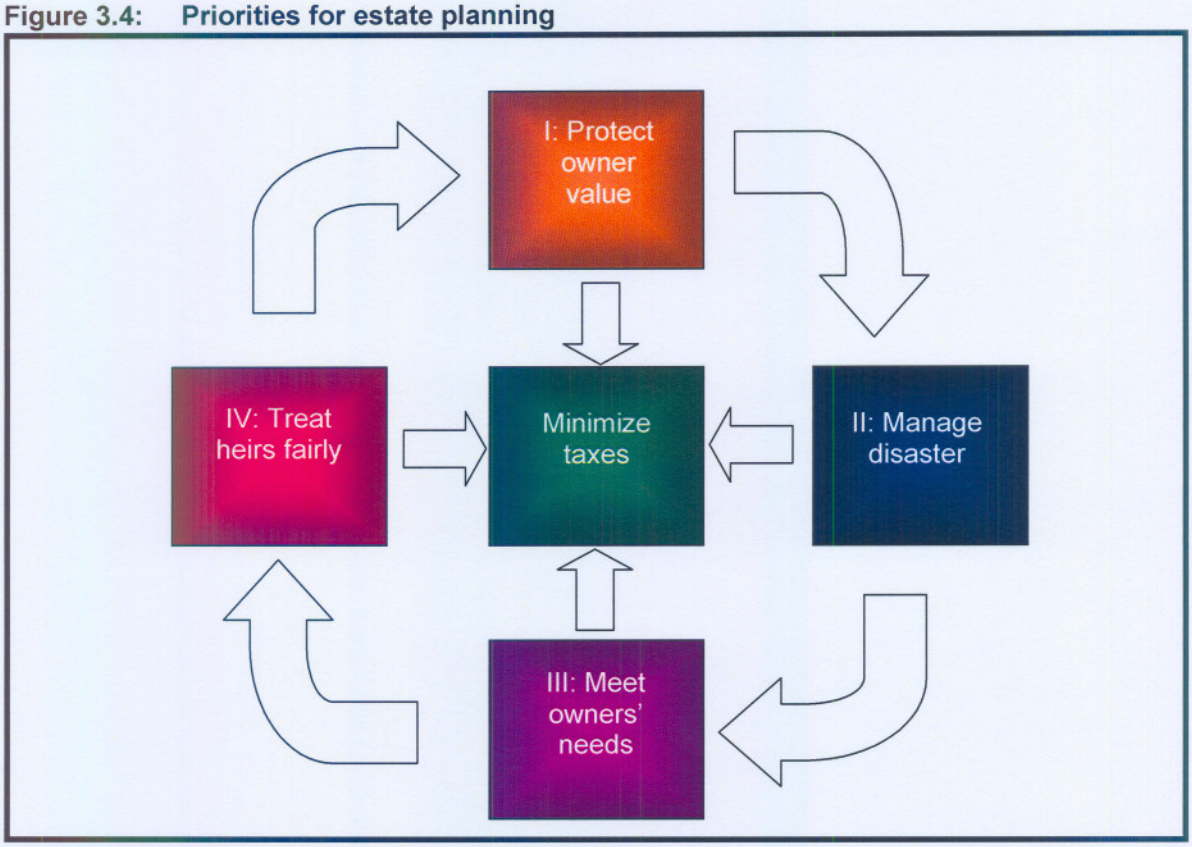
The goals of estate planning according to Emens and Wolper (2000:42) are:

- To ensure sufficient income for the owner to enjoy a prosperous retirement. Once this income is determined, then the specific sources of that income need to be ascertained and the assets kept available.
- To ensure the succession of ownership and management. Plan which estate planning and wealth transfer techniques should be utilised to see that the appropriate family members end up with the majority ownership to maintain management of the family business.
- To treat all family members as fairly as practical (fair does not always mean equal and equal is not always fair).

3.5.1.3 The most important estate planning priorities

Estate planning priority setting are important for a number of reasons, most important of which is that they focus planning on issues in the order they will most probably become problems (Jonovic, 1997:129). Figure 3.4 describes important estate planning priorities to consider.

Figure 3.4: Priorities for estate planning



Source: Jonovic (1997:129)

The priorities as depicted above are briefly described below:

- **Protect owner value**: Without foresight and careful planning, all sorts of decisions can ultimately decrease owner value.
- **Manage disaster**: The objective in ownership protection is to peer into the near-term future and consider what could happen (e.g. premature death of an owner, disability of an owner, divorce, even legal actions against a owner) to derail any long range intentions or goals for succession or ownership transition.
- **Meet owners' needs**: Once the potential impact of short-term disasters has been managed as well as possible, transition planning moves to issues of management and ownership transfer. An excellent place to begin establishing these additional priorities is to look closely at the needs of the present owners before giving detailed thought to benefiting the next generation.
- **Treat heirs fairly**: For a transition to work, ownership and management must be transferred in ways that minimize the potential for conflict among future generations.

Taxes shouldn't be the major drivers of estate planning, or even the management of ownership, in general.

3.5.2 Estate taxes

Planning in advance for retirement will enable family businesses to minimise inheritance tax and make sure that there is a smooth transition to the next generation of management (Thornton, 1998:69). Tax avoidance is a high-level objective in estate and transition planning, but it shouldn't stand alone in any order of priority (Jonovic, 1997:140). Tax considerations should serve, instead, as touchstones in comparing competing planning options, rather than drivers of the planning process itself.

However, the problem is that when wealth is transferred, the government takes a slice. A good estate plan can maximize the wealth from one generation to the next through techniques like income splitting, gifting, estate freezing, family trusts, generation skipping trusts and value discounting through the use of family limited partnerships (Voeller *et al.*, 2002:120).

Voeller *et al.* (2002:120) suggested three general ways to minimize tax at the point when wealth is transferred from the business to the owner:

- **Income splitting**: Spreading income over several family members so that each is taxed at a lower rate than would be the case if a single individual declared the whole amount.
- **Deferred tax**: Contributing pre-tax rands to profit sharing or retirement plans.

- **Changing the nature of the income** from a higher to a lower tax bracket.

Bareither and Reischl (2003:119) said given estate tax rates that are so high, it is definitely worthwhile to plan to minimize the amount of property subject to the tax. Avoiding estate taxes is a legitimate goal for estate planning. Evading taxes, of course, is illegal. There are a number of ways to reduce the taxation. Generally, they involve the use of trusts and various types of property ownership to accomplish this goal.

Competent estate tax advisors plan for reducing the taxation as much as possible by taking advantage of the provisions within the law for doing so. Jaffe (1991:230) stated that many business owners develop estate plans or plans for transfer of business ownership with their lawyers and accountants alone. The plans are perfectly designed to minimize taxes, but don't resolve or even recognize any of the personal aspects of the transaction. An estate planner needs to meet with everyone to become familiar with personal goals and needs.

The legal issues surrounding estate taxes and estate planning do not form part of this study. However, care must be taken with the various tax forms in South Africa and the implication of these taxes, e.g. capital gains tax. Thus, fundamental estate tax planning rotates around one central tenet: to thoughtfully provide for loved ones in a tax efficient manner (Fishkind & Kautz, 2002:54).

3.5.3 Perception of equality and fairness of the will

A problem in allocating family inheritance and making decisions about ownership and control of the business is the confusion between fairness and equality (Jaffe, 1991:229). Many parents are of the opinion that all their children must inherit equally. However, equality for all can end up being unfair to some, even demoralizing, and dangerous to the business as well.

Jaffe (1991:229) and Leach and Bogod (1999:231) were of the opinion that fairness does not necessary mean equal. The person who inherits control of the business deserves the fruits of his or her success. Jaffe (1991:229) also rightfully remarked that passive owners have different needs. The task of defining fairness is not arbitrary. One of the deepest dilemmas for founders is caused when, with the best of intentions, they create their own definition of fairness (Jaffe, 1991:229). Because of different needs and perspectives, everyone will have his or her own ideas of what is fair.

Leach and Bogod (1999:231) discussed the difficulty that surrounds the conflict of interest between heirs who are active in the business and those who are not. For example, active

members will generally take a conservative approach to the company's money, ploughing profits back and investing in order to make the business stronger, more resilient, and more competitive. Passive members, on the other hand, are likely to give a higher priority to money paid out by the business in the form of dividends on their shares.

This conflict can lead to more generalised disagreements about rewards (Leach & Bogod, 1999:231). Active shareholders will be quick to point out that it is they who do all the hard work and suffer the sleepless nights (in return, they will often argue, for ridiculously low salary and benefit levels), while their passive counterparts sit back and do little or nothing, except campaign to bleed the company of every penny it has in cash.

Owners may have to depart from the principle of equality and donate shares in the business to selected heirs, and may have to treat heirs who are active in the business differently from those who are not. It is rarely possible to satisfy everyone, but to discuss the issues and explain difficulties and objectives; at least one may be able to avoid the bitterness that can result from misunderstandings.

The conflict of interest between active and passive shareholders can also be mitigated by constructive estate planning options, based on a clear appreciation of the distinction between ownership and control of the family business in the next generation (Leach & Bogod, 1999:231). As hard as the owner-manager may try to be fair to all the heirs, fairness differs in the eyes of the beholder, and conflict over inheritances is common, particularly when a business is involved.

3.5.4 Retirement planning

While senior generation family members may be concerned that passing on wealth before they retire could jeopardise their own financial security, methods are available, such as pension schemes and trusts, to ensure that the path to succession isn't blocked by financial worries (Thornton, 1998:69). The owner-manager should also consider insurance policies and, critically, his will, as intestate succession is not recommended (Thornton, 1998:69).

In order to put together a sound plan for retirement, the family business owner need to know his / her financial needs (Voeller *et al.*, 2002:28). Once the senior generation has developed a vision for their future they can begin planning to ensure they have the financial security to live their dream. Voeller *et al.* (2002:30) suggested that the first step is to determine just how much money it will take to finance this vision.

This vision is important to start discussions about ways of extracting equity from the business with input from accountants, insurance advisors and financial planners. Many business owners' personal wealth is tied up in the family business (Voeller *et al.*, 2002:79). To reduce personal taxes, the owner must think of ways for the business to take care of his needs and personal pleasures, rather than taking the profits out of the business that may be left to fund future growth or capital expenditure.

Voeller *et al.* (2002:114) combined the importance of estate planning with retirement planning. As the business wealth grows, personal wealth should grow too. Once the business shows consistent profit, assets should be transferred from the business to the owner's personal portfolio. Voeller *et al.* (2002:114) recommended that two kinds of assets should be targeted for initial removal: firstly, investment assets (e.g. cash, near-cash and surplus retained earnings) and secondly, redundant assets (e.g. assets not required for operation of the business such as boats, cars and vacation property).

In both business and personal terms, it makes sense to plan in advance for retirement and for the transfer of your assets to the next generation (Thornton, 1998:69). Ibrahim and Ellis (1994:213) stated that in many family businesses, the entrepreneur / Chief Executive Officer (CEO) may set a price for his / her retirement and for letting go of the business.
Such action may be due to a number of reasons, for example for the will to ensure a continued stream of income and thus a pleasant retirement. A second reason for setting a price for retirement is to ensure the seriousness and commitment of the successor. Setting a price may be a ploy to discourage a potential successor from trying to take over. It can also be a ploy from the founder to keep himself at the helm of the family business for as many years as he or she wishes.

3.5.5 Liquidity needs after retirement of the business owner

Liquidity needs in family businesses are caused by the capital requirements of the business (Neubauer & Lank, 1998:191). Too few family business owners have an accurate idea of how much it will cost to settle their estate, or when the taxes and other expenses must be paid (Emens & Wolper, 2000:46).

Liquidity is the ability of an asset to be converted into cash quickly. Even though the estate tax laws contain special provisions allowing for delayed payment in some cases, it is vital to focus on liquidity needs. Some of the expenses requiring cash from the estate's fiduciary include income taxes, probate and administration costs, payment of any maturing debts (most notes to banks have a payable-on-death provision even if the descendent has only guaranteed the debt),

funds to continue the operation of the family business and payment for mistakes while new management is learning the business (Emens & Wolper, 2000:46).

The capital needs of a family business can be satisfied in a number of ways (Neubauer & Lank, 1998:191):

- Through internally generated cash flows.
- Through additional capital injections by current stakeholders.
- By broadening the circle of shareholders, for instance, by inviting employees, directors or investment institutions to buy shares.
- Through loans from insiders and / or third parties.
- By selling parts of the business that do not belong to the core activities of the business.

According to Visscher *et al.* (1995:53), financial management of the family business has entered a new era. In the past, business owners facing a capital or liquidity squeeze often felt that the only choices they had once they run out of debt capacity were limiting growth, selling out or going public.

Today, business owners have many new, less drastic financial techniques at hand to weather financial transitions (Visscher *et al.*, 1995:53). Careful planning to meet capital and liquidity needs, often coupled with these techniques, can help the family business survive the many transitions in ownership, management and strategy that must be made if it is to endure through the generations.

Important principles and patterns lay the foundation for capital and liquidity planning. To sustain family control, the business owner must plan to measure some financial pressures innate to family businesses (Visscher *et al.*, 1995:53).

3.6 CORPORATE GOVERNANCE IN FAMILY BUSINESSES

The word governance comes from the Latin verb *gubernare* and means to steer or to direct. Corporate governance is defined as "a system of processes and structures to *direct, control and account* for the business at the highest levels" (Neubauer & Lank, 1998:60).

As the family expands and matures, the power of individual leaders to hold it together is not always sufficient. The family and the business are so entangled that emotions are unavoidable. The family may then seek other avenues for decision-making, guidance and leadership (Aronoff *et al.*, 2002:95). Consequently, large family businesses are then advised to appoint outside board members. Small and medium family businesses are not large enough to attract outside

board members, thus, family councils, review councils, or advisory councils are recommended (Aronoff *et al.*, 2002:95).

Voeller *et al.* (2002:30) supported these other avenues and stated that formal boards of directors and family councils can be effective instruments to assist in the decision-making and leadership processes.

3.6.1 Boards of directors and family councils

The purpose of the Board of Directors is to oversee management actions, allocate capital and participate in the family strategy process (Carlock & Ward, 2001:140). Boards of directors are made up of family members plus outsiders (typically other business owners and executives). While they address only business issues, some of these issues will certainly affect the family (Ward, 1987:146). Families that choose to use these devices must decide on the issues that these boards or councils will consider the length of members' terms, and who will serve in these groups.

Voeller *et al.* (2002:30) defined a family council as a formal, periodic meeting where family members share information, discuss issues and make decisions. The family council may simply offer counsel on tough decisions or be given the power to resolve them. Voeller *et al.* (2002:39) and Ward (1987:146) remarked that family councils are made up exclusively of family members, regardless of their role, who address family matters. Family councils are the family "board" that provide governance structures to support consensus decisions, co-ordinate family actions and provide leadership (Carlock & Ward, 2001:140).

Buchholz *et al.* (2000:130) feels that a family council is important for first generation family businesses, but even more so in subsequent generations when the family circle expands so much that it's impossible for family members to know much about the business, except through hands-on involvement.

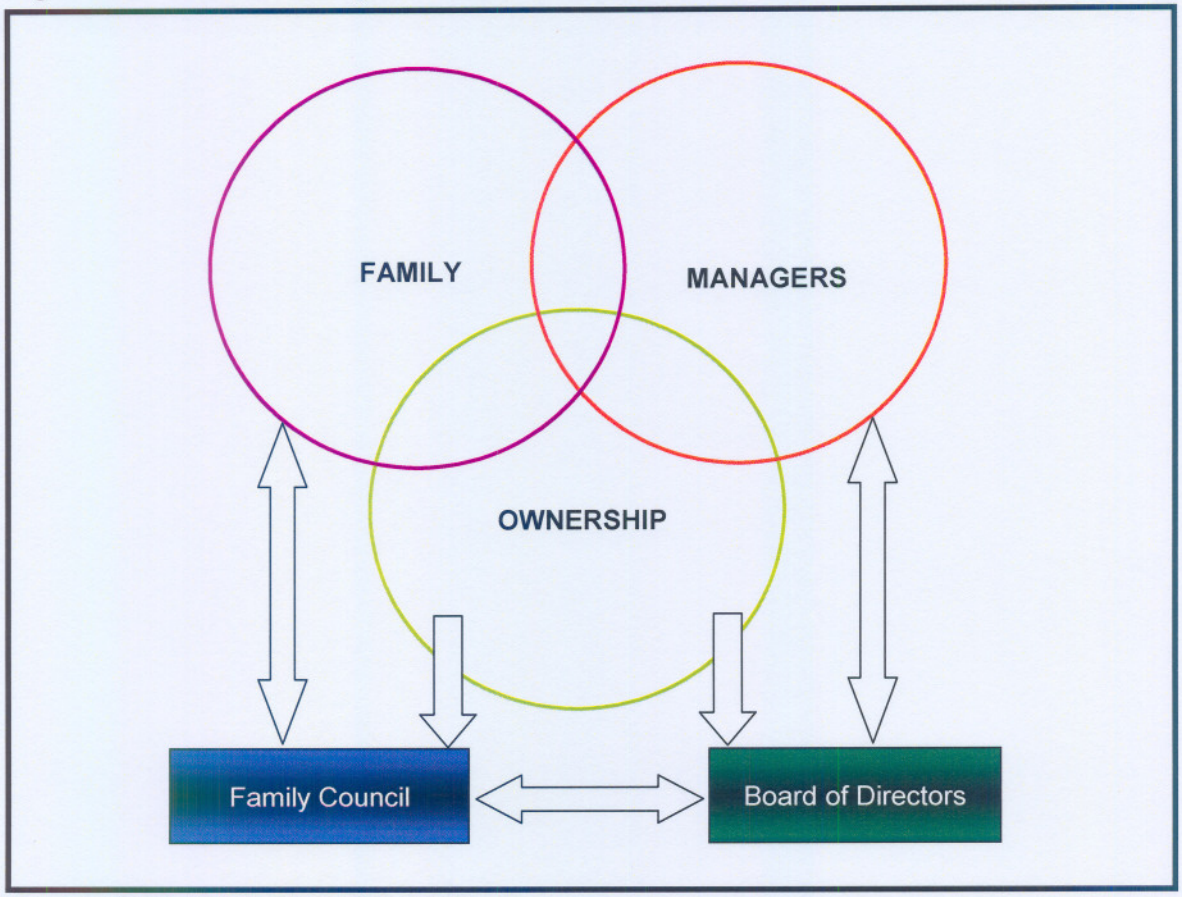
3.6.2 Parallel family and business structures

Carlock and Ward (2001:140) recommended the sharing of information and the co-ordination of actions between the board of directors and the family council. This reason for this recommendation is due to the overlap between the family and the business systems as indicated in Figure 3.5 on the following page.

Carlock and Ward (2001:140) saw effective governance as the fundamental responsibility of ownership. Family business governance requires parallel family and business thinking to support the development of planning, decision-making and problem solving structures for both the family and the business systems.

A classical governance structure in a family business at an advanced stage of development focuses on the family as the ultimate source of power, the board of directors and senior management (Neubauer & Lank, 1998:ix).

Figure 3.5: Parallel family and business structures



Source: Carlock and Ward (2001:140)

3.6.3 The importance of corporate governance

The importance of good governance of the business is often evident to the experienced business owner, who understands the need for perspective, accountability and breadth of resources in making business decisions (Aronoff & Ward, 1996:7). However, very few business-owning families avail themselves of the benefits of effective governance; very few have effective boards and regular family meetings.

According to Neubauer and Lank (1998:ix), good governance makes all the difference. Family businesses with effective governance practices are more likely to do strategic planning and succession planning. On average, they grow faster and live longer (Ward 1987:146). Moreover, they are more likely to develop the more important formal policies addressing critical family business issues such as compensation, disciplinary procedures, family employment and dividend payout to shareholders (Jonovic, 1997:95; Ward 1987:146).

Without governance processes that systematically encourage families to attend to shared concerns, most families find the business becomes too central a focus in everyone's thinking (Aronoff & Ward, 1996:7). Too often the business takes priority in family members' actions, while the family side of the governance equation is under-recognized, underappreciated and underdeveloped (Aronoff & Ward, 1996:7).

3.7 SUMMARY

The main purpose of this chapter was to discuss factors that ensure long-term sustainability of family businesses. Topics discussed include compensation in the family business, continuation of the business as a family business, management and ownership succession of family businesses and corporate governance in family businesses (separation of family and business matters and family harmony were discussed in Chapter 2).

Compensation is second only to succession as a concern in the mind of a family business owner. Salaries of family members should be based on service to the business and comparable to that of other employees doing the same work. Performance expectations must be drawn up to help ensure that all employees meet the same standards and receive the same support. This will remove any legitimate grievances on the part of their peers and the frustration that comes from being held to a higher standard than anyone else is. When compensation is linked to performance, both family and non-family employees have incentives to work at an optimal level.

The basic decision whether to continue the family ownership is extremely difficult to discuss and is typically avoided. Continuity in a family business depends on instilling a sense of stewardship in every generation. Family commitment is a priority discussion for the family as it supports the development of the shared future vision and the family business continuity plan. Success will follow when the business owner can embrace a vision of the business as a legacy that will live on and change with the passage of time. Without such a vision, it is doubtful that continuity planning can be sustained.

The issue of who is committed to keeping the business in the family is probably one of the most important questions facing the individual family members. Family commitment is what makes a family business. Preparing to pass the family business on to the next generation is perhaps the toughest and most critical challenge facing the business owner. Not many family businesses survive intact beyond the first and the second generation.

However, to survive intact beyond the first and the second generations, succession planning is necessary. Succession planning includes the process of choosing a successor. Once a potential successor or successors have been developed and a choice has been made, leadership and ownership control of the business should be transferred in a step-by-step process that allows both founder and successor to assume their new roles smoothly and with a minimum of disruption.

Clear rules and understanding about succession help to limit conflict and competition in an otherwise intensely competitive family. In the family, everyone is able to talk about issues and is invited to forums to talk about differences, needs and desires and actual and potential conflict are resolved and course corrections are made when needed. When succession is realised, estate taxes becomes a reality.

All precautions should be taken to ensure that the family and not the government have control of the family business as it passes from generation to generation, or from owner to owner. Passing down ownership of the family business to the next generation without incurring huge tax liabilities requires careful and detailed planning. Estate planning as planning for the family's future by creating an estate plan that implements the owner's wishes for how the business and other inheritance will be passed along to the family and other heirs. Estate planning comes down to a single key aspect, namely how can the family and business be left in the best possible financial shape.

A problem in allocating family inheritance and making decisions about ownership and control of the business is the confusion between fairness and equality. Many parents are of the opinion that all their children must inherit equally. However, equality for all can end up being unfair to some, even demoralizing, and dangerous to the business as well.

As the family expands and matures, the power of individual leaders to hold it together is not always sufficient. The family may then seek other avenues for decision making, guidance and leadership. Consequently, large family businesses are then advised to appoint outside board members. Small and medium family businesses are not large enough to attract outside board members, thus, family councils, review councils, or advisory councils are recommended.

Family businesses with effective governance practices are more likely to do strategic planning and succession planning. On average, they grow faster and live longer. Moreover, they are more likely to develop the more important formal policies addressing critical family business issues such as compensation, disciplinary procedures, family employment and dividend payout to shareholders.

The following chapter entails the empirical study on family businesses. The analysis thereof is discussed in detail to produce a comprehensive report discussing the results. The empirical study findings underscore the concepts discussed under the literature study. The discussion of the research methodology elucidates the results of the report and present observations.

CHAPTER 4: ANALYSES OF FAMILY BUSINESSES

4.1 INTRODUCTION

The purpose of the empirical study is to align with the primary and the secondary objectives of the research study, as was discussed in Chapter 1.

In this chapter the goals were to explore and analyse the data that were gathered. The researcher has extensively relied on in-depth interviewing; using personal and telephonic interviews as a field-research technique to complete structured questionnaires and obtain data for this research study. The first step in the data analysis exercise was to capture and summarise all data. The data was then presented in tabular form and appropriate graphs such as pie charts and bar charts were used to provide an overall picture of the data for each variable.

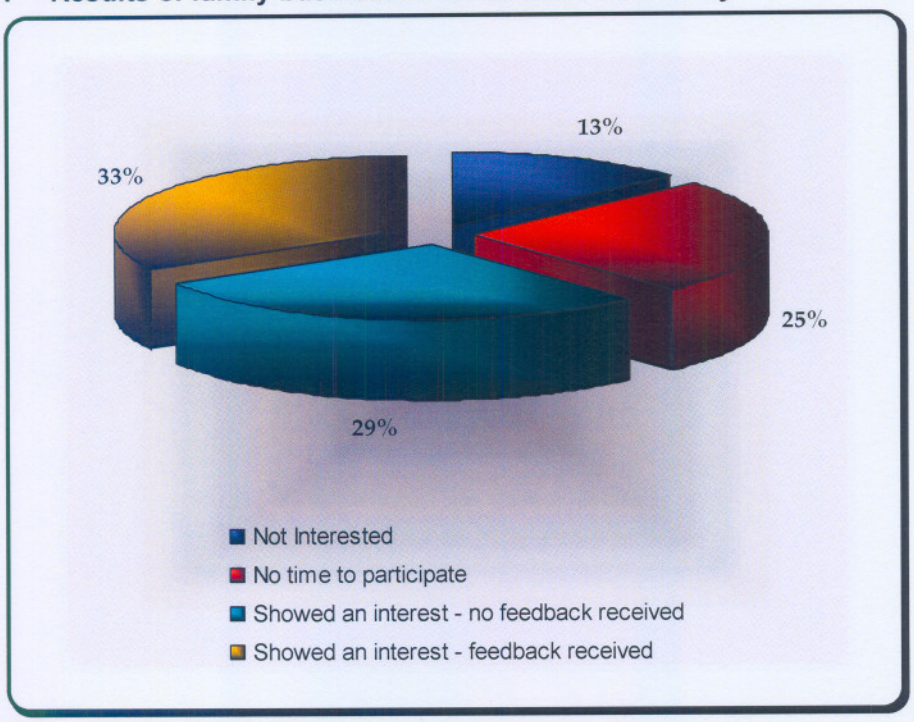
4.2 RESPONSES TO THE FAMILY BUSINESS SURVEY

Family businesses that could possibly participate in this study were identified using the snowball sampling technique. A total of 129 businesses were identified for this study of which 17 turned out not to be a family business, thereby decreasing the number of potential family businesses to participate in the study, to 112.

The response of the 112 family businesses targeted for the study is graphically presented in a pie chart (refer Figure 4.1 on the following page).

Of the 112 family businesses, 15 (13%) indicated that they are not interested to participate in the study, 28 (25%) were interested but indicated that they do not have the time to complete the questionnaires. Sixty-nine (62%) showed a real interest in the study although only 37 (33%) family businesses finally participated in the study. Despite several telephone calls, e-mails or personal reminders, the outstanding questionnaires were not completed and returned by the cut-off date.

Figure 4.1: **Results of family businesses identified for the study**



The end result was that 37 out of the 69 family businesses, who indicated that they will participate, completed the questionnaire; this represents a final response rate of 54%.

4.3 RESULTS OF BIOGRAPHICAL DATA

The family business questionnaire is divided into five sections (refer Appendix A). Section D contains the questions that were designed to obtain biographical data from the participative family members. The variables in section D were also used to determine the relationship between the responses of active and inactive family members. A total of 174 active and inactive family members participated in the research study.

The biographical data that were obtained such as status (active or inactive), age, gender, marital status, relationship to the senior generation family member, qualification and percentage shareholding can have an influence on the results of the study. The biographical information of the participants were analysed and discussed in the following paragraphs.

4.3.1 Status of family members

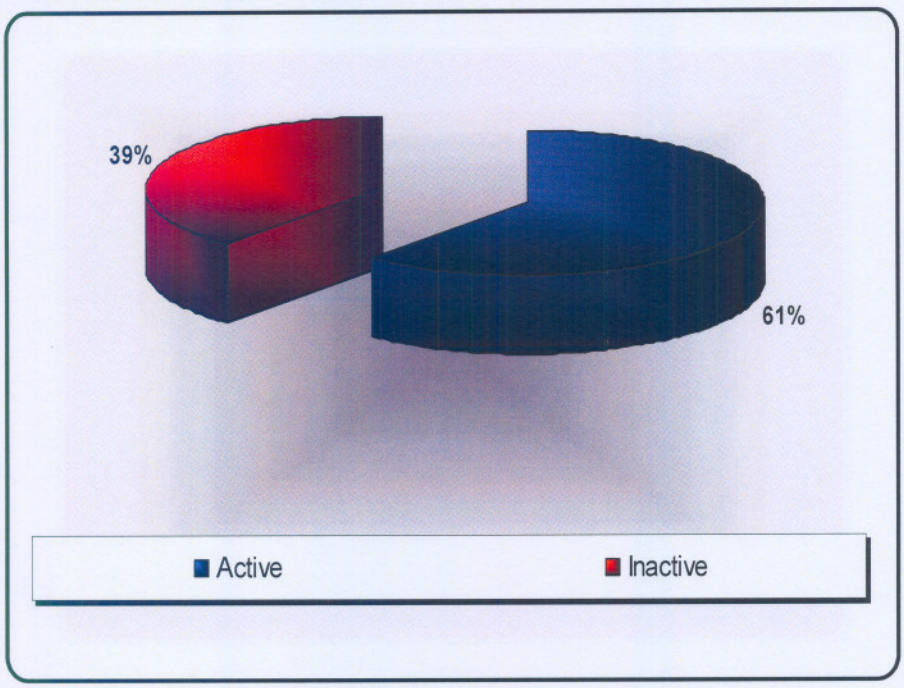
4.3.1.1 Purpose of the question

The purpose for determining the status of family members is to determine the relationship between the responses of active and inactive family members.

4.3.1.2 Results obtained

The split between the number of active and inactive family members that participated in the study is graphically presented in the pie chart below (refer Figure 4.2).

Figure 4.2: Status of family members



Active family members are family members who are permanently employed by the family business, while inactive family members refer to family members not in the service of the business and could include spouses, children, in-laws, brothers and sisters. The inactive family members form an integral part of the family dynamics that play themselves out within and around the business.

4.3.1.3 Analysis of the results

Of the 174 questionnaires completed by respondents, a total of 107 (61%) were completed by active and 67 (39%) by inactive members of the family businesses.

4.3.2 Age groups of family members

4.3.2.1 Purpose of the question

The purpose of question P1 in Section D (refer to Appendix A) of the questionnaire was to determine the age groups of participants. Participants were asked to indicate their ages by selecting one of the five predefined age groups in the questionnaire. This data were also required to:

- Determine the age groups of family business owners in order to estimate their involvement in the family business until possible / planned retirement; and
- Determine the age groups of the potential successors and the impact of this on their experience, attitude, risk and development.

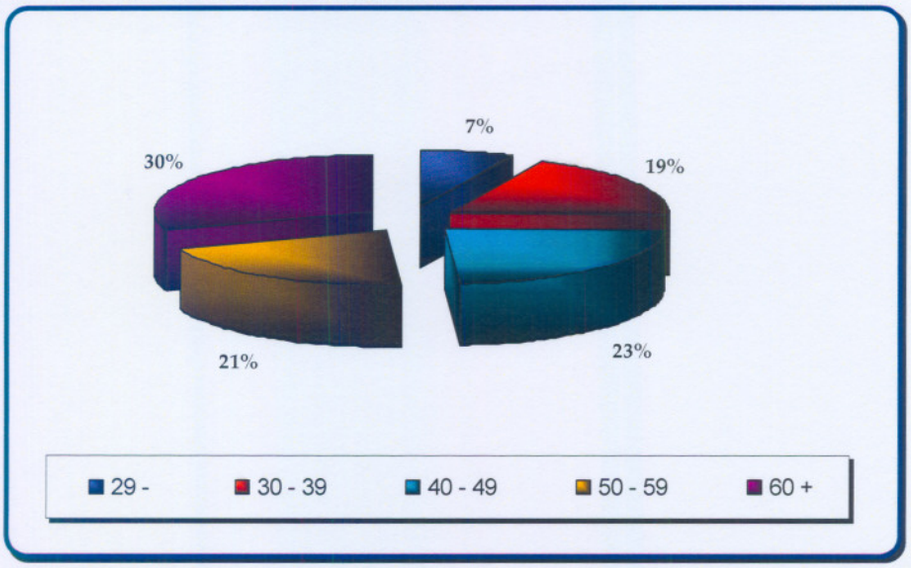
4.3.2.2 Results obtained

The age groups of active and inactive family members that responded to the survey are presented in Table 4.1 below. The age distribution of family business CEO's is displayed in Figure 4.3.

Table 4.1: Age groups of family members

	Active		Inactive		Total	
	Total	%	Total	%	Total	%
29 -	21	19%	17	25%	38	22%
30 - 39	35	33%	32	48%	67	38%
40 - 49	18	17%	9	13%	27	16%
50 - 59	16	15%	5	8%	21	12%
60 +	17	16%	4	6%	21	12%
Total	**107**	**100%**	**67**	**100%**	**174**	**100%**

Figure 4.3: Age distribution of family business CEO's



4.3.2.3 Analysis of the results

It is evident from the results displayed, in the age group table (Table 4.1), that the majority (38%) of the active and inactive family members that responded is in the 30 - 39 year age group. The ages of the active family members are more or less evenly distributed (15%, 16%, 17% and 19%) except for the 30 – 39 year age group that contains 35 (33 %) active family members. A total of thirty-two (48%) of all inactive family members fall in the age group of 30 – 39 years. More than 50% of active and inactive family members are younger than 40 years (52% active and 73% inactive). The age groups 50 – 59 and 60+ represent 33 (31%) active family members.

Fifty one percent of CEO's are above 50 years of age, 21% between 50 and 59 and 30% sixty and above.

4.3.3 Gender of family members

4.3.3.1 Purpose of the question

The purpose of question P2 in Section D (refer to Appendix A) of the questionnaire was to determine and distinguish between the number of male and female respondents. Respondents were asked to indicate their gender by selecting either the male or the female category defined in the questionnaire.

4.3.3.2 Results obtained

The gender of active and inactive family members that responded to the survey is presented in Table 4.2 below.

Table 4.2: Gender of family members

	Active		Inactive		Total	
	Total	%	Total	%	Total	%
Male	66	62%	22	33%	88	51%
Female	41	38%	45	67%	86	49%
Total	**107**	**100%**	**67**	**100%**	**174**	**100%**

4.3.3.3 Analysis of the results

It is evident from the results displayed in the gender grouping table that although the total number of males and females are evenly distributed (88 males, 86 females), the ownership of family businesses are still dominated by active males (62%). Two thirds of all inactive family members are females and one third are men; the opposite is true for active family members where almost two-thirds (62%) are males and one-third (38%) females.

4.3.4 Marital status of family members

4.3.4.1 Purpose of the question

The purpose of question P3 in Section D (refer to Appendix A) of the questionnaire was to determine the marital status of the active and the inactive family members. Marital status influences the decision process and the way the family business is managed. Four marital status groupings were defined: single, married, divorced and widow(er). Respondents were asked to indicate their marital status by selecting the applicable marital status category in the questionnaire.

4.3.4.2 Results obtained

The marital status of active and inactive family members that responded to the survey is presented in Table 4.3.

Table 4.3: Marital status of family members

	Active		Inactive		Total	
	Total	%	Total	%	Total	%
Single	13	12%	14	21%	27	16%
Married	90	84%	51	76%	141	81%
Divorced	2	2%	0	0%	2	1%
Widow(er)	2	2%	2	3%	4	2%
Total	**107**	**100%**	**67**	**100%**	**174**	**100%**

4.3.4.3 Analysis of the results

The results indicated that the majority of active and inactive respondents are married, 90 (84%) active and 51 (76%) inactive respectively. Only six (3%) of all the respondents are either divorced or a widow / widower. Thirteen (12%) active members are single in comparison with the 14 (21%) single inactive family members.

4.3.5 Relationship to the family

4.3.5.1 Purpose of the question

The purpose of question P4 in Section D (refer to Appendix A) of the questionnaire was to determine the relationship of the active and the inactive family members to the owner / senior generation executive as the basis. Relationship information indicates if the active and inactive family members are directly or indirectly related to the owner / senior generation executive. This relationship can have a huge impact on the way family businesses are managed. Various relationship options were defined. Respondents were asked to indicate their relationship to the owner / senior generation executive by selecting the applicable relationship in the questionnaire.

4.3.5.2 Results obtained

The relationship between active and inactive family members to the owner / senior generation executive is presented in Table 4.4.

Table 4.4: Family member relationship with the owner / senior generation executives

	Active		Inactive		Total	
	Total	%	Total	%	Total	%
Owner	24	22%	1	2%	25	14%
Spouse	23	20%	18	27%	41	24%
Son 1	14	13%	7	10%	21	12%
Son 2	6	6%	4	6%	10	6%
Son 3	3	3%	2	3%	5	3%
Daughter 1	4	4%	12	18%	16	9%
Daughter 2	4	4%	1	2%	5	3%
In-law	6	6%	20	30%	26	15%
Brother	16	15%	1	2%	17	10%
Sister	4	4%	0	0%	4	2%
Niece	2	2%	0	0%	2	1%
Aunt	1	1%	0	0%	1	1%
Total	**107**	**100%**	**66**	**100%**	**173**	**100%**

4.3.5.3 Analysis of the results

Seventy-eight (72%) active family members are directly related to each other (parents and their children that are actively involved in the family business). Almost half, 47 (42%) of owners and their spouses are actively involved in the family business.

4.3.6 Qualifications of the family members

4.3.6.1 Purpose of the question

The purpose of question P5 in Section D (refer to Appendix A) of the questionnaire was to determine the highest academic qualification of the active and the inactive family members. The level of formal qualification has an impact on the way the business is managed and can influence attitude, development, performance and risk profile of the family member. Various qualification categories were defined. Respondents were asked to indicate their highest academic qualification by selecting the applicable qualification in the questionnaire.

4.3.6.2 Results obtained

The qualifications of the active and inactive family members are presented in Table 4.5.

Table 4.5: Highest academic qualifications of family members

	Active		Inactive		Total	
	Total	%	Total	%	Total	%
Lower than matric	7	7%	4	6%	11	6%
Matric	46	43%	21	31%	67	39%
Certificate	8	7%	4	6%	12	7%
Diploma	30	28%	16	24%	46	26%
University degree	10	9%	13	19%	23	13%
Post graduate degree	6	6%	9	14%	15	9%
Total	**107**	**100%**	**67**	**100%**	**174**	**100%**

4.3.6.3 Analysis of the results

Fifty-three (50%) of the active family members have gained no formal education after they have finished matric. Only 15% of active family members have a university degree / post graduate degree, comparing to the one third (33%) inactive family members that have a university degree / post graduate degree. From the raw data it was found that only 12% of the CEO's have a formal qualification.

4.3.7 Shareholding

4.3.7.1 Purpose of the question

The purpose of question P7 in Section D (refer to Appendix A) of the questionnaire was to determine the percentage shares owned by the active and the inactive family members. The number of shares owned by active and inactive family members can have an impact on loyalty, commitment and general harmony among family members in the family business. Respondents were asked to indicate their shareholding in the family business.

4.3.7.2 Results obtained

The shareholdings of the active and inactive family members are presented in Table 4.6 and the shareholding split between owners and their spouses are presented in Table 4.7.

Table 4.6: Percentage shareholding of family members

	Active		Inactive		Total	
	Total	%	Total	%	Total	%
0%	37	35%	59	88%	96	55%
01% - 20%	7	7%	4	6%	11	6%
21% - 40%	13	12%	2	3%	15	9%
41% - 60%	38	35%	2	3%	40	23%
61% - 80%	2	2%	0	0%	2	1%
81% - 100%	10	9%	0	0%	10	6%
Total	**107**	**100%**	**67**	**100%**	**174**	**100%**

Table 4.7: Percentage shareholding of owners and spouses

	Owner		Spouses		Total	
	Total	%	Total	%	Total	%
0%	2	8%	6	26%	8	17%
01% - 20%	0	0%	1	4%	1	2%
21% - 40%	2	8%	6	26%	8	17%
41% - 60%	12	50%	7	31%	19	41%
61% - 80%	1	5%	1	4%	2	4%
81% - 100%	7	29%	2	9%	9	19%
Total	**24**	**100%**	**23**	**100%**	**47**	**100%**

4.3.7.3 Analysis of the results

Only 8 (12%) of the inactive family members own shares in the respective family businesses that were studied. The majority (35%) of active shareholders, own between 41 and 60% of shares. Generally, 84% business owners own more than 41% shares and 44% spouses also own more than 41% shares.

4.3.8 Summary of biographical information analysis

Hundred and twelve of the 129 family businesses originally identified turned out to be family businesses; only 37 family businesses ended up finally completing the questionnaires.

Hundred and seven (61%) of the 174 family members that participated were active, thus permanently employed by the business. The majority (38%) of the active and inactive family

members that responded falls in the 30 - 39 year age group. Thirty percent of CEO's are above 60 years of age. The number of active and inactive males and females are evenly distributed (88 males, 86 females), but the ownership of family businesses are still dominated by active males (62%).

The results indicate that the majority (84%) of respondents are married. Seventy-eight (72%) active family members are directly related to each other, parents and their children actively involved in the family. Almost half, 47 (42%) of owners and their spouses are actively involved in the family business. Half (50%) of the active family members have gained no formal education after they have finished matric. The majority (35%) of active shareholders own between 41% and 60% of shares.

4.4 RESULTS OF FAMILY BUSINESS INFORMATION

The family business questionnaire is divided into five sections (refer Appendix A). Section E contains the questions that were designed to obtain specific information regarding the family business. The variables in section E (refer to Appendix A) are also used to determine the success of family businesses. The factors that were defined are: the number of permanent employees that are employed by the family business, the annual turnover, the focus area, the age of the business and legal status of the family business.

A total of 37 family businesses participated in the research study. The family business information are analysed in the following paragraphs.

4.4.1 Locations of family businesses

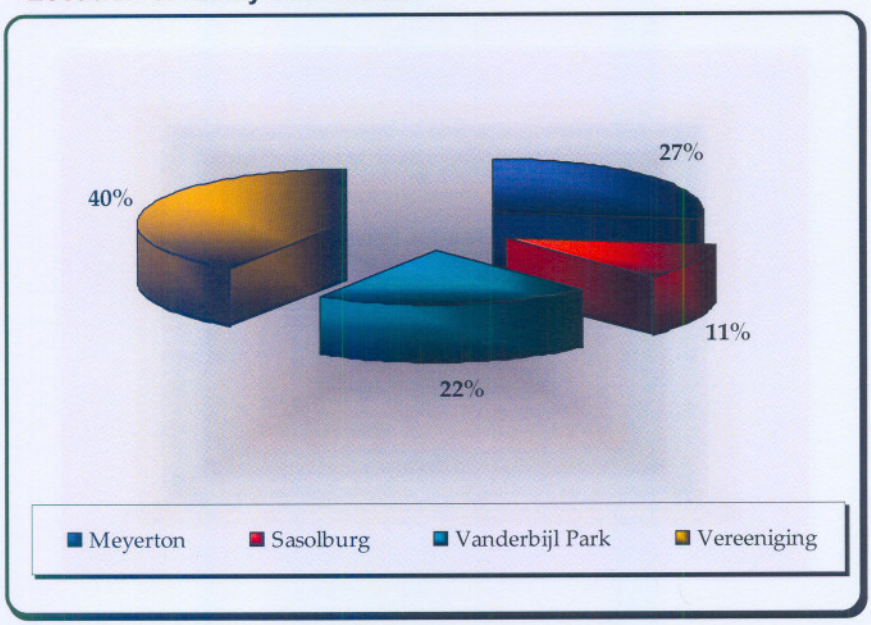
4.4.1.1 Purpose of the question

The purpose of this question was to indicate the geographical spread of the family businesses that formed part of the research study.

4.4.1.2 Results obtained

The location of the family business are graphically presented in a pie chart (refer Figure 4.4).

Figure 4.4: Location of family businesses



4.4.1.3 Analysis of the results

The bulk (40%) of the research study results were obtained from family businesses based in Vereeniging.

4.4.2 Permanent employees of the family business

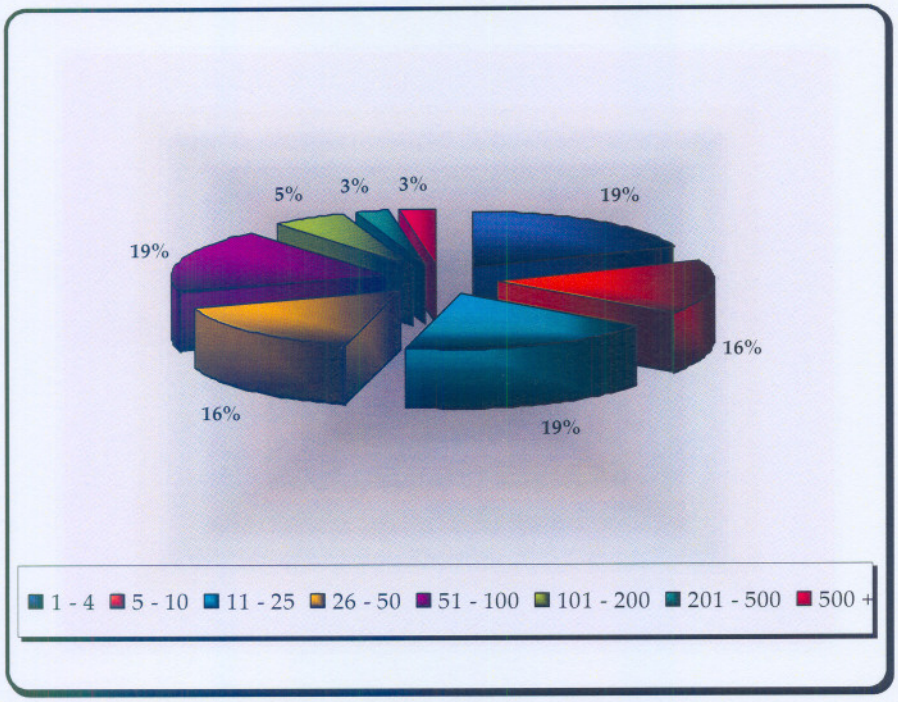
4.4.2.1 Purpose of the question

The purpose of question E1 in Section E (refer to Appendix A) of the questionnaire was to obtain information on the number of employees employed by the family business and to determine if the family business can be classified as a micro, small or a medium enterprise business.

4.4.2.2 Results obtained

The number of employees employed by the family business are graphically presented in the pie chart (refer Figure 4.5).

Figure 4.5: **Permanent employees of the family business**



4.4.2.3 Analysis of the results

The categorisation of micro, small and medium enterprises, as defined by the National Small Business Act (Act No. 26 of 2003: National Small Business Amendment Act, 2003) (refer to Appendix E) were used as a general guideline, based on the number of employees, for determining the type of businesses that participated in the research.

Micro family businesses (1 – 4 employees) represent 19%, small family businesses (5 – 50 employees) 51%, medium family businesses (51 – 200 employees) 24% and large family businesses (> 200 employees) 6% of the family businesses that participated in the research study.

4.4.3 Family business turnover

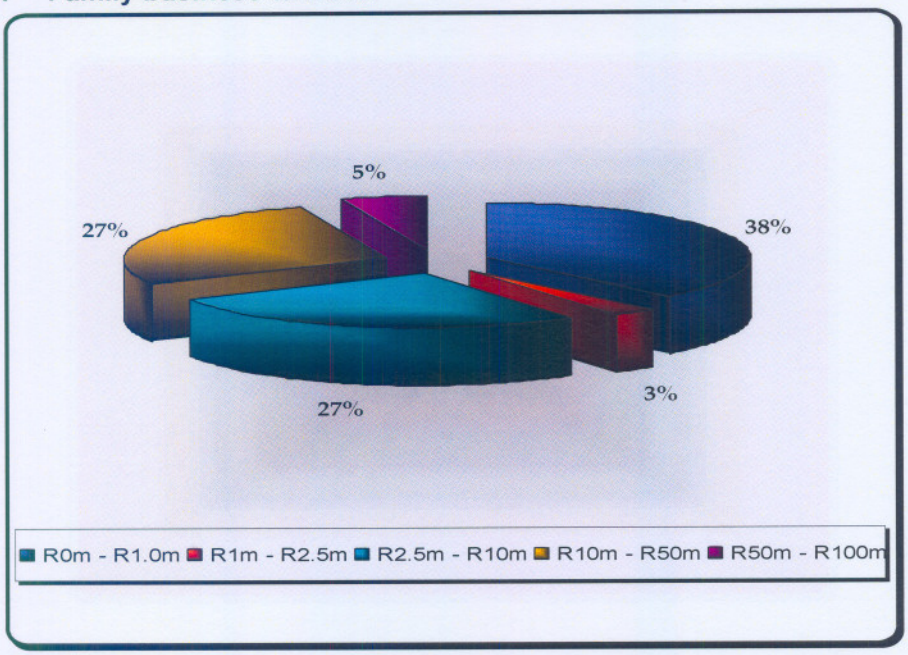
4.4.3.1 Purpose of the question

The purpose of question E2 in Section E (refer to Appendix A) of the questionnaire was to obtain information on the financial success and the size of the family business.

4.4.3.2 Results obtained

The annual turnover of the family businesses that were studied are graphically presented in the pie chart below (refer Figure 4.6).

Figure 4.6: Family business turnover



4.4.3.3 Analysis of the results

The categorisation of micro, small and medium enterprises, as defined by the National Small Business Act (Act No. 26 of 2003: National Small Business Amendment Act, 2003) (refer to Appendix E) were used as a general guideline to determine the type of business that participated in the study, based on their annual turnover.

The majority of the family businesses were in the R0 million to R1.0 million, R2.5 million to R10 million and R10 million to R50 million ranges. Thirty eight percent of family businesses can be classified as micro businesses (turnover less than R1.0 million per annum) and only five percent as large family (businesses with an annual turnover of more the R50 million).

4.4.4 Family business industry focus

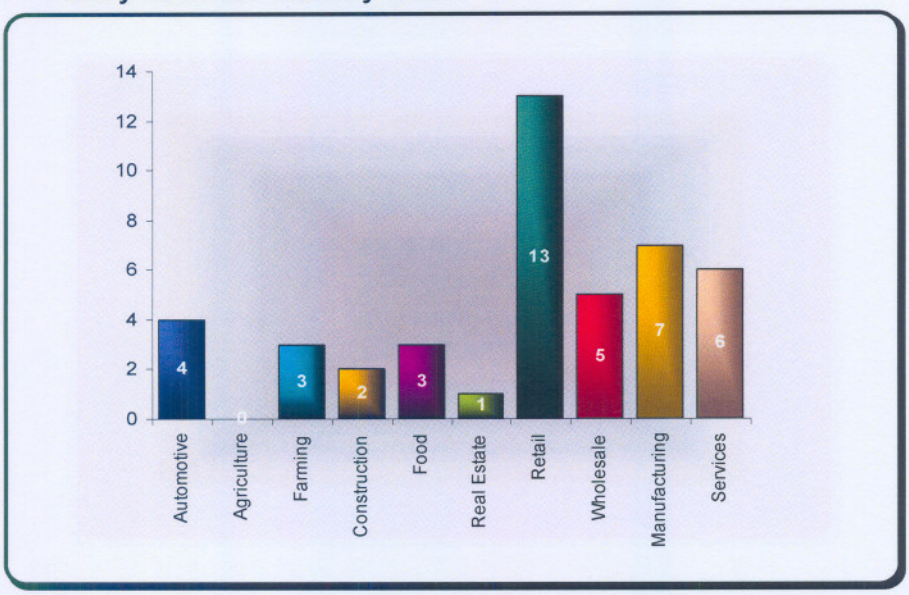
4.4.4.1 Purpose of the question

The purpose of question E3 in Section E (refer to Appendix A) of the questionnaire was to obtain information on the industry family businesses operates in. The industry may impact on the number of permanent employees required, the academic qualifications of the participants to keep the business operational, as well as the expected turnover.

4.4.4.2 Results obtained

The industries in which the family businesses operate are graphically presented in a bar chart (refer Figure 4.7).

Figure 4.7: Family business industry focus



4.4.4.3 Analysis of the results

Family businesses that participated in the research study, mainly focus on the retail industry (13 family businesses), closely followed by family businesses that operate in manufacturing (7 family businesses), services (6 family businesses), wholesale (5 family businesses) and the automotive industry (4 family businesses).

4.4.5 Age and the generation of the family business

4.4.5.1 Purpose of the question

The purpose of question E4 in Section E (refer to Appendix A) of the questionnaire was to obtain information on the age of the family businesses and the generation to which the family belong. The age and generation is an indication of the possibility for survival of the family business into the next generation.

4.4.5.2 Results obtained

The age and generation of the family businesses that were studied are graphically presented in the pie charts shown in Figure 4.8 and Figure 4.9.

Figure 4.8: Age of family businesses

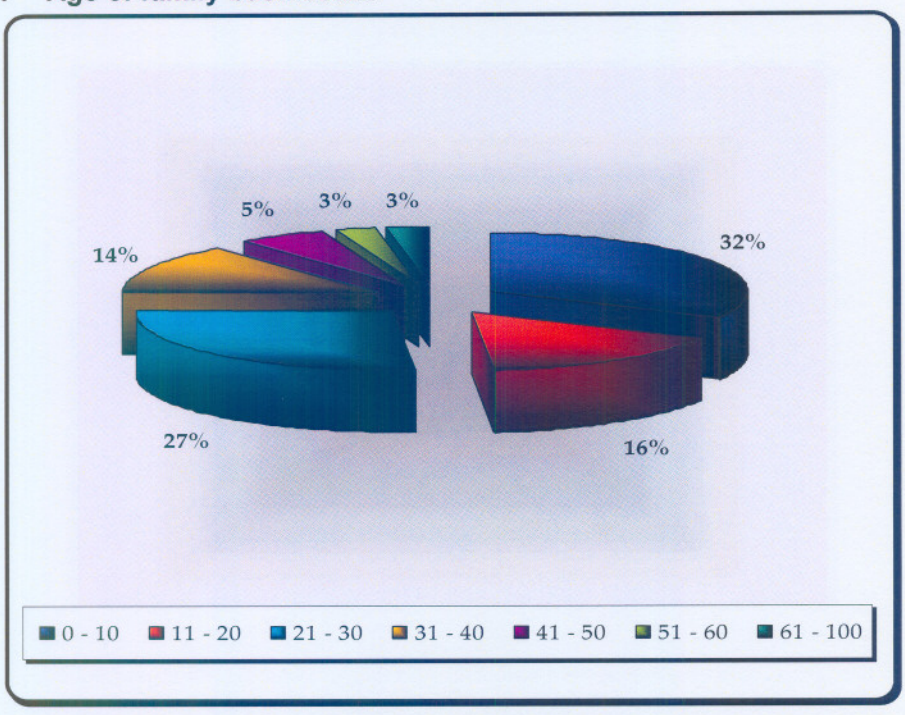
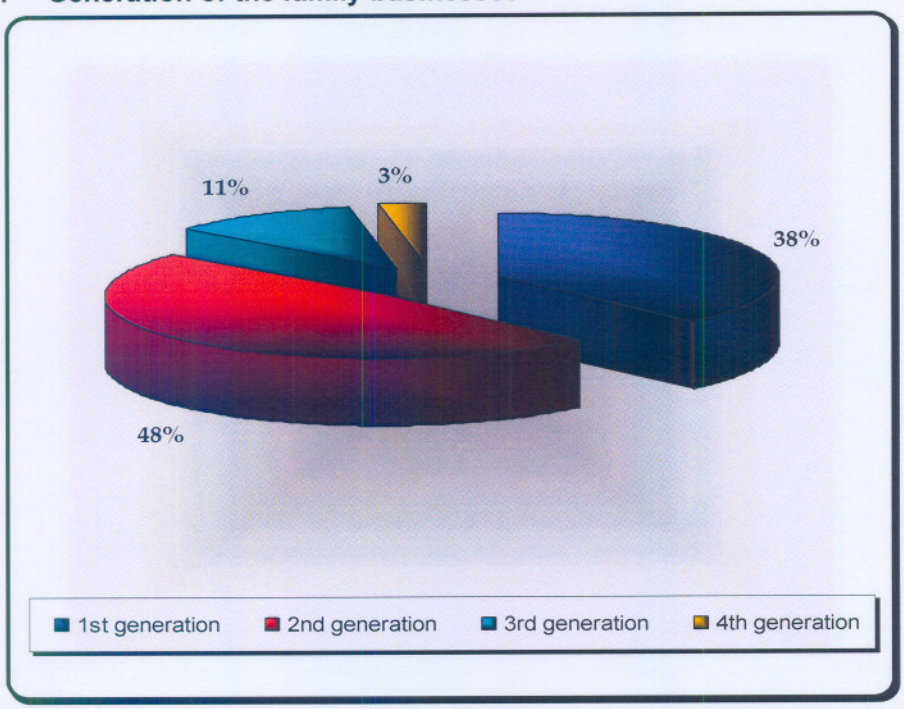


Figure 4.9: Generation of the family businesses



4.4.5.3 Analysis of the results

The 37 family businesses that were studied have already been in operation for 875 man years (an average of 24 years per family business). Almost one third is less than 10 years in business. The two (6%) family businesses that have been in operation for more than 51 years, represent 57 years and 95 years respectively.

The family generation information constituted of 14 (38%) first-generation, 18 (48%) second generation, four (11%) third generation and only one (3%) fourth generation business.

4.4.6 Legal status of the family business

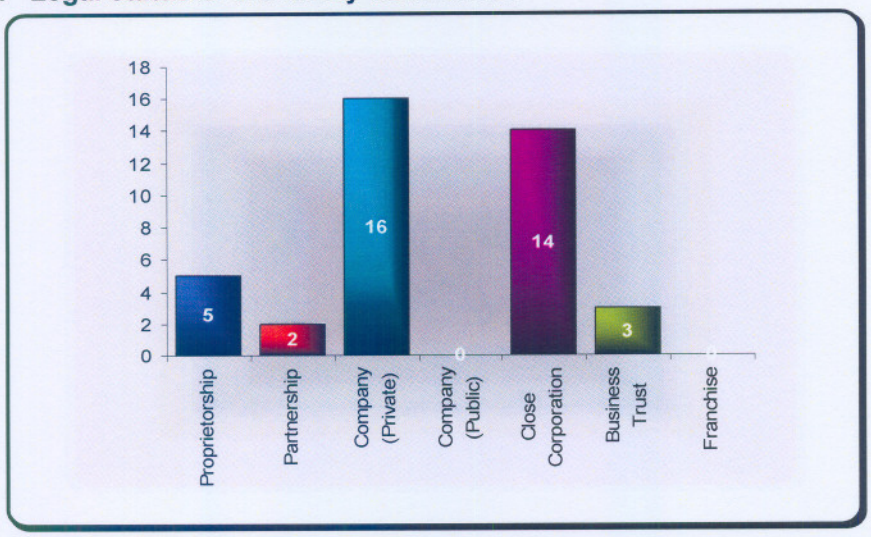
4.4.6.1 Purpose of the question

The purpose of question E5 in Section E (refer to Appendix A) of the questionnaire was to obtain information on the legal status (business structure) of the family businesses. The legal status of the family business is important when ownership planning in the family business takes place.

4.4.6.2 Results obtained

The legal statuses of the family businesses that were studied are graphically presented in the bar chart below (refer Figure 4.10).

Figure 4.10: Legal status of the family businesses



4.4.6.3 Analysis of the results

The private company (16 family businesses) and closed corporation (14 family businesses) are the most popular business forms, followed by the proprietorship (5 family businesses) business form. Some respondents indicated that they use multiple business forms, private companies and business trusts as their preferred way to structure their family businesses.

4.4.7 Summary of family business information analysis

The bulk (40%) of the research study results were obtained from family businesses situated in Vereeniging.

Micro family businesses (1 – 4 employees) represent 19%, small family businesses (5 – 50 employees) 51%, medium family businesses (51 – 200 employees) 24% and large family businesses (> 200 employees) 6% of the family businesses that participated in the research study. Thirty eight percent of family businesses can be classified as micro businesses (turnover less than R1.0 million per annum) and only five percent as large family (annual turnover of more the R50 million). Family businesses that participated in the research study mainly focus on the retail industry (13 family businesses).

The 37 family businesses that were studied have been operating for 875 man years (an average of 24 years per family business). Almost one third is less than 10 years in business. The two (6%) family businesses that have been in operation for more than 51 years, represent 57 years and 95 years respectively. The family generation information constituted of 14 (38%) first-generation, 18 (48%) second generation, four (11%) third generation and only one (3%) fourth generation business.

The private company (16 family businesses) and closed corporation (14 family businesses) are the most popular business forms, followed by the proprietorship (5 family businesses) business form.

4.5 ANALYSIS OF FACTORS AND SUB-FACTORS THAT ENSURE LONG-TERM SUSTAINABILITY OF FAMILY BUSINESSES

During the literature study (Chapter 2 and 3) insight were gained on factors that ensure long-term sustainability of family businesses; these factors also align with the factors that were included by Dr. S.P van der Merwe (Van der Merwe, 2004) during the design of the family business diagnostic questionnaire.

All twelve factors are applicable to active family members although only factors 2, 5, 11 and 12 apply to inactive family members (refer Table 4.8).

Table 4.8: Factors that ensure long-term sustainability of family businesses

Factor definitions		Active	Inactive
Factor 1	Separation of family and business matters.	x	
Factor 2	Family harmony among all family members.	x	x
Factor 3	Family harmony among the active family members.	x	
Factor 4	Performance measurement and compensation of the family members.	x	
Factor 5	Continuation of the business as a famliy business.	x	x
Factor 6	Successful participation of the younger generation.	x	
Factor 7	Development of the young successor.	x	
Factor 8	Factors that necessitate succession.	x	
Factor 9	Executive manager's readiness for succession.	x	
Factor 10	Management succession.	x	
Factor 11	Ownership succession.	x	x
Factor 12	Corporate governance of the family business.	x	x

The data received from the completed questionnaires were processed using Statsoft, Inc (2004). The software was used for calculating the arithmetic mean and standard deviation of the sample population.

4.6 ARITHMETIC MEAN ANALYSIS

The arithmetic mean results were ranked from the lowest to the highest mean and then categorised into three groups: low compliance, moderate compliance and full compliance. This technique cannot be considered as a scientific method to categorise or rank arithmetic means; the technique was applied specifically to this study to distinguish between the results of the factors and sub-factors.

An arithmetic mean of lower than 5.0 indicates that the issues have not been sufficiently addressed. An arithmetic mean between 5.0 and 5.5 is viewed as an indication that the issues are moderately addressed. An arithmetic mean of 5.5 or higher is viewed as an indication of full compliance to the issues addressed in the factor.

4.6.1 Arithmetic mean analysis of all family members

4.6.1.1 Purpose of the analysis

The purpose of the arithmetic mean is to indicate the average response of all family members and to identify the areas that are not adequately addressed to ensure long-term sustainability of family businesses.

4.6.1.2 Results obtained

The results of all factor and sub-factor arithmetic mean calculations, as was derived from active and inactive family member responses, are displayed in Table D.1, Appendix D. Figure 4.11 presents the arithmetic mean results of the twelve factors, as was obtained from all family members, in a spider diagram. Table 4.9, Table 4.10 and Table 4.11 presented the ranked arithmetic means of factors and sub-factors, categorised in low, moderate and full compliance respectively.

Figure 4.11: Arithmetic mean results of factors calculated from all family member responses

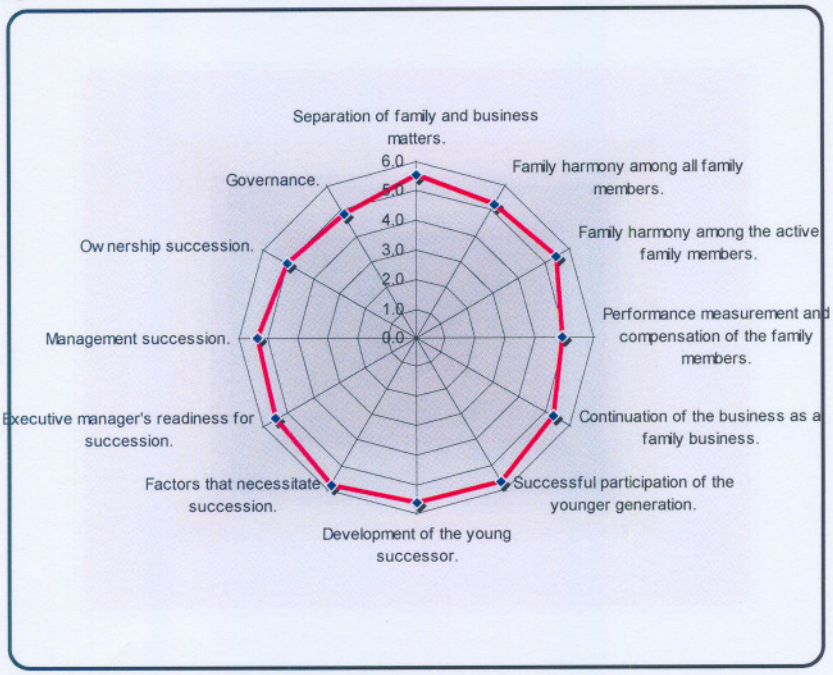


Table 4.9: Arithmetic mean results of lower than 5.0 (low compliance) obtained from all family member responses

	Factors and sub-factors	Mean
4.3	Disciplinary procedures for the family members.	4.299
10.4	Transfer of management to the younger generation.	4.497
11.2	Estate tax of the family business.	4.600
2.3	Establishing and maintaining communication forums.	4.604
4.2	Performance measurement of the family members.	4.734
11.1	Estate planning in the family business.	4.778
5.2	Acknowledgement of individual needs and dreams of all family members.	4.803
11.5	Retirement planning of the senior generation.	4.821
12.	**Corporate governance of the family business.**	**4.865**
11.3	Proprietary interest in the family business.	4.883
4.	**Performance measurement and compensation of the family members.**	**4.905**
2.5	Prevention and management of conflict among all family members.	4.925
4.4	Compensation policy for the family members.	4.905
10.1	Management succession planning.	4.981

Table 4.10: **Arithmetic mean between 5.0 and 5.5 (moderate compliance) obtained from all family member responses**

	Factors and sub-factors	Mean
11.	**Ownership succession.**	**5.000**
3.4	Establishing and maintaining communication forums.	5.051
2.4	Degree of conflict among all family members.	5.063
3.6	Prevention and management of conflict among the active family members.	5.088
5.1	A clear future vision for the family business.	5.132
2.	**Family harmony among all family members.**	**5.199**
7.3	Mentorship of the successor.	5.219
11.6	Liquidity of the family business.	5.228
6.5	Building and maintaining of a network by the younger generation.	5.277
5.	**Continuation of the business as a family business.**	**5.291**
3.1	Relationships among the active, younger generation family members.	5.309
10.	**Management succession.**	**5.369**
3.5	Degree of conflict among the active family members.	5.375
2.2	Degree of communication among all family members.	5.378
3.	**Family harmony among the active family members.**	**5.380**
5.4	Commitment of the younger generation towards the family business.	5.397
7.2	Formal training and development of the successor.	5.420
11.4	Equality and fairness of the will of the senior generation.	5.427
9.	**Executive manager's readiness for succession.**	**5.437**
6.6	Degree of self-empowerment by the younger generation.	5.496

Table 4.11: **Arithmetic mean of 5.5 or higher (high compliance) obtained from all family member responses**

	Factors and sub-factors	Mean
1.	**Separation of family and business matters.**	**5.517**
10.2	Selection criteria of the successor.	5.528
7.	**Development of the young successor.**	**5.574**
4.1	Clear roles and responsibilities in the family business.	5.609
6.2	The younger generation can add value to the family business.	5.623
6.	**Successful participation of the younger generation.**	**5.647**
7.4	Participatory management by the successor.	5.711
6.4	Credibility of the younger generation in the family business.	5.714
3.3	Communication among the active family members in the family business.	5.727
3.2	Relationship between the active senior and younger generation.	5.729
8.	**Factors that necessitate succession.**	**5.732**
7.5	Realising the full potential of the successor.	5.744
7.1	Competence of the successor.	5.777
6.3	Voluntary and happy participation by the younger generation.	5.801
5.3	Commitment of the senior generation to the continuity of the family business.	5.832
10.3	Suitability of the prospective successor(s).	5.844
6.1	The younger generation has good business sense.	5.969
10.5	The success / stability of the family business after succession.	5.997
2.1	Degree of family harmony among all family members.	6.027

4.6.1.3 Analysis of the results

The arithmetic mean of all factors and sub-factors for all family members is 5.165.

An arithmetic mean of lower than 5.0 was reported for the factors and sub-factors listed in Table 4.9; this indicates that these factors / sub-factors have not been sufficiently addressed by family businesses. *Disciplinary procedures of family members* (4.299), *transfer of management to the younger generation* (4.497), *estate tax of the family business* (4.600) and the *establishment and maintenance of communication forums* (4.604) were rated low by all family members. It is evident that the factors of **corporate governance** (4.865), **performance measurement and compensation of family members** (4.905), were rated as the two lowest factors by all family members.

An arithmetic mean of between 5.0 and 5.5 were reported for the factors and sub-factors listed in Table 4.10; this indicates that these factors / sub-factors are moderately addressed.

An arithmetic mean of 5.5 or higher was experienced with the factors and sub-factors listed in Table 4.11; this indicates that these factors / sub-factors are fully addressed. Consensus among all family members exists in terms of *suitability of prospective successors* (5.844), *business sense of the younger generation* (5.969), the success / *stability of the family business after succession* (5.997) and *the degree of harmony that exists among all family members* (6.027) that were scored the highest.

4.6.2 Arithmetic mean analysis of all active family members

4.6.2.1 Purpose of the analysis

The purpose of the arithmetic mean analysis is to indicate the average response of all active family members and to identify the areas that are not adequately addressed, to ensure long-term sustainability of family businesses.

4.6.2.2 Results obtained

The results of all factor and sub-factor arithmetic mean calculations of active family members, are displayed in Table D.2, Appendix D. Figure 4.12 summarises the arithmetic mean results of the twelve factors as was obtained from all active family members. Table 4.12, Table 4.13 and Table 4.14 presents the ranked arithmetic means of factors and sub-factors, categorised in low, moderate and full compliance respectively.

Figure 4.12: Arithmetic mean results of factors obtained from all active family member responses

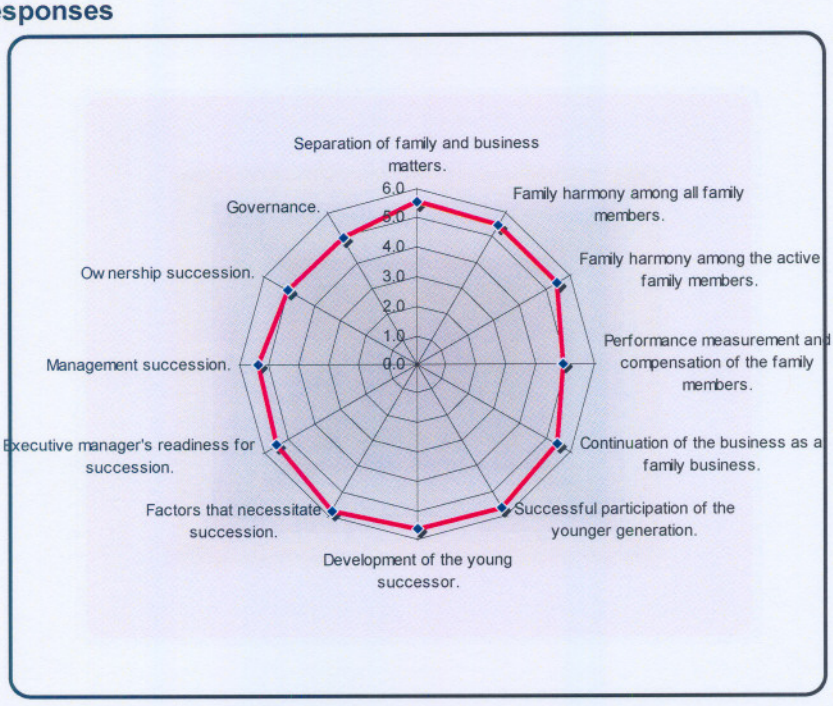


Table 4.12: Arithmetic mean of lower than 5.0 (low compliance) obtained from all active family member responses

	Factors and sub-factors	Mean
4.3	Disciplinary procedures for the family members.	4.299
10.4	Transfer of management to the younger generation.	4.497
11.2	Estate tax of the family business.	4.6
4.2	Performance measurement of the family members.	4.734
11.1	Estate planning in the family business.	4.778
11.5	Retirement planning of the senior generation.	4.821
11.3	Proprietary interest in the family business.	4.896
4.	**Performance measurement and compensation of the family members.**	**4.905**
5.2	Acknowledgement of individual needs and dreams of all family members.	4.956
12.	**Corporate governance of the family business.**	**4.963**
2.3	Establishing and maintaining communication forums.	4.965
4.4	Compensation policy for the family members.	4.978
10.1	Management succession planning.	4.981
11.	**Ownership succession.**	**4.986**

Table 4.13: **Arithmetic mean between 5.0 and 5.5 (moderate compliance) obtained from all active family member responses**

	Factors and sub-factors	Mean
3.4	Establishing and maintaining communication forums.	5.051
3.6	Prevention and management of conflict among the active family members.	5.088
2.4	Degree of conflict among all family members.	5.101
2.5	Prevention and management of conflict among all family members.	5.117
7.3	Mentorship of the successor.	5.219
11.6	Liquidity of the family business.	5.228
6.5	Building and maintaining of a network by the younger generation.	5.277
3.1	Relationships among the active, younger generation family members.	5.309
10.	**Management succession.**	**5.369**
3.5	Degree of conflict among the active family members.	5.375
2.	**Family harmony among all family members.**	**5.379**
3.	**Family harmony among the active family members.**	**5.38**
5.1	A clear future vision for the family businesses.	5.388
5.4	Commitment of the younger generation towards the family business.	5.404
5.	**Continuation of the business as a family business.**	**5.408**
7.2	Formal training and development of the successor.	5.42
9.	**Executive manager's readiness for succession.**	**5.437**
6.6	Degree of self-empowerment by the younger generation.	5.496

Table 4.14: **Arithmetic mean of 5.5 or higher (high compliance) obtained from all active family member responses**

	Factors and sub-factors	Mean
1.	**Separation of family and business matters.**	**5.517**
10.2	Selection criteria of the successor.	5.528
2.2	Degree of communication among all family members.	5.557
7.	**Development of the young successor.**	**5.574**
11.4	Equality and fairness of the will of the senior generation.	5.581
4.1	Clear roles and responsibilities in the family business.	5.609
6.2	The younger generation can add value to the family business.	5.623
6.	**Successful participation of the younger generation.**	**5.647**
7.4	Participatory management by the successor.	5.711
6.4	Credibility of the younger generation in the family business.	5.714
3.3	Communication among the active family members in the family business.	5.727
3.2	Relationship between the active senior and younger generation.	5.729
8.	**Factors that necessitate succession.**	**5.732**
7.5	Realising the full potential of the successor.	5.744
7.1	Competence of the successor.	5.777
6.3	Voluntary and happy participation by the younger generation.	5.801
10.3	Suitability of the prospective successor(s).	5.844
5.3	Commitment of the senior generation to the continuity of the family business.	5.885
6.1	The younger generation has good business sense.	5.969
10.5	The success / stability of the family business after succession.	5.997
2.1	Degree of family harmony among all family members.	6.154

4.6.2.3 Analysis of the results

An arithmetic mean of lower than 5.0 was reported for the factors and sub-factors listed in Table 4.12; this indicates that these factors / sub-factors have not been sufficiently addressed by active family businesses. *Disciplinary procedures of family members* (4.299), *transfer of management to the younger generation* (4.497), *estate tax of the family business* (4.600) and the *performance measurement of the family members* (4.734) were rated low by all active family members. It is evident that **performance measurement and compensation of family members** (4.905), **corporate governance** (4.963) *and* **ownership succession** (4.986), were rated as the three lowest factors by all active family members.

An arithmetic mean of between 5.0 and 5.5 were reported for the factors and sub-factors listed in Table 4.13; this indicates that these factors / sub-factors are moderately addressed.

An arithmetic mean of 5.5 or higher was experienced with the factors and sub-factors listed in Table 4.14; this indicates that these factors / sub-factors are fully addressed. Consensus among all active family members exist in terms of *suitability of prospective successors* (5.844), *commitment of the senior generation to the continuation of the business as a family business* (5.885), *business sense of the younger generation* (5.969), the *success / stability of the family business after succession* (5.997) and *the degree of harmony that exists among all family members* (6.154).

4.6.3 Arithmetic mean analysis of all inactive family members

4.6.3.1 Purpose of the analysis

The purpose of the arithmetic mean analysis of all inactive family members is to indicate the average response received from inactive family members and to identify the areas that are not adequately addressed, to ensure long-term sustainability of family businesses.

4.6.3.2 Results obtained

The results of all factor and sub-factor arithmetic mean calculations, as was obtained from inactive family member responses, are displayed in Table D.3, Appendix D. Figure 4.13 summarises the arithmetic mean of the twelve factors identified. Table 4.15, Table 4.16 and Table 4.17 presents the ranked arithmetic means of factors and sub-factors, categorised in low, moderate and full compliance.

Figure 4.13: Arithmetic mean results of factors derived from all inactive family member responses

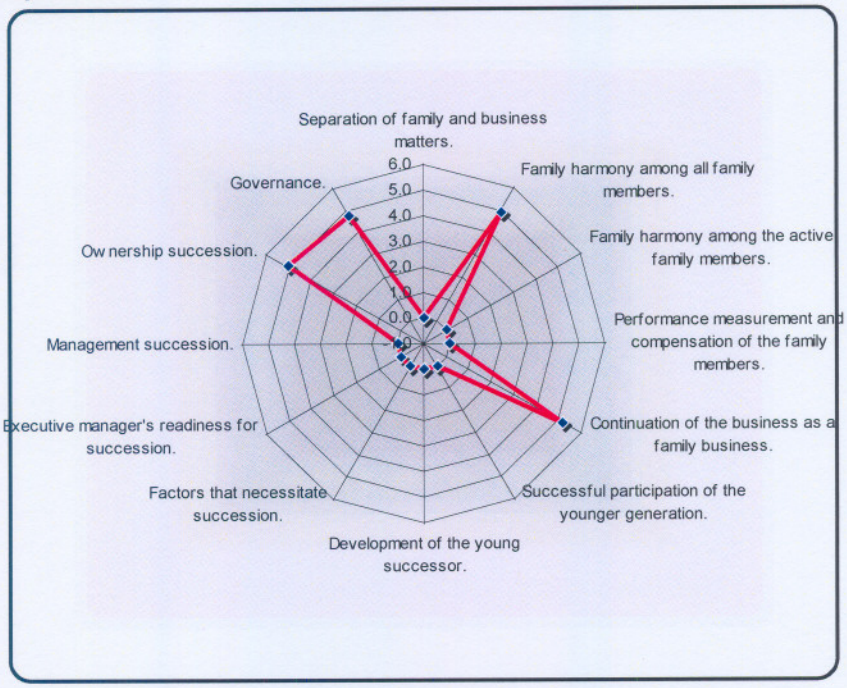


Table 4.15: Arithmetic mean of lower than 5.0 (low compliance) obtained from all inactive family member responses

	Factors and sub-factors	Mean
2.3	Establishing and maintaining communication forums.	4.018
5.2	Acknowledgement of individual needs and dreams of all family members.	4.557
2.5	Prevention and management of conflict among all family members.	4.613
12.	**Corporate governance of the family business.**	**4.707**
5.1	A clear future vision for the family business.	4.716
11.3	Proprietary interest in the family business.	4.864
2.	**Family harmony among all family members.**	**4.908**

Table 4.16: Arithmetic mean between 5.0 and 5.5 (moderate compliance) obtained from all inactive family member responses

	Factors and sub-factors	Mean
2.4	Degree of conflict among all family members.	5.000
11.	**Ownership succession.**	**5.021**
2.2	Degree of communication among all family members.	5.088
5.	**Continuation of the business as a family business.**	**5.101**
11.4	Equality and fairness of the will of the senior generation.	5.179
5.4	Commitment of the younger generation towards the family business.	5.386

Table 4.17: Arithmetic mean of 5.5 or higher (high compliance) obtained from all inactive family member responses

	Factors and sub-factors	Mean
5.3	Commitment of the senior generation to the continuity of the family business.	5.746
2.1	Degree of family harmony among all family members.	5.821

4.6.3.3 Analysis of the results

Only information on **family harmony among all family members** (factor 2), **continuation of the business as a family business** (factor 5), *proprietary interest in the family business* (sub-factor 11.3), *equality and fairness of the will of the senior generation* (sub-factor 11.4) and **corporate governance** (factor 12) were obtained from inactive family members.

An arithmetic mean of lower than 5.0 was reported for the factors and sub-factors listed in Table 4.15; this indicates that these factors / sub-factors have not been sufficiently addressed by family businesses. *Establishment and maintenance of communication forums* (4.018), *acknowledgement of individual needs and dreams* (4.557), the *prevention and management of conflict* (4.613), and **corporate governance** (4.707) were rated low by all inactive family members. It is evident that **corporate governance** (4.707) and **family harmony among all family members** (4.908), were rated as the two lowest factors by all inactive family members.

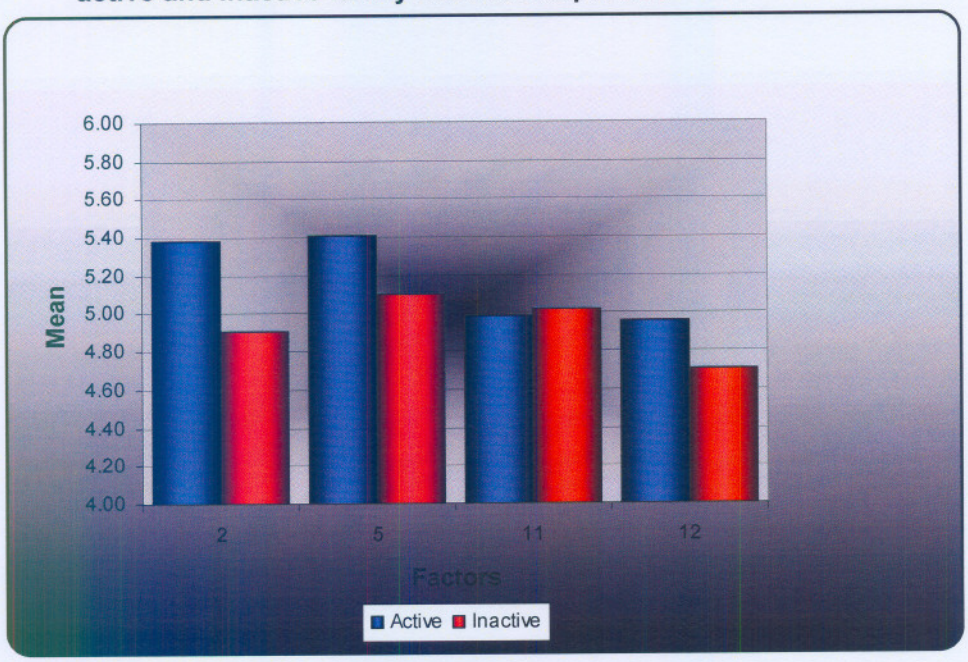
An arithmetic mean of between 5.0 and 5.5 were reported for the factors and sub-factors listed in Table 4.16; this indicates that these factors / sub-factors are moderately addressed.

An arithmetic mean of 5.5 or higher was reported for the sub-factors listed in Table 4.17; this indicates that these factors / sub-factors are fully addressed. Consensus among all inactive family members exist in terms of *commitment of the senior generation to the continuation of the business as a family business* (5.746), and the *degree of harmony that exists among all family members* (5.821).

4.6.4 Comparing arithmetic mean results among all family members

The arithmetic mean that was calculated for active and inactive family members (**family harmony among the active family members** (factor 2), **continuation of the business as a family business** (factor 5), **ownership succession** (factor 11), **corporate governance of the family business** (factor 12)) were compared and graphically presented in the bar chart (refer Figure 4.14).

Figure 4.14: Comparison of the arithmetic mean results of factors derived from all active and inactive family member responses



It is clear from the results that major differences exist between the opinions of active and inactive family members (refer factor 2, factor 5 and factor 12). The result for factor 11 (**ownership succession**) are almost the same between active and inactive family members, with an arithmetic mean of 4.99 and 5.02 respectively.

4.7 ARITHMETIC MEAN COMPARISONS

Table 4.18 presents the arithmetic mean comparisons of all individual *family members* that participated in the study versus the arithmetic mean of all *family business* that participated in the study.

The arithmetic mean of factors and sub-factors based on the average of the 174 *family members* that participated in this study were used in the study thus far. In Table 4.18 the arithmetic mean calculated for the 37 *family businesses* that participated in the study were determined. This mean was determined by first calculating the arithmetic mean, for each factor and sub-factor, per family business. These results were then used to calculate the arithmetic mean, for each factor and sub-factor, for all 37 *family businesses*. The implications of the exercise is to position all families equal e.g. a family of nine active family members have the same weight as a family with only three active family members. It is visible from the results displayed in Table 4.18 that no significant differences exist between the means of these two sets of results.

Table 4.18: Arithmetic mean comparison

	Factors and sub-factors	n = 174	n = 37
		Mean	Mean
1.	**Separation of family and business matters.**	5.517	5.553
2.	**Family harmony among all family members.**	5.199	5.265
2.1	Degree of family harmony among all family members.	6.027	6.092
2.2	Degree of communication among all family members.	5.378	5.487
2.3	Establishing and maintaining communication forums.	4.604	4.632
2.4	Degree of conflict among all family members.	5.063	5.087
2.5	Prevention and management of conflict among all family members.	4.925	5.026
3.	**Family harmony among the active family members.**	5.380	5.425
3.1	Relationships among the active, younger generation family members.	5.309	5.306
3.2	Relationship between the active senior and younger generation.	5.729	5.721
3.3	Communication among the active family members in the family business.	5.727	5.823
3.4	Establishing and maintaining communication forums.	5.051	5.070
3.5	Degree of conflict among the active family members.	5.375	5.460
3.6	Prevention and management of conflict among the active family members.	5.088	5.170
4.	**Performance measurement and compensation of the family members.**	4.905	4.928
4.1	Clear roles and responsibilities in the family business.	5.609	5.620
4.2	Performance measurement of the family members.	4.734	4.778
4.3	Disciplinary procedures for the family members.	4.299	4.303
4.4	Compensation policy for the family members.	4.978	5.011
5.	**Continuation of the business as a family business.**	5.291	5.265
5.1	A clear future vision for the family business.	5.132	5.209
5.2	Acknowledgement of individual needs and dreams of all family members.	4.803	4.869
5.3	Commitment of the senior generation to the continuity of the family business.	5.832	5.767
5.4	Commitment of the younger generation towards the family business.	5.397	5.214
6.	**Successful participation of the younger generation.**	5.647	5.653
6.1	The younger generation has good business sense.	5.969	5.961
6.2	The younger generation can add value to the family business.	5.623	5.628
6.3	Voluntary and happy participation by the younger generation.	5.801	5.807
6.4	Credibility of the younger generation in the family business.	5.714	5.731
6.5	Building and maintaining of a network by the younger generation.	5.277	5.307
6.6	Degree of self-empowerment by the younger generation.	5.496	5.482
7.	**Development of the young successor.**	5.574	5.577
7.1	Competence of the successor.	5.777	5.799
7.2	Formal training and development of the successor.	5.420	5.441
7.3	Mentorship of the successor.	5.219	5.211
7.4	Participatory management by the successor.	5.711	5.664
7.5	Realising the full potential of the successor.	5.744	5.771
8.	**Factors that necessitate succession.**	5.732	5.758
9.	**Executive manager's readiness for succession.**	5.437	5.484
10.	**Management succession.**	5.369	5.425
10.1	Management succession planning.	4.981	5.031
10.2	Selection criteria of the successor.	5.528	5.626
10.3	Suitability of the prospective successor(s).	5.844	5.873
10.4	Transfer of management to the younger generation.	4.497	4.563
10.5	The success / stability of the family business after succession.	5.997	6.035
11.	**Ownership succession.**	5.000	4.984
11.1	Estate planning in the family business.	4.778	4.801
11.2	Estate tax of the family business.	4.600	4.643
11.3	Proprietary interest in the family business.	4.883	4.924
11.4	Equality and fairness of the will of the senior generation.	5.427	5.462
11.5	Retirement planning of the senior generation.	4.821	4.845
11.6	Liquidity of the family business.	5.228	5.258
12.	**Corporate governance of the family business.**	4.865	4.877
		5.165	**5.160**

4.8 STANDARD DEVIATION ANALYSIS

4.8.1 Purpose of standard deviation

The standard deviation of the sample is a measure that reflects how the numerical data are dispersed. For the purpose of this study, the standard deviation will be used to indicate the level of agreement between the responses of any particular factor. A standard deviation of 1 or less indicates a high level of agreement, and a value higher than 1 indicates disagreement of responses.

The results of the standard deviation calculations for all factors and sub-factors that were evaluated, by active and inactive family members, are displayed in Table D.1, Table D.2, and Table D.3 (refer Appendix D).

4.8.2 Results obtained

The standard deviation of the factors is graphically presented in a bar chart (refer Figure 4.15). The standard deviation that was calculated for active and inactive family members (**family harmony among all family members** (factor 2), **continuation of the business as a family business** (factor 5), **ownership succession** (factor 11), **corporate governance of the family business** (factor 12)) are compared and graphically presented in the bar chart (refer Figure 4.16).

Figure 4.15: Results of standard deviation of all factors

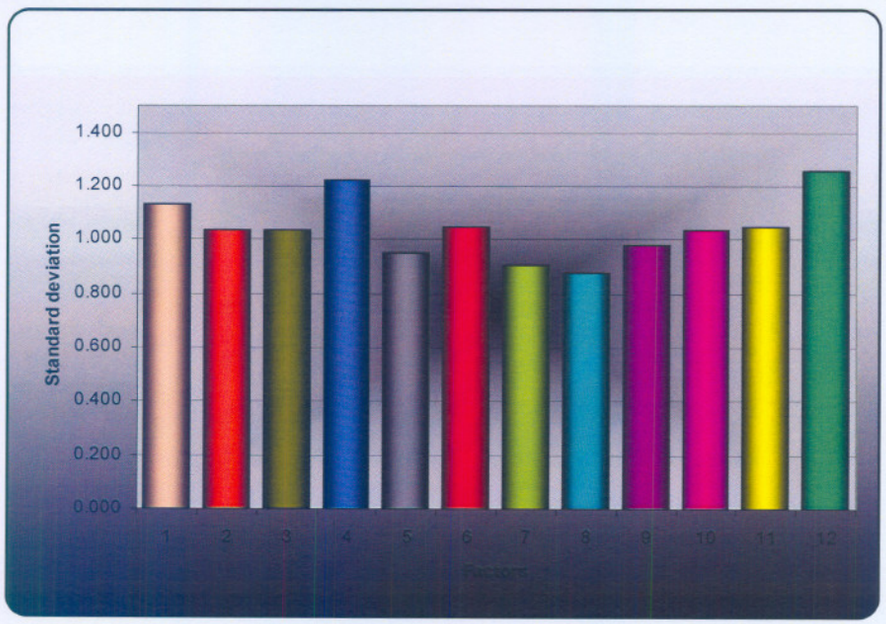
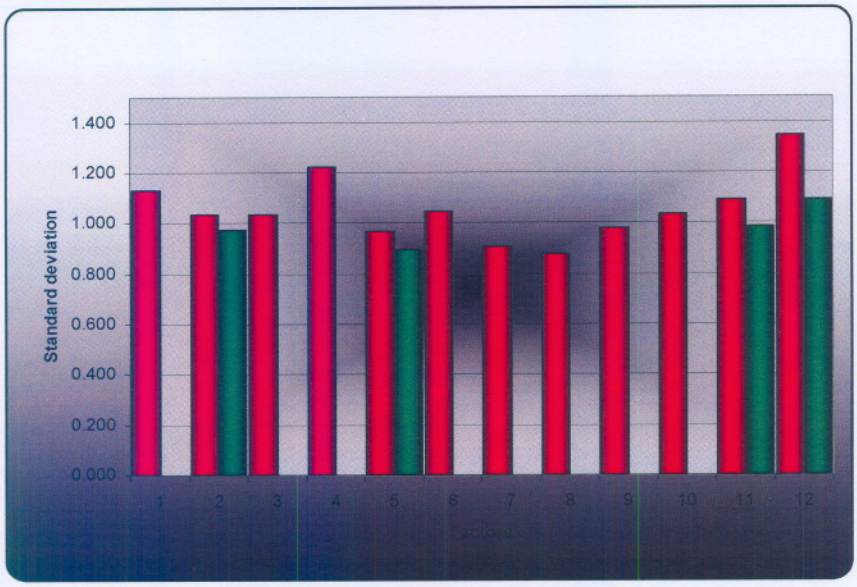


Figure 4.16: **Results of standard deviation of all factors distinguishing between active and inactive family members**



4.8.3 Analysis of the results

A standard deviation higher than 1 were obtained for factor 1 (**separation of family and business matters**), factor 2 (**family harmony among all family members**), factor 3 (**family harmony among active family members**), factor 4 (**performance measurement and compensation**), factor 6 (**successful participation of the younger generation**), factor 10 (**management succession**), factor 11 (**ownership succession**) and factor 12 (**corporate governance**), these results indicate disagreement of responses among family members (refer figure 4.16).

Agreement among the responses (standard deviation lower than 1) of inactive family members is visible in factor 2 (**family harmony among all family members**), factor 5 (**continuation of the business as a family business**), and factor 11 (**ownership succession**).

4.9 CRONBACH ALPHA COEFFICIENT ANALYSIS

4.9.1 Purpose of the analysis

The purpose of the Cronbach alpha coefficient analysis is to evaluate the internal consistency between the variables (factors and sub-factors) in the questionnaire.

4.9.2 Results obtained

The results of the Cronbach alpha analysis are presented in Appendix C. The results of the Cronbach alpha analysis on sub-factor 5.3 (*commitment of the senior generation to the continuity of the family business*) sub-factor 11.3 (*proprietary interest in the family business*) and sub-factor 7.3 (*mentorship of the successor*) are presented in Tables 4.19, Table 4.20 and Table 4.21 respectively.

The generally agreed lower limit for the Cronbach alpha coefficient is 0.70, although it may be decreased to 0.60 in the case of exploratory research. Reliable scores of lower than 0.60 are seen as questionable whereas a reliable score of more that 0.80 would indicate high reliability; anything in between is acceptable (Page & Meyer, 2000:198).

Table 4.19: Impact of Cronbach alpha coefficient analysis on sub-factor 5.3

Factor	5
Sub-factor	5.3
Cronbach alpha	0.653789
Variable	**Alpha if deleted**
A12	0.569625
A17	0.503484
A30	0.676825
A48	0.586549

Table 4.20: Impact of Cronbach alpha coefficient analysis on sub-factor 11.3

Factor	11
Sub-factor	11.3
Cronbach alpha	0.659872
Variable	Alpha if deleted
A9	0.543418
A38	0.650479
A43	0.462642

Table 4.21: Impact of Cronbach alpha coefficient analysis on sub-factor 7.3

Factor	7
Sub-factor	7.3
Cronbach alpha	0.274071
Variable	Alpha if deleted
C3	0.000000
C25	0.125340
C89	0.685067

4.9.3 Analysis of the results

A Cronbach alpha coefficient of more than 0.70 was recorded for most factors and sub-factors that were analysed. High Cronbach alpha coefficients were recorded for the following factors, *degree of conflict among active family members* (sub-factor 3.5, Cronbach alpha coefficient of 0.9155), *disciplinary procedures for the family members* (sub-factor 4.3, Cronbach alpha coefficient of 0.9140), *participatory management by the successor* (sub-factor 7.4, Cronbach alpha coefficient of 0.9140) and *estate planning in the family business* (sub-factor 11.1, Cronbach alpha coefficient of 0.9151). These factors can therefore be considered to have a high reliability between variables.

The following sub-factors recorded Cronbach alpha coefficients of less than 0.70: *commitment of the senior generation to the continuity of the family business* (sub-factor 5.3, Cronbach alpha coefficient of 0.6538), *mentorship of the successor* (sub-factor 7.3, Cronbach alpha coefficient of 0.2741), and *proprietary interest in the family business* (sub-factor 11.3, Cronbach alpha coefficient of 0.6599).

The information displayed in Table 4.19, Table 4.20 and Table 4.21 indicate the effect on the Cronbach alpha coefficient if any of the questions that contributed to the specific factor / sub-factor is removed from the questionnaire.

In Table 4.19 it is evident that by removing variable A30 the Cronbach alpha coefficient of sub-factor 5.3 will increase to 0.676825. The removal of any variable of sub-factor 11.3 will not improve the Cronbach alpha coefficient of 0.659872 (refer Table 4.20). The removal of variable C89 will increase the Cronbach alpha coefficient of sub-factor 7.3 significantly from 0.274071 to 0.685067 (refer Table 4.21). It was, however, decided not to delete any variables in an attempt to improve these coefficients.

4.10 EFFECT SIZE ANALYSIS

4.10.1 Purpose of the analysis

The purpose of the effect size analysis is to compare the data of different types of family businesses with each other. The data was divided into three groups: family businesses that have more than one family generation that are active in the family business (type 1), family business that are managed by husbands and wives (type 2) and family businesses that do not have younger generation family members actively involved in the business (type 3).

A small *p*-value (e.g. smaller than 0.05) is considered as sufficient evidence that the result is statistically significant, while practical significance can be understood as a large enough difference to have an effect in practice. The effect size is independent of sample size and is a measure of practical significance (Ellis & Steyn, 2003:1). Ellis and Steyn (2003:4) give the following guidelines for the interpretation of the effect size:

- Small effect: d=0.2
- Medium effect: d=0.5
- Large effect: d=0.8

A significant result means that the sample results can be generalised to the research population. The practical significance of results is not only important when the results of population data are reported but also to comment on the practical significance of a statistical significant result in the case of random samples from populations (Ellis & Steyn, 2003:5).

4.10.2 Results obtained

The results of the variable analysis are presented in Table F.1 (Appendix F) and the detail of the results of sub-factors 5.4 and 11.5 are displayed in table 4.22 and 4.23 respectively.

Table 4.22: Results of effect size of sub-factor 5.4

	Sub-factor : 5.4 (Commitment of the younger generation towards the family business) Marked differences are significant at p < 0.05				
Type	1 m = 5.6238	2 m = 4.0417	3 m = 5.0563	Effect size	$d = \frac{\lvert \bar{x}_i - \bar{x}_j \rvert}{\sqrt{MSE}}$
1		0.00775	0.306684	Type 1 vs Type 2	d = (5.6238 - 4.0417) / √0.772086 = 1.800533
2	0.000775		0.111832	Type 1 vs Type 3	d = (5.6238 - 5.0563) / √0.772086 = 0.645852
3	0.306684	0.111832		Type 3 vs Type 2	d = (5.0563 - 4.0417) / √0.772086 = 1.15468

Table 4.23: Results of effect size of sub-factor 11.4

	Sub-factor : 11.5 (Retirement planning of the senior generation) Marked differences are significant at p < 0.05				
Type	1 m = 5.0671	2 m = 5.3135	3 m = 4.0962	Effect size	$d = \frac{\lvert \bar{x}_i - \bar{x}_j \rvert}{\sqrt{MSE}}$
1		0.927135	0.157701	Type 2 vs Type 1	d = (5.3135 - 5.0671) / √0.322315 = 0.43401
2	0.927135		0.174144	Type 1 vs Type 3	d = (5.0671 - 4.0962) / √0.322315 = 1.71015
3	0.157701	0.174144		Type 2 vs Type 3	d = (5.3135 - 4.0962) / √0.322315 = 2.144161

4.10.3 Analysis of the results

From the data displayed in Table F.1 (Appendix F) it is apparent that only one sub-factor (5.4 - *commitment of the younger generation towards the family business*) has a *p*-value of less than 0.05. A larger than 0.05, *p*-value is observed for all other factors displayed in Table F.1 which indicates that the results are not statistically significant.

From the information displayed in Table 4.21 and Table 4.22 the following analysis can be made:

- *Commitment of the younger generation towards the family business* (sub-factor 5.4) has a medium effect size (between 0.5 and 0.79) between generation (type 1 family business) and sibling family businesses (type 3 family business), but a large effect size (greater or equal than 0.8) between generation (type 1 family business) and husband and wife family businesses (type 2 family business), and between husband and wife family businesses (type 2 family business) and sibling family businesses (type 3 family business).
- *Retirement planning for the senior generation* (sub-factor 11.5) has a small effect size (between 0.2 and 0.49) between husband and wife (type 2 family business) and generation family businesses (type 1 family business). A large effect size (greater or equal than 0.8) are visible between the other family business types.

4.11 DEPENDENT T-TEST ANALYSIS

4.11.1 Purpose of the analysis

The purpose of the dependent t-test is to compare data between active and inactive family members. When variables are connected to one another the variance is constrained, the statistical test to measure the significance of a difference between the means must therefore take into consideration these constrained variances. This is what the dependent t-test does. The dependent t-test is also used to determine whether the observed data patterns are sufficiently strong to suggest general applicability in the research population. To determine the practical significance of the data (dependent t-test), calculations based on the equation below were made.

$$d = \frac{\bar{x}_{diff}}{s_{diff}}$$

d → the result that indicates the practical significance - large enough difference to have an effect in practice

$\bar{x}_{diff}$ → Difference between the means of active and inactive family members

s_{diff} → Difference between the standard deviation of active and inactive family members

4.11.2 Results obtained

The dependent t-test was calculated for the factors / sub-factors (2, 5, 11.3, 11.4 and 12) that are common between active and inactive family members. The results of the dependent t-test are displayed in Table 4.24.

Table 4.24: Results of dependent t-test calculations (d-value)

T-test for dependent samples									
Factor / Sub-factor		Active / Inactive	Mean	Standard deviation	n	Diff in mean	Diff in Standard deviation	d-value	p
2	Family harmony among all family members.	Active	5.416	0.773	30	0.548	0.708	0.773	0.002
		Inactive	4.868	0.763					
2.1	Family harmony among all family members.	Active	6.196	0.597	30	0.423	0.613	0.690	0.001
		Inactive	5.773	0.824					
2.2	Degree of communication among all family members.	Active	5.626	0.844	30	0.596	0.689	0.865	0.000
		Inactive	5.030	0.908					
2.3	Degree of conflict among all family members.	Active	4.968	1.146	30	0.994	1.280	0.776	0.000
		Inactive	3.975	0.906					
2.4	Family harmony among the active family members.	Active	5.157	0.880	30	0.168	0.929	0.180	0.331
		Inactive	4.990	1.019					
2.5	Relationship between the active senior and younger generation.	Active	5.132	0.946	30	0.558	1.006	0.555	0.005
		Inactive	4.575	1.006					
5	Continuation of the business as a family business.	Active	5.433	0.749	30	0.398	0.852	0.467	0.016
		Inactive	5.035	0.728					
5.1	Acknowledgement of individual needs and dreams of all family	Active	5.327	0.896	30	0.670	1.151	0.582	0.003
		Inactive	4.657	1.008					
5.2	Commitment of the younger generation towards the family	Active	4.928	1.026	30	0.492	1.170	0.421	0.029
		Inactive	4.435	1.063					
5.3	The younger generation has good business sense.	Active	5.963	0.672	30	0.338	0.677	0.500	0.010
		Inactive	5.625	0.863					
5.4	Voluntary and happy participation by the younger generation.	Active	5.516	0.888	30	0.093	1.172	0.079	0.669
		Inactive	5.423	0.943					
11.3	Proprietary interest in the family business.	Active	4.894	1.210	30	0.027	1.280	0.021	0.910
		Inactive	4.867	0.861					
11.4	Equality and fairness of the will of the senior generation.	Active	5.580	0.825	30	0.532	1.209	0.440	0.022
		Inactive	5.047	0.978					
12	Corporate governance of the family business.	Active	4.968	1.076	30	0.263	1.236	0.213	0.253
		Inactive	4.705	0.732					

Example:

The d-value of factor 2 (**family harmony among all family members**) were calculated as follows: d = difference in mean / difference in standard deviation = 0.55 / 0.71 = 0.773.

4.11.3 Analysis of the results

Ellis and Steyn (2003:4) give the following guidelines for the interpretation of the dependent t-test: small effect if *d*=0.2, medium effect id *d*=0.5, large effect if *d*=0.8.

In analysing the results displayed in Table 4.24, it is clear that most of the p-values of the factors / sub-factors that are displayed are smaller than 0.5. A small *p*-value is considered as sufficient evidence that the results are statistical significant (factors marked in red). The dependent t-test (d-value) determines the practical significance of the data.

The *degree of communication among all family members* (sub-factor 2.2) (d greater or equal than 0.8) can be considered as practically significant, since it is the result of a difference having a large effect.

4.12 SUMMARY OF ANALYSIS OF FACTORS AND SUB-FACTORS

During the literature study (Chapter 2 and 3) insight was gained on factors that ensure long-term sustainability of family businesses; these factors also align with the factors that were included by Dr. S.P van der Merwe (Van der Merwe, 2004) during the design of the family business diagnostic questionnaire.

All twelve factors are applicable to active family members although only factors 2, 5, 11.3, 11.4 and 12 apply to inactive family members. The data received from the completed questionnaires were processed using Statsoft, Inc (2004). The software was used for calculating the arithmetic mean and standard deviation of the sample population.

The arithmetic mean results were ranked. An arithmetic mean of lower than 5.0 were reported for the following factors and sub-factors: *disciplinary procedures of family members* (4.299), *transfer of management to the younger generation* (4.497), *estate tax of the family business* (4.600) and the *establishment and maintenance of communication forums* (4.604) were rated low by all family members. *Disciplinary procedures of family members* (4.299), *transfer of management to the younger generation* (4.497), *estate tax of the family business* (4.600) and the *performance measurement of the family members* (4.734) were rated low by all active family members. *Establishment and maintenance of communication forums* (4.018), the *acknowledgement of individual needs and dreams* (4.557), the *prevention and management of conflict* (4.613), and *corporate governance* (4.707) were rated low by all inactive family members.

The standard deviation of the sample is a measure that reflects how the numerical data are dispersed. A standard deviation higher than 1 were obtained for factors 1 (**separation of family and business matters**), 2 (**family harmony among all family members**), 3 (**family harmony among active family members**), 4 (**performance measurement and compensation**), 6 (**successful participation of the younger generation**), 10 (management **succession**), 11 (**ownership succession**) and 12 (**corporate governance**). These results indicate disagreement of responses among family members.

The Cronbach alpha coefficient analysis was used to evaluate the internal consistency between the variables (factors and sub factor) in the questionnaire. A Cronbach alpha of more than 0.70

was recorded for most factors and sub-factors; they can therefore be considered a reliable measure. High Cronbach alpha coefficients were recorded for the following sub-factors, *degree of conflict between active family members* (Cronbach alpha coefficient of 0.9155), *disciplinary procedures for the family members* (Cronbach alpha coefficient of 0.9140), *participatory management by the successor* (0.9140) and *estate planning in the family business.* Sub-factors 5.3 (*commitment of the senior generation to the continuity of the family business*), 7.3 (*mentorship of the successor*) and 11.3 (*proprietary interest in the family business*) recorded Cronbach alpha coefficients of less than 0.70: 0.653789, 0.274071 and 0.659872 respectively. The removal of variables can increase the Cronbach alpha coefficients; it was, however, decided not to delete any variables in an attempt to improve these coefficients.

The purpose of the effect size analysis is to compare the data of different types of family businesses with each other. A small *p*-value (e.g. smaller than 0.05) is considered as sufficient evidence that the result is statistically significant while practical significance can be understood as a large enough difference to have an effect in practice. Only one sub-factor 5.4 (commitment of the younger generation towards the family business) has a *p*-value of less than 0.05 indicating statistical significance.

The purpose of the dependent t-test is to compare data between active and inactive family members. From the results displayed it is clear that most of the p-values of the factors / sub-factors that are displayed are smaller than 0.05. A small *p*-value is considered as sufficient evidence that the results are statistically significant. The degree of communication among all family members (sub-factor 2.2) (d greater or equal than 0.8) can be considered as practically significant, since it is the result of a difference having a large effect.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In this chapter, conclusions and recommendations will be drawn up, based on the factors that ensure long-term sustainability of family businesses as evaluated during the literature review study (Chapter 2 and 3) and the empirical study (Chapter 4).

Evaluations will be done to determine if the primary and secondary objectives, as identified in Chapter 1, were realised. Recommendations for future research will be made and the study will be concluded with a summary of the study.

5.2 CONCLUSIONS ON THE EMPIRICAL STUDY

An empirical study was undertaken using 37 family businesses in the Sedibeng District of the Metsimaholo to participate in the study. Based on the theory presented in Chapter 2 and 3 and the results of the empirical study presented in Chapter 4, it is now possible to draw conclusions on the factors that could ensure long-term sustainability of family businesses. Conclusions are drawn based only on the most significant findings as was analysed in Chapter 4.

5.2.1 Conclusions on biographical data analysis

A total of 174 active and inactive family members from 37 family businesses participated in the research study. Biographical factors such as relationship to the owner, age of the family members, gender, marital status, qualifications and percentage shareholding were analysed. The most important conclusions on the biographical analysis are discussed below.

A Chief Executive Officer (CEO) of a family business, age 50 and older should be ready to transfer ownership of the family business to successors. Thirty percent of CEO's are already above the age of sixty. Successor's that were identified are most probably between the ages of 30 and 39 and has already gained valuable business experience. The dilemma however is that management succession planning and transfer of management to the younger generation was scored low. These two factors are important since limited time to transfer ownership between generations exist.

The ownership of family businesses is still dominated by active males (62%). One-third of active family members are females, together with the amount of spouses actively involved in family businesses a significant contribution to the family business industry is delivered by females. A larger number of sons are involved in the family business, relative to daughters. It can be

concluded that reality (considering the results of the participative family businesses) and recent research that suggests that daughters are almost overlooked as possible successors for family businesses are aligned and should be considered when ownership and management succession planning takes place.

The level of formal qualification can have an impact on the way that businesses are managed. Half (50%) of the active family members have gained no formal education after they have finished matric comparing to the one third inactive family members that have a university degree / post graduate degree. No correlation between qualification and the success of a business can be drawn as only 5 CEO's has a formal qualification (university degree or post graduate degree). It is however important that external sources, expertise, advisor's are utilised to fill the educational gap that may occur because of the formal qualification results.

The number of shares owned by active and inactive family members can have an impact on loyalty, commitment and general harmony between among family members in the family business. It can be concluded that the low shareholding percentage of inactive family members (12%) could have an impact on family harmony (rated 4.908 by inactive family members) and proprietary interest (rated 4.864 by inactive family members).

During the interviews that were conducted and the results obtained from the family member questionnaire it was clear that confusion about shareholding exist between all family members. The observation is made that the general trend between the family businesses, which participated in the study, is not to let inactive family members share in the wealth of the family business.

5.2.2 Conclusions on family business information

The family business data that were gathered was analysed in Section 4.4. A total of 37 family businesses participated in the study. The relevant conclusions based on the family business information are made in the following paragraphs.

The bulk (40%) of the study results were obtained from family businesses based in Vereeniging. Although the distribution of family businesses that participated in the study is not evenly distributed it can be concluded that all the important geographical areas, in the scope of the study, were covered.

The majority of family businesses that participated in the study are classified as small family businesses due to the number of permanent employees (between 5 and 50) employed by them and are classified as micro businesses due to the annual turnover (turnover less than R1.0 million per annum) generated by them. Family businesses mainly focus on the retail industry

and operate as family businesses for an average of 24 years already. Almost half (48%) of the family businesses that were investigated are already in their second generation.

The business form applied has a significant impact on a business especially when it comes to transferring of ownership from one generation to another. In this study private companies and closed corporation are the most popular business forms used by family businesses.

5.2.3 Conclusions on factors that ensure long-term sustainability of family businesses

During the literature study (Chapter 2 and 3) insight were gained on the factors necessary to ensure long-term sustainability of family businesses. The existing measurement instrument (questionnaire), designed by Dr. S.P. van der Merwe (Van der Merwe, 2004), was used to obtain information from participants, and also took these factors into consideration. Table 5.1 draws a link between these two sets of data and demonstrates the agreement between the literature review and the factors that where measured using the pre-defined questionnaire.

Table 5.1: Link between factors measured in the questionnaire and factors identified in the literature review

	Description of the factors and sub-factors	Reference to literature study
1.	**Separation of family and business matters.**	2.5.1, 2.5.1.1, 2.5.1.2, 2.5.1.3
2.	**Family harmony among all family members.**	2.6, 2.6.1
2.1	Degree of family harmony among all family members.	2.6
2.2	Degree of communication among all family members.	2.6.2
2.3	Establishing and maintaining communication forums	2.6.2, 2.6.5
2.4	Degree of conflict among all family members.	2.3.2.1, 2.6.3
2.5	Prevention and management of conflict among all family members.	2.6.3.2, 2.6.5
3.	**Family harmony among the active family members.**	2.6
3.1	Relationships among the active, younger generation family members.	2.6.1
3.2	Relationship between the active senior and younger generation.	2.6.1
3.3	Communication among the active family members in the family business.	2.6.2
3.4	Establishing and maintaining communication forums.	2.6.2, 2.6.5
3.5	Degree of conflict among the active family members.	2.6.3, 2.3.2.1, 2.6.5
3.6	Prevention and management of conflict among the active family members.	2.6.3.2
4.	**Performance measurement and compensation of the family members.**	3.2, 3.2.1, 3.2.2, 3.2.3
4.1	Clear roles and responsibilities in the family business.	3.4.2.2
4.2	Performance measurement of the family members.	3.2.3
4.3	Disciplinary procedures for the family members.	3.2.4
4.4	Compensation policy for the family members.	3.2, 3.2.5
5.	**Continuation of the business as a family business.**	3.3, 3.3.3
5.1	A clear future vision for the family business.	3.3.1
5.2	Acknowledgement of individual needs and dreams of all family members.	3.3.1
5.3	Commitment of the senior generation to the continuity of the family business.	3.3.2
5.4	Commitment of the younger generation towards the family business.	3.3.2
6.	**Successful participation of the younger generation.**	3.4.4.2, 3.4.4.1
6.1	The younger generation has good business sense.	3.4.4.2, 3.4.4.1
6.2	The younger generation can add value to the family business.	3.4.4.2, 3.4.4.1
6.3	Voluntary and happy participation by the younger generation.	3.4.4.2, 3.4.4.1
6.4	Credibility of the younger generation in the family business.	3.4.4.2, 3.4.4.1
6.5	Building and maintaining of a network by the younger generation.	3.4.2.6
6.6	Degree of self-empowerment by the younger generation.	3.4.2.2
7.	**Development of the young successor.**	3.4.4, 3.4.4.1, 3.4.4.2
7.1	Competence of the successor.	3.4.3.3

7.2	Formal training and development of the successor.	3.4.3.2
7.3	Mentorship of the successor.	3.4.3.2
7.4	Participatory management by the successor.	3.4.2.5
7.5	Realising the full potential of the successor.	3.4.2.4
8.	**Factors that necessitate succession.**	3.4.5
9.	**Executive manager's readiness for succession.**	3.4.5
10.	**Management succession.**	3.4
10.1	Management succession planning	3.4.1, 3.4.1
10.2	Selection criteria of the successor.	3.4.2
10.3	Suitability of the prospective successor(s).	3.4.4.2, 3.4.2.1
10.4	Transfer of management to the younger generation	3.4.6, 3.4.6.1, 3.4.6.2
10.5	The success / stability of the family business after succession.	3.4.7
11.	**Ownership succession.**	3.5
11.1	Estate planning in the family business.	3.5.2, 3.5.1.1, 3.5.1.2, 3.5.1.3
11.2	Estate tax of the family business.	3.5.2
11.3	Proprietary interest in the family business.	3.5
11.4	Equality and fairness of the will of the senior generation.	3.5.3
11.5	Retirement planning of the senior generation.	3.5.4
11.6	Liquidity of the family business.	3.5.5
12.	**Corporate governance of the family business.**	3.6, 3.6.1, 3.6.2, 3.6.3

The arithmetic mean and standard deviation of the factors / sub-factors listed in Table 5.2 were determined. These results were analysed in Section 4.8 and 4.6. Conclusions were drawn on the factors / sub-factors where a significant difference in the arithmetic mean of the active and inactive family members exists or where a factor or sub-factor was scored low by either one of the groups. Conclusions were only drawn on the factors / sub-factors marked in red (refer Table 5.2).

Table 5.2: Link between the mean values of active and inactive family members

	Factors and sub-factors	All	Active	Inactive	Difference Act / Inact
		Mean	Mean	Mean	Mean
1.	**Separation of family and business matters.**	5.517	5.517		
2.	**Family harmony among all family members.**	**5.199**	**5.379**	**4.908**	**0.471**
2.1	Degree of family harmony among all family members.	6.027	6.154	5.821	0.333
2.2	Degree of communication among all family members.	5.378	5.557	5.088	0.469
2.3	Establishing and maintaining communication forums.	4.604	4.965	4.018	0.947
2.4	Degree of conflict among all family members.	5.063	5.101	5	0.101
2.5	Prevention and management of conflict among all family members.	4.925	5.117	4.613	0.504
3.	**Family harmony among the active family members.**	**5.380**	**5.38**		
3.1	Relationships among the active, younger generation family members.	5.309	5.309		
3.2	Relationship between the active senior and younger generation.	5.729	5.729		
3.3	Communication among the active family members in the family business.	5.727	5.727		
3.4	Establishing and maintaining communication forums.	5.051	5.051		
3.5	Degree of conflict among the active family members.	5.375	5.375		
3.6	Prevention and management of conflict among the active family members.	5.088	5.088		
4.	**Performance measurement and compensation of the family members.**	**4.905**	**4.905**		
4.1	Clear roles and responsibilities in the family business.	5.609	5.609		
4.2	Performance measurement of the family members.	4.734	4.734		
4.3	Disciplinary procedures for the family members.	4.299	4.299		
4.4	Compensation policy for the family members.	4.978	4.978		
5.	**Continuation of the business as a family business.**	**5.291**	**5.408**	**5.101**	**0.307**
5.1	A clear future vision for the family business.	5.132	5.388	4.716	0.672
5.2	Acknowledgement of individual needs and dreams of all family members.	4.803	4.956	4.557	0.399
5.3	Commitment of the senior generation to the continuity of the family business.	5.832	5.885	5.746	0.139
5.4	Commitment of the younger generation towards the family business.	5.397	5.404	5.386	0.018
6.	**Successful participation of the younger generation.**	**5.647**	**5.647**		
6.1	The younger generation has good business sense.	5.969	5.969		
6.2	The younger generation can add value to the family business.	5.623	5.623		
6.3	Voluntary and happy participation by the younger generation.	5.801	5.801		
6.4	Credibility of the younger generation in the family business.	5.714	5.714		
6.5	Building and maintaining of a network by the younger generation.	5.277	5.277		
6.6	Degree of self-empowerment by the younger generation.	5.496	5.496		
7.	**Development of the young successor.**	**5.574**	**5.574**		
7.1	Competence of the successor.	5.777	5.777		
7.2	Formal training and development of the successor.	5.420	5.42		
7.3	Mentorship of the successor.	5.219	5.219		
7.4	Participatory management by the successor.	5.711	5.711		
7.5	Realising the full potential of the successor.	5.744	5.744		
8.	**Factors that necessitate succession.**	**5.732**	**5.732**		
9.	**Executive manager's readiness for succession.**	**5.437**	**5.437**		
10.	**Management succession.**	**5.369**	**5.369**		
10.1	Management succession planning.	4.981	4.981		
10.2	Selection criteria of the successor.	5.528	5.528		
10.3	Suitability of the prospective successor(s).	5.844	5.844		
10.4	Transfer of management to the younger generation.	4.497	4.497		
10.5	The success / stability of the family business after succession.	5.997	5.997		
11.	**Ownership succession.**	**5.000**	**4.986**	**5.021**	**-0.035**
11.1	Estate planning in the family business.	4.778	4.778		
11.2	Estate tax of the family business.	4.600	4.6		
11.3	Proprietary interest in the family business.	4.883	4.896	4.864	0.032
11.4	Equality and fairness of the will of the senior generation.	5.427	5.581	5.179	0.402
11.5	Retirement planning of the senior generation.	4.821	4.821		
11.6	Liquidity of the family business.	5.228	5.228		
12.	**Corporate governance of the family business.**	**4.865**	**4.963**	**4.707**	**0.256**
		5.165	**5.307**	**4.934**	**4.934**

5.2.3.1 Conclusions on harmony among family members

A challenge for the future success of family businesses may lie in the family's desire to avoid conflict in the interest of family harmony. A positive correlation between family harmony and

continuation of the family business exists. It is much easier when a family is in harmony (conflict is managed, communication among family members exists) to discuss succession and set up appropriate systems for preparing the next generation to take over. Often a family's ability to resolve its differences is obstructed by its conflict and communication patterns and poor communication.

It is important that family business managers understand the reasons for this conflict and consequences thereof. Prevention and management of conflict have been rated low (mean of 4.613) by inactive family members. Assumptions on possible reasons for the low score can be the fact that inactive members feel that the future vision of the family business are not clear (mean of 4.716) and that their individual needs and dreams are not acknowledged (mean of 4.557). Many authors regard conflict management as the most important managerial function and it can be concluded that it needs to be addressed.

Inactive family members are not satisfied with the degree of communication among all family members (mean of 4.018) and family members felt that establishing and maintaining communication forums have not been sufficiently addressed. Lack of communication and inadequate communication can be the downfall of any business and needs to be addressed.

5.2.3.2 Conclusions on performance measurement and compensation

Performance measurement and compensation received an overall low score from active family members. Although there is agreement that clear roles and responsibilities exist, performance measures (mean of 4.734), disciplinary procedures (mean of 4.299) and compensation policies (mean of 4.978) need to be addressed. A conclusion can be made that performance measurements are linked to disciplinary procedures and compensation policies do not exist in all cases and need to be developed and formally implemented by family businesses.

5.2.3.3 Conclusions on transfer of management to the younger generation

Succession is driven by the biological clock. The ages of the senior generation leaders (30% already 60 years and older) and of their designated successors (50% older than 30 years) determine the timing for succession. The transferring of the business' management to the younger generation (mean of 4.497), has been evaluated as low by the family members. From the data it is evident that formal management succession does not exist and that the date for transfer of management to the younger generation is not set, although suitable successors have been identified (**successful participation of the younger generation** (factor 6), *suitability of the prospective successor* (factor 10.3)). A conclusion can be made that formal management

succession and open communication about succession plans is a problem that needs to be addressed.

5.2.3.4 Conclusions on ownership succession

It is important that precautions be taken to ensure that the family business and not the government have control of the family business as it passes from generation to generation. Estate planning (mean of 4.778), estate tax (mean of 4.600), proprietary interests in the family business (mean of 4.883), and retirement planning (mean of 4.821), have not been sufficiently addressed. Recommendations to address these issues were discussed in Section 5.3. It can thus be concluded that these issues need attention for the successful transfer of the family business to the next generation.

5.2.3.5 Conclusions on corporate governance

A conclusion can be made that **corporate governance**, as was evaluated by active family members (mean of 4.963) and inactive family members (mean of 4.707), is not adequately addressed according to the responses received from the family businesses participants.

5.2.4 Conclusions on Cronbach alpha coefficient analysis

The Cronbach alpha analysis was used to evaluate the internal consistency between the variables (factors and sub-factors) in the questionnaire. A Cronbach alpha coefficient of 0.60 can be considered acceptable in basic exploratory research. Generally, the Cronbach alpha coefficient scores indicate high reliable (Cronbach alpha's more than 0.80) (refer Appendix C). Considering the results of the Cronbach analysis, as displayed in section 4.9, the Cronbach alpha coefficient of sub-factor 5.3 and sub-factor 7.3 can be increased by discarding variables A30 and A89 respectively. It can therefore be concluded that the Cronbach alpha coefficient calculation can be used to improve the consistency of variables in the measurement instrument.

5.2.5 Conclusions on effect size analysis

The purpose of the effect size analysis was to compare the data of different types of family businesses with each other. From the data displayed, it was clear that most (except for *commitment of the younger generation towards the family business – factor 5.4*) variables had *p*-values > 0.05 which indicate that the differences in means are not statistically significant.

Factor 5.4 has *p*-values < 0.05 that indicate statistical significance (the sample results can be generalised to the research population). The effect size calculation resulted in an effect size =>

0.8 for the comparison of type 1 (family businesses already exist more than one generations) to type 3 (sibling family businesses) businesses and for the comparison between type 2 to type 3 family businesses and indicate practical significance (large enough difference to have an effect in practice). It can therefore be concluded that *commitment of the younger generation towards the family business* is statistical (the sample results can be generalised to the research population) and of practical significance (large enough difference to have an effect in practice).

A general conclusion can be made that there are not many differences between the results of the different types of family businesses.

5.2.6 Conclusions on dependent t-test analysis

The purpose of the dependent t-test is to compare data between active and inactive family members.

Almost all factor / sub-factors have *p*-values < 0.05 that indicate statistical significance (the sample results can be generalised to the research population). The dependent t-test (d-value) calculation for most factors / sub-factors (refer Table 4.24) resulted in d => 0.8 which implies practical significance (large enough difference to have an effect in practice). It can therefore be concluded that:

- there are many differences between the results of active and inactive family members;
- most factors / sub-factors are statistically significant and can thus be generalised to the research population;
- most factors / sub-factors are of practical significance, a large enough difference exists between means to have an effect in practice.

5.3 RECOMMENDATIONS

The primary objective of the study is to present recommendations to family business role players on how to improve the factors that ensure long-term sustainability of family businesses.

The recommendations below are based on the analyses that were done and conclusions that were drawn from the information gathered from the literature study and empirical study and which proved not to be adequately addressed by the family businesses that participated in this study. The recommendations for this study follow:

- **Harmony among family members** with a specific focus on effective *communication* with inactive family members, establishing *communication forums* and the prevention and management of *conflict*, should be improved.

Communication is critical, especially with inactive members of the family business. To improve communication, it is recommended that:

- An atmosphere in which open discussion is welcomed and concerns can be voiced without blame being cast, should be fostered.
- Techniques to improve communication among family members could be: to learn to listen well, to avoid misinterpreting others, or being misinterpreted, to build and maintain trust, to regard disagreements as emotionally neutral, to communicate directly and make all levels of communication consistent with one another and to help others to build self-confidence.
- Communication should happen regularly and in a manner that the same consistent message is conveyed to all family members by using various communication methods, e-mail, distribution of monthly news letters or any other relevant publication to all members.
- All family members should be engaged in a communication training process that allows them to become more familiar with, and confident about being able to express their feeling and wants.

Establishment and maintaining of *communication forums* can play an important role for the successful continuation of the business as a family business. The purpose of a communication forum is to bring family members together so that members can focus on issues of mutual interest to them. To improve the functioning of communication forums, it is recommended that:

- Family forums are made more productive by removing personal issues from business discussions and by holding all meetings away from a work and home environment.
- Mechanisms for providing constructive feedback and *acknowledging the individual dreams and needs* of specifically inactive family members should be implemented to help inactive family members and non-family employees from feeling de-motivated and uninvolved.
- The *vision* of the family business is communicated to all family members, including inactive family members in order to gain overall understanding and support for the company's planned future direction.
- Communication forums are employed to deal with topics such as the uniqueness of family businesses, the interaction between the family and the business system, the reasons and consequences of conflict, succession planning and strategic management of the business.

Conflict can be disruptive to the harmony among family members and can also impact on the regular operation of the family business. To improve conflict in a family business, it is recommended that:

- Family executives need to understand the reasons for conflict in the family firm in order to pro-actively avoid / deal with conflict situations effectively.
- The Myers-Briggs Type Inventory tool could be used to help family members understand how to handle differences that are perceived as conflict.
- In-laws and the family business owner's spouse help resolve conflict to contribute to family harmony instead of disrupting it.
- Family members should be educated as to what the business needs are to reduce the opportunity for interpersonal conflict. Conflict that occurs can be resolved via the family forums.

- **Performance measurement and compensation** - family members may question or resent others' remuneration. To improve performance measurement and compensation, it is recommended that:
  - A highly qualified or experienced external advisor is recruited to assist with the establishment of compensation and disciplinary policies and procedures.
  - Consensus is built and an understanding of the overall benefits of the policies and procedures are gained by all family members
  - A well-defined performance evaluation system could be designed, based on the company's performance, and communicated and agreed among all active family members. The participation of non family members in the evaluation system is critical.
  - The family business compensation policies must be market related. Professional and independent consultants can also assist by doing salary surveys on behalf of the family firm. It is recommended that family members first work outside the family business to establish their fair market value.
  - Establish a family council to help families in answering questions regarding disputes that can arise over issues such as compensation, non-performance of family members, etc.

- **Transfer of management to the younger generation** is a critical step in the entire succession process. To improve transfer of management it is recommended that:
  - The successors should be introduced as early as possible and should be included in the formulation of corporate mission, vision and strategy.
  - Transfer of control of the family business should occur by the time that successors are between 35 and 45.
  - A family business succession transition team should be established, which includes family and non-family members to participate in the succession plan.

- **Ownership succession** - Estate planning, estate tax and retirement planning should be improved. To improve **estate planning** it is recommended that:
  - An estate planning process be implemented that includes the following steps: determine objectives, gather facts, realistically assess your situation; talk with competent advisors, start with the essentials, consider liquidity needs, consider lifetime planning techniques, project potential effects, educate and motivate your heirs, bring the family into the process, experiment with small doses and then start all over again, appoint an experienced advisor or non-executive director to the board to provide an impartial viewpoint and help prevent emotions from clouding business issues.
  - Estate planning should be done timeously to maximise the benefits that the family members can enjoy from proper planning. Consider techniques such as partnership interests, trusts and discounted share participation.
  - The existence of an estate plan is worthless if not implemented. Family members must be involved (understand and accept the estate plan) in the development and implementation of the estate plan.
  - The advice of professionals should be contracted to help with the whole estate planning process.

  To improve *estate tax impacts* it is recommended that:
  - Regular formal valuations of the company value are done to accurately predict estate taxes.
  - A life insurance trust must be established, with the assistance of an insurance professional or estate planning attorney, to minimize, or even eliminate, estate taxes. Expected life insurance proceeds must be evaluated regularly to ensure that it will cover potential estate taxes.

  To improve *retirement planning* it is recommended that:
  - The retirement of the owner must be planned independently from the family business by securing income (e.g. revenue from a property) separate from the family business.
  - Retirement planning should start timeously to enable the owners to be financially independent from the family business by the time they want to retire.

- **Corporate governance** - The importance of good **governance** of the business is often evident to the experienced business owner. To improve corporate governance it is recommended that:
  - Family businesses are to appoint outside board members or establish family councils, review councils, or advisory councils to ensure good corporate governance.
  - Design a family creed ("protocol") that provides the framework for outlining the basic values and beliefs of the family; it must indicate how the family and the business must be

governed and how major decisions will be made, conflicts will be resolved and it should also outlines the relationships of the different governing bodies.

- Family businesses play a major role in the economy of any country, employing 50% of the working population and have created the bulk of new jobs over the past two decades, as was noticed from the literature review. It is recommended that **entrepreneurial skills** be developed at all levels of our educational system (primary, secondary and tertiary levels). The uniqueness of family business can be specifically addressed in the entrepreneurship learning area that forms part of various study disciplines. Entrepreneurial activities must gain support from especially the government and financial institutions to take it to the next level in South Africa.

There is a bona fide opportunity for entrepreneurs and family businesses in South Africa. The challenge is for them to beat the odds and survival, this is possible with foresight and planning enabling family businesses to enjoy success.

5.4 CRITICAL EVALUATION OF THE STUDY

To determine the success of the study, it is important to determine if the primary and the secondary objectives, as set out in Chapter 1, were realised.

The **primary objective** of this study was to make recommendations on how to improve the factors that ensure long-term sustainability of family businesses. This objective was achieved as depicted through the conclusions and recommendations that were made in section 5.3 of this study.

The **secondary objectives** of the study were to:

- Determine what a family business is. This objective has been achieved by reviewing different opinions of authors in defining family businesses; a definition that summarises these opinions were formalised and used for purposes of this study as referred to in Chapter 2.
- Obtain insight regarding the factors that ensure long-term sustainability in family businesses by means of a literature study. This objective has been realised throughout the literature study, in Chapter 2 and 3.
- Obtain information regarding the factors that ensure long-term sustainability in family businesses by means of an empirical study. This objective has been realised throughout the empirical study, in Chapter 4.
- Determining the alignment of the measurement instrument that were used and the information obtained in the literature study. This objective has been realised by the fact that

all factors and sub-factors that were evaluated by the measurement instrument were addressed in the literature study (Chapter 2 and 3). The factors and sub-factors identified in the questionnaire were also highlighted in the literature study as important to ensure long-term sustainability of family businesses. The evaluation of the questionnaire against the literature review was also done through the comparison in Table 5.1.

- Analysing and evaluating the factors that ensure long-term sustainability in family businesses. This objective has been realised in Chapter 4.

5.5 RECOMMENDATIONS FOR FUTURE STUDIES

Research on family businesses in the United States and the United Kingdom are far more advanced than any research done on family businesses in South Africa. The following are some recommendations for future research studies:

- Forty-eight percent of family businesses in this study experienced only one leadership transition. It is possible that the factors ensuring success may differ as the family business is further removed from the founder. Further study could focus on success factors experienced by different generations.
- One cannot suggest that there are differences between family businesses managed by men and women. Future research could focus on comparing men and women's management style by examining a sample of businesses founded by men and by women respectively that operates in the same economic sector and is of the same size.
- There are still a lot that is not known about family businesses. It is worth pursuing whether culture itself affects family business management and the success of a family business. For example, Western researchers emphasize the importance of formal succession planning to ensure successful succession (Santiago, 2000). However, it appears that the high value placed on family unity and harmony by Filipino families allows for informal succession planning (Santiago, 2000). Whether this is possible for other cultures would be an interesting finding.
- So far, relatively little research has been carried out on family owned businesses in South Africa. Future research should aim to develop a comprehensive database from which probability samples can be drawn.
- Although existing research addresses the issues of leadership, succession and executive development, a significant gap in the literature remains. Few studies have systematically explored the systems by which the future leaders and successors of family businesses are developed.
- Black Economic Empowerment (BEE) has a key role to play in the post-apartheid transformation process. The impact of BEE on family businesses can also be considered for future research studies, specifically the impact on small and medium family businesses.

5.6 CONCLUSION

It is recommended that family business researchers and consultants connect with universities and other research institutes to form a **governing body** to act as a consultant agent to family business **across South Africa**. This recommended governing body must also collaborate with other sources of advice such as the convention of the SA Chamber of Business (Sacob) and the international Family Firm Institute that assist family firms by increasing the interdisciplinary skills and knowledge of family business advisors, educators, researchers and consultants.

5.7 SUMMARY

In this chapter, conclusions and recommendations were drawn based on the factors that ensure long-term sustainability of family businesses, as identified during the literature review study in Chapter 2 and 3 and the empirical study that was conducted in Chapter 4.

An empirical study was undertaken using 37 companies in the Sedibeng District of the Metsimaholo Municipality to participate in the study. Conclusions were drawn from the results of the empirical study.

A total of 174 active and inactive family members participated in the research study. Biographical factors such as relationship to the owner, age of the family members, sex, marital status, qualifications and percentage shareholding were analysed (Chapter 4) and conclusions were drawn.

The family business data that were gathered were analysed in Section 4.4 and conclusions were drawn regarding the number of permanent employees that are employed by the family business, the annual turnover, the focus area, the age of the business and legal status of the family business.

Conclusions based on the calculated mean and standard deviation of the factors ensuring success of family businesses were drawn. The Cronbach alpha analysis was used to evaluate the internal consistency between the variables (factors and sub-factors) in the questionnaire. It can therefore be concluded that the Cronbach Alpha coefficient calculation can be used to improve the consistency of variables in the measurement instrument.

The purpose of the effect size analysis was to compare the data of different types of family businesses with each other. A conclusion was made that there are not many differences between the results of different types of family businesses.

The purpose of the dependent t-test is to compare data between active and inactive family members. Conclusions that were made are:

- There are many differences between the results of active and inactive family members;
- Most factors / sub-factors are statistical significant and can thus be generalised to the research population;
- Most factors / sub-factors are practical significance, large enough difference exists between means to have an effect in practice.

Recommendations were drawn from issues that were identified during the literature study and confirmed during the empirical study. The recommendations are based on harmony among family members with specific reference to communication forums and the prevention and management of conflict, performance measurement and compensation, transfer of management to the younger generation, ownership planning with specific reference to estate planning, estate tax, proprietary interest and retirement planning, and good governance of the business.

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 factors that ensure long-term sustainability of family businesses by means of a literature study and an empirical study. The measurement instrument was tested against the literature review that was conducted and the analysis and evaluation of these factors were done in Chapter 4.

Finally, recommendations for future research studies were made. These recommendations include research that could focus on success factors experienced by different generations; that focus on comparing men and women's management style by examining a sample of businesses founded by men and by women respectively; to pursue whether culture itself affects family business management and the success of a family business; to systematically explore the systems by which the future leaders and successors of family businesses are developed; to determine the impact of BEE on family businesses can also be considered for future research studies, specifically the impact on small and medium family businesses.

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FAMILY BUSINESS DIAGNOSTIC QUESTIONNAIRE
(Fampro 3.1)

FAMILY MEMBERS EMPLOYED BY THE FAMILY BUSINESS
(ACTIVE FAMILY MEMBERS)

Family Businesses
Ensure your Future

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FAMILY BUSINESS DIAGNOSTIC QUESTIONNAIRE

Family businesses are unique in the sense that family interests have to be brought into balance with the business interests of the family business. Should the interaction between the interests of the family and the business not be managed efficiently, this may lead to a serious conflict of interest, which will be detrimental to the long-term survival of the family business.

This questionnaire is designed to collect information to measure the position of various aspects in a family business. It may form the basis for assisting the family business in the light of their very important role in the economy, to take corrective and proactive steps in order to be successful.

Feedback of the information will be given to the family in summarised form. Your answers will be dealt with in the utmost confidence. The value of the diagnosis depends on the honesty and open-heartedness with which you answer the questions.

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

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:

"All family members are kept informed about business matters."

and you feel that you agree, you will mark the number 6 **(6 = Agree)** as in the example:

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	All family members are kept informed about business matters.	1	2	3	4	5	6 ✕	7

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

Please complete the different sections of the questionnaire as follows:

	Section A	Section B	Section C	Section D	Section E
Senior generation executive manager	X	X	X	X	X
Family members employed by the business (active family members).	X	X	X	X	
Inactive family members (not employed by the business).	X			X	
In the case where younger generation family members are employed by the business and the transfer of management is planned in the future, Section C should be completed.			X		

Please read the full instructions and make sure that you complete the right sections. It is important that you complete all the questions in the relevant sections.

TERMINOLOGY

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

TERM	DEFINITION
Active family members	**Active family members** are family members who are **permanently** employed by the family business.
Estate duty	**Estate duty** is payable after the estate has been settled. One of the main aims of estate planning is to reduce estate duty.
Estate planning	The planning of the transfer of ownership is normally done by means of **estate planning**. The result of estate planning is the **estate plan**. The prescripts and the interpretation of the estate plan are normally contained in a will.
Family member	A **family member** for purposes of the 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).
Inactive family members	**Inactive family members** refer to family members **not in the service** of the business and could include spouses, children, in-law, brothers and sisters. They are often part of the family of the executive manager or play an important role in the lives of family-member employees, for example in-laws. These family members form an integral part of the family dynamics that play themselves out within and around the business. These make a family business unique.
Management succession	**Management succession** indicates the transfer of the executive management of the business from the current executive manager to a successor.
Management succession planning	**Management succession planning** is the process of making the necessary preparations to ensure harmony in the family and the continuity of the enterprise to the next generation. The result thereof is a **management succession plan**.
Ownership	**Ownership** refers to the terms used in various forms of enterprise to account for the interest of individuals in the business: shareholders' interest (company), members' interest (CC) and ownership capital (sole proprietorship and partnership).
Ownership succession	**Ownership succession** indicates the transfer of the shareholding or ownership interest of the business from the current owner(s) (senior generation family members, but may also include non-family members) to the younger generation or heirs.
Prospective successor	The **prospective successor** is that person or persons who have been identified or earmarked to take over the management of the business in the future.
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** of family members (children) in future.
Senior generation executive manager	The **senior generation executive manager** or Chief Executive Officer (**CEO**) is the person responsible for the management of the family business. It is normally the person who established the business or who is the owner. Sometimes a management team manages the business, i.e. more than one executive manager.
Successor	The **successor** is the person to whom the management of the enterprise will be transferred from the person who established the business or from the current manager. There may be more than one successor (business managed by a management team).
Younger generation family member	The **younger generation family member** refers to a younger generation family member (children) who is **permanently** employed by the family business.

SECTION A

All family members must complete this section. This includes active family members (employed by the business) and inactive family members (not employed).

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	All family members are kept informed about business matters.	1	2	3	4	5	6	7
A2	The communication between family members is constructive.	1	2	3	4	5	6	7
A3	When conflict arises between family members it is dealt with quickly / immediately.	1	2	3	4	5	6	7
A4	The inactive family members have opportunities to share their expectations of the family business with other family members.	1	2	3	4	5	6	7
A5	The wills of the senior generation family members provide for the unique needs of each heir.	1	2	3	4	5	6	7
A6	Family members trust each other.	1	2	3	4	5	6	7
A7	A forum exists where differences of opinion between family members can be discussed and resolved openly.	1	2	3	4	5	6	7
A8	The younger generation family members have a strong desire to take over the family business in the future.	1	2	3	4	5	6	7
A9	A policy which clearly stating who may own equity (ownership capital, shares, members' interest) in the family business, exists.	1	2	3	4	5	6	7
A10	There is rarely conflict between family members.	1	2	3	4	5	6	7
A11	The family has established the necessary policies and procedures (financial reporting, labour relations, conservation of the environment) to ensure sound governance.	1	2	3	4	5	6	7
A12	The senior generation family members are committed to the continuation of the business as a family business in the future.	1	2	3	4	5	6	7
A13	The senior generation family members have fair wills for the active as well as the inactive family members of the younger generation.	1	2	3	4	5	6	7
A14	Family members get along well.	1	2	3	4	5	6	7
A15	All family members know what is planned for the family business.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A16	There is good communication between family members.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A17	The senior generation family members have communicated to the family their intentions to keep or sell the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A18	The wills of the senior generation family members are fair towards the younger generation family members that are active in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A19	The younger generation family members are committed to the continuation of the business as a family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A20	Family members meet regularly to discuss matters of mutual interest.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A21	The family has procedures in place to pro-actively avoid conflict.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A22	The family established corporate governance bodies (advisory board, family forum) to ensure corporate governance.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A23	Family members support each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A24	The inactive family members know what the active family members' plans with the family business are.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A25	All family members are familiar with the future vision of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A26	Differences of opinion between family members rarely lead to serious conflict.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A27	Family members communicate openly with each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A28	The family creates opportunities to discuss the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A29	Differences of opinion between family members are discussed openly.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A30	The senior generation family members never threaten to stop the family business in the future.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A31	The family creates opportunities for individual family members to share their dreams, fears and needs with each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A32	The wills of the senior generation family members meet the requirements of equality and fairness.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A33	Family members respect each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A34	Family members understand each other's views.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A35	Inactive family members rarely interfere in operational business matters.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A36	The family hold family meetings to discuss family and business matters.	**1**	**2**	**3**	**4**	**5**	**6**	**7**

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A37	Family members are close.	1	2	3	4	5	6	7
A38	Family members have a mutually acceptable method to convert into money their proprietary interest in the family business.	1	2	3	4	5	6	7
A39	The family (active as well as inactive family members) agree on what they want from the family business.	1	2	3	4	5	6	7
A40	The younger generation family members are committed to the continuation of the business as a family business.	1	2	3	4	5	6	7
A41	Family members hold meetings to discuss matters.	1	2	3	4	5	6	7
A42	The family members often discuss the future role and involvement of the family in the family business.	1	2	3	4	5	6	7
A43	A written policy exists on the way in which equity in the family business can be transferred from one family member to another.	1	2	3	4	5	6	7
A44	Family members listen to each other's opinions.	1	2	3	4	5	6	7
A45	There are enough opportunities to address the accountability of the family business towards the owners (members, share holders).	1	2	3	4	5	6	7
A46	Family members rarely have serious differences of opinion.	1	2	3	4	5	6	7
A47	Conflict between family members is resolved effectively.	1	2	3	4	5	6	7
A48	The senior generation family members would like the younger generation family members to take over the family business from them in the future.	1	2	3	4	5	6	7
A49	Family members care about each other's well-being.	1	2	3	4	5	6	7
A50	The challenges of the family business and future plans are discussed openly by the family.	1	2	3	4	5	6	7
A51	The family has a family forum that meets to communicate about family and business matters.	1	2	3	4	5	6	7
A52	The younger generation family members are willing to make significant sacrifices to make the family business a success.	1	2	3	4	5	6	7
A53	The wills of the senior generation family members are fair towards the younger generation family members that are inactive in (not in the service of) the family business.	1	2	3	4	5	6	7

SECTION B

All active family members (employed by the business) must complete this section.

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
B1	When conflict arises between family members in the family business, it is dealt with quickly.	1	2	3	4	5	6	7
B2	Family members in the family business have clear roles and responsibilities.	1	2	3	4	5	6	7
B3	Sufficient retirement packages are available to the senior generation family members in the family business.	1	2	3	4	5	6	7
B4	The family holds work meetings to discuss business matters.	1	2	3	4	5	6	7
B5	A clear separation between business and family matters exists in the workplace.	1	2	3	4	5	6	7
B6	The family business will be financially secure after the retirement of the senior generation family members.	1	2	3	4	5	6	7
B7	Written decisions exist about the distribution of the family assets and ownership to the younger generation after retirement of the senior generation family members.	1	2	3	4	5	6	7
B8	The work performance of family members in the family business is evaluated regularly.	1	2	3	4	5	6	7
B9	The senior and younger family members give recognition about inputs and abilities to each other.	1	2	3	4	5	6	7
B10	Family members in the family business are compensated at levels consistent with the standards of the industry.	1	2	3	4	5	6	7
B11	A forum exists where differences of opinion between family members in the family business can be discussed and resolved openly.	1	2	3	4	5	6	7
B12	Business decisions do not benefit the family at the expense of the business.	1	2	3	4	5	6	7
B13	The capital gains tax to be paid by the family business when senior generation family members pass away was determined.	1	2	3	4	5	6	7
B14	The goals of the estate plan are known to the family.	1	2	3	4	5	6	7
B15	The senior generation family members have determined their expected current and future lifestyle expenditures.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
B16	There are no serious differences of opinions between family members in the family business.	1	2	3	4	5	6	7
B17	There is mutual trust between the younger generation family members in the family business.	1	2	3	4	5	6	7
B18	Family members in the business air their views about the family business openly.	1	2	3	4	5	6	7
B19	The estate plan addresses future claims against the estate (e.g. previous marriages, minor children).	1	2	3	4	5	6	7
B20	Sufficient capital will be available to successfully manage the family business after the retirement of the senior generation family members.	1	2	3	4	5	6	7
B21	The senior and younger generation family members in the family business trust each other.	1	2	3	4	5	6	7
B22	The younger generation family members cooperate as a team in the workplace.	1	2	3	4	5	6	7
B23	The work performance of family members in the family business is regularly compared with their critical performance areas.	1	2	3	4	5	6	7
B24	The senior generation family members have signed wills which were reviewed and updated during the past two years.	1	2	3	4	5	6	7
B25	The family members in the family business have policies and procedures in place to pro-actively handles conflict.	1	2	3	4	5	6	7
B26	Sufficient provision was made so that the senior generation family members will be financially secure after retirement.	1	2	3	4	5	6	7
B27	The estate plan addresses the implications of the current and the heir's future form of enterprise.	1	2	3	4	5	6	7
B28	The younger generation family members in the family business support each other.	1	2	3	4	5	6	7
B29	There is open communication between family members in the family business.	1	2	3	4	5	6	7
B30	The work performance of family members in the family business is regularly compared with previously determined objectives.	1	2	3	4	5	6	7
B31	Family members in the family business meet to discuss business matters.	1	2	3	4	5	6	7
B32	Clear ground rules exist for disciplinary action against family members.	1	2	3	4	5	6	7
B33	The senior and younger generation family members in the family business cooperate well as a team.	1	2	3	4	5	6	7
B34	Family members in the family business know what is expected of them in the work situation.	1	2	3	4	5	6	7
B35	The senior generation family members will not be	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	financially dependent on the family business after retirement.							
B36	The senior generation family members have written estate plans that meet the unique needs of the family business.	1	2	3	4	5	6	7
B37	The family is informed about and is prepared for the impact of capital gains tax on the family business when senior generation family members pass away.	1	2	3	4	5	6	7
B38	Family members in the business create opportunities to discuss the family business.	1	2	3	4	5	6	7
B39	The younger generation family members rarely argue at work.	1	2	3	4	5	6	7
B40	The financial retirement needs of the senior generation family members should not put the family business under financial strain.	1	2	3	4	5	6	7
B41	There is a direct link between the amount of responsibility and compensation in the family business.	1	2	3	4	5	6	7
B42	The senior and younger generation family members in the family business respect each other.	1	2	3	4	5	6	7
B43	It is rarely necessary for the senior generation family members to intervene in order to resolve conflict between the younger generation family members in the family business.	1	2	3	4	5	6	7
B44	Family members in the family business know who to report to.	1	2	3	4	5	6	7
B45	A clear policy exists regarding actions to be taken should a family member in the family business under perform.	1	2	3	4	5	6	7
B46	The family business has a clear bonus and profit-sharing policy in place.	1	2	3	4	5	6	7
B47	The family business is managed on a basis of "business first".	1	2	3	4	5	6	7
B48	Family members in the family business respect each other's opinions.	1	2	3	4	5	6	7
B49	Differences of opinion between family members in the family business are discussed openly.	1	2	3	4	5	6	7
B50	The estate plan provides in case of disability of the senior generation family members.	1	2	3	4	5	6	7
B51	The retirement programme of the family business is adequately funded.	1	2	3	4	5	6	7
B52	The liquidity of the estate when senior generation family members pass away was determined.	1	2	3	4	5	6	7
B53	The family knows what to do if a family member has to be disciplined.	1	2	3	4	5	6	7
B54	Formal job descriptions for family members exist in	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	the family business.							
B55	Family skeletons and secrets do not have an impact on the success of the family business.	1	2	3	4	5	6	7
B56	The estate tax to be paid by the family business when senior generation family members pass away was determined.	1	2	3	4	5	6	7
B57	The family business has a financial system in place that ensures the financial independence of its retirees.	1	2	3	4	5	6	7
B58	The compensation to individual family members is reasonable compared to the salaries of other family members.	1	2	3	4	5	6	7
B59	Provision was made in the estate plan for threats such as divorce, matrimonial property system and insolvency.	1	2	3	4	5	6	7
B60	The senior and younger generation family members in the family business support each other.	1	2	3	4	5	6	7
B61	There is rarely serious conflict between family members in the family business.	1	2	3	4	5	6	7
B62	The younger generation family members recognise each other's successes in the family business.	1	2	3	4	5	6	7
B63	The family business is characterised by little conflict between family members.	1	2	3	4	5	6	7
B64	Family members are compensated according to their contribution to the business and not according to age or gender.	1	2	3	4	5	6	7
B65	The family is informed about and is prepared for the financial impact that estate tax may have on the family business when senior generation family members pass away.	1	2	3	4	5	6	7
B66	Certain family members in the family business are not favoured at the expense of other employees (either family or non-family members).	1	2	3	4	5	6	7
B67	The communication between family members in the family business is constructive.	1	2	3	4	5	6	7
B68	Conflict between family members in the family business is resolved effectively.	1	2	3	4	5	6	7
B69	A clear policy exists regarding actions to be taken if a family member in the family business habitually acts in an irresponsible way.	1	2	3	4	5	6	7
B70	The estate plan meets the requirements to minimise estate tax.	1	2	3	4	5	6	7
B71	The existing capital available to the senior generation family members will generate the income and cash flow to meet their expenditure requirements for the remainder of their lifetimes.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
B72	The younger generation family members appreciate each other.	1	2	3	4	5	6	7
B73	There is a direct link between work performance and compensation.	1	2	3	4	5	6	7
B74	Family members involved in the family business get regular feedback on their work performance.	1	2	3	4	5	6	7
B75	Family members in the family business meet to discuss matters of mutual interest.	1	2	3	4	5	6	7
B76	The family business has a transparent compensation policy.	1	2	3	4	5	6	7
B77	The senior and younger generation family members in the family business appreciate each other.	1	2	3	4	5	6	7
B78	The family does not make emotional business decisions in favour of the family, but at the expense of the sustainability of the family business.	1	2	3	4	5	6	7
B79	The senior generation family members have done estate planning in addition to their own basic wills.	1	2	3	4	5	6	7
B80	Differences of opinion between family members in the work situation rarely lead to serious conflict.	1	2	3	4	5	6	7
B81	Every family member knows for which area of the family business he or she is responsible.	1	2	3	4	5	6	7
B82	The senior and younger generation family members recognise each other's successes in the family business.	1	2	3	4	5	6	7

SECTION C

All active family members (employed by the business) must complete this section.

Take note: In cases where no family members of the younger generation is employed by the family business (active members), you don't have to complete this section - no transfer of management is envisaged for the next 10-15 years.

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
C1	The prospective successor(s) possess(es) the necessary skills to ensure the success of the family business after succession.	1	2	3	4	5	6	7
C2	The family business provides opportunities for the younger generation family member to grow and develop.	1	2	3	4	5	6	7
C3	The senior generation family members are actively mentoring the younger generation family member.	1	2	3	4	5	6	7
C4	The younger generation family member attends courses and seminars to better equip him / her for the family business.	1	2	3	4	5	6	7
C5	The younger generation family member is passionate about the family business.	1	2	3	4	5	6	7
C6	The criteria for the selection of the successor(s) have been identified.	1	2	3	4	5	6	7
C7	It is expected that the family business will perform equally well after succession.	1	2	3	4	5	6	7
C8	The senior generation executive management of the family business is currently not experiencing any physical or psychological problems.	1	2	3	4	5	6	7
C9	The senior generation family members listen to and consider new ideas from the younger generation family member.	1	2	3	4	5	6	7
C10	The younger generation family member adds more value to the business than what he / she costs the family business.	1	2	3	4	5	6	7
C11	The senior generation family members have faith in the ability of the younger generation family member to run the family business independently.	1	2	3	4	5	6	7
C12	The younger generation family member has the necessary skills to do his / her work well.	1	2	3	4	5	6	7
C13	The senior generation family members encourage the younger generation family member to attend training courses and seminars.	1	2	3	4	5	6	7
C14	There is no deterioration in the performance of the family business (finances, market share, contracts,	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	quality) during the past number of years.							
C15	The younger generation family member seizes opportunities to develop his / her skills.	1	2	3	4	5	6	7
C16	The time scale, according to which management succession will take place, is planned.	1	2	3	4	5	6	7
C17	The younger generation family member maintains a network to support or advise him / her.	1	2	3	4	5	6	7
C18	A well thought-out process is followed to select the most suitable successor(s) for the family business.	1	2	3	4	5	6	7
C19	The senior generation executive manager feels increasingly that his / her direct involvement in the family business is not essential for its survival.	1	2	3	4	5	6	7
C20	The family business provides opportunities for the younger generation family member to use his / her particular skills and abilities.	1	2	3	4	5	6	7
C21	The younger generation family member has acquired a good knowledge base of the family business.	1	2	3	4	5	6	7
C22	The business expanded significantly after the younger generation family member's entry into the family business.	1	2	3	4	5	6	7
C23	The family planned for management succession.	1	2	3	4	5	6	7
C24	The prospective successor(s) has / have the necessary leadership skills to manage the family business after the transfer of management.	1	2	3	4	5	6	7
C25	The senior generation family members include the younger generation family member in key meetings with suppliers, customers and advisors.	1	2	3	4	5	6	7
C26	The date for transfer of management has been scheduled and announced.	1	2	3	4	5	6	7
C27	It is expected that it will be possible to maintain the existing contracts and client base after succession.	1	2	3	4	5	6	7
C28	The younger generation family member adds significant value to the family business.	1	2	3	4	5	6	7
C29	The younger generation family member has an academic qualification that better equips him / her to make a success of the family business.	1	2	3	4	5	6	7
C30	The senior generation executive manager is willing to delegate authority to younger family members.	1	2	3	4	5	6	7
C31	The younger generation family member is very happy to be working in the family business.	1	2	3	4	5	6	7
C32	The younger generation family member knows what the required skills, experience and knowledge are to be successful in his / her particular job.	1	2	3	4	5	6	7
C33	The younger generation family member has acquired relevant outside experience that better equips him / her to make a success of the family	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	business.							
C34	The younger generation family member is able to realise his / her full potential in the family business.	1	2	3	4	5	6	7
C35	The younger generation family member is a businessman to the core.	1	2	3	4	5	6	7
C36	It is expected that all family members will support the successor(s) once the leadership has been transferred to him / her.	1	2	3	4	5	6	7
C37	The family business provides opportunities for the younger generation family member to fulfil his / her personal and career goals.	1	2	3	4	5	6	7
C38	The younger generation family member has the ability to influence the strategic direction of the family business.	1	2	3	4	5	6	7
C39	The career requirements and interests of the younger generation family member are suited to the opportunities within the family business.	1	2	3	4	5	6	7
C40	The senior generation executive manager will be financially secure after his / her retirement.	1	2	3	4	5	6	7
C41	The younger generation family member is eager to learn and is receptive.	1	2	3	4	5	6	7
C42	The younger generation family member's interests and career requirements are suited to the opportunities offered by the family business.	1	2	3	4	5	6	7
C43	The senior generation executive manager talks with other business men who are also in the process of transferring management of their family business to the younger family members.	1	2	3	4	5	6	7
C44	The prospective successor(s) believe(s) in his / her ability to successfully manage the family business.	1	2	3	4	5	6	7
C45	The younger generation family member's entry into the business did not put financial pressure on the family business.	1	2	3	4	5	6	7
C46	The family business functions well when senior generation family members are away for long periods of time.	1	2	3	4	5	6	7
C47	The prospective successor(s) possess(es) the knowledge and experience needed to ensure the success of the family business after succession.	1	2	3	4	5	6	7
C48	The younger generation family member has an advice network to better equip himself / herself for the challenges of the family business.	1	2	3	4	5	6	7
C49	The senior generation executive manager will be willing to relinquish control of the family business.	1	2	3	4	5	6	7
C50	The family has a plan in place to ensure smooth management succession.	1	2	3	4	5	6	7
C51	The younger generation family member finds it	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
	exciting to work in the family business.							
C52	It is expected that family relationships will remain good after succession.	1	2	3	4	5	6	7
C53	The younger generation family member has sufficient training to do his / her work well.	1	2	3	4	5	6	7
C54	The senior generation family members have faith in the ability of the younger generation family member to run the family business independently.	1	2	3	4	5	6	7
C65	The younger generation family member has built up an active network of fellow business men and other experts to support him / her.	1	2	3	4	5	6	7
C55	The senior generation executive management definitely kept up with modern business methods.	1	2	3	4	5	6	7
C56	The younger generation family member prefers to work in the family business (although he / she has other career options available).	1	2	3	4	5	6	7
C57	We established a formal mechanism (committee, work team) to lead the management succession process.	1	2	3	4	5	6	7
C58	The senior generation executive management listens to new innovative ideas to improve the family business.	1	2	3	4	5	6	7
C59	There is an active attempt to prepare the younger generation family member to manage the family business in the future.	1	2	3	4	5	6	7
C60	The senior generation executive manager has passionate interests outside the family business to fill his / her time after retirement (hobbies, sport, and other interests).	1	2	3	4	5	6	7
C61	The senior generation family members encourage the younger generation family member to participate in making important decisions.	1	2	3	4	5	6	7
C62	The performance of the family business is due to the leadership of the senior generation executive manager.	1	2	3	4	5	6	7
C63	There is a good fit between the skills and knowledge of the prospective successor(s) and what is needed for the family business to succeed.	1	2	3	4	5	6	7
C64	The family has developed criteria to evaluate the work performance of the new executive manager (after succession).	1	2	3	4	5	6	7
C65	The younger generation family member has built up an active network of fellow business men and other experts to support him / her.	1	2	3	4	5	6	7
C66	The family has selected (a) successor(s) to take over the management of the family business.	1	2	3	4	5	6	7
C67	The younger generation family member is actively busy to qualify himself / herself.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
C68	The younger generation family member has, over time, acquired credibility in the family business.	1	2	3	4	5	6	7
C69	The family knows which criteria must be satisfied by the prospective successor(s) to ensure the success of the family business after succession.	1	2	3	4	5	6	7
C70	The younger generation family member has acquired enough experience (at all levels) in the family business to be successful.	1	2	3	4	5	6	7
C71	The business explored new income streams after the younger generation family member's entry into the family business.	1	2	3	4	5	6	7
C72	The family business offers the younger generation family member good job security.	1	2	3	4	5	6	7
C73	The younger generation family member has a good sense of the family business.	1	2	3	4	5	6	7
C74	The senior generation executive manager is involved in activities outside the context of the family business.	1	2	3	4	5	6	7
C75	The younger generation family member avails himself of opportunities to grow and develop.	1	2	3	4	5	6	7
C76	The senior generation executive management adapts easily to change.	1	2	3	4	5	6	7
C77	The senior generation family members encourage the younger generation family member to air his / her views whenever he / she does not agree with a decision.	1	2	3	4	5	6	7
C78	The younger generation family member is consulted when decisions are made that affect him / her in the family business.	1	2	3	4	5	6	7
C79	The family knows when and how management transition will take place.	1	2	3	4	5	6	7
C80	Plans exist for management succession in the event of the untimely death of the senior generation executive manager.	1	2	3	4	5	6	7
C81	The younger generation family member has sufficient knowledge and experience to do his / her work well.	1	2	3	4	5	6	7
C82	The younger generation family member has a choice to work in the family business or not.	1	2	3	4	5	6	7
C83	A policy exists to actively unlock the younger generation family member's leadership potential.	1	2	3	4	5	6	7
C84	It is expected that the employees of the family business will support the successor(s) once the leadership has been transferred to him / her.	1	2	3	4	5	6	7
C85	There is a personal and leadership development plan in place to train and develop the younger generation family member.	1	2	3	4	5	6	7

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
C86	The choice of successor(s) was communicated to key interest groups.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C87	The senior generation executive manager feels that the younger family members are capable of managing the family business after his / her retirement.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C88	The senior generation family members can count on the younger generation family member to complete tasks successfully.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C89	The younger generation family member has a non-family member (outside or inside the family business) as mentor.	**1**	**2**	**3**	**4**	**5**	**6**	**7**

SECTION D

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.

Take note: This section should be completed by all the family members – these include family member employees (active family members) and family members not employed by the business (inactive family members).

Mark the applicable block with a cross (X).

Complete the applicable information.

P1	***In which age group do you fall?***	≤ 29	30 - 39	40 - 49	50 - 59	60+

P2	***What is your sex?***	Male	Female

P3	***What is your marital status?***	Single	Married	Divorce	Widow(er)

P4	***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:		

P5	**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	

P6	**State other jobs / careers before you entered the family business (if applicable)**
	Specify

P7	**Percentage shares you own in the business?**	%

SECTION E

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

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

E1	How many permanent employees are employed by the family business?							
	1-4	5-10	11-26	26-50	51-100	101-200	201-500	500+

E2	What is the turnover of the family business per year?					
	< R 1.0 m	R 1–R 2.5 m	R 2.5–R 10 m	R 10– 50 m	R 50–R 100 m	> R 100 m

E3	In which industry does the business operates?				
	Automotive	Agriculture	Farming	Construction	Food
	Real estate	Retail	Wholesale	Manufacturing	Services
	Other: (Specify):				

E4	What is the age of the business (years)?
	Specify:

E5	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 - STATISTICAL TERMINOLOGY

TERM	DEFINITION
Population	A population relates to the entire set of data or the complete set of measurements in a particular problem (Wisniewski, 2002:100), (Scheaffer & McClave, 1982:2).
Sample	A sample is a representative part / subset of the population containing those measurements actually obtained by experiment (Wisniewski, 2002:96), (Scheaffer & McClave, 1982:2).
Mean	The sample (also called arithmetic mean) is the most commonly used average or measure of central tendency. It is calculated by summing all the observations in a batch of data and then dividing the total by the number of items involved (Wisniewski, 2002:96).
Standard deviation	The standard deviation can be defined as the square root of the variance, where the variance is the average of the squared differences between each observation and the sample mean, divided by the number of observations minus one (Wisniewski, 2002:96), (Scheaffer & McClave, 1982:2).
Cronbach analysis	To assess the soundness of the measuring instrument that was used the internal consistency between the variables in the questionnaire were evaluated.
Hypothesis	Hypothesis testing is required to determine whether the patterns visible in a sample also exist in the population at large. When a hypothesis test pronounces a sample pattern as significant, it is most likely that this pattern also exists in the population at large (Page and Meyer, 2000:166).

APPENDIX C - CRONBACH ALPHA COEFFICIENTS

Table C.1: Cronbach alpha coefficients

	Factors and sub-factors	Cronbach Alpha Coefficient
1.	**Separation of family and business matters.**	**0.856563**
2.	**Family harmony among all family members.**	
2.1	Degree of family harmony among all family members.	0.894050
2.2	Degree of communication among all family members.	0.862492
2.3	Establishing and maintaining communication forums.	0.887033
2.4	Degree of conflict among all family members.	0.740263
2.5	Prevention and management of conflict among all family members.	0.866830
3.	**Family harmony among the active family members.**	
3.1	Relationships among the active, younger generation family members.	0.890039
3.2	Relationship between the active senior and younger generation.	0.907461
3.3	Communication among the active family members in the family business.	0.828754
3.4	Establishing and maintaining communication forums.	0.897938
3.5	Degree of conflict among the active family members.	0.915490
3.6	Prevention and management of conflict among the active family members.	0.880283
4.	**Performance measurement and compensation of the family members.**	
4.1	Clear roles and responsibilities in the family business.	0.777263
4.2	Performance measurement of the family members.	0.874552
4.3	Disciplinary procedures for the family members.	0.913978
4.4	Compensation policy for the family members.	0.854822
5.	**Continuation of the business as a family business.**	
5.1	A clear future vision for the family business.	0.790571
5.2	Acknowledgement of individual needs and dreams of all family members.	0.758359
5.3	Commitment of the senior generation to the continuity of the family business.	0.653789
5.4	Commitment of the younger generation towards the family business.	0.853253
6.	**Successful participation of the younger generation.**	
6.1	The younger generation has good business sense.	0.866945
6.2	The younger generation can add value to the family business.	0.907771
6.3	Voluntary and happy participation by the younger generation.	0.888968
6.4	Credibility of the younger generation in the family business.	0.902763
6.5	Building and maintaining of a network by the younger generation.	0.897470
6.6	Degree of self-empowerment by the younger generation.	0.829908
7.	**Development of the young successor.**	
7.1	Competence of the successor.	0.826683
7.2	Formal training and development of the successor.	0.831046
7.3	Mentorship of the successor.	0.274071
7.4	Participatory management by the successor.	0.913810
7.5	Realising the full potential of the successor.	0.863908
8.	**Factors that necessitate succession.**	**0.761624**
9.	**Executive manager's readiness for succession.**	**0.838054**
10.	**Management succession.**	
10.1	Management succession planning.	0.862405
10.2	Selection criteria of the successor.	0.834256
10.3	Suitability of the prospective successor(s).	0.908447
10.4	Transfer of management to the younger generation.	0.877405
10.5	The success / stability of the family business after succession.	0.835946
11.	**Ownership succession.**	
11.1	Estate planning in the family business.	0.915133
11.2	Estate tax of the family business.	0.906597
11.3	Proprietary interest in the family business.	0.659872
11.4	Equality and fairness of the will of the senior generation.	0.857531
11.5	Retirement planning of the senior generation.	0.889220
11.6	Liquidity of the family business.	0.811495
12.	**Corporate governance of the family business.**	**0.733476**

APPENDIX D - MEAN AND STANDARD DEVIATIONS

Table D.1: Mean and standard deviation factor results from all family members

	Factors and subfactors	n	Mean	Standard deviation
1.	**Separation of family and business matters.**	107	5.517	1.134
2.	**Family harmony between all family members.**	174	5.199	1.036
2.1	Degree of family harmony between all family members.	174	6.027	0.967
2.2	Degree of communication between all family members.	174	5.378	1.171
2.3	Establishing and maintaining communication forums.	174	4.604	1.375
2.4	Degree of conflict between all family members.	174	5.063	1.239
2.5	Prevention and management of conflict between all family members.	174	4.925	1.314
3.	**Family harmony between the active family members.**	107	5.380	1.034
3.1	Relationships between the active, younger generation family members.	107	5.309	1.137
3.2	Relationship between the active senior and younger generation.	107	5.729	1.080
3.3	Communication between the active family members in the family business.	107	5.727	1.080
3.4	Establishing and maintaining communication forums.	107	5.051	1.390
3.5	Degree of conflict between the active family members.	107	5.375	1.393
3.6	Prevention and management of conflict between the active family members.	107	5.088	1.356
4.	**Performance measurement and compensation of the family members.**	107	4.905	1.224
4.1	Clear roles and responsibilities in the family business.	107	5.609	0.996
4.2	Performance measurement of the family members.	107	4.734	1.525
4.3	Disciplinary procedures for the family members.	107	4.299	1.673
4.4	Compensation policy for the family members.	107	4.978	1.254
5.	**Continuation of the business as a famliy business.**	174	5.291	0.951
5.1	A clear future vision for the family businesss.	174	5.132	1.245
5.2	Acknowledgement of individual needs and dreams of all family members.	174	4.803	1.282
5.3	Commitment of the senior generation towards the continuity of the family business.	174	5.832	0.928
5.4	Commitment of the younger generation towards the family business.	174	5.397	1.279
6.	**Successful participation of the younger generation.**	77	5.647	1.049
6.1	The younger generation has good business sense.	77	5.969	0.930
6.2	The younger generation can add value to the family bussiness.	77	5.623	1.270
6.3	Voluntary and happy participation by the younger generation.	77	5.801	0.939
6.4	Credibility of the younger generation in the family business.	77	5.714	1.122
6.5	Building and maintaining of a network by the youinger generation.	77	5.277	1.456
6.6	Degree of self-empowerment by the younger generation.	77	5.496	1.085
7.	**Development of the young successor.**	77	5.574	0.903
7.1	Competence of the successor.	77	5.777	0.961
7.2	Formal training and development of the successor.	77	5.420	1.133
7.3	Mentorship of the successor.	77	5.219	1.001
7.4	Participatory management by the successor.	77	5.711	1.133
7.5	Realising the full potential of the successor.	77	5.744	1.054
8.	**Factors that necessitate succession.**	77	5.732	0.879
9.	**Executive manager's readiness for succession.**	77	5.437	0.978
10.	**Management succession.**	77	5.369	1.036
10.1	Management succession planning.	77	4.981	1.409
10.2	Selection criteria of the successor.	77	5.528	1.248
10.3	Suitability of the prospective successor(s).	77	5.844	1.065
10.4	Transfer of management to the younger generation.	77	4.497	1.395
10.5	The success / stability of the family business after succession.	77	5.997	0.792
11.	**Ownership succession.**	174	5.000	1.049
11.1	Estate planning in the family business.	107	4.778	1.315
11.2	Estate tax of the family business.	107	4.600	1.461
11.3	Proprietary interest in the family business.	174	4.883	1.324
11.4	Equality and fairness of the will of the senior generation.	174	5.427	1.092
11.5	Retiremement planning of the senior generation.	107	4.821	1.318
11.6	Liquidity of the family business.	107	5.228	1.217
12.	**Corporate governance of the family business.**	174	4.865	1.257
		174	**5.165**	**0.895**

Table D.2: Mean and standard deviation factor results from all active family members

	Factors and sub-factors	n	Mean	Standard deviation
1.	**Separation of family and business matters.**	107	5.517	1.134
2.	**Family harmony among all family members.**	107	5.379	1.038
2.1	Degree of family harmony among all family members.	107	6.154	0.907
2.2	Degree of communication among all family members.	107	5.557	1.156
2.3	Establishing and maintaining communication forums.	107	4.965	1.327
2.4	Degree of conflict among all family members.	107	5.101	1.235
2.5	Prevention and management of conflict among all family members.	107	5.117	1.317
3.	**Family harmony among the active family members.**	107	5.38	1.034
3.1	Relationships among the active, younger generation family members.	107	5.309	1.137
3.2	Relationship between the active senior and younger generation.	107	5.729	1.08
3.3	Communication among the active family members in the family business.	107	5.727	1.08
3.4	Establishing and maintaining communication forums.	107	5.051	1.39
3.5	Degree of conflict among the active family members.	107	5.375	1.393
3.6	Prevention and management of conflict among the active family members.	107	5.088	1.356
4.	**Performance measurement and compensation of the family members.**	107	4.905	1.224
4.1	Clear roles and responsibilities in the family business.	107	5.609	0.996
4.2	Performance measurement of the family members.	107	4.734	1.525
4.3	Disciplinary procedures for the family members.	107	4.299	1.673
4.4	Compensation policy for the family members.	107	4.978	1.254
5.	**Continuation of the business as a family business.**	107	5.408	0.969
5.1	A clear future vision for the family businesses.	107	5.388	1.194
5.2	Acknowledgement of individual needs and dreams of all family members.	107	4.956	1.292
5.3	Commitment of the senior generation to the continuity of the family business.	107	5.885	0.957
5.4	Commitment of the younger generation towards the family business.	107	5.404	1.308
6.	**Successful participation of the younger generation.**	77	5.647	1.049
6.1	The younger generation has good business sense.	77	5.969	0.93
6.2	The younger generation can add value to the family business.	77	5.623	1.27
6.3	Voluntary and happy participation by the younger generation.	77	5.801	0.939
6.4	Credibility of the younger generation in the family business.	77	5.714	1.122
6.5	Building and maintaining of a network by the younger generation.	77	5.277	1.456
6.6	Degree of self-empowerment by the younger generation.	77	5.496	1.085
7.	**Development of the young successor.**	77	5.574	0.903
7.1	Competence of the successor.	77	5.777	0.961
7.2	Formal training and development of the successor.	77	5.42	1.133
7.3	Mentorship of the successor.	77	5.219	1.001
7.4	Participatory management by the successor.	77	5.711	1.133
7.5	Realising the full potential of the successor.	77	5.744	1.054
8.	**Factors that necessitate succession.**	77	5.732	0.879
9.	**Executive manager's readiness for succession.**	77	5.437	0.978
10.	**Management succession.**	77	5.369	1.036
10.1	Management succession planning.	77	4.981	1.409
10.2	Selection criteria of the successor.	77	5.528	1.248
10.3	Suitability of the prospective successor(s).	77	5.844	1.065
10.4	Transfer of management to the younger generation.	77	4.497	1.395
10.5	The success / stability of the family business after succession.	77	5.997	0.792
11.	**Ownership succession.**	107	4.986	1.09
11.1	Estate planning in the family business.	107	4.778	1.315
11.2	Estate tax of the family business.	106	4.6	1.461
11.3	Proprietary interest in the family business.	107	4.896	1.402
11.4	Equality and fairness of the will of the senior generation.	107	5.581	1.075
11.5	Retirement planning of the senior generation.	107	4.821	1.318
11.6	Liquidity of the family business.	107	5.228	1.217
12.	**Corporate governance of the family business.**	107	4.963	1.346
		107	**5.307**	**0.903**

APPENDIX E - CATEGORISATION OF BUSINESSES

Categorisation of micro, small and medium businesses, as defined by the National Small Business Act (Act No. 26 of 2003: National Small Business Amendment Act, 2003), is summarised in Table E.1.

Table E.1: Categorisation of micro, small and medium enterprises

Industry	CATEGORISATION	TOTAL NUMBER OF FULLTIME EMPLOYEES	TOTAL ANNUAL TURNOVER (in million)
Retail and motor trade and repair services	Medium	200	R 39.0
	Small	50	R 19.0
	Very small	20	R 4.0
	Micro	5	R 0.2
Finance and business services (services and real estate)	Medium	200	R 26.0
	Small	50	R 13.0
	Very small	20	R 3.0
	Micro	5	R 0.2
Catering, accommodation and other trade (food)	Medium	200	R 13.0
	Small	50	R 6.0
	Very small	20	R 5.1
	Micro	5	R 0.2
Construction	Medium	200	R 26.0
	Small	50	R 6.0
	Very small	20	R 3.0
	Micro	5	R 0.2
Transport	Medium	200	R 26.0
	Small	50	R 13.0
	Very small	20	R 3.0
	Micro	5	R 0.2
Wholesale, commercial agents and allied services	Medium	200	R 64.0
	Small	50	R 32.0
	Very small	20	R 6.0
	Micro	5	R 0.2
Manufacturing	Medium	200	R 51.0
	Small	50	R 13.0
	Very small	20	R 5.0
	Micro	5	R 0.2
Agriculture	Medium	100	R 5.0
	Small	50	R 3.0
	Very small	10	R 0.5
	Micro	5	R 0.2

APPENDIX F - EFFECT SIZE ANALYSIS

The results of the effect size that were calculated are displayed in Table F.1

Table F.1: Results obtained from effect size calculations

Variable	Analysis of Variance (FamiliesMean) Marked effects are significant at p < .05000							
	SS Effect	df Effect	MS Effect	SS Error	df Error	MS Error	F	p
Faktor1	0.31479	2	0.157395	30.12204	34	0.885942	0.177658	0.838001
Faktor2	1.10950	2	0.554751	16.30014	34	0.479416	1.157140	0.326456
Sub21	0.55332	2	0.276662	12.06523	34	0.354860	0.779636	0.466598
Sub22	1.79493	2	0.897465	21.44149	34	0.630632	1.423120	0.254951
Sub23	1.04653	2	0.523264	25.43606	34	0.748120	0.699439	0.503872
Sub24	0.47325	2	0.236624	29.65899	34	0.872323	0.271257	0.764055
Sub25	2.74499	2	1.372497	25.12860	34	0.739076	1.857044	0.171625
Faktor3	0.20435	2	0.102176	20.88253	34	0.614192	0.166358	0.847428
Sub31	2.13458	2	1.067292	25.12821	34	0.739065	1.444111	0.250064
Sub32	2.49643	2	1.248215	25.79868	34	0.758785	1.645020	0.208000
Sub33	0.30217	2	0.151087	17.46058	34	0.513547	0.294203	0.747003
Sub34	1.62096	2	0.810478	52.23570	34	1.536344	0.527537	0.594808
Sub35	0.10873	2	0.054367	33.46572	34	0.984286	0.055235	0.946347
Sub36	2.49978	2	1.249892	36.41977	34	1.071170	1.166848	0.323503
Faktor4	2.17168	2	1.085842	37.15548	34	1.092808	0.993625	0.380728
Sub41	0.02483	2	0.012413	20.10689	34	0.591379	0.020991	0.979241
Sub42	5.67151	2	2.835756	57.02126	34	1.677096	1.690873	0.199493
Sub43	6.04858	2	3.024290	66.79540	34	1.964571	1.539415	0.229086
Sub44	1.78374	2	0.891868	37.24827	34	1.095537	0.814091	0.451491
Faktor5	0.24503	2	0.122514	14.67174	34	0.431522	0.283912	0.754600
Sub51	1.99479	2	0.997395	22.53334	34	0.662745	1.504945	0.236450
Sub52	2.46852	2	1.234262	26.30531	34	0.773685	1.595302	0.217659
Sub53	1.58145	2	0.790725	14.27212	34	0.419768	1.883719	0.167550
Sub54	12.02235	2	6.011176	24.55092	34	0.722086	8.324739	0.001141
Faktor11	1.03516	2	0.517578	17.96672	34	0.528433	0.979457	0.385860
Sub111	4.37160	2	2.185799	47.22811	34	1.389062	1.573579	0.222027
Sub112	4.07050	2	2.035251	61.57586	34	1.811055	1.123793	0.336819
Sub113	1.69563	2	0.847816	30.61850	34	0.900544	0.941449	0.399995
Sub114	0.85304	2	0.426522	13.47463	34	0.396313	1.076226	0.352208
Sub115	7.96015	2	3.980073	44.95870	34	1.322315	3.009929	0.062583
Sub116	2.39001	2	1.195004	31.28740	34	0.920218	1.298610	0.286104
Faktor12	0.26617	2	0.133083	18.62164	34	0.547695	0.242987	0.785632
Totaal	0.36031	2	0.180153	12.31692	34	0.362262	0.497300	0.612526