

**AN ASSESSMENT OF HARMONIOUS FAMILY
RELATIONSHIPS IN SMALL AND MEDIUM-SIZED
FAMILY BUSINESSES**

SHAWN VAN DER WESTHUIZEN

12303674

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Supervisor: Dr SP van der Merwe

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ABSTRACT

Family businesses are fast becoming the dominant form of business enterprise in both developing and developed economies. Family businesses are also being recognised as a potential driver of economic growth and wealth creation in the world. Family businesses in particular, have been making a positive contribution towards the South African economy for the last 300 years.

Definitions based on the components of family involvement such as management, ownership, governance, and succession, are easy to operationalise. Unfortunately, they cannot distinguish between two firms with the same level of family involvement when one considers itself a family business and the other does not. Therefore, there is a need to develop a definition that captures the essence of the family business and, as such, may be used to distinguish the family business, in theory, research, and practice.

The primary objective of this study was to empirically explore and evaluate the determinants of harmonious family relationships and family businesses in small and medium-sized family businesses.

The empirical study was conducted by means of a field study using a structured questionnaire. The reliability of the questionnaire was determined by calculating the Cronbach alpha coefficient of the constructs. The purpose of the literature review was to align the determinants of family harmony in family businesses according to a structured questionnaire developed by Prof. Elmarie Venter (NMMU), Dr. Shelly Farrington (Van Eeden) (NMMU) and Dr. Stephan van der Merwe (NWU).

Data from 109 respondents linked to 27 family businesses were collected and analysed. The results indicate that a significant proportion of the variation in harmonious family relationships was explained by communication and how to manage and avoid conflict, through drawing up family constitutions as well as family forums.

A possible total of 54 family businesses were identified and a total of 252 questionnaires (161 active members and 91 inactive members) were handed out to family businesses restricted to Gauteng, Free State and the North West province areas.

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CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

A family business is a business governed and managed with the intention of shaping and pursuing the vision of the business held by a dominant coalition controlled by members of the same family in a manner that is potentially sustainable across generations (Chua, Chrisman & Sharma, 1999:25).

Even though the family business is the most prevalent form of business throughout the world (Upton & Petty, 2000:28; Kim, Kandemir & Cavusgil, 2003:12; Heck, Upton, Bellet, Dunn & Parady, 1994:2), it has received comparatively little attention from researchers (Litz, 1979:55). Family businesses are even more important in emerging market economies (Kim *et al.*, 2003:5).

According to Van der Merwe (1998:3), family businesses have been making a positive contribution towards the South African economy for the last 300 years. For instance, approximately 80% of businesses in South Africa could be classified as family businesses, and these businesses comprise 60% of the companies listed on the Johannesburg Stock Exchange (Ackerman, 2001:325). Venter (2003) adds that, even by the most conservative estimates, family owned or managed businesses are between 65% and 90% of the registered businesses (also refer to IFERA., 2000); Sharma, Chua & Chrisman, 2000:234; Gersick, Davis, McCollom Hampton & Lansberg, 1997).

The objective of this study is to gain insight in the dynamics of family harmony in small and *medium-sized* family businesses. For the purpose of this study, family harmony among family members are characterised by a high level of trust, mutual support, care for one another, closeness, mutual respect, the understanding of others' views, and a willingness to acknowledge others' achievements (Handler, 1989a; Neubauer & Lank, 1998:142; Seymore, 1993: 268).

The problem statement, objectives of the study, scope of the study, research methodology, layout of the study as well as the limitations of the study will be discussed in this chapter.

1.2 IMPORTANCE OF FAMILY BUSINESSES

Family businesses worldwide are contributing increasingly to the economic activity in their respective countries. Table 1.1 provides an overview of the economic contributions and proportions of family businesses to total businesses, worldwide. As is indicated in Table 1.1, about 96% of businesses in the United States of America (USA) are family businesses, while in that country these businesses contribute as much as 40% to the Gross National Product (GNP) (Timmons & Spinelli, 2007).

Given the importance of family businesses to the economic and social development, their lack of longevity is, however, a cause for concern. It has been estimated that, internationally, only 30% of family businesses survive to the second generation; few of them (estimated 14%) make it beyond the third generation (Bjuggren & Sund, 2001:12; Matthews, Moore & Fialko, 1999:159). Smaller family businesses are especially vulnerable as they generally survive only 5 to 10 years (Pericone, Earle & Taplin, 2001:108).

Table 1.1: Family businesses representation and contribution towards international GNP

Country	Percentage family businesses	Gross National Product
Brazil	90%	63%
Chile	75%	50-70%
USA	96%	40%
Belgium	70%	55%
Finland	80%	40-50%
France	>60%	>60%
Germany	60%	55%
Italy	93%	
The Netherlands	74%	54%
Poland	80%	35%
Portugal	70%	60%
Spain	79%	
UK	70%	
Australia	75%	50%
India		65%

Source: Timmons & Spinelli, 2007:18

One of the common prejudices of family businesses is that they are only small and medium-sized enterprises (SMEs). Empirical research has found that family businesses are pervasive: they comprise over 90% of all businesses, provide 40 to 50% of all jobs, create over 78% of all new jobs and generate up to 60% of GNP (Anon., 2003:237).

One third of Fortune 500 companies are family owned and, in Italy, for example, family controlled businesses comprise 50% of the top 100 companies. Family owned firms are one of the foundations of the world's business community. Its creation, growth and longevity are critical to the success of the global economy (Havenga, 2007:52.)

In South Africa the pattern is no different. Some of the largest and best-known companies are, or were, family owned. Think of Anglo American, the leading mining house, Pick 'n Pay, the leading retail firm, McCarthy Motor Holdings, the largest motor company, and the Altron group, as some examples of companies who started off as a family owned company and still have a family influence of some kind (Maas, Van der Merwe & Venter, 2005:8).

1.3 PROBLEM STATEMENT

The importance of family harmony to the future success of the business is well established (DeNoble, Ehrlich & Singh, 2007:129). Living and working effectively in harmony is a phenomenon few would declare undesirable. For most of our lives, "our family" is the most important element of our lives, yet most family business research have failed to recognise family harmony as a variable for perceived good governance (Neubauer & Lank, 1998; Dyer, 2006:253).

Maas *et al.* (2005:52) emphasise the importance of the roles of family businesses in the South African economy. Astrachan and McMillan (2003:1) make no secret of the fact that history is filled with instances of family businesses that failed to survive to the next generation because family members could not resolve their differences or communicate successfully with each other. Conflict and the failure of communication contribute significantly to the failure of many business-owning families (Ibrahim & Ellis, 2004), Astrachan & McMillan, 2003:21, 53; Aronoff, Astrachan & Ward, 2002:57; Carlock & Ward, 2001:73).

Van der Merwe (1998:4) also stresses the importance of family businesses in South Africa as they have been contributing to the South African economy for over 300 years. With the economic challenges and high unemployment figures, people have been forced to start their

own businesses or to enter into an existing family business (Maas *et al.*, 2005:6). It is therefore important to ensure the long-term sustainability of family businesses in South Africa.

Dascher and Jens (1999:3) argue that the long-term sustainability of family businesses could be a taxing challenge. It is therefore evident that although many authors such as Venter, Boshoff and Sharma claim that open communication and conflict resolution skills, were noted to be of the most important determinants of ensuring family harmony within a family business, there are other critical determinants that are necessary to really obtain family harmony (Venter & Boshoff, 2006:19; Sharma, 1997:61). Thirteen determinants will collectively be included in this study to determine and to distinguish how these determinants should be applied in order to obtain and maintain family harmony, therefore ensuring the long-term sustainability of a family business.

The official definition for 'harmony' in the *Webster's dictionary* is 'pleasing or congruent arrangement of parts', a systematic arrangement of parallel literary passages (as of the Gospels) for the purpose of showing agreement or harmony. All family members will need to work actively together and the determinants that will be discussed should be used as a guide to obtain this harmony.

1.4 OBJECTIVES OF THE STUDY

1.4.1 Primary objective

The primary objective of this study is to empirically explore various determinants of harmonious family relationships in 27 independent small and medium-sized family businesses in South Africa.

1.4.2 Secondary objectives

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

- To gain insight into the dynamics of family businesses by means of a literature study.
- To assess the determinants of family harmony in small and medium-sized family businesses.
- To assess the reliability of the questionnaire.
- To examine the relationship between the demographical variables and the constructs measuring family harmony.

- To suggest practical recommendations to improve harmonious relationships within families involved in family businesses.

1.5 SCOPE OF THE STUDY

The scope of the study containing the field of the study and the geographical demarcation of the study is the following:

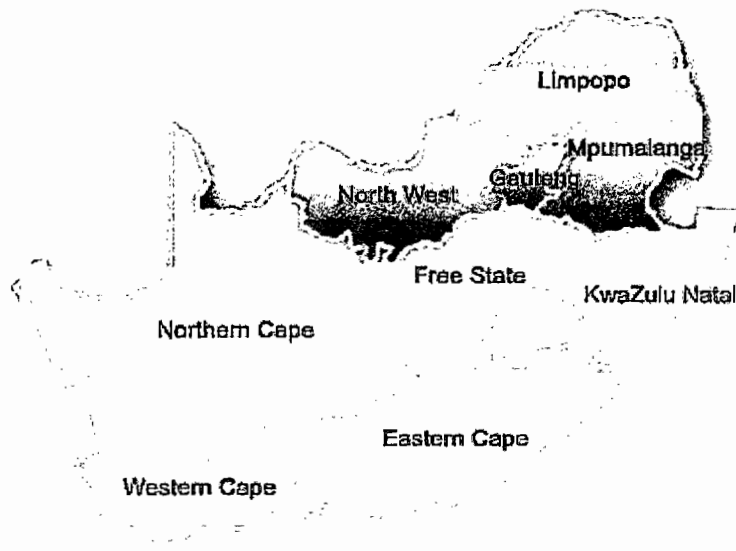
1.5.1 Field of the study

The study falls within the frontier of entrepreneurship with specific reference to family businesses. This study attempts to explore the intricate relationship and unique aspects of family business environments against the added challenges of family harmony within small and medium-sized family businesses.

1.5.2 Geographical demarcation of the study

The geographical area of this study will include 27 family businesses within South Africa, restricted to Gauteng, Free State and the North West provinces of South Africa (refer to figure 1.1: Map of South Africa).

Figure 1.1: Map of South Africa – Regions include Gauteng, Free State and the North West provinces of South Africa



Source: Anon

1.6 RESEARCH METHODOLOGY

The research was conducted using different methodologies, specifically, a literature review and empirical study. The approaches are discussed in more detail below.

1.6.1 Literature review

The purpose of the literature review is to gain insight into the unique challenges of family businesses and to understand the contribution and the roles that various pre-identified determinants can play in achieving family harmony between family members. This has been carried out in an attempt to ensure the long-term sustainability through family harmony of family-owned businesses in South Africa.

This literature review was researched from academic journals, dissertations, books and the Internet.

The literature review in chapter 2 includes an introduction, followed by a definition of a family business, the dynamics of family businesses including the advantages and disadvantages of

family businesses. Family harmony (dependent variable) followed by the determinants of family harmony (independent variables) will be discussed. These independent variables include, fairness, open communication, mutual trust and respect, conflict between family members, family commitment, the division of labour, leadership, governance, non-active family members, non-family members and the senior generation of family members as well as various other determinants which play a vital role in obtaining family harmony in a family business.

1.6.2. Empirical study

According to the *Reader's Digest Oxford dictionary* (1993:480), the meaning of **empirical** is:

- Based on or acting on observation or experiment, not on theory.
- Regarding sense-data as valid information.

The term empirical means simply what belongs to or is the product of experience or observation. The empirical study consists of the following topics:

1.6.2.1. Development and construction of the questionnaire

To a large extent, the method utilised in research or questionnaires will depend on the researcher's orientation and approach towards the engagement of the family businesses. Structured means such as a 'questionnaire' may be utilised immediately as it allows for the capturing of specific information to be handled. Research is the process of looking for a specific answer to a specific question in an organised, objective and reliable way, which is often used in the form of a questionnaire (Payton, 1979:4). The questionnaire will be used as a form of quantitative data.

The order in which the items are presented in the questionnaires has an effect on the response to the questionnaire (Babbie & Mouton, 2001:237)

- A good introduction or welcome message will encourage people to complete questionnaires.
- The questionnaire should start with a small introduction telling the respondents the objective of the questionnaire and clear instructions about how to complete it.
- As part of the introduction the reason for the research should be stated.
- The questionnaire should be uncluttered and spread out.
- It is better to have a clear and structured questionnaire in several pages than a tightly packed one, which is difficult to read.
- A clear format is required for the respondents to record their answers.
- Provide instructions to guide the respondent into completing the questionnaire in order to minimise sources of conflict and frustration.
- The questionnaire must encourage the respondents to complete the survey by being easy and pleasant to answer.
- Difficult or sensitive questions should be avoided until the end of the questionnaire.

Questionnaires with close-ended questions would be ideal, if the problem is well defined (Babbie & Mouton, 2001:237). Based on the literature research, thirteen independent variables which could be used to assess family harmony were identified (Farrington, 2009; Venter, 2003; Sharma, 1997; Slaughter, 2008). These independent variables are:

- Open communication
- Family commitment
- Financial performance

- Leadership
- Personal needs alignment
- Conflict resolution
- Governance
- Mutual trust and respect
- Active and non-active family members
- Non-family members
- Fairness
- Division of labour
- Senior generation of family members

Demographic information included whether the family members are active or inactive, age group classification, gender, marital status, relationship to the senior generation owner-managers and shareholding percentages were also collected. Information on the business structure of the participating family businesses that was collected included how many permanent employees were employed, the annual turnover of the family business, the specific type of industry, how long they have been trading as a family business as well as the generation of family members managing the business. (Babbie & Mouton, 2001:237).

The measuring questionnaire used in this study assesses independent variables with 96 questions on the basis of a 7-point Likert type scale ranging from Strongly Disagree (1) to Strongly Agree (7).

1.6.2.2. The study population

The target population of this study was compiled from 54 identified small and medium-sized family businesses in South Africa restricted to Gauteng, Free State and the North West provinces. It was decided to use a convenience sample, by means of a snowball sampling technique (Page & Meyer, 2000:100), since no formal database for such small and medium-sized family businesses in these areas existed. This data should be considered as generated from a small study population for which statistical inference and *p-values* are not relevant (Ellis & Steyn, 2003:51; Van der Merwe & Ellis, 2007:27).

To generate a list of family businesses, various well known business people were contacted in the designated areas. These business people were contacted to confirm that they are indeed

family businesses and that they were willing to participate in the study. Out of the 54 contacted family businesses 27 indicated their willingness to participate.

Once the questionnaires have been returned, each individual family business questionnaire was analysed separately, and a final interpretation were documented as to how to go about obtaining family harmony within a family business.

1.6.2.3. Data collection

Once the design of the questionnaire has been finalised and a suitable and confirmed sampling strategy determined, the process can continue towards the next level, which will be the data collection process. It is during this stage that the questionnaires are actually administered (Frazer & Lawley, 2000:10). A lack of co-operation may result into problems like incomplete questionnaires, minimal responses or unreliable results based on the mentioned factors

The techniques to distribute and complete the questionnaires were as follows; e-mail or facsimile, personal delivery of questionnaires, followed up by telephone calls, telephone interviews or one-to-one interviews (Neuman, 1997:251-263; Bless & Higson-Smith, 1995:12; Du Plooy, 1995:109-124). A major challenge was to persuade the family members of all the identified family businesses, including the current employees, inactive and retired family members, as well as the family members of higher management with time constraints to complete the questionnaire.

Each questionnaire was sent with a cover letter that guaranteed the confidentiality of the information captured in the questionnaire as well as the reasoning behind the research with confirmation of student status. Data may be collected either manually or electronically. It is during this stage that the questionnaires are actually administered (Frazer & Lawley; 2000:10; Slaughter, 2008:11). Most results or observations are recorded manually on forms customized to collect specific information.

1.6.2.4. The statistical analysis

The data collected was statistically analysed, using Statistica (Statsoft, 2008) and SPSS (SPSS, 2005). The reliability of the questionnaire was assessed by calculating Cronbach alpha coefficients. Thereafter, the constructs measuring family harmony were assessed by means of descriptive statistics. The correlation between the dependent and independent variable was also

assessed by calculating Pearson's correlation coefficients. The relationship between the demographical variables and the constructs measuring family harmony was explored by means of independent t-tests and effect sizes.

1.7 LIMITATIONS OF THE STUDY

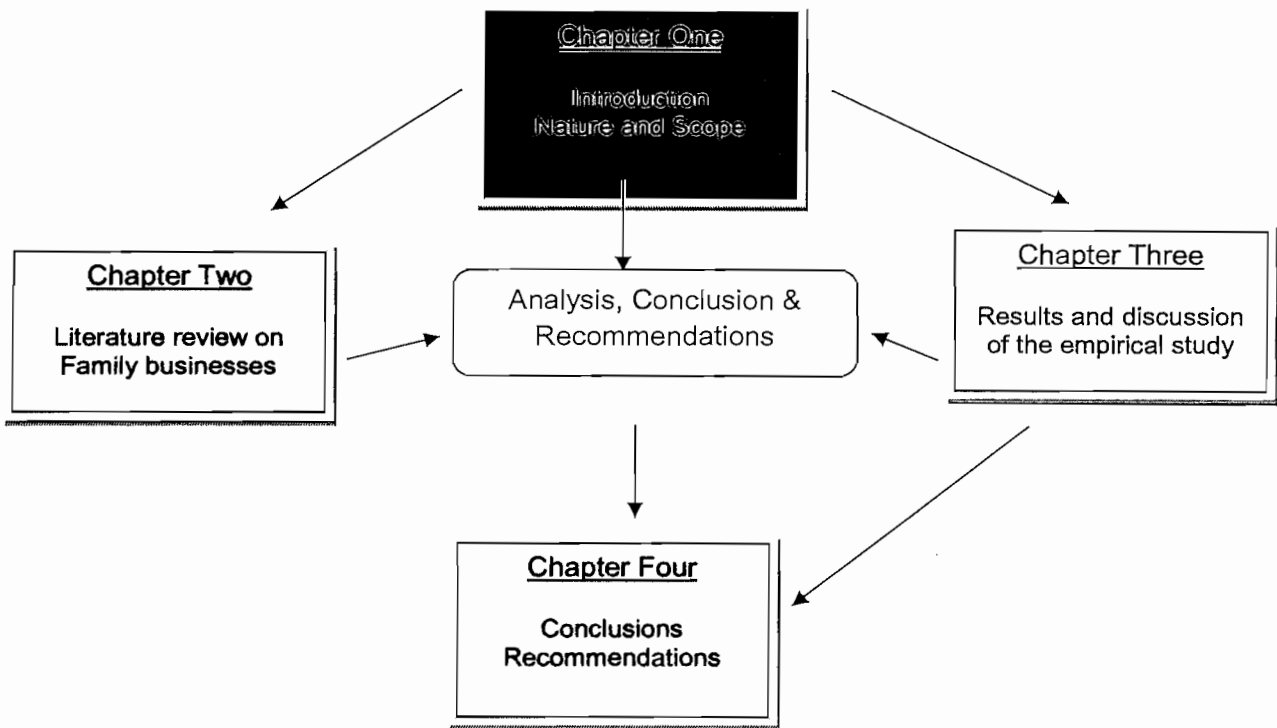
It is important to critically evaluate the results of the whole study. The present study has certain limitations that need to be taken into account when considering the study and its contributions. The quality of the research should be recognized but still noted that some of these limitations can be seen as fruitful avenues for future research under the same theme:

- This study is based upon research that is specific to only 27 family businesses spread across South Africa where approximately 80% of businesses in South Africa could be classified as family businesses (Ackerman, 2001) Therefore, research on 27 family businesses cannot be an accurate representation of 80% of South African family based businesses.
- This study cannot be accepted as an overall reflection of family businesses in South Africa. Care should, therefore, be exercised in the interpretation and utilisation of the results as well as realising that its findings cannot be generalised to all small and medium-sized families, but can well be used for research for future use or as a small step towards enhancing our understanding of these specific family relationships.
- A family business is described as an emotionally driven dynamic system with certain patterns of behaviour, whilst the business system is task based and operationally driven; therefore, family members may interpret the questionnaires differently leading to inaccurate feedback from members completing the questionnaire.
- The turnaround time in receiving the completed questionnaires could possibly delay the research due to the geographical scale of the distribution of the questionnaires.
- The focus was based on the family, the ownership and business systems. The operational aspects of the business were ignored for the purpose of the study.

1.8 LAYOUT OF THE STUDY

The layout of this study is presented in Figure 1.2 below. This study consists of four chapters and the layout can be summarised as follows.

Figure 1.2: Layout of the study



Chapter two consists of a comprehensive literature review that formed the basis of the empirical study. Topics to be discussed include an introduction, definition of family businesses, uniqueness of family businesses, advantages and disadvantages of family businesses, family harmony and the factors influencing family harmony. The chapter ends with a description of certain determinants of family harmony.

Chapter three comprises a discussion of the process to construct the questionnaire, the study population, the gathering of the data and the presentation and discussion of the results of the empirical study.

Chapter four includes the conclusions based on the literature review and the empirical study, practical recommendations to ensure family harmony in family businesses, a discussion of the achievement of the objectives of this study, and suggestions for future research.

CHAPTER 2

LITERATURE REVIEW OF FAMILY BUSINESSES

“Running something in which one has a personal stake certainly creates a greater feeling of independence. Moreover, the narcissistic pleasure should not be underestimated. There is something to be said for seeing one’s name on the building, particularly if it is a well-known brand name and part of your family heritage.”

Professor Nancy Bowman-Upton

2.1 INTRODUCTION

In order for any business venture, partnership, and especially a family business to be successful, you need to build and maintain a strong, reliable and responsible team. It is particularly important for all the family and non-family members to be able to work harmoniously together. In this chapter, family business is defined, followed by a discussion of the determinants of family harmony. This chapter will be concluded by a discussion of the perceived future continuity of family businesses (Steier, 2001:353).

Family businesses comprise the great majority of business enterprises in Great Britain (Leach, 1994; Cromie, Stephenson & Monteith, 1995:11), the United States of America (Dyer, 1988:222, Ward & Sorenson, 1987:46); Australia (Reed, 1989:12) and many other parts of the world. Indeed Kotkin (1992) argues that in China, Japan and India the family is the business, which has been proven through extensive research. Family firms also play a huge role in the development of countries like India (Basu, 2000:4-7). Family firms can be defined in several ways (Ward, 1987:266; Kirchoff & Kirchoff, 1987:25; Litz, 1995:75). The coexistence of family values and needs alongside business necessities can create significant differences between family and non-family businesses, since family and business objectives are often incompatible (Friedman, 1998).

In South Africa, it is estimated that more than 80% of all businesses have family ownership involvement, and more than 60% of all listed companies in South Africa comprise family involvement (Ackerman, 2001; Van der Merwe & Ellis, 2007:24) at least during its start-up phase (Dickinson, 2000; Venter, 2003).

Family businesses represent a substantial part of the existing businesses in South Africa; therefore, family businesses have a significant role to play in the strength and dynamics of the South African economy. The problem is that in family businesses, arguing is a global phenomenon (Astrachan & McMillan, 2003:5); and this can be seen as one of the main reasons why family businesses that are financially successful, deteriorate. Therefore, it is evident that a family should be able to communicate harmoniously through all levels of involvement within the business in order to solve problems and reduce legal disputes that will lead to splitting up the family business, causing financial implications, dividing assets and thus having an impact on the future continuity of the family business.

While the research into the definition of a family business is in its early development stages, family business research is becoming increasingly empirical and more rigorous (Bird, Welsch, Astrachan & Pistrui, 2002:337). Much time and devotion is being assigned to the empirical research of family businesses, and, most importantly, a look into the family harmony within a family business.

In this chapter, family businesses are defined, followed by research done on the uniqueness, advantages and disadvantages of a family business, and research done on family harmony and the determinants of family harmony. This chapter will be concluded by a discussion of the perceived future continuity of the family business.

2.2 DEFINING A FAMILY BUSINESS

The broadest and most common definition of a family business could be when an individual or a group has ownership and significant commitments towards the business's overall well-being. Family businesses may have owners who are not family members and family businesses may also be managed by individuals who are not members of the family (Shanker & Astrachan, 1996:9).

Sharma (2004:3) believes that several efforts have been made to obtain a clear theoretical and operational definition of a family business.

Family involvement in the business is what makes the family business different. Handler (1989b:261) interprets family involvement as ownership and management. Researchers have re-examined existing definitions and have attempted, on numerous occasions, to combine their thoughts and anticipate other, more relevant definitions for family businesses.

Part of the challenge regarding the definition of family business is that it is multidimensional in nature (Litz, 1995:75). Thus, it is difficult to pinpoint any one characteristic. However, there do appear to be cumulative effects such that the more characteristics present, the more 'family-oriented' the company is likely to be in its objectives, strategies, tactics and corporate culture. For this reason, several researchers have proposed researched definitions based on multiple criteria, to replace the 'broad versus narrow' paradigm (Litz, 1995:75).

Two major types of family businesses, such as single generation and cross-generational, have been distinguished by Aronoff *et al.* (2002:2). The challenges of the single controlling owner include getting capital and choosing an ownership structure for the next generation. The challenges of the sibling partnership, however, include developing a process for shared control among owners, defining the role of non-employed owners, and retaining capital. A single generation business can be twofold when the founder entrepreneur invites other family members of the same generation into ownership or management of the business (Jaffe, 1991:27). The cross-generational type of family business is where two or more relatives of the same generation start a business. Jaffe (1991:27) furthers that a cross-generational family business usually arises later in a business life cycle, when the founding generation has grown the business to a point where it can accommodate the next generation.

It can be commonly confirmed or accepted that the family dimension, the business and the ownership are intertwined and run by family members. Family businesses can be very diverse and can be categorised as small, medium-sized or large family businesses, listed or unlisted organisations, franchises or even international corporations. Once again, whether utilising a broad or narrow definition of family business, it has been researched that family businesses comprise a very significant proportion of business throughout the world (Birley & Godfrey; 1999:599).

Shanker and Astrachan (1996:107) note that the criteria used to define a family business can include:

- Percentage of ownership;
- Voting control;
- Power over strategic decisions;
- Involvement of multiple generations; and
- Active management of family members.

They also argue that a broad definition of a family business should include a degree of control over strategic decisions by the active family members with the intention to leave the business in the family (Shanker & Astrachan, 1996:107). In an effort to resolve the definitional uncertainty surrounding family business research, Litz's (1995:71) definition of family firms was found to be useful. He argues that a family firm is a business in which ownership and management are concentrated and combined in a family unit; individual family members must strive to achieve, maintain, and/or increase intra-organisational family based relatedness.

In the absence of a general agreement on what defines a family business, research in the field often relies on a number of operational definitions of family business, like those used in the 1997 and 2003 *Australian Private and Family Business Surveys* (Smyrniotis *et al.*, 2003:121). The utilisation of differing operational definitions by different researchers often makes it difficult or impossible to compare different family business studies.

One reason that there are still definitional issues in family business studies is that the field itself is still relatively new (Sharma, 2004:7; Litz, 1979:55). The words 'family business' only occasionally appeared in the literature before the 1980s. It was not until the year 1988 that the first journal devoted to family business studies, the *Family Business Review*, was published (Astrachan, 2003:570). Reviews of family business definitions can be found in other recent publications (Astrachan, Klein & Smyrniotis, 2002:39).

For the purpose of this study, the definition of Ibrahim and Ellis (2004:5) has been adopted. They argue that at least 51% of the business is owned by a single family; at least two family members are involved in the management or operational activities in the business; and the transfer of leadership to next generation family members is anticipated (Van der Merwe & Ellis, 2007:25).

The South African National Small Business Act 102 of 1996 as well as the National Small Business Amendment Act (29/2004:2) classifies micro, very small, small and medium-sized businesses that employ less than 200 full time equivalent of paid family employees.

The focus for this study is based around small and medium-sized family businesses as defined in the South African National Acts and family business definitions above.

2.3 THE UNIQUENESS OF FAMILY BUSINESSES

According to Jawitz (in Havenga, 2007:53), a typical family business consists of three important elements: the shareholders, the managers and the family. One person may be involved in all three or be involved in only one element. This may become a very complicated relationship with a variety of motivating or driving forces. Understanding how these unique dynamics impact on the family and the business are absolutely critical. What must be realised is that it is a business and that you should run the organisation as a business. However, it is a different type of business and you should take cognisance of the different dynamics (Havenga, 2007:53).

Family influence is the one thing that is unique to family businesses, and could be regarded as a resource to a business. Family influence as a resource is referred to as “familiness”. Familiness is the unique bundle of resources a firm has as the result of the interaction of the family, the firm and individual family members with one another (Habbershon & Williams, 1999:5). Familiness is regarded as a capability, in the sense that it is firm specific, is embedded in the firm and its processes, and is not transferable to other firms.

Family-owned firms are one of the foundations of the world’s business community, which give them their embodiment of unique characteristics. Their creation, growth and longevity have proven to be critical to the success of the global economy. Although facing many of the same day-to-day management issues as publicly-owned companies, they must also manage many issues specific to their status (Poutziouris, Smyrnios & Klein, 2006:7).

2.3.1 Characteristics of a successful family business

Family firms are characterized by some degree of family ownership, management, and sustainability as well as by the controlling vision of a dominant coalition of family members (Chua *et al.*, 1999:19).

Family firms are not essentially alike, however, and many may differ in a variety of ways, including, but in no way limited to, their ownership concentration, intergenerational involvement, and stage of business development (Gersick *et al.*, 1997) thus, the unique interactions among the family unit, the business, and individual family members must be taken into account when studying family firms (Aldrich & Cliff, 2003:573; Chrisman, Chua & Sharma, 2005:561; Habbershon, Williams & MacMillan, 2003:460).

Family business studies have identified two important sets of factors that separate family firms from non-family firms and also differentiate among family firms. The first, rooted in the resource-based view of the firm, suggests that the essence of a family firm is its "familiness" (Habbershon & Williams, 1999:5; Habbershon *et al.*, 2003:460), which can be captured by focusing on the peculiar bundle of resources and capabilities that result from the interactions among the family and business systems. The second is concerned with the involvement and influence of the family on the enterprise and its members (Astrachan, Klein & Smyrnios, 2002:41; Klein, Astrachan & Smyrnios, 2005:328, and is comprised of power, experience, and culture.

Most family business research appears to be caught in a "jungle" of competing theories in regard to familiness and performance. A family influence scale has been employed (the familiness-power, experience, and culture scale [F-PEC]) presented by Klein *et al.* (2005:321-339) in an attempt to assess the relationship between familiness and performance. The F-PEC Scale possesses the rare capability to measure degrees of "familiness" in a given firm. In this way, the F-PEC Scale has the potential to begin our untangling of the "jungle". Specifically, familiness showed associations with revenue, capital structure, growth, and perceived performance; however, the relationships were both positive and negative, thus casting doubt upon the F-PEC as a vehicle for untangling this problem.

Ward (1987:50) claims that, although the cost of maintaining family harmony is high, a family can only claim to be harmonious or successful, if they are working together in a work environment that is harmonious or can prove their success (Pickard, 1999:5).

Some characteristics of a successful family business in this study are as follows:

- Clearly separate management and ownership.
- Have a clearly defined vision which the whole family buys into.
- Speak with one voice: all family members are inclusive.
- Live their values as well as espouse them.
- Take time to understand the family's concerns and the needs of individuals.
- Have a common language of trust inside and outside the family business.
- Have defined roles and responsibilities for family members, shareholders, and employees.
- Keep family meetings outside the boardroom and business meetings away from the dinner table.
- Can manage and resolve the differences that arise.
- Understand their children's motivations and give their children freedom of choice.

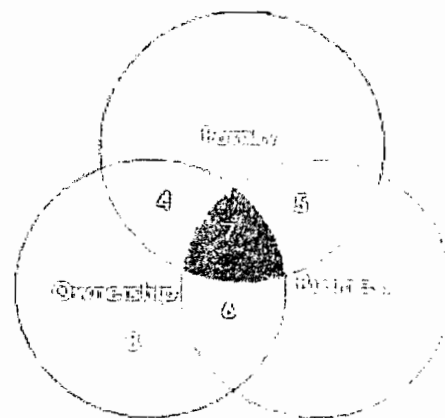
- Have high staff loyalty and low staff turnover.
- Consider appointing non-executive directors to help bring objectivity.
- Do not forget the family business members who are not involved in the business.

2.3.2 Overview of the systems in the family business

It is important to recognize that the family business comprises three separate, but overlapping domains as illustrated in figure 1.3.

Figure 1.3: Overview of the systems in the family business

1. Family members.
2. Non-family, non-owner employee.
3. Owner, neither family nor employee.
4. Family ownership.
5. Family employed in business.
6. Non-family owners employed in business.
7. Family ownership interest employed



Source: (Gersick *et al.*, 1997)

2.3.3 Separating the business and the family

Family businesses are common throughout the world and can range from a small corner shop to a large multinational business. They are, however, different from other businesses because ownership and control of the business overlaps with family membership resulting in conflicts and contradictions which can occur as the business and the family strives for different objectives (Gersick *et al.*, 1997).

The family business is a complex and dynamic system that is emotionally and mentally driven making room for certain patterns of behaviour, whereas the business system is task based and operationally or financially driven. Often the family is caught between these two systems without fully understanding the developmental and financial pressures as well as the implications that can form over time, which could trigger a major crisis. If families lack adequate mechanisms to

cope with these pressures, this could lead to serious implications on both the business as well as the family harmony within the business.

Every member of a family business, active or inactive, forms an integral part of the family dynamics. These particular dynamics are what make a family business unique from non-family businesses.

The following dynamics must be carefully managed in order to ensure a long-term sustainable family business (Swart, 2005; 31).

2.3.3.1 The “family first” approach

Aronoff and Ward (1996:7) argue that some business leaders put the “family first” and operate on the premise that the family members have the right to be heard under any circumstance, no matter how disruptive to the business their self-expression may be.

The management dynamics of a “family first” business is often more an open discussion than action or performance orientated. Thus, a “family first” business is generally not able to react to problems and take the required remedial action as quickly as a “business first” approach family would. The “family first” business approach could also be less objective about profitability and other types of performance standards as they tend to lean more towards being orientated to consensus, harmony and friendship with change being a difficult process. In a “family first” approach, destructive family feuds are not hard to end as this is clearly obvious when managerial decisions are affected by family considerations, and when a company is run more to honour a family tradition than for its own needs (Chrisman *et al.*, 2005:555: 575).

Ibrahim and Ellis (2004:109) 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 potential of possible conflict between staff members including managers and shareholders. Often when the family system is paramount, business needs and issues are overlooked or neglected.

Often, a desire to make everyone happy results in unqualified family employees entering the business, imposing threats on next generation leadership (Carlock & Ward, 2001:6). Aronoff and Ward (1996:7) highlight that the “business first” approach is characterised when some family business leaders are discriminating against other family members regarding lack of skill,

insufficient knowledge, a lack of business experience and when inappropriate comments are made by some family members that may disrupt management and business (Aronoff & Ward 1996:7).

Business prosperity is important because the individual and collective financial security of any family business depends on it. The business-first family is often compared to that of a public company (Chrisman *et al.*, 2005; 570). Sometimes it is so hard to recognise there is a family member or members involved because the family could be completely out of touch with any family-based values. The “business-first” approach adheres strictly to business policies and procedures. An example of this is that “business-first” family businesses operate on a ‘market and merit system’ for any compensation increases or even loans.

Another approach taken is that the shares of the particular business are only made available to the members working actively in the business, with their main interest focused only on investment return, and the non-active members are basically exempt from becoming business shareholders (Cromie *et al.*, 1995:11-48). The vision is built around the understanding that it is just a business and that the emphasis is based on individual and company performance.

2.3.3.3 Balancing family and business interests

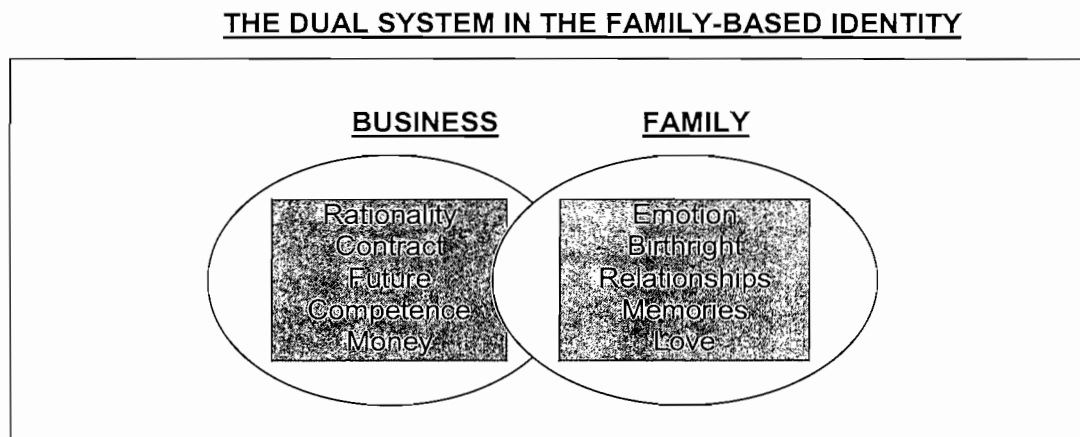
There are many benefits associated with the balanced approach. Family members know they must be qualified and that they must have demonstrated their competence in another work setting. At the same time, they also know the door is open. You could find a more fully qualified non-family candidate who could hit the ground running, but you want to keep continuity of family management if possible. Therefore, you are willing to invest more in developing family members once they are in the business. According to Bork (1993:23), the family system involves emotional acceptance and the business system involves rationality and results. The interaction between the dual systems in the family-based identity can lead to conflict and confusion, which causes stress to relationships and communication.

In the balanced approach the family and the business are equally important and require mutual respect and care (Aronoff & Ward, 1996:9). Family members should be required to earn their voice in the business environment by showing and developing the right to be heard. The business intern needs to be accountable to the family (Carlock & Ward, 2001:146).

Through this coexistence if the family members want the family business to continue growing successfully, the loose methods of the start-up business must give way to a more disciplined and professionalised environment. Similarly, families need to establish appropriate boundaries so that both the active and non-active members can share the benefits of the business and the joys of normal family life.

According to Aronoff and Ward (1996:9), setting up separate governance processes for the business and the family is the best way to ensure effective management of the family business. Carlock and Ward (2001:146) also indicate that owners need a sound understanding of the business and family concepts.

Figure 1.4: The two-circle overlap model balancing the business values as well as the family values



Source: Lansberg (1983:44)

Figure 1.4 illustrates that each part of the family business system, the family and the business, has unique structures, needs and goals. To obtain family harmony within family businesses the family and the business must be equally important and require mutual respect and care (Aronoff & Ward, 1996:9).

2.4 ADVANTAGES AND DISADVANTAGES OF A FAMILY BUSINESS

What differentiate family businesses from management controlled businesses are often the intentions, values, and strategy-influencing interactions of owners who are members of the same family. The result is a unique blending of family, management, and ownership subsystems to form an entire family business system. These family-management-ownership interactions can produce significant adaptive capacity and competitive advantages. Family businesses are likely to benefit from a range of advantages, which you often do not find in other enterprises (Havenga, 2007:55).

According to Leach and Bogod (1999; 5), an advantage for the family business could be to bring family members together in the same working or business environment. This is also an approach that small business owners believe works as an advantage for their family business. The following advantages have been determined through various studies (Swart, 2005:23-27; Robberts, 2006:24-32):

Advantages of family businesses:

- **Common values** – you and your family are likely to share the same ethos and beliefs on how things should be done giving your business pride and a competitive edge.
- **Strong commitment** – building a lasting family enterprise means you are more likely to put in the extra hours and effort needed to make it a success. Your family is more likely to understand that you need to take a more flexible approach to your working hours.
- **Loyalty** – strong personal bonds mean you and family members are likely to stick together in hard times and show the determination needed for business success.
- **Stability** – knowing you are building for future generations encourages the long-term thinking needed for growth and success – though it can also produce a potentially damaging inability to react to change.
- **Decreased costs** – family members may be more willing to make financial sacrifices for the sake of the business. For example, accepting lower pay than they would get elsewhere to help the business in the longer term, or deferring wages during a cash flow crisis.

Disadvantages of family business:

- Family businesses can be regarded as amateurish.
- Non-family members may not join because they cannot reach the top.
- It can be difficult to raise capital.
- Senior family members may see themselves as having a job for life.
- Decisions may be too emotional.
- There may be a deep-seated aversion to change.
- It can be a struggle to continue the spirit of entrepreneurial flair.
- Generational issues can cause role confusion.
- The problem of succession of the business to a younger generation may exist.

2.5 FAMILY HARMONY IN FAMILY BUSINESSES

Like all businesses, family firms must satisfy the growing expectations of shareholders (Ward, 1987:266). Most well established family firms do not grow due to several popular theories illustrating the particular challenges to growth that are unique to family-owned firms.

When asked why the family business does not grow, business owners rank the causes in order of importance as (1) business maturity, (2) limited capital, (3) ill-suited successors, (4) entrepreneurial inflexibility, (5) family harmony, (6) disparate goals and values. Family-business owners know that family harmony poses real threats to their futures as the family harmony factor features in each of the above-mentioned causes that contribute to the continuation of family based businesses. Disparate goals and values, followed by sibling conflict are often the most serious threats that family businesses face. Wise family-business leaders invest time and even money in nurturing and strengthening family-member harmony, trust, and satisfaction. Leach and Bogod (1999:30) focused on their observation that the correct balance is required amongst both active and inactive family members, to effectively maintain harmony between family members. Astrachan and MacMillan (2003:1) warn that history is filled with examples of family businesses' successful succession to the next generation.

It is estimated that, internationally, only 30% of family businesses survive to the second generation, while fewer than 14% make it beyond the third generation. Smaller family businesses are particularly vulnerable; they usually survive only five to ten years (Maas *et al.*, 2005). Aronoff, Astrachan & Ward (1998:89) agreed with this statistic that 30% of family

businesses made it to the second generation, 10-15% make it to the third generation and 3-5% make it to the fourth generation (Aronoff *et al.*, 1998: 89)

Long-term sustainability of family businesses is a taxing challenge (Dascher & Jens, 1999:3). An important reason for this high failure rate is the inability to manage the complex and highly emotional process of ownership and most importantly they do not understand or adhere to the fundamentals of working in harmony. According to Slaughter (2008:5), a successful family business needs lots of its core ingredient, called family harmony. The only way this can be obtained is when all of the determinants of family harmony are present. Often when an issue arises, internally or externally within the family business, many of the family members are not emotionally mature to handle situations that can arise in employing non-family members.

The existence of family harmony influences the relationship between the owner-manager, the family and the successor, to name just a few. This is one of the reasons why longevity of family businesses is a major concern (Van der Merwe & Ellis, 2007:2). Lack of family harmony within family businesses will influence the long-term sustainability of the family business

The acceptance of family members of their individual roles in the family business is important for successful succession; the literature has suggested that the relationships between family members in general are also important for the succession process (Sharma, 1997:64). It can be debatable that a high degree of familiness, such as mutual respect, trust and understanding within many family businesses makes succession more tolerable. Harmonious relationships may reinforce the importance of succession planning in the owner's mind. The greater the family harmony, the higher the probability that business continuity plans will be planned for. These results are consistent with the findings of Handler (1994:213).

2.6 THE DETERMINANTS OF FAMILY HARMONY

Family members and even more importantly, non-family members, involved in business should pursue fair processes rather than dictated decisions. Researched and fair processes treat the legitimate perspective of each family member with respect and dignity. The results achieved through particular processes provide the best approach to promoting family unity and family harmony while allowing each family member to have an equal measure of control.

Some combination of family representation in ownership, management or governance is widely used by different research groups (Cowling & Westhead, 1996:52; Cromie *et al.*, 1995:11:34) Daily & Dillinger, 1993:85). In a healthy family business, the dialogue is aimed at creating "positive tension" whereas in dysfunctional family businesses, the "tension" created by the dialogue is destructive and results in worsening family relationships.

Within this literature review the determinants of family harmony will be pointed out in order to illustrate how this can contribute towards obtaining family harmony.

2.6.1 Open communication

Communication makes relationships meaningful, fun, and in the long run, it helps make life worthwhile (Aronoff & Ward, 2001:53). Many misunderstandings and potential areas for dispute in family businesses can be avoided if businesses ensure good communication channels are in place. Family feuds – whether they start in the family and spill into the business or start in the business and affect the family – are a major factor in family businesses having such a poor survival rate, due to a lack of open communication (Friedman, 1998:11-12).

According to Ibrahim and Ellis (2004:164), poor communication causes severe problems in family businesses and the absence of well-thought out channels of communication is a profound source of family conflict (Friedman, 1998:13). To be successful in family business, family members need to understand several factors regarding behaviour and communication. They need to understand their power, understand how their behaviour affects others, as well as understand themselves. Only then can people accept other people's behavioural and communication styles and work harmoniously together to produce results. Openness and inclusion create trust, and family trust leads to family harmony (Aronoff *et al.*, 2002:299; Leach & Bogod, 1999:68).

There are also different patterns of communication within different families that can be used in order to obtain a successful and harmonious working relationship. One family may be very argumentative, stopping at nothing to avoid the discussion of controversial issues (Jaffe, 1991:88), and having the opinion that the more you are heard the harder you are working, and another family may prefer a quieter, more intellectual discourse, or hardly communicating at all (Astrachan & McMillan, 2003:15), which could symbolize that you are hard at work and therefore are too busy to communicate with your fellow employees.

Maas, Van der Merwe and Venter (2005:119), however, argue that effective communication can provide the foundation for a stable family relationship as well as conflict resolution. They have pointed out that it is important to note that good communication alone, does not eliminate conflict, but it certainly does contribute to managing a business effectively. Established communication channels can ensure that family members and workers do not become over-emotional and destructive (Astrachan & McMillan, 2003:2).

In the case of a lack of open communication, the following risks are involved:

- Family members assume they know what other family members feel or want.
- Personal ties inhibit honest opinions being expressed. The head of the family may automatically assume control of the business even if they don't have the best business skills.
- One family member ends up dominating the business.
- Family-member shareholders not active in the business fail to understand the objectives of those who are active, and vice versa.
- Personal resentments become business resentments, and vice versa.
- Non-family board or management members feel excluded.

Open communication does more than keeping families as well as family businesses running (Astrachan & McMillan, 2003:54). It is the centre of all relationships as it builds honesty and creates trust amongst family members (Cohn, 1992:21-22). Openness and inclusion of all family members in the communication process creates trust, which in turn builds and maintains family harmony (Aronoff *et al.*, 2002:299).

2.6.2 Family commitment

The literature researched about family business commitment, distinguishes between three distinct types of commitment based on the underlying motives, being affective commitment, including the underlying intention of each family member as well as non-family business members; cost-induced commitment, how much each family member has committed to financially will often prove or challenge his commitment to the family business; and obligation-based commitment, this could also test each family member's commitment based on the position they hold within the company. Commitment is defined as "the desire to continue relationships at work to ensure its continuance" (Wilson, 1995:40) or as "an implicit or explicit pledge or relational continuity between partners" (Dwyer, Schurr & Oh, 1987:14).

"Affective commitment" is explained in terms of the congruence of valuing goals among participants. This means that family members have common beliefs regarding behaviour, goals, and policies (Mowday, Porter & Steers, 1982; Buchanan, 1974:39). Erikson (2002:282) states that commitment is only meaningful if a vision, and subsequently a goal, exists and that the committed family members, old and young, have a strong intention to achieve the same goal and invests large amounts of physical, emotional and intellectual energy in pursuit of this goal. In the case of the founder of a family business, this goal is a vision of success that is potentially sustainable across generations (Chua *et al.*, 1999:25).

2.6.3 Financial performance

There is anecdotal evidence that family firms face different financial success depending on the generation active in the firm. Often practitioners refer to the Buddenbrooks syndrome stating that later generations are less interested in entrepreneurial activities and the dynamics of the family firm fades away. Pollard (1965) argues that second and third generations in the family firms are often incapable or uneducated enough to continue the work of their forefathers.

Profit discipline is of crucial importance in family businesses. In fully controlled family firms profit discipline needs to be larger as the profitability of these firms needs to feed the family and its employees (Jensen & Meckling, 1976:305).

Various empirical studies (Anderson & Reeb 2002:37; Anderson & Reeb 2003:39, McConaughy, Matthews & Fialko, 1997:35) have shown that family businesses tend to

approach the pursuit of financial performance differently from non-family businesses and consistently outperform non-family businesses according to financial measures.

McConaughy *et al.* (1997:11) found that family businesses on the Standard & Poor's 500 index (S&P 500) generally outperform non-family business according to the measures of market to book equity ratio, stock market return, sales growth, gross and net margins on sales, cash flow per employee, and working capital per unit of sales and in terms of Tobin's Q-ratio, return on assets and earnings before interest, taxes, depreciation and amortisation (EBITDA). This was noted specifically in cases where the founders or founder descendants occupied the position of CEO (Anderson & Reeb, 2003:39-37), and whilst showing no significant difference in risk-taking, family businesses have proven to be more valuable and have a higher economic value added (EVA) than non-family businesses.

The general 'feel' within the business world is that family businesses, particularly larger family business groups, are dysfunctional or in crisis due to the challenging complexities that a family business faces, is soundly and consistently debunked by empirical studies and proven otherwise on the S&P 500 business index. The stronger, financially successful family businesses are able to separate the family dimension from the business dimension, thereby avoiding the destructive conflicts to which the financially weaker family businesses are prone to develop (Gersick *et al.*, 1997:17; Carlock & Ward, 2001: 27)

While no broad comparative studies have been done in South Africa, the situation is likely to be similar. According to Ryan (1995:12), family businesses listed on the JSE Securities Exchange delivered a 36% return on equity from 1987 to 1992, as opposed to an average 27% return in the non-family industrial sector over the same period. In a successful family business, founder capital and family capital interact to create superior business performance.

2.6.4 Leadership

Leaders must be flexible and be able to adapt to the changing global market and the diverse workplace. This requires an understanding of the historical, political and economic references of people. Leaders must understand differences in world-views, communication styles, ethics and etiquette of the people they deal with, both internally and externally.

Source: www.leadershipadvantage.com/leadershipChallenges

In his book, *Principle-Centered Leadership*, Stephan R. Covey (1999) proposes that the leadership of an organisation has to be centered on certain “true north” principles. He suggests that correct principles are compasses that guide the way for leaders to help the organisation achieve success. These principles are objective and external and they operate in compliance with natural laws, regardless of the circumstances.

John C. Maxwell (2002) believes that success is within reach of every organisation, but the amount of success is dependent on the leadership ability reflected in the organisation. He believes that the higher an organisation wants to climb in terms of success, the more it needs its leaders and the greater the amount of influence needed from these individuals. The goal is to have everyone, from the owners to those carrying out tasks, thinking and acting as competitors (Timmons & Spinelli, 2007)

Leadership in the family business requires knowledge regarding operational activities. It also requires experience, good judgment, interpersonal skills and credibility as they relate to the business and business decisions (Aronoff & Baskin, 2005:4). The success of a family business should never depend on the leadership skills and decision-making abilities of a single person (Davis & Taguiri, 1989: 47-49). If a family business makes such a decision, all the blame and responsibility is directly placed on a single person creating a large margin for error as well as excluding the rest of the family, leading to conflict in all areas of the business, be it financially or even operationally. Businesses grow, learn and rise to new heights only with the consensus on family values, vision and through cooperative efforts and participation of all family members (Davis & Taguiri, 1989: 47-49).

All families and businesses may have arguments, disagreements and disputes, but these differences are part of the ongoing challenge in maintaining a family business. This is when family businesses require the duty of family leaders to create and maintain family harmony and unity by nurturing healthy relationships amongst all employees inside the family business, as well as maintaining and nurturing the relationships between inactive family members and even more importantly, non-family members employed within the family business (Aronoff & Baskin, 2005:4).

2.6.5 Personal needs alignment

Personal needs alignment can be seen as a very important determinant of family harmony. According to Slaughter (2008:51), the reason for this is that individuals must share and align their personal needs with both the family and the business (Lansberg, 1999:57).

According to Handler (1990:37-51) there are three specific personal needs that the business must satisfy in order for the employee to feel committed; this is career interest needs, lifestyle needs and psychological needs.

In contrast with the above, Aronoff and Ward (1997:53) suggest that individual family members must rather ask "what can I do for the business" and not "what can the business do for me". To obtain family harmony within family businesses the needs of the family members with the needs of the family business and vice versa should be aligned.

2.6.6 Conflict resolution

Conflict resolution can be defined as a range of methods for alleviating or eliminating sources of conflict. The term "conflict resolution" is sometimes used interchangeably with the term dispute resolution or alternative dispute resolution. Processes of conflict resolution generally include negotiation, mediation, and diplomacy. Studies have proven that the influence that family members exert on the extent and frequency of substantive conflict within family firms across generations is a result of their relationship with the owner of the firm and the positions these family members hold in the family work group and social (non-work) group.

Following Beckhard and Dyer (1983:5-12), the construct of substantive conflict was vested in four key issues pertinent to family firms:

1. Ownership continuity or change.
2. Executive leadership continuity or change.
3. Power and asset distribution.
4. Management and a possible vision for the role of the firm in society. The results establish a relationship between conflict in a family business and the composition of the family and work group, non-work (social) group, and the extensiveness of the family possible social interactions. The relationships between conflict and family influence are

found to be moderated by the generations (first, second, third, or later) among involved family businesses.

The potential for conflict in family businesses can be greater than for many non-family businesses (Swart, 2005:53). According to Astrachan and McMillan (2003:53), the reason for this heightened potential for conflict is the overlap between the family and business sub-systems. 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, 2004:55). Cohn (1992:49) points out family members frequently fight about deeper issues than the ones they claim to be annoyed about.

Many families fail to recognize or admit to issues that manifest in their working relationships, as they are under the impression that they have no conflict as this serves as a negative determinant of family harmony (Astrachan & McMillan, 2003:5). Family feuds often simmer for years before they begin to boil over (Cohn, 1992:49). Recognising symptoms of distress early and dealing with the underlying issues that are causing the distress can keep feuds from developing. Conflict can be controversial and can be defined as struggles or battles, but often conflict is far more quiet and subdued than most leaders recognize (Astrachan & McMillan, 2003:5). Often conflict is overlooked as a form of emotional outburst, which is then handled as a temporary issue and eventually left to sort itself out.

According to Ward (1987:157) and Sanders and Bardone (2006:3), the most effective way to manage conflict is to prevent misunderstandings from happening in the first place. Astute business owners anticipate potential hot button issues and develop a systematic way of addressing them before things get personal (Spector, 2003:47). Avoidance of these issues can do far greater damage to family relationships in the long run (Spector, 2003:9) proving that once again, prevention is better than cure.

Often business leaders have the misperception that the measure of the successful or healthy family is the lack of conflict. It is often the family's capability to manage and resolve conflict that determines its maturity and emotional health. Ibrahim and Ellis (2004:168) confirm that conflict management is a very important skill and overlooked skill in the management of the family business. Nothing disturbs a family business as much as conflict in any form and at any level amongst family members, or frustrates and irritates that family harmony balance as much as the inability of family members to communicate satisfactorily and professionally with each other (Astrachan & McMillan, 2003:1).

2.6.7 Governance

Family business governance is a system of processes and structures that are put in place at the highest level of business, allowing the family to make the best possible decisions regarding the direction of the business, and then once again committing to family harmony, fairness, understanding of where the business is as a business entity as well as a family investment (Neubauer & Lank, 1998: 60).

Once the factors that could enhance good governance have been identified, one can proceed to the effective management of governance to ensure that these important business entities optimise their critically important contribution to the South African economy. The long-term interest of the family shareholders must be maintained through an effective governance structure, so that the sustainability as well as the continuity of the family business can be ensured, and then in return preserving the family's harmony, productivity and family business welfare (Adendorff, Boshoff, Court & Radloff, 2005:37).

Planning is of extreme importance to any business, in any industry including family businesses (Brown, 1995; Ward, 1987). However, research has shown that family businesses more often than not are reluctant to engage in any form of formal planning, and family forums do not even exist. They rarely sit around a meeting table to discuss issues or to make decisions (Rue & Ibrahim, 1996:31; Brown, 1995; Ward, 1987).

Family firms often protect their privacy, and as a result long-term and short-term planning is neglected or ignored, or inaccurate results are often concluded because planning requires sharing which might be considered as private and confidential information (Mintzberg, 1994). One issue that has been recognised and proved is that through this way of handling the strategic planning process, proper planning will enhance good governance and therefore the survival and growth prospects of family business. Adendorff and co-authors (2005:37) contend that there is a positive relationship between strategic planning and perceived good governance, especially in Greek family businesses in South Africa.

Adendorff *et al.* (2008:31) confirmed that in Greek family businesses, perceived good governance practices have positively influenced the profitability of the business. They also indicate through their research, that the more harmony and trust there is in the family, the more likely it is that the family members will have a commitment to each other and the business,

characterised by effective communication and also, indicating that the more harmonious family relationships are, the more likely it is that the business will be profitable.

Astrachan *et al.* (2002) concur that planning and ownership is central in determining the influence of a family on a business. The establishment of governance structures are generally endorsed and influenced by a Board of Directors, family councils and family forums for the smaller family businesses (Lansberg, 1999:285, Ward, 1997:335; Leach, 1994:63). Each of these family business governance structures has to work hand in hand in order to deliver successful results for the long-term success of the family business (Slaughter, 2008:67).

A board of directors plays an important role within corporate governance of any business. The role that it plays is generally to add value by directing, controlling, guarding, monitoring and protecting assets (Venter, 2002; Maas, 1999; Tomaselli, 1999; Ward, 1991; Jensen, 1989; Berle & Means, 1932).

In a family business, the board of directors performs an important service role giving advice and council to management and establishing links with the external environment, which a family business often overlooks (Forbes & Milliken, 1999:492).

Key decision-making groups can also be examined in determining the integration or segmentation of the family and business systems. The makeup of a firm's board of directors and top management team gives initial evidence of one tendency or another. Often key decision-making is controlled exclusively by family members, where another mixture of family and non-family individuals shares responsibilities. Furthermore, in some companies, the top management team consists of only family members, while the board comprises a number of outsiders brought in for various areas of expertise and with varying levels of power (suggesting a mixture of integration and segmentation) (Sundaramurthy & Kreuner, 2008:420).

To summarise the benefits of an active family board or a board of directors, Aronoff and Ward (1996:12) have provided the following points:

- Providing a sounding board to aid in evaluating business owners' ideas.
- Providing in-house experience and expertise.
- Enhancing cooperative relations with continuance.
- Offering insight to key personnel.

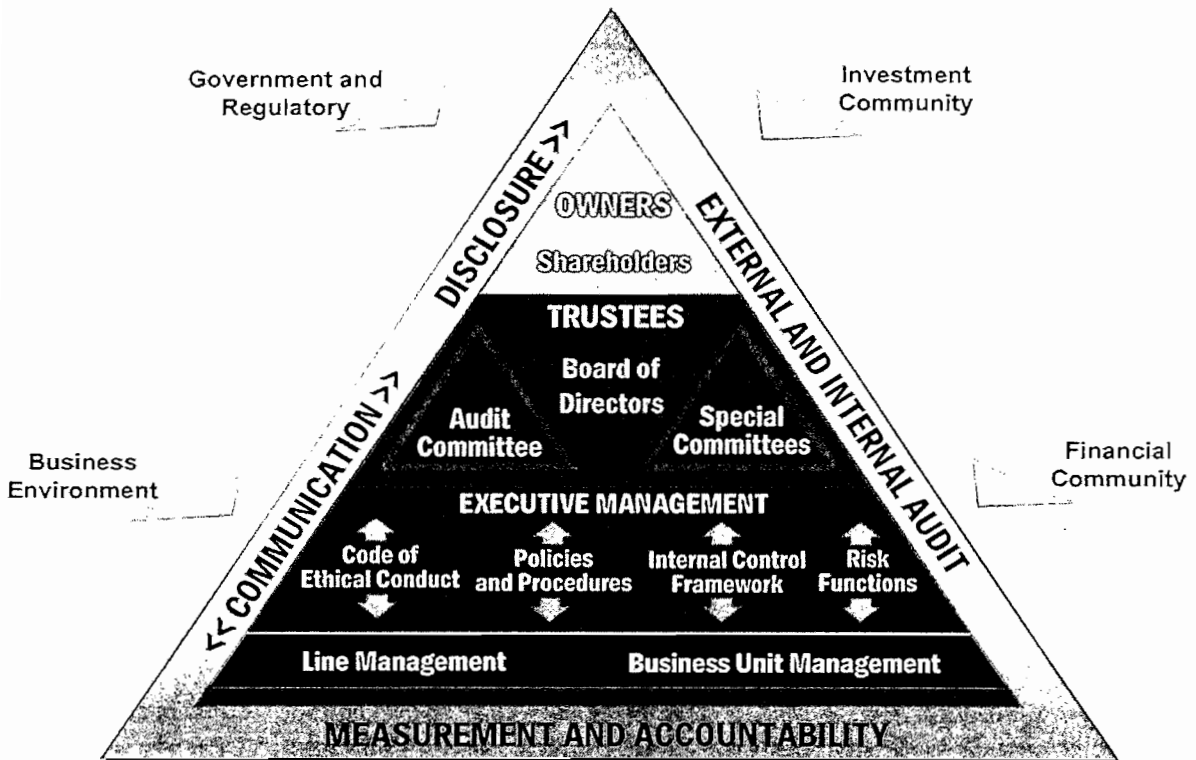
- Offering honest and objective opinions on performance, strategy, compensation and other business matters.
- Adding creative thinking and decision-making.
- Encouraging self-discipline and accountability in management.

To summarise the benefits of the family institutions such as family forums, family councils or a shareholder committee, Aronoff and Ward (1996:12) have further provided the following points:

- Planning for future ownership.
- Planning for family participation.
- Building stronger families.
- Building a stronger business.
- Managing relations between the family and the board.
- Recognising and resolving conflict.
- Reserving family tradition and history.

Figure 1.4 below illustrates the elements of effective governance.

Figure 1.4: Elements of the Effective Governance Model



Source: Ernst and Young (2003:3).

The foundation of the Effective Governance Model (Figure 1.4) is the corporate structure that includes the owners of the business in the form of the shareholders, who appoint a number of trustees, in the form of a board of directors, to oversee their interests in the business and who in turn hires a chief executive to develop business strategies, employ resources, build and operate processes, generate profits, and increase the value for the shareholders (Ernst & Young, 2003:3).

2.6.8 Mutual trust and respect

Mutuality implies the requirement of a positive incentive to exchange for both parties. Under discrete governance, the parties require positive outcomes from each discrete transaction and envision the monitoring of each transaction as if it were the last and, therefore the only event capable of delivering the desired outcomes. Under relational exchange the parties expect to

generalize reciprocity emanating from the ongoing and indeterminate relationships (Kaufmann & Dant, 1992:177).

The majority of definitions of trust focus on the ability to test the variations of trust in an exchange of relationships, and rely on the notion of trust as a belief or expectation of relationships (O'Malley & Tynan, 1997). Numerous other authors have also described trust and relationship commitment as vital components for maintaining harmonious relationships. In family business relationships, where results depend on the behavioural intent of family members, trust is particularly crucial; even the variable family commitment as well as communication is positively influenced by both family harmony and more importantly, by family trust and respect (Adendorff, Venter & Boshoff, 2008:38).

Mutual trust and respect need to be earned, it cannot be demanded (Slaughter, 2008:36). It is also evident that a lifetime of trust and respect can easily be destroyed by acting differently than individuals usually would behave (Astrachan & McMillan, 2003:25). Trust exists when one party has confidence in an exchange partner's reliability and integrity (Morgan & Hunt, 1994:20; Moorman, Deshpande & Zaltman, 1993:99).

Steier (2001:353) cites a significant body of literature that emphasises the positive influence of trust in organisational governance. He also believes that, used effectively, trust represents a major source of competitive advantage for a business. Trust plays an important role in business survival and success. A governance control mechanism, trust provides some clear advantages: "Trust is an important lubricant of a social system. It is extremely efficient; it saves people a lot of trouble to have a fair degree of reliance on other people's word."

Trust in business relationships presents a component of integrated knowledge of relationship variables, which involves a belief that one relationship partner will act in the best interests of the other partner or partners. Trust derives from a number of diverse areas, including social exchange theory, contractual relationships, trust theory (Gambetta, 1988), organisational theory, the literature on moral development, and the literature on buyer-seller exchange relations (O'Malley & Tynan, 1997).

The key trust relationships on which family businesses must work are those between generations, between family branches when the firm grows and/or survives long enough that more than the entrepreneurial members are involved, and between key non-family managers and family employees as well as management. Typically, if there is not trust between these

segments, the business has to be sold or liquidated. It is extremely difficult to maintain a family business where there is lack of trust among these groups, whether that distrust originates with business issues or from personal aspects of family relationships.

Astrachan and McMillan (2003:25) suggest ways how mutual trust and respect can be promoted in the family business:

- Provide help, advice, coaching and support for family members and their ideas.
- Keep family members and employees informed by means of explaining policies and decisions including providing honest and fair feedback.
- Good business sense, confidence and professionalism are paramount.
- Give credit and recognition in time when deserved and ensure that all performance appraisals and evaluation are objective and impartial.
- Delegate in the form of real decision-making.

2.6.9 Active and non-active family members

Inactive family members do not wish to be left in the dark, while those working in the business seldom enjoy backseat observers who may or may not have sufficient knowledge to be helpful. Addressing and balancing these concerns are critical elements of family harmony (Pervin, 2005:23-27). Inactive family members should be encouraged to voice their opinions (Maas *et al.*, 2005:130).

Astrachan and McMillan (2003:52) argue that one of the reasons why family members are in business together is that they want to work together and to enjoy the fruits of their labours as a family. Although this almost sounds like a fairy tale, it is far from the truth (Kets de Vries, 1996:15), because, according to Carlock and Ward (2001:73), all families experience relationship problems, especially between inactive family members like in-laws, spouses and siblings. These inactive family members often interfere with the day-to-day activities of the business.

Family businesses, however, face even bigger problems because the families work so closely together. This can cause family disputes between inactive and active family members to overshadow work and business, even though the business often continues to function normally (Carlock & Ward, 2001:73). In other words, family relationships affect the business, and business relationships in turn affect the family (Voeller, Fairburn & Thompson, 2002:30). One of

the hallmarks of a healthy family in business is how non-active family members are involved in the family.

To survive and be successful, active and inactive family members need to nurture their personal relationships with one another (Swart, 2005:38). Having fun, enjoying one another's company, and finding shared interests outside the business will help them weather rough patches inside and outside the business environment.

Emphasizing common ground and focusing on a goal larger than themselves will go a long way towards holding families together as a team and enabling them to deal with individual differences (Aronoff, Astrachan, Mendoza & Ward, 1997:1). Kets de Vries (1996:264) points out that no family relationship will ever be perfect, as feelings of being treated unjustly will always be present. Astrachan and McMillan (2003:1), however, emphasize that in well functioning families these feelings of unfairness are admitted and worked through. It is important for family members to develop mutual empathy while still appreciating each other's differences (Astrachan & McMillan, 2003:1). Astrachan and McMillan (2003:53) concur that wise business-owning families know that their relationships with each other are more important than their grievances.

2.6.10 Non-family members

Non-family members find themselves in an invidious position in the family business. They fulfill dual roles, since they act like any motivated and performance-driven employee within the business, but at the same time they have to deal with complex family relationships. Non-family members often become involved in conflict between family members (Maas *et al.*, 2005:131).

The big dilemma for non-family members in a family business is that family members are usually favored. This reduces the attraction of the family business for the ambitious non-family members (Maas *et al.*, 2005:130). Fair treatment based on value added to the business is important for healthy relations between family and non-family members (Maas *et al.*, 2005:131).

Tanner (1994:8) states that in order to combat their tendencies, family business leaders must be able to emphasize merit in personnel decisions. Families need to ensure career growth opportunities for the best non-family executives who will in turn give the non-family managers a feeling that they are valued, appreciated, and compensated on the basis of merit in order to provide opportunities for the best managers to accumulate personal wealth. Long-term growth requires talented non-family managers, but most family firms do not take this resource seriously

enough. Talented non-family managers need assurance that they can continue to grow as professionals.

Some reasons for this are because they are reluctant to invest in future talent when they are unsure of the effects of strong non-family managers on the family members' career paths as well as too often, the company's organisation chart and the likely career paths of young family members do not give them that assurance, freedom or opportunity to prove themselves. Frequently, business owners are too modest to believe they can attract people of the highest caliber (Tanner, 1994:8). Some family members may function as owners of the business or trustees of the foundation, though they are not employed by either the business or foundation.

Few family firms give stock or stock options to their key executives (Ward, Carlson & Nager, 1993). More often, they are given opportunities to participate in pre-determined plans or to invest alongside family members in special arrangements such as a new venture or real estate opportunities in order for them to prove themselves, or in many cases, the family business is investing minimal, therefore their risk is minimal, but if the opportunities given to the non-family business work out, then the deal ends up being lucrative for both parties.

2.6.11 Fairness

Lack of fairness in the decision and managerial processes governing family businesses and their associated families could lead to family conflict, lack of trust and even mutual respect (Van der Heyden, Blondel & Carlock, 2005:8). The social science and business literature on procedural justice or fair process attest that improvements in procedural fairness can improve both a family firm's performance and the commitment and trust of the individuals involved with it (Van der Heyden *et al.*, 2005:8).

According to Lansberg (1983:42) two dominant norms of fairness operate namely vertical and horizontal relationships. In vertical family relationships, the relationship between parents and their children, the dominant norm of fairness is the concept of need. Parents have a moral obligation to allocate their resources so that the children's needs are met. Parents are required to support their children both personally as well as professionally, without choosing sides.

In horizontal family relationships, such as the relationships among siblings, equality is the dominant fairness norm (Lansberg, 1983:4). It is assumed that each individual sibling is entitled

to an equal share of resources and opportunities within the family business, and managed by the vertical relationship with their parents.

However, the norm of fairness that operates in the firm is based on the concept of merit (Lansberg, 1983:46). Voeller *et al.* (2002:73) stress that family businesses should have a performance management system to ensure fair employment for all family members, including non-family employees.

In the ideal business community, the level of rewards an employee receives should be determined by his or her competence in accomplishing organisational goals. It is therefore more functional to allocate resources so that those who are most productive receive proportionally larger shares of the resources available in the system, such as options to purchase company shares, or promotions or salary increases (Lansberg, 1983: 44)

The construct of fairness should be divided into two groups namely performance and compensation (Van der Merwe, 2008:1). Along with Voeller *et al.* (2002:73), Jaffe (1991:199) and Jonovic (1997) agree that performance should be assessed by means of a formal process of performance evaluation in both the family and in the business, in order to achieve the effective business management performance system that every business strives for. Performance encompasses the most important people issues in the organisation. Performance management includes the entire relationship you have with the people you employ and becomes especially sensitive when working with family members (Heathfield, 2000).

In order to avoid any unnecessary emotional issues, formal reporting lines to management needs to be put in place and clearly defined (Jonovic, 1997).

According to Susan Heathfield, (Heathfield, 2000), the performance management system includes the following components:

- Develop clear job descriptions.
- Select appropriate people with an appropriate selection process.
- Negotiate requirements and accomplishment-based performance standards, outcomes, and measures.
- Provide effective orientation, education, and training.
- Provide on-going coaching and feedback.
- Conduct quarterly performance development discussions.

- Design effective compensation and recognition systems that reward people for their contributions.
- Provide promotional/career development opportunities for staff.
- Assist with exit interviews to understand why valued employees leave the organisation.

Family business compensation actions can create problems when family members are compensated unfairly due to age or gender, and not on performance or skill (Bucholz, Crane & Nager, 2000:262).

All employees should be paid at the standard market related salary in order to maintain a level of fairness in the business, between family members and non-family members. This issue could also be clearly defined in an offer letter or standard compensation breakdown report that everybody has access to (Slaughter, 2008:57). Family employees as well as non-family members need recognition, praise and compensation, not only to live on, but to create goals and standards for themselves as employees both professionally and personally (Barrett, 2001:19).

According to Jawitz (in Havenga, 2007:53), the secret that he has found is that decisions based on family interests need to have three ingredients: it needs to be taken for reasons that are necessary for the long-term good of the company, it needs to be fair and has to be taken on merit. That way it cannot be argued against and everyone is therefore given a fair chance to excel and prove themselves in a professional manner and therefore creating a harmonious working environment.

2.6.12 Division of labour

A family business consists of three important components: the shareholders, the managers and the family (Havenga, 2007:53). Often one person may be involved in all three or be involved in one only. Either way this may become a very complicated relationship with a variety of different dynamics and determinants which often lead to conflict between family members (Havenga 2007:54). Understanding how such dynamics impact on the family and the business are absolutely critical.

It is critical for each family member's job description to clearly identify key duties and responsibilities within the family business (Brooks, 2001:37). A good job description is the cornerstone to any employment decision. It is extremely useful in recruiting and hiring the right

person, whether the candidate is a family member and especially when the candidate is a non-family member in designing and restructuring jobs, in identifying training and development needs, to decide on the right compensation for the position and as a means to review job performance accurately, objectively and fairly (Pauw, 2009) As agreed by Murak (2001:12) and Jaffe (1991:199) job descriptions are vital for any employee, especially where there is emotional involvement, such as a family business. If the employer and employee clearly understand what is expected of each other, one can avoid much of the complaints, legal issues and conflict that can result from uncertainty, unfairness, lack of trust, lack of leadership and communication (Pauw, 2009).

Some key components that have been recognised by the *South African Labour Guide* in order to draw up clear and concise job descriptions in a step-by-step process are as follows:

1. Job analysis – This is an in-depth study of the job on offer, the job analysis examines all the tasks necessary to perform the job. Once the information has been collected, the job analyst draws up a draft job analysis and should ask the active family members to review it.
2. Job description – An employer uses the job analysis to compile a job description. These descriptions should be as clear and to the point as possible.
3. Duties and responsibilities – An employee is required to be as specific as possible, making sure to include all the main functions of the job therefore eliminating any miscommunication or misperceptions of the job on offer.
4. Knowledge, skills and abilities – Confirm what skills are required to perform the duties and responsibilities.
5. Credentials and experience – It is important to specify the minimum acceptable level of education, experience and certifications necessary to be able to do the job efficiently.
6. Special requirements – This must be communicated to the candidate. This includes a willingness to work overtime, to travel, a salary range, or above average application requirements.

Source: Pauw, 2009.

Neubauer & Lank (1998:153) agree that family members should not expect employment from the family business automatically, just because they happen to be family.

2.6.13 Senior generation of family members

*I don't want to achieve immortality through my work; I want to achieve it through not dying –
Woody Allen*

Bartholomeusz and Tanewski (2006:248) have suggested that senior family owners view the firm as an asset to be passed on to subsequent generations leading to strict adherences which they believe maximises the value of the firm (James, 1999:51).

The following steps can assist senior members with the succession process:

- Look for a successor in a timely manner. It could be a family member or a key employee.
- Confirm the individual's interests and motivations.
- Share your vision for the company five years from now. Is it compatible with your prospective successor's vision?
- Create a business plan that is in alignment with the new vision.
- Groom the successor. Identify strengths, and focus on areas that need improvement.
- Insist on the successor having a financial stake in the business. Set in place a plan to progressively increase his or her financial stake and reduce yours over the years.
- Plan a retirement date.

According to Jurinski and Zwick (2002:21), the risk tolerance factor plays an important role in the conflict between family members as the older generations do not take chances or make risky decisions for the business like the younger generation would. Older family members depend on the family business income for their retirement income. The older members and first generation members have worked toward this retirement money throughout their career. Therefore, older family members are far more cautious when it comes to taking on new or unnecessary debt. Younger generations will tend to take more risks, to expand the business, but the older members will inevitably view this as added risk, therefore creating conflict between the family members, which eventually affects all the members, active and non-active members. Older members are often accused of not tolerating any risks and therefore stunting the growth of the business (Jurinski & Zwick, 2002:21).

Senior family members are often labeled as 'old fashioned', out of date by the younger members, causing friction and personality clashes and causing the older members to be

defensive about their lack of technology knowledge, their ability to manipulate spreadsheets and databases in planning business decisions (Jurinski & Zwick, 2002:22).

Basu (2004:25) states that this might be because members of the second generation are likely to be better educated than their parents. When parents send their children to university, they return with the knowledge that their parents never received when they first started the business. They return as graduates with up-to-date information regarding all the external business factors that the parents often are not aware of. When the children return, this lack of business consensus can lead to business conflict as well as personal conflict between the family. Many children aspire to secure employment in large multinational companies and financial institutions in the cities rather than work long hours in the family business. Not surprisingly, they are keener to join the family business if it is performing well. Business-first entrepreneurs often maintain controlling ownership of the business in the family was important. This suggests that business-first entrepreneurs are more amenable to cede business ownership to non-family members than entrepreneurs with different aspirations. Only a minority of business-first entrepreneurs claim to involve their families in solving business problems (Basu, 2004:26).

2.7 FUTURE SUCCESS OF THE BUSINESS

Given the importance of family businesses to the economic and social development (Chapter 1), a lack of longevity can become a huge economic problem. It has been estimated that, internationally, only 30% of family businesses survive to the second generation and very little of these (estimated 14%) make it beyond the third generation (Bjuggren & Sund, 2001:12; Matthews *et al.*, 1999:159). Smaller family businesses are especially vulnerable as they generally survive only 5 to 10 years (Pericone *et al.*, 2001:108).

How family members handle conflict may be a clear indication on the sustainability of the family business (Astrachan, 2003:570). Conflict and the failure of communication contribute significantly to the failure of many business-owning families (Ibrahim & Ellis, 2004; Astrachan & McMillan, 2003: 21, 53; Aronoff *et al.*, 2002; Carlock & Ward, 2001). Therefore, it is evident that communication and conflict resolution play a very important role in the future continuity of the family business.

Communication and conflict resolution, however, are not the only role-players in future continuity. (Van der Merwe, 2007:2) argue that the existence of family harmony influences the relationship between the owner-manager, the family and the successor. This is one of the

reasons why longevity of family businesses is a major concern. Therefore, all thirteen determinants of family harmony listed in Chapter 2 are important for the future continuity of the family business.

In order for any business venture, partnership, and especially a family business to be successful, one needs to build and maintain a strong, reliable and responsible team. It is particularly important for all the family and non-family members to be able to work harmoniously together

A key challenge for future business continuity is the issue of corporate governance. It is the ability to set up structures, processes, systems and more, to ensure the continuity of the business (Chow Hou, 2009).

Positive familiness can contribute to the longevity and future success within family businesses. Familiness is the unique bundle of resources a firm has as a result of the interaction of the family, the firm and individual family members with one another (Habbershon & Williams, 1999:8). It can be seen as a distinctive advantage the family business has to any other form of business. Familiness is regarded as a capability, in the sense that it is firm specific and is embedded in the firm and its processes, and is not transferable to other firms. Familiness originates with a founder, so the founder as a resource to the business (founder capital) needs to be considered before investigating the family as a resource (family capital). In a successful family business, founder capital and family capital interact to create superior business performance. Distinctive familiness exists when family involvement in a family business provides a firm with a sustainable competitive advantage (Habbershon & Williams, 1999: 20).

2.8 SUMMARY

This chapter addressed a comprehensive literature review that formed the basis of the empirical study. Topics discussed include an introduction, definition of family businesses, uniqueness of family businesses, advantages and disadvantages of family businesses, family harmony and the factors influencing family harmony.

The main purpose of this chapter was to discuss the different independent variables (constructs) towards achieving family harmony (dependant variable) within family businesses. This included all family members, those who are actively involved in the day-to-day business activities, and those who are not (inactive).

Family businesses exist in all shapes and sizes; it ranges from as small as one to four employees to international companies listed on stock exchanges across the globe, like Anglo American. For the purpose of this study, however, only small and medium-sized family businesses were considered.

Globally, family-owned businesses make up for the majority of businesses worldwide. Therefore, it is of utmost importance for economies across the world. It can be seen as the single biggest provider of jobs and economic growth in the international economy today. In South Africa, it is no different with approximately 80% of all businesses having family owner involvement. Family businesses constitute a substantial part of the existing businesses in South Africa. Family businesses therefore play a significant role in the strength and dynamism of the South African economy.

The long-term sustainability of these family-owned businesses is therefore very important for future economic growth and job creation, not just in South Africa but all across the globe. Governments can play a big role in the sustainability of family businesses by putting in place certain rules and regulations that would rather be helpful than challenging. The development of entrepreneurship can also play a huge part in the start-up process of new family businesses. One of the biggest factors of sustainability, however, is not the political or economic environment, but rather the ability of all the family members, active or inactive, to maintain harmonious family relationships over very long periods of time. To maintain family harmony in the long run the family members must adhere to certain constructs promoting family harmony within family businesses.

Open and effective communication is the key to resolving most family business problems, especially in very important or sensitive matters like, who takes the company over when the current leader retires, who is responsible for what duties, and whether the business is run as a family-first business or a business-first business. Good communication can be seen as the essence of family and business relationships. Poor communication on the other hand can cause severe problems in family businesses and the absence of well thought out channels of communication can be blamed as a profound source of family conflict.

Commitment in the workplace can be seen as the desire to continue relationships at work to ensure its continuance. Affective commitment can also be explained in terms of the congruence of valuing goals among participants. This means that family members must have common

beliefs regarding behaviour, goals, and policies. This means that commitment is only meaningful if a vision, and a goal, exists and that the committed family members, old and young, have a strong intention to achieve the same goal and invest large amounts of physical, emotional and intellectual energy in pursuit of this goal. In the case of the founder of a family business, this goal is a vision of success that is potentially sustainable across generations, and could therefore be seen as his/her legacy for future generations. But to achieve family commitment is very important.

Profit discipline is very important for the sustainability of family businesses. In a family business profit discipline needs to be larger as the profitability of these firms needs to feed the family and its employees, especially in the second and third generations where failure rates are high. Although it is felt that larger family businesses are dysfunctional it is not the case in empirical studies and proven otherwise since. Financially successful family businesses are able to separate the family dimension from the business dimension, thereby avoiding the destructive conflicts to which the financially weaker family businesses are prone.

Leadership in the family business requires knowledge regarding operational activities. It also requires experience, good judgments, interpersonal skills and credibility as it relates to the business and business decisions. The leader of the family business must master the art of motivating a group of people to act towards achieving a common goal, in the business and the family. The leader must be able to inspire and be the director of actions within the family business. The leader is the person in the group that possesses the combination of personality and skills that make others want to follow his or her direction.

The potential for conflict in family businesses can be greater than for many non-family businesses, the reason for this heightened potential for conflict is the overlap between the family and business sub-systems. Conflict resolution can be defined as a range of methods for alleviating or eliminating sources of conflict. Processes of conflict resolution generally include negotiation, mediation and diplomacy. Conflict, if not resolved or managed, can have a negative effect on the future sustainability and profitability of the family business. This can cause both families and family businesses to slip up. Therefore, misunderstandings must be prevented.

An effective governance system is also known as the defined "rules of the game". A Code of Ethical Conduct that outlines what the company considers is right and wrong. It defines the "tone" from the top. It provides a critical foundation for effective internal controls and may apply not just within the organisation but across its trading and value stream, including suppliers and

customers. Ownership is central in determining the influence of a family on a business. It is essential to have the right governance structures in place to maintain the values of family firms.

Mutual trust and respect need to be earned, it cannot be demanded. It is also evident that a lifetime of trust and respect can easily be destroyed by individuals when acting differently than they usually would. Trust can have a positive influence on the organization; it is also believed that, when used effectively, trust can be a major source of competitive advantage for a business; it also plays an important role in business survival and success and is therefore very important for the long-term sustainability of family businesses.

All families experience relationship problems at one time or another. Family businesses, however, face even bigger problems because the families work so closely together. This proximity often means that family disputes often overshadow the work and business environment, even though the business often continues to function normally. In other words, family relationships affect the business, and business relationships in turn affect the family. Families in business should pursue fair processes rather than dictated decisions. The results achieved through fair processes provide the best approach to promoting family unity and harmony while allowing each family member to have a measure of control.

Non-family members are also part of the family enterprise system and have legitimate perspectives that impact the unity of the family. These non-family members are crucial to the family enterprise system and the longevity of the family owned business. How these non-family members are treated and listened to becomes a benchmark of how the family as a business engages in fair processes. One of the hallmarks of a healthy family in business is how non-active family members are involved in the family. Families need to ensure career growth opportunities for the best non-family executives who will in turn give the non-family managers a feeling that they are valued, appreciated, and compensated on the basis of merit in order to provide opportunities for the best managers to accumulate personal wealth. Long-term growth requires talented non-family managers, but most family firms do not take this resource seriously enough. Talented non-family managers need assurance that they can continue to grow as professionals within family owned businesses otherwise that talent might be lost forever.

Fairness plays a very important part in all walks of life, including business and family. Lack of fairness in the decision and managerial processes governing family businesses and their associated families could lead to conflict within the family and even lack of trust and mutual respect. Procedural fairness can improve both a family firm's performance and the commitment

and trust of the individuals involved with it. Family businesses should therefore have a performance management system to ensure fair employment for all family members and non-family employees.

It is critical for each family member's job description to clearly identify key duties and responsibilities within the family business. Job descriptions are vital for any employee, especially where there is emotional involvement, such as a family business. If the employer and employee clearly understand what is expected of each other, one can avoid much of the complaints, legal issues and conflict that can result from uncertainty, unfairness, lack of trust, lack of leadership and communication.

Senior family members are often labeled as 'old fashioned' and out of date by the younger members, causing friction and personality clashes and causing the older members to be defensive about their shortcomings, technology knowledge, for instance.

The reason might be that members of the second generation are likely to be better educated than their parents. When parents send their children to university, they return with the knowledge that their parents never received when they first started the business. They return as graduates with up to date information regarding all the external business factors that the parents often are not aware of. When the children return, this lack of business consensus can lead to business conflict as well as personal conflict between the family members. Therefore, it must be handled appropriately and as a sensitive matter. Senior generation managers and owners on the other hand must also be willing let go of the ownership of family businesses. A suitable successor must take over leadership of the family business from the senior generation, to help the business adapt to the ever changing business environment. There must, however, be adequate financial provision for senior generation owners in place. This might make the process of letting go a bit easier.

A key challenge for future business continuity is the issue of corporate governance. It is the ability to set up structures, processes, systems and so on to ensure the continuity of the business. Family members must share the same vision and goals on where the company is at this stage and where they want it to be in the future. Once these goals and visions are shared, business continuity and family harmony is possible.

CHAPTER 3

RESULTS AND DISCUSSION OF EMPIRICAL STUDY

3.1 INTRODUCTION

The purpose of the chapter is to discuss the second phase of this study, the empirical research. A structured questionnaire formed the basis of the empirical research and the questionnaire was administered at 27 family businesses within South Africa, restricted to Gauteng, Free State and the North West provinces of South Africa (refer to figure 1.1; Map of South Africa).

The first step in the data analysis exercise was to capture and summarise all data. The data is then presented in tabular form.

In this chapter, the development and construction of the questionnaire, the process to collect the data and the response of family businesses will be discussed. The results of the empirical study will then be presented and discussed.

3.2 GATHERING OF DATA

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

3.2.1 Development and construction of the questionnaire

One approach of quantitative research is the use of a questionnaire, which is the most common method of data collection in field research (Stone, 1978). According to Slater and Atuahene-Gima (2004:227; 250), the survey-based (questionnaire) approach is in many cases the only appropriate method for gathering data in order to address some strategy research questions. Frazer and Lawley (2000:110-111) have argued that questionnaires should be simple, to the point, and easy to read.

Frazer and Lawley (2000:110-111) furthers that the overall length of the questionnaire should be well below 12 pages. The questionnaire that was administered to the 27 family businesses compromised 6 pages.

The literature review provided valuable insight into the identification of the determinants of family harmony. Thirteen latent constructs were identified. A total of 96 items were identified to measure the 13 constructs determining family harmony in family businesses.

Two questionnaires, i.e. for active and inactive family members, were designed to evaluate these constructs (refer to Appendix 1 and 2). Both the questionnaires contain the same questions, but the active family member questionnaire contains an additional Section C. This is an extra section to be completed by the senior generation owner-manager to gather structural information of the business.

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

3.2.2 Data collection

The target population of this study was small and medium-sized family businesses in the Gauteng, Free State and the North West provinces of South Africa. All the family members, including the active and inactive members, participated in this study and family members were required to complete the questionnaires as individuals and not as a family.

Each questionnaire was sent with a covering letter that guaranteed the confidentiality of the responses, as well as a follow-up phone call or personal visit to explain exactly what was required and why it was vital that all family members were required to complete the questionnaire. Four weeks' time was given to the participants to complete the questionnaire. After that, all family businesses were visited in person to collect the completed questionnaires. Although the collection date was communicated to all specific contact persons within the different family businesses, many questionnaires were received late and some were still outstanding four weeks after the initial due date. Many of the questionnaires that were sent out were never received back. A final cut-off date was determined and family businesses who did not respond at the time were contacted to inform them that the time to complete the questionnaire has elapsed. They were thanked in person for their efforts to take part in the survey.

A major challenge experienced throughout the data collection process was to persuade all family members (active and inactive) to complete the questionnaire. Many of the family members did not see the reasoning behind completing the questionnaire if they were not part of the everyday business.

3.3 RESPONSES TO THE SURVEY

The snowball sampling technique was used to identify possible family businesses to participate in this study. A total of 54 businesses were identified for this study, of which half indicated that they either did not want to participate in this study or did not have the time to complete the questionnaire, thereby decreasing the number of possible family businesses to participate in this study to 27. The end result was that from the 54 family businesses contacted a total of 27 family businesses completed the questionnaire; this represents a final response rate of 50%.

3.4 RESULTS OF THE BIOGRAPHICAL DATA

As mentioned earlier in this chapter, two family business questionnaires were used, one for active family members and one for inactive family members. The family business questionnaire for active family members was divided into three sections (refer to Appendix A). The family business questionnaire for inactive family members was divided only into two sections (refer to Appendix B). Section A for both active and inactive members contains identical questions on the different constructs of family harmony. Section B for both active and inactive members also contains identical questions on the biographical data of each participant. For the purpose of this study, the results obtained from the active and inactive family members will be combined and discussed as such.

The biographical data that were obtained such as age, gender, marital status, relationship to the senior generation family member, highest academic qualification and percentage shareholding can have an influence on the results of this study. Section C was only included in the active family members' questionnaire; this section was only to be completed by the senior generation executive manager. This section enclosed questions on the structure of the family business.

3.4.1 Involvement of family members

A total of 161 active questionnaires and 91 inactive questionnaires (252 in total) were handed out to the participants to be completed and a total of 72 active and 37 inactive questionnaires (109 in totals) were completed by participants. This resulted in a response rate of 43.2% of the total questionnaires handed out.

- **Purpose of the question**

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

- **Results obtained**

The relationship between active and inactive family members that participated in the study is graphically presented in Table 3.2 on the following page.

Table 3.1: Involvement of family members

Involvement	Count	Percentage %
Active	72	66.06%
Inactive	37	33.94%
Missing	0	0.00%

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

Analysis of the results

Of the 109 questionnaires that were completed by family members, approximately two thirds (66.06%) were completed by active and only one third (33.94%) by inactive family members.

3.4.2 Age group categories of family members

- **Purpose of the question**

The purpose of question B1 in Section B (refer to Appendix A & B) of the questionnaire was to determine the age group classifications of participants. Five predefined age groups were given in which participants had to indicate their age.

- **Results obtained**

The age groups of all family members that responded to the survey are presented in Table 3.1 and Figure 3.3 below.

Table 3.2: Age groups of participating family members

Age group	Total	Percentage
<29	33	30.28
30-39	25	22.94
40-49	16	14.64
50-59	22	20.18
60+	13	11.93
Total	109	100%

- **Analysis of the results**

Over half of the participants (53.22%) represent only two age groups that are family members younger than 29 years of age and family members between the ages of 30 to 39 years old respectively. The younger than 29 age group accounted for 30.28% of the final results; this represents the number of participants that are either still in school or studying for their bachelor's degree at university. The 30 to 39 age group accounted for 22.94% of the final results. The other half is divided between the 40 to 49, the 50 to 59 and the older than 60 years old age groups respectively.

3.4.3 Gender of family members

- **Purpose of the question**

The purpose of question B2 in Section B (refer to Appendix A & B) of the questionnaire was to determine and to differentiate between the number of male and female participants. The respondents had to select between the male and female category in the questionnaire.

- **Results obtained**

Both active and inactive family members' gender is presented in Table 3.3.

Table 3.3: Gender distribution of family members

Gender	Total	Percentage
Male	64	58.72
Female	45	41.28
Missing	0	0
Total	109	100%

- **Analysis of the results**

Table 3.3 above indicates that family businesses in this study are represented by 45 (41.28%) females and by 64 (58.72%) males.

3.4.4 Marital status of family members

- **Purpose of the question**

The purpose of question B3 in Section B (refer to Appendix A & B) of the questionnaire was to determine the marital status of the participants. Marital status influences the decision-making process and the way the family business is managed. Participants had to choose between four marital status groupings: single, married, divorced and widow. Participants were asked to indicate their marital status by selecting the applicable marital status category in the questionnaire.

- **Results obtained**

The marital status of family members that responded to the survey is presented in Table 3.4.

Table 3.4: Marital status of family members

Marital status	Count	Percentage (%)
Single	29	26.61
Married	74	67.89
Divorced	5	4.59
Widowed	1	0.92
Missing	0	0
Total	109	100%

- **Analysis of the results**

Table 3.4 indicates that the majority, 74 (67.89%) of participants are married. A total of 29 (26.61%) of the family members are single. Five (4.59%) of the family members are divorced and one (0.92%) of the respondents is a widow, and was an active family member within the family business.

3.4.5 Relationship to the family

- **Purpose of the question**

The purpose of question B4 in Section B (refer to Appendix A & B) of the questionnaire was to determine the relationship of all family members to the senior generation owner-manager. The relationship information indicates if the active and inactive family members are directly or indirectly related to the senior generation owner-manager. This relationship and the birth order of siblings can have a huge impact on the way family businesses are managed. Participants had to indicate their relationship to the owner-manager by selecting the applicable relationship in the questionnaire.

- **Results obtained**

The relationship between all family members to the owner or senior generation executive is presented in Table 3.5 below.

Table 3.5: Relationship to the family

Years in business	Count	Percentage (%)
Owner	27	24.77
Spouse	24	22.01
Brother	5	4.58
1 st Son	16	14.67
2 nd Son	11	10.09
1 st Daughter	7	6.42
2 nd Daughter	1	0.91
In-law	13	11.92
Other	3	2.75
Cousin	1	0.91
Missing	1	0.91
Total	109	100%

- **Analysis of the results**

Ninety-one (83.5%) of the participating family members are directly related to each other (brothers, sisters, spouses, parents and their children that are involved in the family business). Of the remaining 18 (16.5%) family members one did not indicate his or her relationship to the specific family. The rest are in-laws, cousins and nephews.

3.4.6 Highest academic qualification of the family members

- **Purpose of the question**

The purpose of question B5 in Section B (refer to Appendix A & B) of the questionnaire was to determine the highest academic qualification of all the participants. The level of formal qualification has an impact on the way the business is managed and can influence the attitude, development, performance and risk profile of a specific family member. Participants had to choose between the different qualifications categories: lower than a matric, certificate, technical college, diploma, university degree or post graduate degree. Participants were asked to indicate their highest academic qualification by selecting the applicable qualification category in the questionnaire.

- **Results obtained**

The highest academic qualifications of the participating family members are presented in Table 3.6.

Table 3.6: Highest academic qualification of family members

Qualification	Total	Percentage
Lower Matric	3	2.75
Matric	45	41.28
Certificate	6	5.5
Diploma	21	19.72
Degree	22	20.18
Post graduate degree	10	9.17
Missing	2	1.83
Total	109	100%

- **Analysis of the results**

The highest academic qualification distribution for family members in this study shows that three (2.75%) did not finish matric or are still in school, 45 (32%) have finished matric, six (5.5%) obtained a certificate and 21 (19.27%) obtained a diploma. A total of 22 (20.18%) of the participants have a university degree and only ten (9.17%) have a post graduate degree. Two of the participants (1.83%) did not indicate their highest academic qualification.

3.5 RESULTS OF FAMILY BUSINESS INFORMATION

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

3.5.1 Number of permanent employees

- **Purpose of the question**

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

- **Results obtained**

The number of employees employed by the family businesses is presented in Table 3.7 below.

Table 3.7: Number of permanent employees

Employees	Total	Percentage
1 to 4	12	44.44%
5 to 10	5	18.51%
11 to 25	2	7.4%
26 to 50	4	14.81%
51 to 100	2	7.4%
101 to 200	2	7.4%
Total	27	100%

- **Analysis of the results**

Family businesses with 5 to 10 permanent employees (very small businesses) were represented by 12 (44.44%) of the participating family businesses. Family businesses with 11 to 50 permanent employees (small businesses) were represented by five (18.51%) of the participating family businesses. Only four (14.81%) of the participating family businesses can be classified as medium-sized businesses (51-200 permanent employees).

3.5.2 Family business turnover

- **Purpose of the question**

The purpose of question C2 in Section C (refer to Appendix A) of the questionnaire was to obtain information on the financial success and the size of the family businesses.

- **Results obtained**

The annual turnover of family businesses in this study is graphically presented in Table 3.8.

Table 3.8: Annual turnover of family businesses

Turnover	Total	Percentage
<R1m	9	33.3
R1m – R2.5m	1	3.7
R2.5m – R10m	4	14.8
R10m – R50m	10	37.03
R50m – R100m	1	3.7
R100m +	2	7.4
Total	27	100%

- **Analysis of the results**

Nine (33.3%) of the family businesses' annual turnover were less than the R1 million. Only one family business had an annual turnover of between R1 million and R2.5 million. Four family businesses were in the R2.5 million to R10 million total annual turnover. Ten of the 27 family businesses (37.03%) were in the R10 million to R50 million range; this accounted for the majority of the participating family businesses. One of the family businesses grossed between the R50 million to R100 million ranges and two of the family businesses (7.4%) had a turnover of more than a R100 million for the financial year.

3.5.3 Family business industry focus

- **Purpose of the question**

The purpose of question C3 in Section C (refer to Appendix A) of the questionnaire was to obtain information on the industry that the family businesses operates in. The industry may have an 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.

- **Results obtained**

The industries in which the family businesses in this study operate is graphically presented in Table 3.9.

Table 3.9: Family businesses industry focus

Industry	Count	Percentage (%)
Automotive	7	25.92
Agriculture	1	3.7
Construction	3	11.1
Food	1	3.7
Real estate	2	7.4
Retail	4	14.8
Services	7	25.92
Other	2	7.4
Total	27	100%

- **Analysis of the results**

Out of the 27 family businesses that participated in this study, the following two industries featured the most in this study: seven (25.92%) of the family businesses in the study operate in the automotive industry and seven (25.92%) in the services category. Combined, these industries accounted for 51.84% of the study. The agricultural and food industry represented one (3.7%) of the overall study population. Three (11.1%) of the family businesses in the study operate in the construction industry, followed by four (14.8%), in the retail industry, and two (7.4) in the real estate sector.

3.5.4 Age of the family business

- **Purpose of the question**

The purpose of question C4 in Section C of the questionnaire (refer to Appendix A), was to obtain information on the age distribution of the participating family businesses. The age distribution analysis could be an indication of the possibility of the family businesses to survive towards the next generation.

- **Results obtained**

The age distribution analysis of family businesses in this study is presented in Table 3.10 below.

Table 3.10: Age of the family business

Years in business	Count	Percentage (%)
2	2	7.4
3	3	11.1
6	1	3.7
7	2	7.4
8	1	3.7
9	1	3.7
10	3	11.1
12	1	3.7
14	1	3.7
15	2	7.4
17	1	3.7
20	1	3.7
25	2	7.4
26	1	3.7
30	1	3.7
31	1	3.7
35	1	3.7
50	1	3.7
74	1	3.7
Total	27	100%

- **Analysis of the results**

One third of all the businesses in this study have existed for longer than twenty years. The majority of the family businesses in this particular study, 13 (48.18%), range between the period of one to ten years, and are fairly young and new. Five (18.5%) of the 27 family businesses have been in existence for between 10 to 20 years. Only two (7.4%) of the family businesses have survived for longer than 50 years.

3.5.5 Generation of the family

- **Purpose of the question**

The purpose of question C5 in Section C of the questionnaire (refer to Appendix A), was to obtain information on the generation of the family managing or owning the participating family businesses. The generation the family business is currently in could be an indication of the possibility of the family businesses to survive to the next generation.

- **Results obtained**

The generation analysis of family businesses in this study is presented in Table 3.11.

Table 3.11: Generation of the family

Generations	Count	Percentage (%)
1	21	77.77
2	4	14.81
3	1	3.7
4	1	3.7
Total	27	100%

- **Analysis of the results**

The majority of family businesses are still in the first generation (77.7%) and 14.8% are in the second generation. The remaining two family businesses have succeeded to the 3rd and 4th generations (3.7% respectively). These two family businesses have managed to find successful successor/s within their families to take over the reins from the predecessors to successfully lead the business through to the next generation. The majority of the family business in this study have not yet transcended to the next generation. In order for these particular family businesses to succeed, succession planning will be critical to the future existence of this family business.

3.5.6 Legal status of the family business

- **Purpose of the question**

The purpose of question C6 in Section C (refer to Appendix A) of the questionnaire was to obtain information on the legal status of the family businesses that participated in this study.

- **Results obtained**

The legal statuses of family businesses in this study are presented in Table 3.12.

Table 3.12: Legal status of the family business

Legal Status	Count	Percentage (%)
Proprietorship	9	33.33
Partnership	1	3.7
Company (Private)	1	3.7
Close Corporation (CC)	12	44.44
Business Trust	3	11.1
Other	1	3.7
Total	27	100%

- **Analysis of the results**

The majority of the family businesses in this study, twelve (44.44%) are registered as close corporations (CCs), nine (33.33%) are registered as a sole proprietorship and three (11.1%) use a business trust for day-to-day business activities. One (3.7%) family business uses a partnership to structure its respective family business, one (3.7%) is a registered private company and the remaining family business handles its business in another manner, category (other). None of the family businesses in this study is a registered public company.

3.6 RELIABILITY OF THE QUESTIONNAIRE

In order to establish the internal consistency between the items of the questionnaire, Cronbach alpha coefficients were calculated (Page & Meyer, 2000: 292). An instrument that produces different scores every time that it is used on the same person under the same conditions has low reliability (Field, 2005:666). The Cronbach alpha coefficient is based on the average correlation of variables within a test (SAS Institute Inc., 2005: 295). The greater the Cronbach alpha coefficient, the more reliable is the scale. A Cronbach alpha coefficient greater than 0.7 could be interpreted as reliable and internally consistent (SAS Institute Inc., 2005:295).

Table 3.13: Cronbach alpha coefficients of constructs

Constructs	Cronbach alpha coefficient
Open communication	0.884
Family commitment	0.839
Financial performance	0.824
Leadership	0.850
Personal needs alignment	0.833
Conflict resolution	0.897
Governance	0.815
Mutual trust and respect	0.916
Active and non-active family members	0.770
Non-family members	0.751
Fairness	0.867
Division of labour	0.842
Senior generation family members	0.700

All 109 participants' responses were used to determine the reliability of the different constructs (refer to Table 3.13 above).

The results from Table 3.13 indicate that all the constructs are greater or equal to 0.700 therefore, all the constructs have a Cronbach Alpha coefficient equal or above the routine cut-off value of 0.700. This suggests that the questionnaire used in this study to measure the determinants of family harmony, has acceptable reliability and is internally consistent.

3.7 EVALUATION OF THE CONSTRUCTS DETERMINING FAMILY HARMONY

Van der Merwe and De Swardt (2008:10) point out that relatively low numbers on a Likert scale type questionnaire (e.g. where 1 = Strongly disagree; 7 = Strongly agree), represent disagreement with the statement and relatively high numbers represent agreement with the statement. Thus, a higher number representing agreement with the statement suggests that the statement is perceived to be true by the respondents. Likewise, a low number representing disagreement with the statement suggests that the statement is perceived to be false.

The average response or mean (\bar{x}) and the standard deviation (s) (variation around the mean) of each of the 13 constructs (independent variables) towards family harmony (dependent variable) are presented in Table 3.14.

Table 3.14: Evaluation of the constructs measuring family harmony

Construct	n	\bar{x}	S
Open communication	109	5.583	1.086
Family commitment	109	6.140	1.024
Financial performance	109	5.560	1.165
Leadership	109	5.837	0.934
Personal needs alignment	109	5.551	0.982
Conflict resolution	109	5.131	1.320
Governance	109	4.384	1.120
Mutual trust and respect	109	5.954	1.028
Active and non-active family members	109	5.784	1.115
Non-family members	109	4.530	1.375
Fairness	109	5.709	1.076
Division of labour	109	5.431	1.039
Senior generation family members	109	5.783	0.913

The constructs' average score of $\bar{x} = 5.455$ indicate that respondents, overall, strongly agree with the statements and suggest that the items measuring family harmony can be perceived as true. The constructs to which the respondents agree the best concerning the statements in the questionnaire are that of **Commitment** ($\bar{x} = 6.140$), **Mutual trust and respect** ($\bar{x} = 5.954$) and **Leadership** ($\bar{x} = 5.837$). The respondents also have a strong agreement towards the statements in the questionnaire concerning **Inactive family members** ($\bar{x} = 5.784$), **Senior generation family members** ($\bar{x} = 5.783$), **Fairness** ($\bar{x} = 5.709$), **Financial performance** ($\bar{x} =$

5.697), **Open communication** ($\bar{x} = 5.583$), **Personal needs alignment** ($\bar{x} = 5.551$), **Division of labour** ($\bar{x} = 5.431$), **Conflict** ($\bar{x} = 5.131$) and **Non-family members** ($\bar{x} = 4.530$).

The construct, **Governance** ($\bar{x} = 4.384$) obtained the lowest average score. This indicates a relatively low agreement with the statements / items concerned with governance. The standard deviations across all 13 constructs' averages are fairly high, ranging from 0.897 to 1.375 (on a 7-point scale).

The mean and standard deviation for the dependent variable, **Family harmony**, was calculated at 6.038 ($\bar{x} = 6.038$) and 1.024 ($s = 1.024$) respectively.

3.8 EVALUATION OF THE CONSTRUCT PERCEIVED FUTURE CONTINUITY

The construct, **Perceived future continuity** obtained an average score of $\bar{x} = 5.650$ and a standard deviation of $s = 1.165$. This indicates a relatively high agreement with the statements / items concerned with perceived future continuity. The coefficient or correlation for this construct **Perceived future continuity** was calculated at $r = 0.506$, which also indicate the relatively positive linear relationship between the construct and family harmony.

3.9 CORRELATION BETWEEN FAMILY HARMONY AND CONSTRUCTS

To investigate the correlation between the dependent variable, **family harmony**, and the independent variables, the Pearson correlation coefficients (r) were calculated and are presented in Table 3.15 (refer to Field, 2005:111). Levine, Stephan, Krehbiel and Berenson (2007:131) indicate that the coefficient of correlation indicates the linear relationship between two numerical variables. When the coefficient of correlation gets closer to +1 or -1, the linear relationship between the two variables is stronger.

Table 3.15: Correlation between family harmony and constructs

Constructs	Coefficient of Correlation (<i>r</i>)	Coefficient of Determination (<i>R</i> ²)
Open communication	0.884	0.781
Family commitment	0.902	0.813
Financial performance	0.547	0.299
Leadership	0.853	0.727
Personal needs alignment	0.626	0.391
Conflict resolution	0.595	0.354
Governance	0.382	0.145
Mutual trust and respect	0.905	0.819
Active and non-active family members	0.559	0.312
Non-family members	0.171	0.029
Fairness	0.882	0.777
Division of labour	0.789	0.622
Senior generation family members	0.722	0.521
Perceived future continuity	0.506	0.256

In order to determine whether the effect of the relationship between two constructs is important or meaningful, the size of the effect should be measured. Effect sizes are useful because it provides an objective measure of the importance of an effect (Field, 2005:32). A correlation coefficient of 0 means there is no visible relationship, and a value of 1 means that there is a perfect relationship. Cohen (1992:155-159), according to Field (2005:32), made the following widely accepted suggestions about what constitutes a large or small effect:

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

Based on Cohen's rules, it is evident from Table 3.15 that the independent variables **Non-family members** ($r = 0.171$) has a small effect on the dependent variable **Family harmony**, **Governance** ($r = 0.382$) has a medium effect on the dependent variable, **Family harmony**.

The rest of the independent variables (refer to table 3.15) have a large or practical significant effect ($r > 0.50$) on the dependent variable, **Family harmony**.

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

As an example, the results indicate that 81.3% ($r = 0.902$; $R^2 = 0.813$) of the variance between the independent variable, **Commitment**, and the dependent variable, **Family harmony**, is shared. The balance, 18.7%, can be ascribed to measurement errors in the variables **Commitment** and **Family harmony**, together with the influence of other unknown factors.

3.10 RELATIONSHIP BETWEEN THE DEMOGRAPHIC VARIABLES AND THE CONSTRUCTS

Statistical significance tests have the tendency to yield small *p-values* (indication of significance) as the size of the data sets increases. If the variables have a *p-value* of ($p < 0.05$) one could assume that the variable is statistically significant regarding that specific construct's contribution towards **family harmony**. The effect size, however, is independent of the sample size and is a measure of practical significance (Ellis & Steyn, 2003:51). A natural way to comment on practical significance is to use the standardised difference between the means of two populations, that being the difference between the two means divided by the estimate for

standard deviation, $d = \frac{|\bar{x}_{diff}|}{s_{diff}}$, where $|\bar{x}_{diff}|$ is the difference between the average scores of

active and **inactive family members**, without taking the sign into consideration, and s_{diff} is the standard deviation of the difference.

In this study, effect sizes (*d-values*) were calculated between the mean values to determine the relationship between all the constructs (refer to table 3.16 to Table 3.19), and demographic variables, such as **family involvement** (Table 3.16) and **gender** (Table 3.19) respectively. The effect sizes are shown in each table regarding a specific demographic variable. For the purpose of this study, any statistical significant differences regarding the *p-values* ($p\text{-value} \leq 0.05$) will be mentioned only, but any significant differences regarding the *d-values* will be discussed, since the *d-value* (or effect sizes) implies a stronger or more valid test than the *p-value*. Effect sizes (*d-values*) will be interpreted, according to Cohen's guidelines, as follows: small effect (*d-value* = 0.2), medium effect (*d-value* = 0.5), and large effect (*d-value* = 0.8). Results with

medium effects can be regarded as visible effects and with *d-value* ≥ 0.8 as practical significant, since it is the result of a difference having a large effect (Field, 2005:32; Ellis & Steyn, 2003:51-53; Thompson, 2001: 80-93).

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

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

Table 3.16 and Table 3.17 show the relationship between the different demographic variables and the constructs measuring **family harmony** with arithmetic mean (\bar{x}), standard deviation (*s*), statistical significance (*p-value*) and effect sizes (*d-value*).

3.10.1 Relationship between family involvement and the constructs

Table 3.16 presents the relationship between the demographic variable, **family involvement**, and the constructs measuring family harmony.

Table 3.16: Relationship between family involvement and the constructs

Construct	Active			Inactive			Comparison	
	N	\bar{x}	S	n	\bar{x}	s	p-value	d-value
Open communication	72	5.747	1.036	37	5.263	1.124	0.027	0.43
Family commitment	72	6.222	0.809	37	5.979	1.039	0.182	0.23
Financial performance	72	5.719	0.935	37	5.651	1.135	0.737	0.06
Leadership	72	5.921	0.914	37	5.671	0.961	0.186	0.26
Personal needs	72	5.886	0.908	37	4.899	0.777	0.000	1.09
Conflict resolution	72	5.369	1.256	37	4.665	1.332	0.008	0.53
Governance	72	4.474	1.082	37	4.209	1.187	0.245	0.22
Mutual trust and respect	72	6.083	0.985	37	5.702	1.075	0.067	0.35
inactive family	72	5.891	1.086	37	5.574	1.156	0.161	0.27
Non-family members	72	4.589	1.377	37	4.414	1.381	0.531	0.13
Fairness	72	5.763	1.051	37	5.601	1.129	0.459	0.14
Division of labour	72	5.544	0.995	37	5.212	1.101	0.115	0.30
Senior generation family	72	5.793	0.872	37	5.762	1.001	0.865	0.03

- **Statistical significant differences (*p-values*)**

Table 3.16 indicates a statistical significant difference between the perception of **active and inactive family members** with regard to the following variants measuring **family harmony**, that being **personal needs alignment** (*p-value* = 0.000), **conflict** (*p-value* = 0.008) and **open communication** (*p-value* = 0.027).

- **Practical significant differences (*d-values*)**

Based on Cohen's guidelines, table 3.16 indicates a practical significant difference between the involvement variables (**active and inactive family members**) with regard to the following construct measuring **family harmony**, which is **personal needs alignment** (*d-value* = 1.09).

3.10.2 Relationship between gender and the constructs

Table 3.17 shows the relationship between the demographic variable, **gender**, and the constructs measuring **family harmony**.

Table 3.17: Relationship between gender and the constructs

Construct	Male			Female			Comparison	
	n	\bar{x}	S	n	\bar{x}	S	p-value	d-value
Open communication	64	5.538	1.087	45	5.647	1.094	0.608	0.10
Family commitment	64	6.070	0.871	45	6.239	0.934	0.337	0.18
Financial performance	64	5.653	1.001	45	5.758	1.012	0.596	0.10
Leadership	64	5.745	0.989	45	5.967	0.842	0.222	0.23
Personal needs alignment	64	5.563	1.032	45	5.536	0.917	0.889	0.03
Conflict resolution	64	5.179	1.265	45	5.061	1.405	0.649	0.08
Governance	64	4.340	1.129	45	4.447	1.116	0.628	0.09
Mutual trust and respect	64	5.889	1.070	45	6.047	0.969	0.434	0.015
inactive family members	64	5.811	1.095	45	5.745	1.155	0.760	0.06
Non-family members	64	4.432	1.341	45	4.670	1.425	0.375	0.17
Fairness	64	5.619	1.138	45	5.837	0.979	0.299	0.19
Division of labour	64	5.371	1.067	45	5.518	1.003	0.471	0.14
Senior generation	64	5.746	0.892	45	5.836	0.951	0.617	0.09

- **Statistical significant differences (*p-values*)**

No statistical significant differences exist between the perceptions of **male** and **female** respondents towards the different constructs' contribution towards **family harmony**, since none of the constructs had *p-values* smaller than 0.05.

- **Practical significant differences (*d-values*)**

Leadership (*d-value* = 0.23) is the only construct with a *d-value* larger than 0.2. In other words, there is not a practical significant difference between the perceptions of **male** and **female** family members regarding the different constructs contribution towards **family harmony**.

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

Table 3.18: Relationship between the demographic variables and the dependent variable, family harmony

Classification	N	\bar{x}	S	p-value	d-value
Family involvement					
Active family members	72	6.102	1.002	0.346	0.18
Inactive family members	37	5.913	1.067		
Gender					
Male	64	5.929	1.065	0.188	0.25
Female	45	6.192	0.952		

- **Statistical significant differences (*p-values*)**

No statistical significant differences exist between the two demographical variables towards the dependent variable, **family harmony**, because none of the demographical variables tested had *p-values* smaller than 0.05.

- **Practical significant differences (*d-values*)**

There was no practical significant difference, since none of the demographical variable perceptions towards the dependant variable **family harmony** had *d-values* close to 0.8.

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

Table 3.19: Relationship between the demographic variables and the construct, perceived future continuity

Classification	N	\bar{x}	S	p-value	d-value
Family involvement					
Active family members	72	5.792	1.008	0.076	0.30
Inactive family members	37	5.373	1.395		
Gender					
Male	64	5.577	1.146	0.441	0.15
Female	45	5.753	1.195		

- **Statistical significant differences (*p-values*)**

No statistical significant differences exist between the two demographical variables towards the construct, **perceived continuity**, because none of the demographical variables tested had *p-values* smaller than 0.05.

- **Practical significant differences (*d-values*)**

There was no practical significant difference, since none of the demographical variable perceptions towards **perceived future** continuity yielded *d-values* close to 0.8.

3.13 SUMMARY

The empirical study was conducted by means of a field study using a structured questionnaire. The purpose of the literature review was to align the determinants of family harmony in family businesses according to a structured questionnaire developed by Prof. Elmarie Venter (NMMU), Dr. Shelly Farrington (Van Eeden) (NMMU) and Dr. Stephan van der Merwe (NWU). All thirteen constructs in the questionnaire were applicable to both active and inactive family members. Only Section C in the active family member questionnaire was applicable for the senior generation executive manager, to supply the family business information. The data collected

from the completed questionnaires was processed by the North-West University (Potchefstroom Campus) using Statistica (Statsoft, 2004) and SPSS, 2008).

A possible total of 54 family businesses were identified and a total of 252 questionnaires (161 active and 91 inactive) were handed out. The study was restricted to Gauteng, Free State and the North West provinces. A total of 72 active and 37 inactive questionnaires (109 in total) were completed by the family business participants; this accounted for 27 of the 54 family businesses initially identified.

The statistical analyses of the data were done by the North-West University and comprised the following: the Cronbach alpha coefficients (refer to Table 3.13), the mean (\bar{x}) (refer to Table 3.14), the standard deviation (s) (refer to Table 3.14), the coefficient of correlation (r) (refer to Table 3.15), the coefficient of determination (R^2) (refer to Table 3.15), the statistical significance (p -values) (refer to Table 3.16 to 3.19) and the effective size (d-values) (refer to Table 3.16 to 3.19).

The reliability of the research instrument, the questionnaire, was determined by means of the Cronbach alpha coefficient of each of the constructs. All of the constructs' Cronbach alpha coefficients were equal or greater than the routine cut-off value of 0.70. This suggests that the questionnaire used in this study to measure the latent constructs has acceptable reliability and can be accepted as internally consistent.

The evaluation of the constructs determining **Family harmony** was discussed in paragraph 3.14 and revealed that the average score range between ($\bar{x} = 6.140$) for the construct **Family commitment** and ($\bar{x} = 4.384$) for the construct **Governance**. This indicated a high level of agreement with the statements / items concerned with family **Commitment** and a relatively low agreement with the statements / items concerned with **Governance**.

The evaluation of the construct **Perceived future continuity** was discussed in paragraph 3.15 and revealed the average score of ($\bar{x} = 5.560$) for the construct. The coefficient or correlation for this construct **Perceived future continuity** was calculated at ($r = 0.506$).

The correlation between **Family harmony** and the constructs was discussed in paragraph 3.16 and revealed that based on Cohen's rules, it is evident from Table 3.16 that the independent variables, **Non-family members** ($r = 0.171$), and **Governance** ($r = 0.370$), have a medium effect on the dependent variable, **Family harmony**. The rest of the independent variables (refer

to table 3.16), however, have a large or practical significant effect ($r > 0.50$) on the dependent variable, **Family harmony**.

The relationship between the **demographic variables** and the constructs was discussed in paragraph 3.16 and revealed statistically significant differences exist between the **demographic variables** and the constructs. One visible difference was detected. Based on Cohen's guidelines, Table 3.16 also indicates a practical significant difference between these variables and the construct measuring family harmony.

The relationship between the demographic variables and the dependent variable, **Family harmony** was discussed in paragraph 3.11 and revealed that no practical significant differences exist between the **demographic variables** and **family harmony**.

The relationship between the **demographic variables** and the construct, **Perceived future continuity** was discussed in paragraph 3.12 and revealed that no practical significant differences exist between the demographic variable and the constructs, **Perceived future continuity**.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

4.1 INTRODUCTION

In this chapter, conclusions and recommendations will be discussed based on the constructs determining family harmony amongst family members in family businesses as evaluated during the literature review (Chapter 2) and the empirical study (Chapter 3). Thereafter, the achievement of the objectives will be evaluated. The chapter will be concluded by suggestions for future research and a summary.

4.2 CONCLUSIONS ON THE EMPIRICAL STUDY

An empirical study was done at 27 small and medium-sized family businesses within South Africa, restricted to the Gauteng, Free State and the North West provinces. Based on the literature review presented in Chapter 2 and the results of the empirical study presented in Chapter 3, it is now possible to make conclusions on the factors that could ensure harmonious family relationships in family businesses.

4.2.1 Conclusions on biographical data analysis

Only 27 of the 54 family businesses originally identified to take part in this study completed the questionnaires.

Seventy two (66.06%) of the 109 family members that participated in this study was active, thus permanently employed by the business. Thirty-three (30.28%) of all the active and inactive family members that responded fall in the younger than 29 years-old age group. A total of 32.11% of the family members are above 50 years of age. The number of active and inactive males and females are almost evenly distributed (64 males, 45 females).

Ninety one (83.5%) of the participants is directly related to each other. More than half, 47 (57%), of owners and their spouses are actively involved in the family business. Only 26 (32%) of the active family members were formally educated at a university.

4.2.2 Conclusions on family business information

The participating 27 family businesses are situated within South Africa, restricted to the Gauteng, Free State and the North-West provinces.

The size-classification of family businesses in this study is determined by the number of permanent employees employed in the business. Twelve (44.4%) micro family business (1 to 4 permanent employees) responded to this study. Eleven (40.7%) family businesses in this study are classified as small family businesses (5 to 50 permanent employees) and four (14.81%) are classified as medium-sized family businesses (51 to 200 permanent employees).

The annual turnover of family businesses in this study (refer to question C2 in Appendix A and paragraph 3.4.2), even though it is a very sensitive issue, 100% of the family businesses that participated in this study did indicate their annual turnover. Ten (37%) of these family businesses indicated a turnover of between R10m and R50m.

The combined operating years between the 27 responding family businesses are 469 man years (an average of 17.37 years per family business). Ten (37%) family businesses have been in business for less than 10 years. Eight (29.6%) family businesses have been operating between 10 and 20 years. Nine (33%) of all the participating family businesses have been in business for more than 20 years. The oldest family business in this study has been in operation for the last 74 years. From the research compiled, only one of the family businesses made it towards the fourth generation.

The most popular form of business in this study seem to be close corporations (44.44%), followed by sole proprietorships (33.33%), business trusts (11.11%), partnerships (3.7%), and private companies (3.7%).

4.2.3 Conclusions on the constructs determining family harmony

In the literature review done in Chapter 2, it can be seen that family harmony within family businesses is extremely important for the continuity of family businesses in the long term. However, to obtain family harmony within family businesses attention must be given to the 13 constructs determining family harmony (Chapter 2) within family businesses. Quantitative research was done by the use of a structured questionnaire consisting of two instruments

(questionnaires, refer to Appendix A and B). This two-part questionnaire, the **Family Harmony Diagnostic Questionnaire**, was developed by Prof. Elmarie Venter (NMMU), Dr. Shelly Farrington (Van Eeden) (NMMU) and Dr. Stephan van der Merwe (NWU). The questionnaire was created and based upon thirteen determinants of family harmony of family businesses. These instruments were used to gather information from the participating family businesses.

By referring to paragraph 3.7 and table 3.14, the constructs' average mean score of $\bar{x} = 5.455$ indicates that respondents, overall, strongly agree with the statements and suggest that the items measuring family harmony can be perceived as true.

The constructs to which the respondents agree the best concerning the items measuring the specific construct are that of **Commitment** ($\bar{x} = 6.140$), **Mutual trust and respect** ($\bar{x} = 5.954$) and **Leadership** ($\bar{x} = 5.837$). The three constructs that obtained the lowest score are, **Conflict** ($\bar{x} = 5.131$), **Non-family members** ($\bar{x} = 4.530$) and **Governance** ($\bar{x} = 4.384$). This indicates a relatively low agreement with these statements.

4.2.4 Conclusions on the Cronbach Alpha coefficients

To evaluate the reliability and the internal consistency of the items measuring each construct, the Cronbach alpha coefficient was calculated. A Cronbach alpha coefficient, equal or larger than 0.7, could be interpreted as reliable and internally consistent.

The results from Table 3.13 and discussed in paragraph 3.6 indicate that all the constructs yielded Cronbach alpha coefficients equal or larger than (0.700). Therefore, all the constructs have a Cronbach Alpha coefficient equal or above the routine cut-off value of 0.700. This suggests that the questionnaire used in this study to measure the determinants of family harmony, has acceptable reliability and is internally consistent.

4.2.5 Conclusions on the correlation between family harmony and constructs

In order to determine whether the effect of the relationship between two constructs is important or meaningful, the size of the effect should be measured. Effect sizes are useful because it provides an objective measure of the importance of an effect.

It is evident from Table 3.15 that the independent variable, **Non-family members** ($r = 0.171$) has a small effect on the dependent variable **Family harmony**. **Governance** ($r = 0.382$) has a medium effect on the dependent variable, **Family harmony**.

The rest of the independent variables (refer to table 3.15) have a large or practical significant effect ($r > 0.50$) on the dependent variable, **Family harmony**. Therefore, it is safe to say that strong positive correlations exist between the majority of the independent variables and the dependant variable, **Family harmony**. The independent variable with the highest correlation to **Family harmony** is **Mutual trust and respect** ($r = 0.905$).

4.2.6 Conclusions on the relationship between demographic variables and the constructs

Table 3.16 to Table 3.19 shows the relationship between the different demographic variables and the constructs measuring family harmony with arithmetic mean (\bar{x}), standard deviation (s), statistical significance (p -value) and effect sizes (d -value).

In Table 3.16 the relationship between the demographic variable, **family involvement**, and the constructs measuring **family harmony** is presented. Table 3.16 indicates a statistical significant difference between the perception of active and inactive family members with regard to the following variables measuring **family harmony**, that being **personal needs alignment** (p -value = 0.000), **conflict** (p -value = 0.008) and **open communication** (p -value = 0.027).

Based on Cohen's guidelines, Table 3.16 indicates a practical significant difference between the **involvement variables** (**active** and **inactive family members**) with regard to the following construct measuring **family harmony**, being **personal needs alignment** (d -value = 1.09). This means that, in practice, there is a practical significant difference between the perceptions of **active** (more positive) and **inactive** family members with regard to the construct, personal need alignment.

Table 3.17 shows the relationship between the demographic variable, **gender**, and the constructs measuring family harmony. No statistical significant differences exist between the perceptions of **male** and **female** respondents towards the different constructs' contribution towards **family harmony**, since none of the constructs had p -values smaller than 0.05. **Leadership** (d -value = 0.23) is the only construct with a d -value larger than 0.2. In other words,

there are not practical significant differences between the perceptions of **male** and **female** family members regarding the different constructs' contribution towards **family harmony**.

No statistical significant differences exist between the two demographical variables (**family involvement** and **gender**) towards the dependent variable, **family harmony**, because none of the demographical variables tested had *p-values* smaller than 0.05 (refer to Table 3.18). There is furthermore no practical significant difference since none of the mean values between the selected demographical variables yielded large effect sizes (*d-values* close to 0.8) (refer to Table 3.19).

4.3 PRACTICAL RECOMMENDATIONS

Family businesses play a huge role in the global economy in the twenty-first century. Family businesses can be seen as one of the largest contributors to jobs and wealth creation worldwide. Without family businesses the world would be a much poorer place. Therefore, continuity of family businesses across the world is extremely important. Without family harmony within family businesses, it would be difficult to obtain future continuity of family businesses – especially in the fast-paced world we live in today. Therefore there is no time to discuss important matters or build better interpersonal relations within the family and the family business, this can have a negative effect on family harmony.

The main objective of this study was to make recommendations to family businesses on how to obtain family harmony within the family business. This will help ensure the continuity of family businesses.

To ensure both family harmony and business success on a continuous basis the family and the family business should be of equal importance to family members, active or inactive. The following recommendations are based on information gathered from the literature review and empirical study:

4.3.1 Communication

Misunderstandings and potential areas of dispute in family businesses can be avoided if good communication channels are in place. Effective communication is one of the keys for good family relationships and conflict resolution. Although good communication does not eliminate conflict, it will certainly contribute to managing a business effectively and efficiently.

To avoid the pitfalls of poor communication, an atmosphere in which open discussion is welcomed must be promoted. A very effective way to promote a climate for open communication is to use the direct approach method. In other words, if it becomes necessary, the whole family should convene (active and inactive) at a neutral venue, to discuss family related issues in the family business.

There are a number of practical things that can be done to promote effective communication;

- Eliminate personal issues from business discussions by holding all meetings in a work environment rather than in a home environment.
- Create mechanisms for providing constructive feedback to family and non family members; this can help prevent employees and inactive family members from feeling excluded and later de-motivated.
- On occasion the business' strategic goals and way forward can be discussed in a relaxed environment at an out of office location.
- Appoint a non family member to the board to act as arbitrator and help prevent the emotions of family members to influence business decisions.
- Clear policies and procedures must be put in place, consisting of a vision, mission, goals, job descriptions and duties. This will guide the family's relationship within the business.

4.3.2 Managing conflict in family businesses

There is a much greater potential for conflict in family businesses than in any other form of business. The reason for this is due to a clash between the business or financial aspects and the emotional aspects of active and inactive family members. Conflict between family members in the working environment is not always necessarily bad and can sometimes have a positive effect on decision-making, like the strategic direction of the family business; for example, if conflict results in a much-needed rethinking of, for example the business plan, vision or mission of the family business, then it is positive. This, however, will only be possible if negative conflict is managed, resolved or avoided.

4.3.3 Ways to avoid and manage conflict

One person must not dominate the whole family business. There must be appropriate mechanisms in place that allow all the employees, family and non-family, to contribute to

discussions and decisions regarding the business. Emotional issues from family members must not cloud business decisions. One of the best ways of avoiding conflict is to avoid misunderstandings as the result of poor communication from happening in the first place. Drawing up a family charter and code of good conduct can help achieve this.

A written structure must be developed on how to handle conflict and disagreements and this must be laid out in the family-business charter. When minor disputes occur, regular management meetings may be appropriate for disputes resolution with decisions being made by ways of a majority vote. For more serious matters an independent mediator can be appointed.

4.3.4 Draw up a family-business constitution

One way to successfully manage conflict in a family business is to have a family-business constitution. When well drawn-up, such a document can even prevent conflict occurring in the first place. A family-business constitution can be seen as a statement of the general principles of the family business. It outlines the core values, vision, mission and goals of the family business, and the family's commitment to these strategic issues.

It can be seen as a practical guide for managing the family business and issues that potentially cause disputes. Everybody with an interest in the family business should be involved in drawing up the constitution, and it must be reviewed regularly.

A typical family-business constitution might include the following sections:

- Vision, mission, goals, objectives and values.
- Leadership.
- Management structure.
- Entry and exit policies for family members.
- Succession planning.
- The rights and responsibilities of active and inactive family members.
- The appointment policy of non-family members.
- Remuneration of employees.
- Involvement of non-family members and outside advisors.
- Communication channels.
- Dispute resolution procedures.

4.3.5 Family forums

A successful family business addresses rising concerns regarding communication by putting in place meetings, forums and structures to promote and facilitate continuous and effective, sharing of information, ideas and opinions. The first place to start with, is communication between the family members themselves about family matters. Family forums can, therefore, serve as a means of sharing experiences, acculturating new family members such as in-laws, discussing the family's welfare, and sharing the joys and spirit of family philanthropy (Ward, 2004:114).

Astrachan and McMillan (2003:34) argue that by instituting communication forums in which family members can talk with one another, a family creates a system for dealing with miscommunication as well as more serious conflict on an ongoing basis, instead of letting disagreements fester until they explode into open hostility. When family members have appropriate forums to voice their concerns, conflict may be avoided, managed and/or minimised (Bork *et al.*, 1996:137). In smaller first- and second-generation family businesses, effective communication can be facilitated through annual family meetings or forums, guided by an effective communication process for both family and business matters (Aronoff *et al.*, 2002:299; Borke *et al.*, 1996:107). Jaffe (1991:122) describes the family meeting as the vehicle to address and explore family concerns that influence the family and the business. It is a valuable tool to enhance family relationships and improve communication (Voeller *et al.*, 2002:39; Jaffe, 1991:122).

Families that have grown to a multigenerational stage may require a formal structure, such as a family council and/or a family office (Aronoff *et al.*, 2002:299; Bork *et al.*, 1996:107). Irrespective of their name or level of formality, family meetings or forums help to create and sustain a culture of mutual trust within the family (Cohn, 1992:21).

4.3.6 Succession planning in family businesses

Succession in family businesses is a very challenging task and can be seen as one of the main drivers of conflict in family businesses nearing the transition stages. Families need to make the right decisions for the family, the owner and the family business.

The succession planning process should start early and should include, amongst others, the following:

- The key goals and requirements for the succession process.
- A schedule of the transition stages; for example, identifying a successor, training him or her to become the successor, transferring full responsibilities and letting go.
- An alternative plan in case something happens to the successor, like death or failure.

The following is important in finding a successor:

- The successor must have the right **skills** and **abilities**.
- The successor must be **willing** to take over the family business.
- The succession plan must be **fair** to all family members.
- The decision must **minimize conflict**.
- Proper **estate planning** should be in place to ensure financial security for the person letting go.

4.4 CRITICAL EVALUATION OF THE STUDY

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

4.4.1 Primary objective

The primary objective of this study was to empirically explore various determinants of family harmony in small and medium-sized family businesses in South Africa and to give recommendations to enable the family businesses to obtain family harmony to ensure long-term sustainability.

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

4.4.2 Secondary objectives

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

- To define family businesses.
- To gain insight into the dynamics of family businesses by means of a literature review.
- To identify the objects that could measure the determinants of family harmony in family businesses.
- To measure the reliability of the questionnaire.
- To assess the determinants of family harmony in small and medium-sized family businesses.
- To explore the correlation between the dependent and independent variables.
- To examine the relationship between the demographical variables and the constructs measuring family harmony.
- To suggest practical recommendations to improve family relationships in the family business.

The first objective, to define family businesses, was achieved by defining family businesses in paragraph 2.2 in chapter 2 of this study. The second secondary objective, to obtain insight into the dynamics of family businesses by means of a literature review, was achieved by means of the literature review presented in chapter 2. The third objective was to identify the items that could measure the determinants of family harmony in family businesses; this was also achieved by means of a literature review and the constructing of the questionnaire.

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

The fifth objective, to assess the determinants of family harmony in small and medium-sized family businesses, was achieved by means of a detailed literature review (refer to section 2.6) followed by an evaluation thereof in chapter three (refer to paragraph 3.7), as well as conclusions made in chapter four (refer to paragraph 4.2.3).

The sixth objective, to determine the correlations between the dependent and independent variables was achieved by presenting the findings in paragraph 3.9 of this study. The seventh objective was to examine the relationship between the demographical variables and the constructs measuring family harmony. By achieving this objective, it was important to determine if any statistical and practical significant differences exist between the demographical variables

assessed and that of the dependent variable **family harmony** and the **perceived future continuity**. This objective was achieved by means of the presentation and discussion of the findings in paragraph 3.11 and 3.12 respectively.

The last secondary objective, to suggest practical recommendations to improve family relationships in the family business was achieved by presenting practical recommendations in paragraph 4.3 of this study.

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

4.5 SUGGESTIONS FOR FUTURE RESEARCH

Research on family businesses, especially research on family harmony within family businesses, is lacking behind other fields of study. This can be evident in the fact that the definition of family businesses is still widely disputed. This study attempted to make a contribution to the body of knowledge on family harmony in small and medium-sized family businesses. The following are some recommendations for future studies:

- The study only consisted of family businesses in the Free State, Gauteng and the North West provinces. Future research can be done in other provinces, or ideally include all the provinces in South Africa.
- Because of the convenience sampling technique the sample used in the study could not be a true representation of family businesses in South Africa. Future studies may use other sampling techniques and bigger sample sizes.
- Findings in this study could not be generalised, since it does not represent all the business industries in an equal way. Future research can be done on one industry at a time until all the industries are covered equally.
- The thirteen predetermined constructs used in this study to determine family harmony within family businesses cannot be seen as the only determinants of family harmony. New research might suggest finding more valid determinants of family harmony within family businesses.
- All the family businesses that participated in this study were white-owned. Future research should include all the racial classifications in South Africa.

- More advanced statistical procedures like structural equation modelling can be used to further develop the instrument.

4.6 SUMMARY

In this chapter, conclusions and recommendations were discussed based on the constructs determining family harmony amongst family members in family businesses as evaluated in the literature review (Chapter 2) and the empirical study (Chapter 3). An empirical study included 27 family businesses within South Africa, restricted to the Gauteng, Free State and the North West provinces of South Africa. After the administration of structured questionnaires it was possible to make conclusions on the factors that could ensure harmonious family relationships in family businesses.

Only 50% of the family businesses originally identified participated in this study. Out of 109 family members that participated in this study, 72 were active and a total of 37 were inactive in the day-to-day business activities of the family business. Biographical variables such as age, gender and marital status were analysed and conclusions were made based upon these results.

All the information relating to the participating family business was analysed in Chapter 3. The analyses included the size classification of the family business, the age of the family business, annual turnover, the industry in which the family business operates and the legal entity of the business. The results obtained were discussed in Chapter 4.

An analysis of the relationship of the thirteen constructs (determinants) measuring family harmony was made towards the dependent variable (family harmony). The Cronbach alpha coefficient of each construct was calculated to evaluate the reliability and internal consistency of the questionnaire. Conclusions on the correlation between family harmony and constructs were made in order to determine whether the effect of the relationship between the constructs and family harmony is important or meaningful. Conclusions on the relationship between demographic variables and the constructs show the relationship between the different demographic variables and the constructs measuring family harmony. The relationship between demographic variables and future continuity was also analysed.

Practical recommendations were made to ensure that both family harmony and business success and continuity would be obtained. The recommendations are based on information gathered from the literature review and the empirical study. Recommendations that were made include open communication, managing conflict in family businesses, ways to avoid serious conflict, drawing up a family-business constitution, the establishment and maintaining of family forums and succession planning. The achievement of the primary and secondary objectives was critically evaluated and the chapter were concluded by suggestions for future research.

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