The impact of selected stakeholders on family business continuity and family harmony

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ABSTRACT

The growth, survival and success of a family business are often influenced by issues relating to family relationships and family harmony. Not only do the actions of family members influence the success or failure of the family business, but so does the behaviour of non-family stakeholders. The success or failure of the family business may also have important emotional and financial ramifications for the different stakeholders involved in the business, whether that involvement is physical or emotional. Yet, very little is known about the impact that the various stakeholder groups have on the success of the family business, its continuity or the family harmony that prevails. Consequently, the primary objective of this study is to evaluate the impact of selected stakeholders, namely *non-family members, inactive family members,* the *senior generation* and the *incumbent generation* on the success of family businesses. Success, for the purposes of this study, was measured using two variables, *family harmony* and *perceived future continuity*.

Respondents were identified by means of convenience sampling, and a total of 468 usable questionnaires were returned. The data collected were subjected to various statistical analyses. The validity of the measuring instrument was assessed by means of an exploratory factor analysis and reliability by calculating Cronbach's alpha coefficients. The relationships proposed in the hypothesised model were assessed by means of structural equation modelling (SEM).

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The empirical results of this study reveal that *family harmony* influences the *perceived future continuity* of family businesses. In turn, *inactive family members* and the *incumbent generation* have a significant impact on the *family harmony* that exists in the family business.

Key words: family business, inactive stakeholders, active stakeholders, continuity, family harmony

Introduction and primary objective

It is well known that family businesses derive their special nature from the influence of family on business (Hall & Nordqvist 2008; Leach 2007). The complicated dynamics that exist among family members not only influence the performance of their family business but also its growth, change and transitioning over time. Interpersonal dynamics among family members have been identified as a critical factor in the low number of successful multi-generational transfers among such businesses (Farrington, Venter & Boshoff 2010). In turn, the dynamics of the family business also affect the well-being of the family (Olson, Zuiker, Danes, Stafford, Heck & Duncan 2003), and the family should be clear about the positive link between the longevity of the business and the well-being of the family (Ibrahim, McGuire & Soufani 2009; Venter & Boshoff 2006). Family business leaders know that when they encounter difficulties in the business, such as conflict between family members, both the success of the business and the relationships among family members are at risk (Visser & Strydom 2010).

Issues pertaining to family relationships have been identified as the primary threat influencing the growth, success and survival of these types of businesses. It is from conflict-laden family relationships that many family issues emanate (Molly, Laveren & Deloof 2010), and managing both the family and the business appears to be a constant challenge facing family business owners (Schuman, Stutz & Ward 2010). For families to add value and not poison the business, attention needs to be paid to family relationships (Gordon & Nicholson 2010). Therefore, taking these family dynamics into account (Ibrahim et al. 2009) is vital when researching family businesses.

It is, however, not only family members that influence the success of the family business, but also non-family members (including non-family employees) (Claver, Rienda & Quer 2009; Eybers 2010; Poza 2010). Sundaramurthy (2008) and Farrington et al. (2010) observe that it is important for family and non-family members to work together if the family business is to continue and grow. In other words, in order for family businesses to survive and to be successful, family members need to nurture their personal relationships with one another, as well as with other non-family stakeholders (Swart 2005).

Despite the challenges posed by the interpersonal dynamics that arise among the various family business stakeholder groups, family businesses have been known to achieve extraordinary outcomes, often to a greater extent than non-family businesses (Gordon & Nicholson 2010; Schuman et al. 2010), which emphasises the need for further research into what can be done to ensure the continued success of such businesses. Family and non-family member stakeholders have an important influence on the family business, and this article attempts to obtain greater insights into this influence.

Against this background, the primary objective of this study is twofold: firstly to empirically test the impact of the involvement of various stakeholder groups on the success of small and medium-sized family businesses, and secondly to suggest recommendations that could assist family business leaders to successfully manage stakeholder relationships in their businesses.

For the purposes of this study, a small and medium-sized family business is one where a single family owns at least 51% of the equity of the business; where a single family is able to exercise considerable influence in the business; where at least two family members are concerned with the senior management of the business; and where the business employs fewer than 200 full-time employees. The success of the family business is measured using two variables, namely *family harmony* and *perceived future continuity*, whereas the key stakeholders identified as influencing family business success and investigated in this study are the senior generation (parents), the incumbent generation (children), inactive family members (for example, spouses, siblings and parents) and non-family members (including non-family employees).

Perceived future continuity and family harmony

As mentioned, family business success is measured using two variables, namely the *perceived future continuity* of a family business and *family harmony*. These variables serve respectively as the dependent and intervening variables in this study. *Perceived future continuity* refers to the family business providing future generations with employment, wealth, involvement and a legacy. In other words, continuity refers to the family business specifically continuing as a family business. *Family harmony* refers to relationships between family members characterised by support, appreciation, care, emotional attachment and cooperation.

The commitment of the family to the future continuity of the family business is a priority, as it supports the development of a shared future vision and the continuity plan of the family business (Carlock & Ward 2001). Furthermore, commitment to nurturing the family business provides support for future generations by means of both employment opportunities and financial assistance (Miller & Le Breton-Miller 2005).

Zellweger and Nason (2008) are of the opinion that measures of success in family businesses can broadly be categorised as economic or non-economic. Cater and Justis (2009) assert that non-economic goals may even take priority over economic goals such as growth and profitability in family businesses. In family business research, non-economic goals, such as the satisfaction of family members involved in a family business, are commonly associated with success (Distelberg & Sorenson 2009; Farrington et al. 2010; Zellweger & Nason 2008). A successful family business is one that does not destroy or weaken family harmony (Hess 2006). Both anecdotal and empirical evidence suggests that harmonious relationships among family members are essential for successful family businesses as well as successful successions (Eybers 2010; Farrington 2009; Flören 2002; Sharma 2004; Ward 2004).

According to Santiago (2000), the continuation of the family business is regarded as being of high significance, and the more cohesive the family, the greater the aspiration to share the responsibility of continuing with the family business. Similarly, Lansberg and Astrachan (1994), and Dyer (1986) report that cohesive families are usually committed to the continuation of the business, succession planning, training of the successor and effective transitions. Furthermore, in a family business characterised by disharmonious family relationships, it is highly unlikely that family and non-family stakeholders will find their involvement in the family business to be satisfying, let alone be committed to its future continuation (Farrington et al. 2010).

Several empirical studies (see for example, Letele-Matabooe 2009; Slaughter 2009; Van der Merwe & Ellis 2007) support the relationship between perceived future continuity and family harmony in a family business, as well as a strong correlation between family harmony and family business continuity (Barach & Ganitsky 1995; Friedman 1991; Malone 1989; Santiago 2000; Venter 2003). This implies that the greater the level of family harmony, the greater the possibility that business continuity will occur.

In contrast, Sharma (1997) reports that family harmony has no significant impact on the agreement of the family members concerning the continuation of the business. In other words, family conflict does not necessarily mean conflict in the business, and vice versa (Sharma 2004). However, despite Sharma's findings, the following relationship is hypothesised:

H1: There is a positive relationship between the level of *family harmony* and *perceived future continuity* of the family business.

Key stakeholder relationships impacting the success of family businesses

According to the traditional input–output models of economic activity, businesses address the needs and wishes of four key parties, namely investors, employees, suppliers and customers (Farrington 2009). However, stakeholder theory recognises that there are other parties who are also important to the successful functioning of a business (Wikipedia 2006). As a result, management should recognise that it is not sufficient to focus solely on the needs of shareholders (Moura-Leite, Padgett & Galan 2011; DesJardins & McCall 2004), but that business decisions should be made taking the interests of all the stakeholders of a business into account (Moon & Hyun 2009).

Martinez and Norman (2004), and Walters (2011) assert that the long-term survival and success of a business is determined by its ability to establish and maintain relationships within its entire network of stakeholders. Harmonious stakeholder relationships are distinctive to individual organisations, thereby making it difficult for rivals to imitate them in the short term and effectively boosting their competitiveness (Tse 2011). The effective management of key stakeholders also plays a pivotal role in attracting, retaining and motivating employees, thereby increasing productivity, enhancing profitability (Moura-Leite et al. 2011) and reducing stakeholder-inflicted costs such as employee turnover costs (Mishra & Suar 2010).

Sharma (2001) distinguishes between internal and external family business stakeholders. She classifies internal stakeholders as those involved with the business, including employees (Poza, Alfred & Maheshwari 1997), owners and/or family members. External stakeholders are stakeholders who are not linked to the family business, whether through employment, ownership or family membership (Sharma 2004). In addition to having the same stakeholders as other non-family businesses, key stakeholders in family businesses include family members that have an investment in the business, such as working parents and family member employees; those having an investment in the business but not actively involved in the business (non-active shareholders); and those that do not have an investment in the business, such as retired owners and spouses (Farrington et al. 2010). The actions of these family and non-family members, which are all subsystems within the family business as the main system, influence the success or failure of the family business, with important emotional and financial implications for both stakeholder groups (Farrington 2009; Nieman 2006; Sharma 2001, 2004).

Even though clients, suppliers, competitors, service providers and the community can also be classified as stakeholders of the family business, the focus of this article is on investigating the influence of stakeholders that have a more direct influence on the family business, either by being family members or actively involved in the business.

The key stakeholder groups, which serve as the independent variables in this study, include: *non-family members* (including non-family employees), *inactive family members,* the *senior generation* (parents) and the *incumbent generation* (children). For the purposes of this study, however, the concept of 'involvement' is seen from two perspectives, namely a physical perspective and an emotional perspective. With respect to *non-family members* and *inactive family members*, their involvement in the family business is related specifically to their being physically involved in terms of participating and/or interfering in the family business, or not. The *senior generation* and the *incumbent generation* are, however, already physically involved in the family business. It would thus make no sense to measure their involvement in this context. Consequently, the involvement of the *senior generation* and the *incumbent generation* is measured in terms of their emotional involvement. This emotional involvement will be evident in terms of whether they are still contributing to the business and have the best interests of the business at heart, in the case of the senior generation; and in the case of the incumbent generation, whether they are achieving their personal goals and experiencing fulfilment.

Senior generation

For the purposes of this study, *senior generation* refers to the willingness of the senior generation to delegate authority, share important information concerning the business and relinquish control, as well as ensuring their financial security after retirement. There is ample anecdotal and empirical evidence to suggest that the present involvement and/or interference of parents in the family business and in the present-day relationships between the children have an influence on the success of the family business (Aronoff, Astrachan, Mendoza & Ward 1997; Cater & Justis 2009; Colin & Colin 2008; De Massis, Chau, & Chrisman 2008; Sharma 2004).

Davis and Harveston (1999) found that conflict is greater between second-generation family businesses when the founder continues to be actively involved in the family business, than when the founders are no longer actively involved. Kets de Vries, Carlock and Florent-Treacy (2007) emphasise that conflict between family and business practices inevitably deepens in times of transition. Swogger (1991) and Handler (1992) are similarly of the opinion that rigid emotional ties to parents can paralyse a successor generation and have important implications for the successor's quality of experience of the succession process.

In her study on sibling teams, Farrington (2009) concludes that if parents are alive, they can continue to exercise enormous influence on the sibling team. The respondents in Farrington's study (2009) were of the opinion that the more their parents were involved in their lives and in their relationships while they were growing up, the more likely their business is to experience growth performance, and the more likely they are to be satisfied with their current work and family relationships. In her study, she also reported that the less the parents of siblings are involved and/or interfere in the business and in the present-day relationships between the siblings, the more likely the siblings are to experience their work and family relationships as satisfying.

Based on the empirical findings of Venter (2003), the financial security of the owner-manager and the family business is a vital determinant of the respondents' satisfaction with the succession process, as well as their perception of the continued profitability of the family business. She found that the more financially stable the business and the owner-manager are at the time of the owner-manager's exit, the greater the likelihood of the business continuing to be profitable, as well as the more satisfied all the stakeholders will be with the succession process. It can thus be inferred that when the various stakeholders perceive the financial security of the senior generation as being satisfactory, it will lead to increased family harmony and perceived future continuity of the family business. Against this background, the following relationship is hypothesised:

> H2: There is a positive relationship between the *senior generation* and the level of *family harmony* in the family business.

Incumbent generation

For the purposes of this study, *incumbent generation* refers to active family members being able to realise their personal ambitions and satisfy their career needs in the context of the family business, as well as finding their involvement in the family business to be fulfilling. According to Leach (2007), the next generation has a unique opportunity to build a challenging and enriching career for themselves in the family business, enjoying several advantages by doing so. In addition, Kenyon-Rouvinez and Ward (2005) stress that the alignment between the business goals and those of family members can create a unity of purpose that should enable much greater business agility and a wider range of strategic options. Fostering alignment of personal and business needs is essential to optimise the health of the family business and enable its long-term success.

In her study on succession, Venter (2003) found that the willingness of the successor to take over the family business is positively correlated with both satisfaction with the succession process and the continued profitability of the business. Various other researchers (for example, Sheperd & Zacharakis 2000; Van der Merwe 1999) concur with this result. Venter (2003) also supports the suggestion made by Handler (1989) that the more the personal needs of a next-generation family member can be met in the context of a family business, the greater the chance that the person will experience the succession process as positive and will have a willingness to ensure the continuation of the family business. Sharma (1997) also found that the alignment of career interests of the successors in family businesses has an influence on their willingness to take over the business.

In her study among siblings in business together, Farrington (2009) reports that the more the siblings are able to realise their own dreams through their involvement in the sibling partnership, the more likely it is that they will be satisfied with their work and family relationships. Eybers (2010) reported similar finding in her study among spouses in business together. It is therefore hypothesised that:

> H3: There is a positive relationship between the *incumbent generation* and the level of *family harmony* in the family business.

Inactive family members

For the purposes of this study, *inactive family members* refers to inactive family members not being involved in the family business in terms of interfering in the business decision-making or disagreements.

For example, inactive sibling shareholders can exercise considerable influence on the ability of the siblings and other family members to work together, either in a positive or negative way, as well as influence the success of the family business (Farrington et al. 2010; Maas, Van der Merwe & Venter 2005; Van der Heyden, Blondel & Carlock 2005). The behaviour of spouses is an especially important factor that influences whether members of the sibling team will be able to work together successfully and in a manner that is reasonably harmonious (Farrington et al. 2010). Regardless of a spouse's degree of direct participation in the business, spousal behaviour permeates family relationships and can affect business performance by influencing the entrepreneur's attitudes, resources and motivation towards the business (Poza & Messer 2001; Van Auken & Werbel 2006).

In her study, Farrington (2009) found that the less the extent to which inactive family members and spouses are involved and/or interfere in the family business, the greater the financial performance of the business will be. This can also mean that the less the extent to which inactive family members are involved in the family business, the greater the perceived future continuity and the chances of success will be. In contrast, Maas et al. (2005) and Schiff Estess (1999) found that other family members such as spouses, siblings and parents can be trusted as employees; generally have a dedicated understanding of the causes and effects of conflict in the family business; and are more objective than family members actively involved in the business. In an effort to clarify these contradicting viewpoints and findings concerning the influence of inactive family members, it is hypothesised that:

> H4: There is a positive relationship between *inactive family members* not interfering in the family business and the level of *family harmony* in the family business.

Non-family members

For the purposes of this study, *non-family members* refers to non-family members involved in the business who offer expertise and skills, and form part of the management team as well as assisting in strategic business decisions. These non-family members include people such as outside professionals, experts, consultants, advisors and non-family employees.

A considerable amount of anecdotal and empirical evidence suggests that *non-family members* can play an important role in either the maintenance of positive relationships or in the creation of conflict between family members (see for example, Aronoff et al.; Fahed-Sreih & Djoundourian 2006; Farrington 2009; Eybers 2010; Maas et al. 2005). Ceja and Tàpies (2009), as well as Eybers (2010), Sharma (2004) and Ward (2004), maintain that for a family business to achieve long-term growth, pass down the business from one generation to the next and continue to thrive, family businesses must consider employing outsiders. Chua, Chrisman and Sharma (2003) also point out that non-family managers help family businesses accelerate growth by providing needed skills and new ideas. In the same manner, Leach (2007) is of the opinion that by being outward-looking and willing to take advantage of external skills, family businesses are better able to grow and respond successfully to change. Chosen wisely, 'outside' professional advisors and consultants offer an extra dimension of competence, experience and objectivity to issues affecting both the family and the business. Poutziouris, Smyrnios and Klein (2006) note that family businesses with outside assistance report enhanced levels of performance stemming from professional advice.

In their study, Fahed-Sreih and Djoundourian (2006) found that the inclusion of non-family members in leading positions appeared to be more acceptable than including spouses in these top positions. In his study, Robinson (1982) identified that small businesses engaging outsiders (non-family members) in their strategic planning experienced greater increases in their efficiency than their counterparts that did not follow this practice. Malone (1989) found a positive relationship between the percentage of outsiders (non-family members) on the board of directors and the level of continuity planning within the business. A characteristic of efficient family businesses is the readiness to acquire expertise from experienced professionals, as suggested by the empirical results of Sorenson (2000). Both Eybers (2010) and Farrington (2009) found a positive relationship between non-family members' involvement and the growth performance of the family business. However, Farrington (2009) found no significant relationship between non-family members' involvement and satisfaction with work and family relationships.

Despite the findings of Farrington (2009), it is hypothesised that:

H5: There is a positive relationship between the involvement of *non-family members* and the level of *family harmony* in the family business.

Hypothesised model

The family and non-family member stakeholders investigated in this study (see Figure 1) are supported by theory in the family business literature. This study does not claim to investigate every possible stakeholder relationship influencing family harmony and the perceived future continuity of the family business.

Figure 1 (the hypothesised model) demonstrates the impact that selected stakeholder groups, namely the *senior generation* (parents), the *incumbent generation* (children), *inactive family* members (for example, spouses, siblings and parents) and *non-family members* (including non-family employees) have on the intervening variable *family harmony*. The relationship between *family harmony* and *perceived future continuity* (dependent variable) will also be investigated, as illustrated in Figure 1.

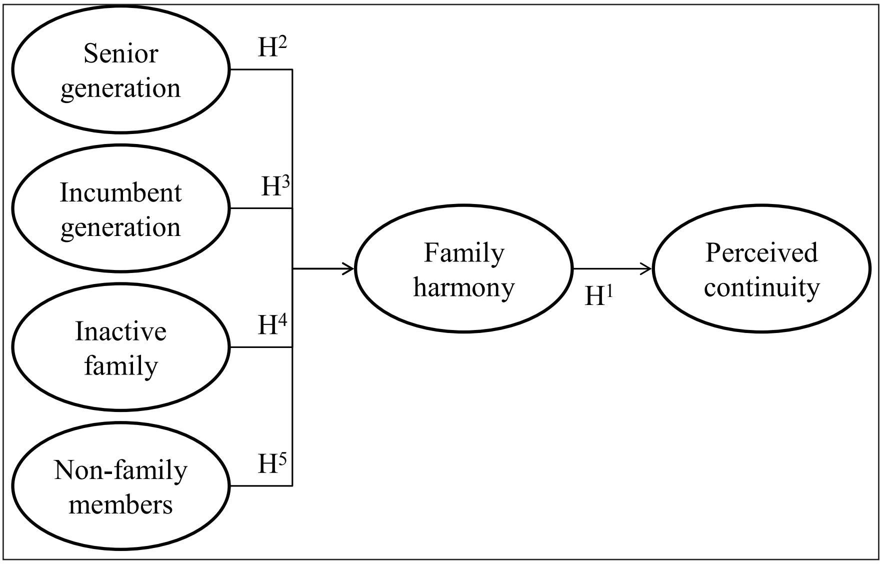

Figure 1: Hypothesised model: The impact of selected stakeholder groups on family harmony and perceived future continuity

Research methodology

Population studied

The target population of this study was small and medium-sized family businesses in South Africa. Numerous attempts were made to secure a database of family businesses in South Africa, but to no avail. Therefore, it was decided to use a convenience sample, which applies the snowball sampling technique, to identify potential family businesses willing to participate. A list of 420 family businesses was compiled as a result of these efforts. The sampling technique and methodology are consistent with that of other family business researchers who have been unable to access a national database on family businesses (for example, Adendorff 2004; Farrington 2009; Sonfield & Lussier 2004; Van der Merwe & Ellis 2007; Venter 2003).

Scale development

Each factor under investigation was operationalised by means of items from validated measuring instruments used in prior empirical studies of a similar nature (for example, Adendorff 2004; Eybers 2010; Farrington 2009; Slaughter 2009;

Van der Merwe & Ellis 2007; Venter 2003). In some cases, self-generated items identified through secondary sources were also used to measure the factors. The items were rearticulated to make them more appropriate for the current study, and then used to empirically test the relationships hypothesised in Figure 1.

The researchers employed the survey technique to conduct their study, and potential participants were given a self-administered questionnaire to complete. The first section of the questionnaire, section A, comprises 37 items pertaining to the involvement of the various family and non-family stakeholders in the family business, along with items measuring the level of *family harmony* and *perceived future continuity* of the family business. A seven-point Likert-type interval scale was used (1 = strongly disagree; 7 = strongly agree) where the participants were invited to indicate their extent of agreement with each statement. Demographic details relating to the respondent and the family business were requested in section B of the questionnaire.

Data collection and analysis

Family businesses listed in the database were contacted to identify the individual family members in the particular family. Questionnaires were then mailed to these family members. Each questionnaire was sent with a covering letter that guaranteed the confidentiality of the responses, as well as a pre-paid reply envelope to facilitate participation. A total of 468 questionnaires were returned (response rate of 45.09%) from 80 family businesses.

The validity of the measuring instrument was assessed by means of exploratory factor analysis, and the reliability by calculating Cronbach's alpha coefficients. The relationships proposed in the conceptual model were assessed by means of structural equation modelling (SEM).

Empirical results

Sample description

Slightly more than half of the respondents (51.5%) were male, and 48.3% were female. Most of the respondents were married (71.6%), while the remaining respondents were single (22.0%); divorced (4.1%) or widowed (2.1%). Concerning the age of the respondents, 26.7% were aged 29 or younger; 24.4% were between the ages of 30 and 39; 21.2% between the ages 40 and 49; 17.9% between the ages of 50 and 59, and the other 9.8% were over the age of 60.

Of the 468 respondents who participated in the study, 60.5% were actively involved in the family business, while 39.5% were inactive. All the businesses that participated in the study (n = 80), could be categorised as small and medium-sized family businesses (thus employing fewer than 200 employees). The majority (76.9%) of the businesses that participated in the study operated as an intergenerational family business, while 16.0% operated as sibling and 7.1% as copreneurial family businesses.

Discriminant validity and reliability results

Exploratory factor analysis (see Table 1) was conducted to identify the unique factors present in the data and assess the discriminant validity of the measuring instrument. The software program SPSS 17 for Windows was used for this purpose. In this study, there was theoretical justification to believe that the factors measuring the dependent and intervening variables would correlate with one another; therefore, as suggested by Field (2009), a principal axis factoring with an oblique (Oblimin with Kaiser normalisation) rotation was performed on the principal components of the exploratory factor analysis.

Cronbach's alpha was used to assess the internal consistency of the measuring instrument in this study. The software program SPSS 17 (SPSS 2009) was used to calculate the Cronbach's alpha coefficient for each factor identified by means of the exploratory factor analysis. In this study, a Cronbach's alpha coefficient of greater than 0.70 (Nunnally & Bernstein 1994) was employed to indicate a factor as reliable.

All eight items expected to measure the construct *family harmony* (the intervening variables in this study) loaded together on one factor. *Family harmony* reports an eigenvalue of 10.30 and explains 38.13% of the variance in the data. Factor loadings of greater than 0.40 (Table 1) are reported for all items, thereby providing sufficient evidence of discriminant validity for this scale. The Cronbach's alpha coefficient of 0.911 for *family harmony* suggests that the instrument used to measure this construct is reliable.

Only four of the six items intended to measure *perceived future continuity* (the dependent variable in this study) loaded together as expected. The items CONTIN1 and CONTIN6 did not load on any of the factors and were therefore not used in subsequent analyses. *Perceived future continuity* reported an eigenvalue of 1.32 and factor loadings of greater than 0.54 (Table 1). *Perceived future continuity* explains 4.91% of the variance in the data. Sufficient evidence of discriminant validity for this construct is thus provided. The Cronbach's alpha coefficient of 0.865 for *perceived future continuity* implies that the instrument used to measure this construct is reliable.

Table 1: Factor loadings

	HARMONY	NONFAM	INACTIVE	CONTINU	INCUMB
HARMONY3	**0.794**	0.008	0.116	-0.023	-0.024
HARMONY5	**0.739**	0.058	-0.004	0.021	-0.057
HARMONY4	**0.692**	-0.360	0.076	0.155	0.034
HARMONY7	**0.625**	0.014	0.143	-0.025	-0.177
HARMONY1	**0.604**	0.017	-0.039	0.110	0.111
HARMONY2	**0.587**	0.087	-0.023	-0.007	-0.220
HARMONY6	**0.506**	-0.022	0.089	0.063	-0.168
HARMONY8	**0.504**	-0.004	0.263	0.069	-0.129
NONFAM4	-0.035	**0.818**	-0.017	0.052	0.028
NONFAM5	0.063	**0.718**	-0.094	0.021	0.019
NONFAM3	0.027	**0.648**	0.034	-0.060	0.018
NONFAM6	0.025	**0.571**	-0.013	-0.056	0.006
NONFAM1	-0.078	**0.480**	0.074	0.086	-0.040
NACTIVE1	-0.065	0.013	**0.766**	0.071	0.088
NACTIVE2	0.048	-0.008	**0.722**	0.090	0.072
NACTIVE3	0.074	0.057	**0.584**	-0.120	-0.132
NACTIVE4	0.087	-0.040	**0.579**	-0.034	-0.116
CONTINU4	0.123	0.010	0.051	**0.711**	-0.114
CONTINU2	0.024	0.026	0.037	**0.616**	-0.141
CONTINU3	0.160	0.068	0.064	**0.565**	-0.087
CONTINU5	0.258	0.053	0.031	**0.537**	-0.162
INCUMB7	-0.067	0.039	0.042	0.184	**-0.763**
INCUMB8	-0.028	0.049	0.046	0.045	**-0.736**
INCUMB4	0.024	-0.006	0.107	0.062	**-0.703**
INCUMB1	0.101	-0.029	-0.077	0.132	**-0.565**
INCUMB6	0.211	-0.017	0.062	0.157	**-0.530**
SENIOR1	0.295	0.134	0.017	-0.188	**-0.402**

Note: Factor loadings greater than or equal to 0.40 were considered significant.
The wording of the items is provided in Appendix A.

Of the six items intended to measure the factor *non-family members*, only five items loaded together as expected. The item NONFAM2 did not load and was therefore not used in subsequent analyses. An eigenvalue of 2.50 and factor loadings of greater than 0.48 for *non-family members* are reported in Table 1. The factor *non-family members* explains 9.25% of the variance in the data. Sufficient evidence of discriminant validity is therefore provided for the scale measuring *non-family members*. The Cronbach's alpha coefficient for *non-family members* is 0.777, providing evidence of reliability for the scale measuring this construct.

Of the original four items intended to measure the construct *inactive family members,* all four loaded on to this factor as expected. An eigenvalue of 1.71 and factor loadings of greater than 0.58 are reported for this factor (Table 1). *Inactive family members* explains 6.32% of the variance in the data. Sufficient evidence of discriminant validity is therefore provided for this construct. The Cronbach's alpha coefficient for *inactive family members* is 0.781, suggesting that the measuring instrument used to measure this construct is reliable.

Only five of the eight items originally used to measure the factor *incumbent generation* loaded together. The item SENIOR1 originally used to measure the *senior generation* loaded on to the factor *incumbent generation.* The items INCUMB2, INCUMB 3 and INCUMB5 did not load at all and were therefore not used in subsequent analyses. An eigenvalue of 1.22 and factor loadings greater than 0.40 (absolute values) are reported in Table 1 for this factor. *Incumbent generation* explained 4.51% of the variance in the data, thus providing sufficient evidence of discriminant validity. The Cronbach's alpha coefficient of 0.873 for *incumbent generation* suggests that the scale measuring this construct is reliable. The items intended to measure the factor *senior generation* did not load as expected and were therefore omitted for further statistical analysis. As a result, hypothesis H2 was not subjected to further empirical testing.

Structural equation modelling

Structural equation modelling was used to test the significance of the relationships hypothesised between the various independent, intervening and dependent variables (*perceived future continuity, family harmony, non-family members, inactive family members* and *incumbent generation*).

According to Hair, Black, Babin, Anderson and Tatham (2006), a generally accepted ratio of respondents to parameters, in order to minimise problems with deviations from normality, is 15 respondents for each parameter estimated in the model. Based on the ratio of 'sample size to number of indicators', the sample size (468) of the present study was sufficient to conduct SEM. The software program LISREL 8.8 (Jöreskog & Sörbom 2006) was used for this purpose. SEM provides a better way of empirically examining a theoretical model than multiple regression, because it involves the measurement model and the structural model in a single analysis (Hair et al. 2006).

The hypothesised relationships were portrayed in a path diagram, and the structural and measurement models were specified. A covariance matrix was used as the input matrix. As the data in the present study showed evidence of non-normality (the skewness and kurtosis of the data reported p-values of 0.000), robust maximum likelihood, which compensates for non-normality of the data, was used to obtain estimates of the free parameters for the model (Hoogland & Boomsma 1998; Satorra & Bentler 1994). The measurement model, illustrated in Figure 2, was used to assess the measurement properties of the scale, and provides evidence of construct validity.

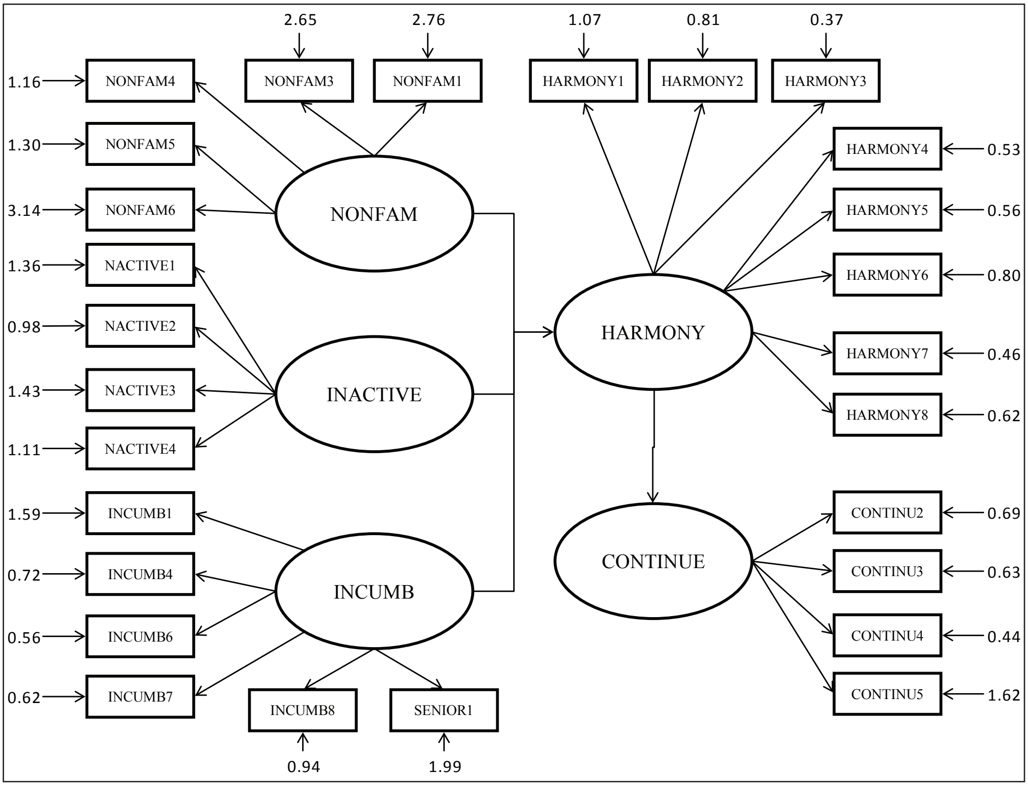

Figure 2: Measurement model

In addition, the relationships in the structural model (relationships between the constructs) were identified, and the extent to which the proposed model represents an acceptable approximation of the data was established. The structural relationships are illustrated in Figure 3.

Indicator loadings for both the measurement and the structural models were evaluated for significance by ensuring that the p-value associated with each loading

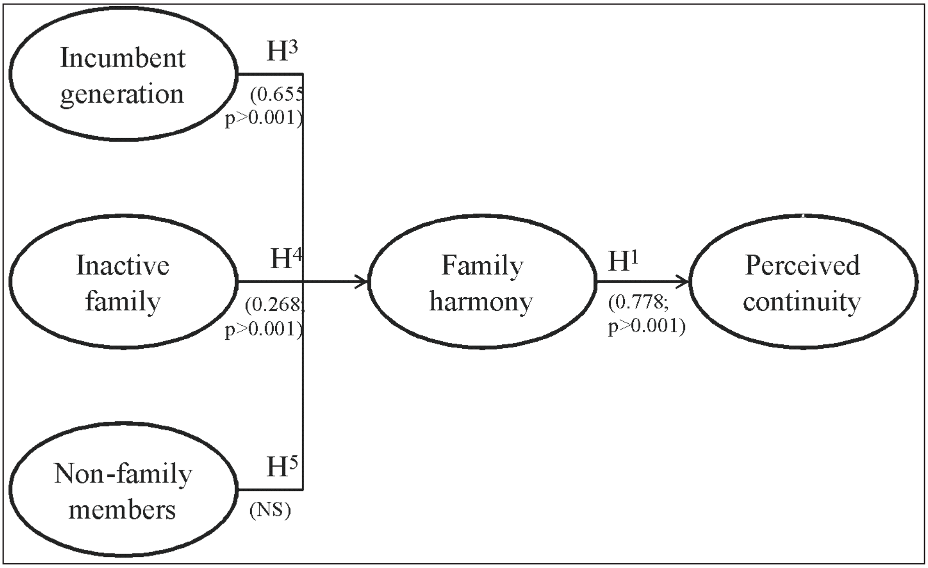

Figure 3: Structural model

exceeded either the critical value for the 5% significance level (critical value of 1.96), the 1% significance level (critical value of 2.58) (Reisinger & Turner 1999), or even the 0.1% significance level (critical value of 3.30). In order to assess the extent to which the proposed measurement and structural models represent an acceptable approximation of the data, various fit indices were considered, namely the Satorra-Bentler scaled chi-square (χ^2), the normed chi-square (that is, the ratio of chi-square to degrees of freedom [χ^2/df]), the root mean square error of approximation (RMSEA) and the 90% confidence internal for RMSEA.

With regard to the models, the ratio of χ^2 to degrees of freedom is 2.22 (χ^2 = 704.99 and df = 317), which is slightly higher than the generally acceptable value. Values lower than two are indicators of a good fit (Politis 2003; Hair et al. 1998). The RMSEA (0.0512) falls within the reasonable fit range of 0.05 to 0.08 (Grimm & Yarnold 2000; Hair et al. 1998), which is almost a close fit, while the upper limit of the 90% confidence interval for RMSEA (0.0563) is less than 0.08 (Boshoff 2005; Roberts, Stephen & Ilardi 2003). Although the data do not fit the models perfectly, apart from the normed chi-square (χ^2/df), the other indices both provide evidence of a model with a reasonable fit.

Significant relationships identified by SEM

The empirical findings of this study show that the intervening variable *family harmony* is positively and significantly related (path coefficient = 0.78, $p<0.01$) to the dependent variable *perceived future continuity* (hypothesis H1). In other words, the greater the extent to which family harmony exists within the family business, the more positive stakeholders are about the future continuity of the family business. As depicted in Figure 3, significant positive relationships are also reported between the independent variables *inactive family members* (path coefficient = 0.27, $p<0.001$) and *incumbent generation* (path coefficient = 0.66, $p<0.001$), and the intervening variable *family harmony*. Support is thus found for hypotheses H3 and H4. These results imply that the less the extent to which inactive family members are involved in the day-to-day operations of the family business, interfere in decision-making, or become involved in disagreements between family members working in the family business, the more likely that family harmony will exist in the family business. In addition, the greater the extent to which the incumbent generation can realise their goals and ambitions in the family business, prefer to work in the family business, and can align their needs and interests with opportunities in the family business, and whether the senior generation is willing to relinquish control of the family business, the more harmonious the relationships within the family business are likely to be. The relationship between *non-family members* and *family harmony* did not prove to be significant in the present study. Support was thus not found for hypothesis H5.

Discussion and recommendations

The objective of this study is to evaluate the impact of selected stakeholders, namely *non-family members, inactive family members*, the *senior generation* and the *incumbent generation* on the success of family businesses. Success, for the purposes of this study, was measured using two variables, *family harmony* and *perceived future continuity*.

In this study, *family harmony* had a significant positive influence on the *perceived future continuity* of family businesses. This implies that the more harmonious the relationships between family members are, the greater the likelihood of continuing the family business for successive generations. This finding is supported by both empirical evidence (see for example, Letele-Matabooe 2009; Slaughter 2009; Van der Merwe & Ellis 2007; Venter 2003) and anecdotal evidence.

In family businesses where family harmony prevails, the family business is seen as a legacy that can be handed over to future generations, creating wealth and job opportunities for them too. Family businesses can enhance family harmony by developing relationships between members of a family that are characterised by support, appreciation for one another, taking care of one anothers' well-being, encouragement of one another to put in their best efforts, acknowledgement of one anothers' achievements, cooperation with one another, and emotional attachment. Mechanisms or forums for communication governance structures such as family and shareholder meetings and/or family councils can play an important part in facilitating family harmony. It is through such structures that family members can assert their legitimate interests and concerns.

In this study, *family harmony* is influenced by the *incumbent generation* and *inactive family members*. The greater the extent to which the younger generation are able to realise their personal ambitions and career needs through opportunities created by the family business, the more harmonious the relationships within the family business are likely to be. This finding is supported by the research of Handler (1989), Van der Merwe (1999), Sharma (1997), Shepherd and Zacharakis (2000), and Venter (2003). The younger generation should join the family business for the right reasons. It is imperative that parents should not pressurise their offspring into joining the business as employees, but should instead provide this option to their children if and when the children are interested and have the necessary qualifications to do so. The owner-manager should continuously be looking for opportunities to market the business to other members of the family, providing a realistic but largely favourable view of each aspect of the family business.

In order to make an informed decision about their future, potential successors need to assess their career goals, their family relations and their shareholding in the family business. If successors are interested in having a career in the family business, they should openly discuss and plan this possibility with the owner-manager, discussing opportunities within the family business, as well as other career possibilities. Creating personal and family visions is the starting point for keeping the family and business systems in harmony, and conflict can be avoided if everyone knows where the individual, family and business are heading. A shared dream also provides a foundation for continuity. A shared dream is not easy to create and involves an ongoing and open process between family members. Holding regular family meetings where family members, especially the younger generation and inactive family members, can express their goals and dreams for the family business is of vital importance.

Concerning *inactive family members'* involvement in the family business, the results of this study indicate that the less the extent to which inactive family members (non-active siblings and spouses) are involved with or interfere in the family business, the more harmonious relationships within the family are likely to be. This result is supported by Farrington's study (2009) of siblings working in a family business, as well as the study of Eybers (2010) among copreneurs. The extent to which spouses interfere or are involved in the business plays an important role, and the family business needs the spouses to be supportive of both the family and the business. The first step to ensuring a happy and supportive spouse is that consensus should exist among all stakeholders with an ownership interest regarding the extent to which spouses and other non-active siblings should be involved in the business, if at all.

When active family members experience conflict among themselves, inactive family members should make a concerted effort to stay out of the conflict situation and avoid playing family members off against one another. Provision should, however, be made by means of special family forums for these members to voice their opinions and to be informed about issues related to the family business that may be of interest to them or influence them financially. Should non-family shareholders exist, their roles and responsibilities should also be clarified and agreed upon during these family forum meetings or in a family constitution.

In this study, however, no relationship was found between *non-family members* and *family harmony*. This finding is in contrast with previous researchers, who maintain that non-family members can play an important role in helping the family business grow and respond to change (Chua et al. 2003), and that family businesses with outside assistance report enhanced levels of performance stemming from professional advice (Poutziouris et al. 2006). Both Eybers (2010) and Farrington (2009) found a positive relationship between non-family members' involvement and the growth performance of the family business. Possible explanations for the empirical results of this study may be the size of the family businesses in which the respondents in this study were involved. Because of the secretive nature of family businesses, as well as the fact that most of them are relatively small, they may still feel threatened about approaching outsiders for advice on business matters, to help them make strategic business decisions and supplement their skills in the business. Many family businesses also have the perception that it is expensive to consult with outsiders.

Limitations and recommendations for future research

Several limitations were encountered during the completion of this study. The sampling method, namely convenience snowball sampling, has several shortcomings; consequently the findings of this study cannot be generalised to the general family business population. Nevertheless, the findings of this study present insights into the factors contributing to family harmony and the continuity of family businesses. It is recommended that future studies make use of a more extensive database to facilitate the use of probability samples.

Another limitation of the study is that it focused only on four stakeholder groups of interest to family businesses. Future studies should examine a broader range of stakeholders such as suppliers, consumers and service providers. In addition, the external environmental factors influencing the perceived future continuity of family businesses should also be investigated.

The exploratory factor analysis revealed that some of the items measuring the involvement of the senior generation did not load as expected. It is suggested that future studies should revise these items and add more relevant and applicable items to the scale measuring the *senior generation*.

Another possible limitation is that of common method bias, which occurs when the data (as in this study) are collected using self-reporting measures, or the measurement of the independent and the dependent variables occurs simultaneously. Although the resulting bias does not necessarily jeopardise the validity of the results (Meade, Watson & Kroustalis 2007), it is acknowledged that common method bias could have influenced the results of this study.

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Appendix A. Dependent, intervening and dependent variables

DEPENDENT VARIABLE Perceived future continuity	
CONTIN4	Continuing the business into the future will provide employment opportunities for future generations.
CONTIN2	I see our family business as a legacy to be handed over to future generations.
CONTIN3	I see our family business as a means to create wealth for future generations.
CONTIN5	Continuing the business into the future will give future generations the opportunity to be involved in the family business.
INTERVENING VARIABLE Family harmony	
HARMONY3	Our family members support each other.
HARMONY5	Our family members appreciate each other.
HARMONY4	Our family members care about each others' wellbeing.
HARMONY7	Our family members encourage each other to put in their best efforts.
HARMONY1	Our family members are emotionally attached to one another.
HARMONY2	Our family members acknowledge each others' achievements.
HARMONY6	Our family members prefer to cooperate with each other rather than compete with one another.
HARMONY8	Our family members get along well both inside and outside the working environment.

INDEPENDENT VARIABLES

Non-family members	
NONFAM4	In our family business we sometimes approach non-family members for advice on business matters.
NONFAM5	If necessary we draw on the expertise of non-family members to assist us with business matters.
NONFAM3	In our family business we involve non-family members when we have to make important strategic decisions about our business.
NONFAM6	In our family business non-family employees form part of the management team.
NONFAM1	In our family business we employ non-family members to supplement our skills.
Inactive family members	
INACTIVE1	Family members not actively involved in the day-to-day operations or our family business DO NOT interfere in day-to-day business operations.
INACTIVE2	Family members not actively involved in the day-to-day operations of our family business DO NOT interfere in business decision-making.
INACTIVE3	Family members not actively involved in the day-to-day operations of our family business DO NOT become involved in disagreements between family members working in the business.
INACTIVE4	Family members not actively involved in the day-to-day operations of our family business DO NOT play active family members off against each other.
Incumbent generation	
INCUMG7	I can realise my personal goals through my involvement in our family business.
INCUMG 8	My career needs and interests are closely aligned with opportunities within the family business.
INCUMG4	I can realise my ambitions through my involvement in our family business.
INCUMG1	I prefer to work in the family business even if I have other career options to choose from.
INCUMG6	I find my involvement in the family business fulfilling.
Senior generation	
SENIOR1	The senior generation is willing to relinquish control of the family business.