

**Leadership practices of first and second generation family business owners and  
the correlation with business performance**

**J.P. van der Westhuizen  
Student number: 11039590**

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**PROMOTER: Prof. A Garnett  
CO-PROMOTER: Prof. WCJ Grobler  
Vanderbijlpark**

**May 2014**

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## OPSOMMING

Klein en medium grootte besighede lewer 'n beduidende bydrae tot die ekonomie, maar dit is minder bekend dat van hierdie besighede ook geklassifiseer word as familiebesighede. Hierdie familiebesighede word gestig as gevolg van die entrepreneuriese sin en vaardighede van een of meer lede van 'n familie wat 'n geleentheid identifiseer en dit eksploiteer. Vir hierdie besighede om te oorleef en te groei, moet die entrepreneuriese orientasie gehandhaaf word deur verdere generasies. Alhoewel hierdie besighede soortgelyke probleme ervaar, toon die literatuur dat hierdie besighede heelwat anders is as nie-familiebesighede as gevolg van die uniekheid en die oorvleueling van familieverhoudings.

Familiebesighede verteenwoordig 'n groot gedeelte van besighede wat wêreldwyd geregistreer is en lewer 'n belangrike bydrae tot ekonomiese groei en welvaartskepping in die wêreld. Suid Afrika is geen uitsondering nie en dit word bereken dat familiebesighede vir 300 jaar reeds 'n bydrae lewer tot die Suid Afrikaanse ekonomie. Bitter min van hierdie besighede sal egter bly voortbestaan na die eerste generasie as gevolg van mislukkings in opvolgbeplanning. Dit lei tot die verlies van vaardighede en oordrag van welvaart en 'n geleentheid om verdere bydrae tot ekonomiese groei te maak.

Dit word van leiers van familiebesighede verwag om te leer hoe om die faktore van die opvolgbeplanningsproses te bestuur. Navorsers in familiebesighedsliteratuur erken dat leierskap noodsaaklik is vir die sukses en voortbestaan van sulke besighede. Leierskap kan gesien word as 'n proses wat die aktiwiteite van 'n georganiseerde groep beïnvloed deur doelwitbepaling en -bereiking.

Dit blyk interessant dat navorsers in familiebesighede tipies verwys na opvolging en nie-leierskapsopvolging nie en daar is dus min oorvleueling tussen hierdie twee studieterreine met navorsers wat bitter min verwysings na die ander maak. Deur hierdie gaping te oorbrug, sal tot groot voordeel wees vir die literatuur oor familiebesighede en behoort by te dra tot die begrip van die twee studieterreine.

Die hoë mislukingskoers van familiebesighede gedurende die tweede en latere generasies het gelei tot die identifisering van die navorsingsprobleem, te wete dat die opvolggenerasie moontlik nog nie die nodige leierskapspraktyke ontwikkel het om te verseker dat die familiebesigheid se prestasie gehandhaaf word nie.

Die doel van hierdie studie was om ondersoek in te stel wat die verhouding is tussen leierskapspraktyke en die prestasie van eerste en tweede generasie familiebesighede. Die resultate van hierdie kwantitatiewe korrelasiestudie het aangedui dat daar positiewe beduinde korrelasies bestaan tussen die gebruike van leierskapspraktyke en die prestasie van leiers in eerste generasie-familiebesighede. Die teendeel was ook bevind van feitlik geen korrelasies tussen die veranderlikes van die tweede-generasie leiers nie. Hierdie resultate werp lig op die moontlike verskille in die wyses waarop die eerste- en tweede-generasie leiers hulle familiebesighede lei.

Hierdie studie het deur 'n empiriese ondersoek van leierskapspraktyke van leiers in familiebesighede 'n bydrae gelewer tot die beperkte literatuur oor leierskaps aangeleenthede in familiebesighede. Deur die ontwikkeling van 'n konseptuele model word 'n beduidende bydrae gemaak tot 'n beter begrip van die moontlike impak wat leierskapspraktyke het op die prestasie van familiebesighede. Op grond hiervan word voorstelle gemaak om stigterslede te help om toekomstige en huidige leiers op te lei in leierskapspraktyke.

Kernwoorde:leierskap, familiebesigheid, eerste generasie, opvolg generasies

## ABSTRACT

Small and medium-sized businesses are a major contributor to many economies, but it is lesser known that some of these are also classified as family businesses. These family businesses are created due to the entrepreneurial mind set and ability of one or more of its founders, who identify an opportunity and seek to exploit such an opportunity. To be able to survive, sustain and grow the business they need to maintain at least their entrepreneurial orientation through other generations. Although these businesses face similar challenges, the literature showed that family businesses are very different to other non-family businesses due to their uniqueness and the overlapping of the family relationships.

Family businesses represent a large proportion of the businesses registered world-wide, and they make an important contribution to economic growth and wealth creation in the world. South Africa is no exception and it is estimated by scholars that for the last 300 years family businesses have contributed to the South African economy.

However, very few of these businesses will continue to exist after the first generation because of succession failure. This results in a great loss in skills and wealth transfer, and a change in the contribution to economic growth. Family business leaders need to learn how to manage the factors that affect the succession process. Researchers in family business literature acknowledge that leadership is vital to the success and survival of the firm. Leadership can be seen as a process of influencing the activities of an organised group in its efforts towards goal setting and goal achievement.

Interestingly, family business researchers typically refer to succession and not leadership succession, and additionally, there is little crossover between the two fields of study and scholars rarely reference one another. Bridging this gap will greatly benefit the family business literature and will enhance the understanding of both fields of study.

Therefore, the high failure rate for family businesses in the second and later generations has led to the problem that the succeeding generations might not have developed sufficient leadership practices to sustain the business performance of the family business.

The aim of this study was to investigate whether there is a relationship between leadership practices and business performance. The results of this quantitative correlational study indicate that positive significant correlations exist between the occurrence of leadership practices and measures of business performance for first generation leaders of the selected family businesses. In addition, a disparity was found where effectively only two correlations existed between the variables for the second generation leaders. These results illuminate the potential differences in the ways that first and second generation leaders' lead family businesses.

By empirically investigating the leadership practices of leaders in family businesses, this study has added to the limited quantity of leadership-related topics in family business literature. By way of the conceptual model developed in this study, a significant contribution has been made towards understanding the possible impact leadership practices have on business performance in these selected family businesses. As a result, this study presents propositions to assist founders to train future and existing family business leaders in leadership practices.

Keywords: leadership, family business, first generation, successors

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# **CHAPTER 1**

## **INTRODUCTION AND BACKGROUND TO THE STUDY**

### **1.1 INTRODUCTION**

Family businesses are created due to the entrepreneurial ability of one or more of its founders who identify an opportunity and seek to exploit such an opportunity, but to survive and grow the business they need to maintain at least their entrepreneurial orientation through other generations (Kellermanns & Eddleston, 2006; Kellermanns & Eddleston, Barnett & Pearson, 2008). Entrepreneurship and family business were until recently, almost unknown in most developed and emerging economies around the world. Their true value and contributions were only appreciated when problems of unemployment and poverty started to cause social and political problems and uncertainty.

Family businesses make an important contribution to economic growth and wealth creation in the world (Poza, 2010:2; Basu, 2004:13, Morck & Yeung, 2004:391; Astrachan & Shanker, 2003:212; Ibrahim, Soufani & Lam, 2001:245). South Africa is no exception in this regard, as Van der Merwe (1998:3) points out that family businesses have been making a positive contribution towards the South African economy for the last 300 years.

South Africa, as a developing country, is not excluded when it comes to the constant battle against poverty (Robberts, 2006:3). According to Venter (2003:1), poverty is a direct result of unemployment and it is therefore critical to find solutions to the unemployment situation in South Africa and enable South Africans with the means to generate income. Venter (2003:1) also mentions that large businesses and the public sector have been unable to address the prevalent unemployment problems. Downsizing, business process reengineering and corporate transformation programs have enhanced the need for family businesses. Current economic realities and unemployment have forced numerous people to establish their own businesses or to join an existing family business (Maas, Van der Merwe & Venter, 2005:6).

It is estimated that 80 percent of businesses in South Africa could be classified as family businesses and these businesses comprise 60 percent of the companies listed on the Johannesburg Stock Exchange (Ackerman, 2001:325). Maas *et al.* (2005:52) are of the opinion that, because of the important role family businesses perform in the South African economy, their survival is of the utmost importance.

A concern however, is their lack of longevity; very few family businesses survive to the second generation and considerably less continue to the third (Bareither & Reischl, 2003:21; Lea, 1991:13). A large number of family businesses fail because of succession failure (Ibrahim & Ellis, 2004:7; Kets de Vries, 1996:7) mainly as a result of the inability of family businesses to manage this complex process of transferring ownership and management to the next generation (Bareither & Reischl, 2003:21; Lansberg, 1999:37) and lack of management to remain or sustain a family business (Aronoff, Astrachan & Ward, 2002).

Researchers in family business literature acknowledge that leadership is vital to the success and survival of the firm (Fiedler, 1996), for the following reasons: firstly, family firms may have different goals than publicly owned businesses (Chrisman, Chau & Steier, 2003). Secondly, when compared to non-family firms, family businesses have a greater potential for long-term conflict among involved members (Morris, Williams, Allen & Avila, 1997). Finally, the process of leadership succession is far more important for family firms than non-family firms because of a stronger link to firm survival (Rubenson & Gupta, 1996). Leadership thus, can be seen as a process of influencing the activities of an organised group in its efforts toward goal setting and goal achievement (Stogdill, 1950), which is highly necessary for family firms.

The early 1980s brought about the commencement of academic research into the family business, with the primary focus being that of succession; viewed as the succession of leadership in the family business from one generation onto the next. According to Poza (2014:7), the chain of leadership is a crucial issue, which faces family firms. Ward (1987) recognises this crucial issue, as evidenced in the definition where the capacity for a family business to achieve succession forms an

integral part of the definition. Based on a research report by Lansberg (1988) stating that there is a 70 percent failure rate on the succession test, the literature should recognise succession as a focal point of research, as this failure rate of family businesses has a negative impact on a nation's economy due to productivity losses.

Clearly, two fields of study are identified in the literature regarding family business; succession and leadership. In the literature relating to family business, the significance of succession is recognised, while the literature relating to leadership has identified that it is a vital facet for the continued existence and achievements of a business. Researchers in the field of family business generally refer to succession in their studies, which indicates that there is an obvious difference between leadership succession and leadership. In addition, seldom do these fields of study intersect, and researchers in the different fields infrequently reference each other. Cater (2006:18) opines that there are imminent benefits relating to increasing the understanding of the two fields of study if the gap between the two fields are bridged.

## **1.2 PROBLEM STATEMENT AND IMPORTANCE OF THE STUDY**

According to Aronoff *et al.* (2002), the “two most important issues facing family businesses is (a) succession (transference of the family business from the founder to the successors in later generations of family members) and (b) the lack of management and leadership to remain or sustain a family business”.

In the United States, only 30 percent of family businesses successfully transfer to the second generation and merely 12 percent survive to the third generation (Astrachan & Shanker, 2003; Tio & Kleiner, 2005; Bareither & Reishl, 2003). According to Maas *et al.* (2005), the survival percentage of businesses in South Africa to the second and third generation is 30 percent and 10 percent respectively which contributes to the longevity problem related to family businesses. The aim of the founding business owner to transfer the business to future generations is a key defining element of continuing a family business (Astrachan & Shanker, 2003).

The first generation family business leader is often perceived to be entrepreneurial in his or her leadership style. However, in the case of the succeeding generation, there is a lack of research concerning the leadership used by the successor in the family business (Cater & Justis, 2009). It was also found that the presence of strong leadership characteristics in the company leader correlated with the success of the company (Collins, 2005). The successor's capacity to lead was critical to a successful succession (Ibrahim, Soufani, Poutziouris & Lam, 2004).

According to Sharma (2004), there is a dearth of empirical research in the field of quantitative studies on businesses that are family-owned; this makes it an ideal subject for research. In South Africa, there is no evidence of research having been conducted on the leadership practices of business founders, nor on that of the leadership practices of their successors; hence, also no research on how these leadership practices influence the future performance of the family businesses.

In the opinion of Collins (2005), strong leadership capabilities are essential and lead to the success of a corporation. Bass (1990) and Kouzes and Posner (2012), proposed this theory on general leadership, defining specific traits for exemplary and transformational leaders. Kouzes and Posner (2012) believe that leadership abilities are skills that can be learnt, while Weaver (2008) posits that the functioning and performance of the family business can be fortified by founders and future generations being able to identify essential leadership practices in successors, identifying the lack of elements of leadership skills and ensuring adequate training is afforded to future generations. According to Astrachan and Shanker (2003), in the United States of America (USA) the contribution to the gross domestic product (GDP) by family businesses is as high as 59 percent. Therefore, when these family businesses pass to succeeding generations, ensuring effective leadership is a crucial factor in their continued success (Ibrahim *et al.*, 2004). Therefore, the transfer of the family business from one generation to another is an element that defines a family business and effective leadership is crucial to the sustainability of the family business. However, a lack of effective leadership practices or underdeveloped leadership abilities could result in the inability of future generations to maintain the business performance.

### 1.3 PURPOSE AND JUSTIFICATION OF THE STUDY

This study seeks to investigate and explore the leadership practices displayed or used and the relationship to business performance for first generation and second generation family business leaders located in the Sedibeng region of South Africa. In particular, this study used a validated leadership index, to examine the correlation between the individual leadership practices used by the first generation leaders of small to medium-sized family businesses located in the Sedibeng region of South Africa.

There are five leadership practices displayed in the leadership index used in this study. This leadership index measures the following practices:

- *model the way*
- *inspire a share vision*
- *challenge the process*
- *enable others to act, and*
- *encourage the heart* (Kouzes & Posner, 2012:15).

This study contributes to the literature on family business in a number of ways and makes a contribution to academic and management practice. On the academic front, this study is deemed to supplement academic knowledge by adding to the existing body of literature on small and medium-sized family business management in an emerging country, of which there is paucity. On the practitioners' front, the thesis provides practical insights and recommendations to managers in developing countries that are generally under-researched.

It is envisaged that the survival rate for family businesses could improve if the identification of successful leadership practices is distinguished. First generation leaders may then encourage second-generation leaders to take steps to develop such practices or otherwise consider the presence or absence of such practices when deciding on a successor. A similar study has been conducted in the United

States (Weaver, 2008), and a comparison to the research findings will greatly enhance the body of knowledge as well as giving credence to the South African perspective as an emerging country.

## **1.4 RESEARCH OBJECTIVES**

The main objective of this study is to explore the associations between the types of individual leadership practices and business performance for first and second generation leaders of small and medium-sized family businesses located in the Sedibeng region in South Africa. To help achieve the primary objective of the study, the following secondary objectives were formulated:

1.4.1 To undertake a theoretical investigation into:

- the nature and importance of small and medium sized family businesses,
- the theories and approaches to the study of family businesses, as well as
- various generic leadership theories and those specifically related to this study.

1.4.2 To empirically determine the differences between the leadership practices for the total group of first generation family business leaders as compared to the total group of second generation family business leaders.

1.4.3 To undertake an empirical investigation into the possible relationships between the dependent variable namely business performance of selected family businesses and the independent variables (leadership practices).

1.4.4 To generate a conceptual model of the leadership factors that could influence the business performance of the family business.

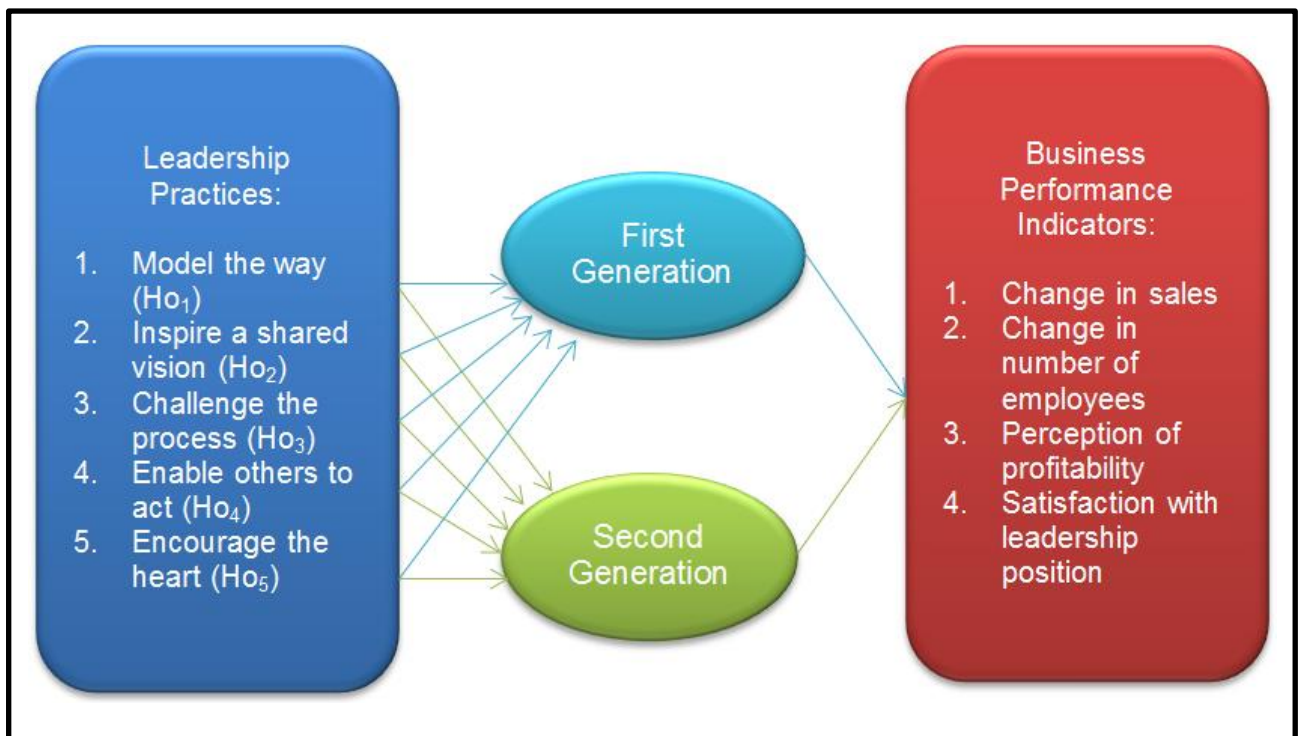
## **1.5 RESEARCH QUESTIONS**

The following questions are developed to guide the research focus:

- Do leadership practices have an influence on business performance?
- What are the correlations between the five individual leadership practices and the business performance indicators of the family businesses for first generation family business leaders?
- What are the correlations between the five individual leadership practices and the business performance indicators of the family businesses for second and later generation family business leaders?
- What are the differences between the five individual leadership practices for the total group of first generation family business leaders as compared with the total group of the second and later generation family business leader's successors?

An illustration of the research questions is shown in Figure 1.

**Figure 1.1 : Illustration of research questions**



## 1.6 HYPOTHESES

Hypotheses are predictions to the research questions posed in the study (Trochim & Donnelly, 2008:9; Creswell, 2005). The following null and alternative hypotheses

provided guidance for the statistical tests to determine the relationships between the independent and dependent variables and to verify whether there are differences between the first and second generation family business leaders.

*Ho1a.* There is a significant positive association between the individual leadership practice *model the way* and the business performance for the first generation family business leaders.

*Ha1a.* There is no significant positive association between the individual leadership practice *model the way* and the business performance for the first generation family business leaders.

*Ho2a.* There is a significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the first generation family business leaders.

*Ha2a.* There is no significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the first generation family business leaders.

*Ho3a.* There is a significant positive association between the individual leadership practice *challenge the process* and the business performance for the first generation family business leaders.

*Ha3a.* There is no significant positive association between the individual leadership practice *challenge the process* and the business performance for the first generation family business leaders.

*Ho4a.* There is a significant positive association between the individual leadership practice *enable others to act* and the business performance for the first generation family business leaders.

*Ha4a.* There is no significant positive association between the individual leadership practice *enable others to act* and the business performance for the first generation family business leaders.

*Ho5a.* There is a significant positive association between the individual leadership practice *encourage the heart* and the business performance for the first generation family business leaders.

*Ha5a.* There is no significant positive association between the individual leadership practice *encourage the heart* and the business performance for the first generation family business leaders.

*Ho1b.* There is a significant positive association between the individual leadership practice *model the way* and the business performance for the second generation family business leaders.

*Ha1b.* There is no significant positive association between the individual leadership practice *model the way* and the business performance for the second generation family business leaders.

*Ho2b.* There is a significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the second generation family business leaders.

*Ha2b.* There is no significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the second generation family business leaders.

*Ho3b.* There is a significant positive association between the individual leadership practice *challenge the process* and the business performance for the second generation family business leaders.

*Ha3b.* There is no significant positive association between the individual leadership practice *challenge the process* and the business performance for the second generation family business leaders.

*Ho4b.* There is a significant positive association between the individual leadership practice *enable others to act* and the business performance for the second generation family business leaders.

*Ha4b.* There is no significant positive association between the individual leadership practice *enable others to act* and the business performance for the second generation family business leaders.

*Ho5b.* There is a significant positive association between the individual leadership practice *encourage the heart* and the business performance for the second generation family business leaders.

*Ha5b.* There is no significant positive association between the individual leadership practice *encourage the heart* and the business performance for the second generation family business leaders.

*Ho6.* There are differences between the five individual leadership practices for the group of first generation family business leaders as compared to the group of second generation family business leaders.

*Ha6.* There are no differences between the five individual leadership practices the group of first generation family business leaders as compared to the group of second generation family business leaders.

## **1.7 DEMARCATION OF THE STUDY**

This study is restricted to small and medium-sized family businesses in the Sedibeng District (see Map 1), and the Metsimaholo municipality in Southern Gauteng. The area comprises the Emfuleni, Midvaal and Metsimaholo

municipalities, which are situated in the southern part of Gauteng and the northern part of the Free State respectively (Slabbert & Slabbert, 2002:3). This area formed by the city of Vereeniging, Meyerton, Vanderbijlpark and Sasolburg was previously known as the Vaal Triangle.

**Map 1: Sedibeng municipal area**

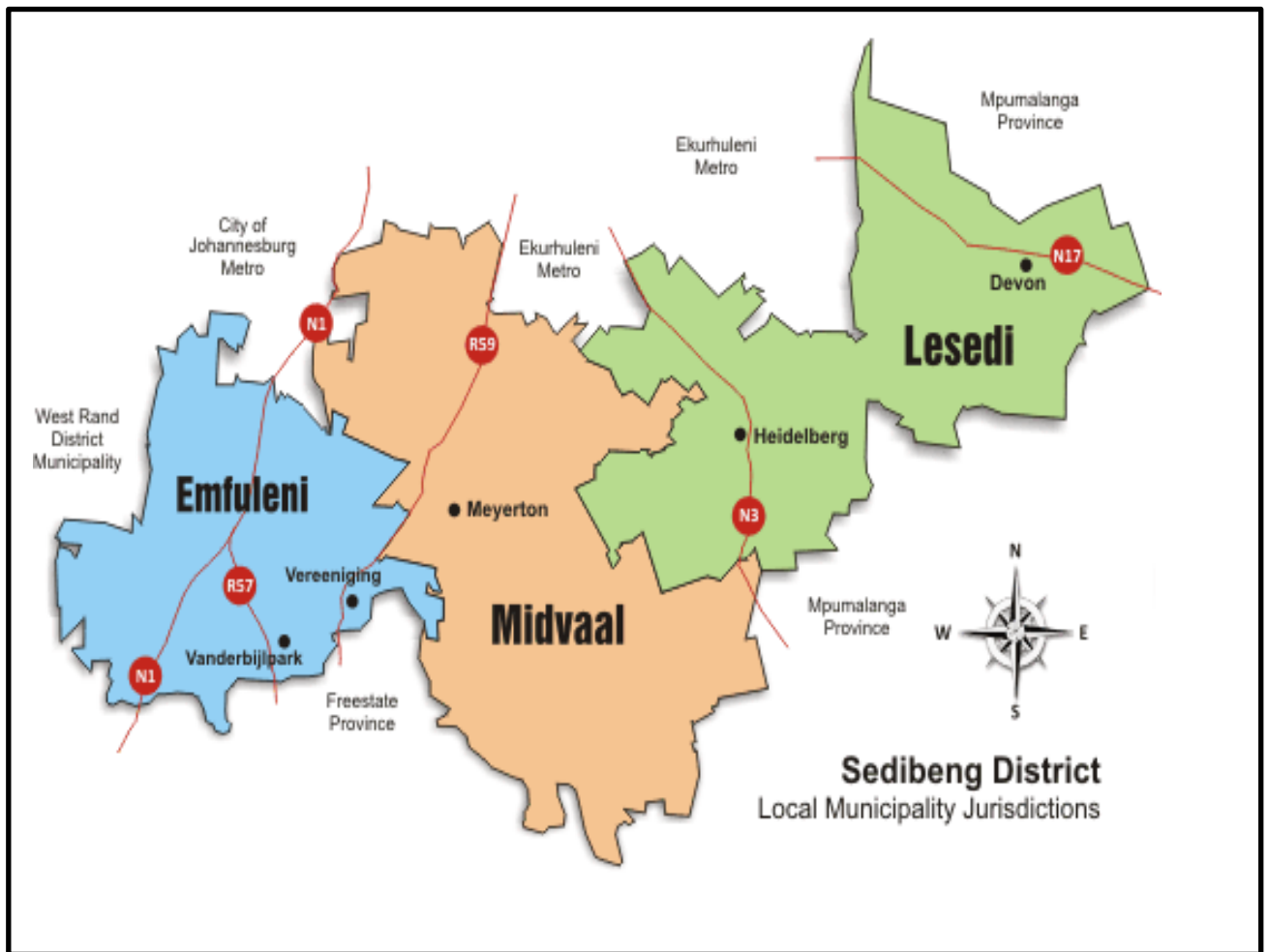


**Source: Municipal Board (Demarcation 2007)**

The Emfuleni municipal area (EMA) consists of the following suburbs and townships: Boipatong, Boitumelo, Bophelong, Evaton, Rust ter Vaal, Roshnee, Sebokeng, Sharpville, Tshepiso, Vanderbijlpark and Vereeniging.

The Midvaal local municipality (MEY) includes the areas of Meyerton, Randvaal, Rissiville and Walkerville (Demarcation Board, 2007) and can be viewed in Map 2.

## Map 2: Sedibeng municipal boundary



**Source: Municipal Board (Demarcation 2007)**

The Metsimaholo local municipality (MLM) is located in the Northern Free State District municipality now known as the Fezile Dabi District municipality (See Map 3). The Metsimaholo local municipality (MLM) was established in 2000 through the amalgamation of the then Sasolburg, Deneysville and the Oranje transitional local councils. It was formerly known as Sasolburg municipality (changed 01/10/2000). The major towns/areas include Sasolburg, Viljoensdrif, Coalbrook, Zamdela, Deneysville and Oranjeville.

### Map 3: Metsimaholo municipality boundary



**Source: Map data ©2014 AfriGIS (Pty) Ltd. Google**

The Sedibeng District was chosen for the following reasons:

- It forms part of Southern Gauteng, with Gauteng consisting of the largest concentration of industries in South Africa; The Sedibeng District can be seen as representative of businesses in South Africa.
- There are various industries in the Sedibeng District in which family businesses operate, for example, retail, construction, services, transport and manufacturing.
- The geographical location of the Sedibeng District is of such a nature that it can be researched at a relatively low cost and in a short amount of time.

## 1.8 ASSUMPTIONS AND LIMITATIONS

The following assumptions were made regarding this study:

- The philosophical approach of the study is positivism, meaning that the world is stable and causal relationships can be found (Trochim & Donnelly, 2008:18; Arbnor & Bjerke, 1997).
- The family business leaders were honest with their answers to the questions.
- The family business leaders themselves filled out the questionnaires.
- The family business is an institution worth preserving and protecting for its owners, managers, employees, customers and all stakeholders.
- The first generation of the family business has the desire to pass the business to the second generation.
- The researcher conducted the study and made every effort to present the findings without bias. The researcher also brings to the study prior experience in transitioning family businesses from being owner-led to that of being professionally managed.

There are limitations regarding the size and scope of the study, namely the following:

- This study was conducted in the Sedibeng municipal area in Southern Gauteng, South Africa.
- The sample selection was based on the availability of family business leaders who meet the criteria noted earlier in this chapter. According to Breunlin, Solomon, Panattoni, Gustafson, Ransburg and Ryan (2009), it is a very challenging task to gain access to and obtain cooperation from family business owners for the purpose of research. Therefore, a purposive sample was used to obtain the information that could be used to represent the groups. A small purposive sample limits generalisability and establishing causality.

## **1.9 RESEARCH DESIGN**

Research design often refers to a master plan, which includes certain procedures and methods for collecting the information and analysing the data (Trochim & Donnelly, 2008:11; Zikmund, 2003:65). The following methods and procedures were used in this study:

### **1.9.1 Literature Review**

A literature review of the theoretical concepts of family businesses and leadership practices was covered with the aim of gathering and assessing material related to leadership and performance specifically in small and medium-sized family businesses.

A wide range of material, including dissertations, articles, conference papers and textbooks were used to carry out a desk analysis to evaluate and integrate the theoretical background of the research problem.

### **1.9.2 Empirical Study**

A quantitative, positivist method was selected for this study because this method enables the use of a scientific approach to collect narrowly defined numerical data in an objective manner and to do a statistical analysis of the data (Field, 2009:8).

The primary research design for the study is correlational research. Correlational research was an appropriate design for this study because correlational analysis supported the assessment of the associations between and among variables without inferring cause and effect of variables (Field, 2009:167; Creswell, 2003:116).

A survey questionnaire was used to facilitate the collection of information on demographic data and business performance. An existing, validated Leadership Practices questionnaire developed by Kouzes and Posner (2012) was used to

determine the frequency of essential leadership practices in both the first and second generation family business leaders.

The researcher made use of trained field workers to physically distribute to and collect the instruments from the respondents in this study.

### **1.9.2.1 Sampling Frame**

Small and medium-sized family businesses in the Vaal Triangle were included in the sampling frame, as discussed under sampling technique in Section 1.9.9.2. These businesses have some distinguishing characteristics and are not simply a sub-classification under small businesses (Weaver, 2008:38).

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

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

The terms small business and medium-sized business are classified in the South African National Small Business Act (1996) as micro, very small, small and medium-sized businesses with less than 200 full-time paid employees.

### **1.9.2.2 Sampling Technique**

Local and national government agencies have not officially compiled separate databases for family businesses. A preliminary name list of all businesses was obtained from the local Business Chambers. Therefore, the only available option was to rely on snowball sampling as the sampling method.

Snowball sampling is often used when the members of a special population are difficult to locate and are thus a subgroup of convenience sampling (Page & Meyer, 2000:100). According to Trochim and Donnelly (2008:50), the procedure for snowball sampling is implemented by collecting data on the members of the target population that can be located and then asking those individuals to provide the information needed to locate other members of the population whom they may know.

## **1.10 DATA ANALYSIS**

The captured data was analysed using the statistical package for Social Sciences (SPSS), Version 19.0 for Windows. The following statistical methods were used on the empirical data sets:

- Reliability and Validity analysis
- Factor analysis
- Correlation analysis
- Model fit
- Hypothesis testing using structural equation modelling (SEM)

## **1.11 ETHICAL CONSIDERATIONS**

The researcher used the following guidelines as set out by Trochim and Donnelly (2008:23) which state that the principle of voluntary participation requires that people not be coerced into participating in research. Also, closely related to this notion is the requirement of informed consent.

Ethical standards also require that researchers not put participants in a situation where they might be at risk of harm due to their participation. Prior permission was obtained from the proposed respondents in the study as to their participation.

This study adheres to the standards of confidentiality and anonymity, as put forward

by Trochim and Donnelly (2008:23) to ensure the protection of the privacy of subjects in a study.

Most research undertakes to ensure the confidentiality of participants and that any persons not involved in the study will not have access to the information. This study ensures anonymity of participants by guaranteeing that participants and their details remain anonymous and reporting is done using statistical aggregates.

## **1.12 CHAPTER CLASSIFICATION**

Chapter 2 describes an overview of international and national literature on the study as well as the nature and importance of small and medium sized family businesses. Succession planning and failure rates in the succeeding generation are investigated.

Chapter 3, the literature review, describes the theories on leadership, the fundamental state of leadership and the five practices of exemplary leadership. The measures of business performance are also outlined.

Chapter 4 provides the description of the research methodology used in this study and includes the following: research design, selection of quantitative over qualitative methods, correlational research and population. Several statistical methods and techniques used to analyse datasets are identified and explained.

Chapter 5 reports the results of the study through an analysis of the data. It includes the evaluation and interpretation of the research findings as well as the hypotheses testing using structural equation modelling.

Chapter 6 provides a review of the study and provides conclusions and recommendations in an attempt to address the research questions and objectives. The implications and limitations of the study are discussed and areas for further research presented.

### **1.13 SYNOPSIS**

Contributing to the literature related to the high failure rate of family businesses in the second and later generations and the importance of leadership for business success.

Chapter 1 included an overview of the study examining the correlational differences between certain leadership practices used by first generation and second generation small and medium-sized family business and the business performance of these respective family businesses.

The second objective of the study examined the difference between the leadership practices among the groups of first and second generation leaders.

When the second generation leaders take over the control of the family business, the leadership skills needed to positively influence and increase the business performance may be important considerations. A positive relationship between the leadership practices and business performance may encourage founders to consider the presence of these practices when selecting a successor or could influence the successors to develop such practices. In this context, the following chapter will include a review of the literature study relating to small and medium-sized family businesses.

## **CHAPTER 2**

# **OVERVIEW OF SMALL AND MEDIUM-SIZED FAMILY BUSINESSES**

### **2.1 INTRODUCTION**

The focus of this study is on leadership in small and medium-sized family businesses. Like other small and medium-sized businesses, family businesses play an important role in the economy in South Africa and the rest of the world. It is, therefore, important for this study that these fields be discussed and understood.

Chapter 2 gives an overview of the literature related to the study and nature of small and medium-sized family businesses. Small and medium-sized businesses is classified and their contributions highlighted.

This is followed by a discussion on entrepreneurship in the context of a family business, the study of family business, definitions, conceptual models and approaches to the study of family businesses succession, and the nature and importance of family businesses.

### **2.2 CLASSIFYING SMALL AND MEDIUM-SIZED BUSINESSES**

Because of the difference in size, commonly businesses are described as being small, medium or large. Reference to size is a relative concept and there are various definitions of the sizes of businesses across sectors (Cronje, Du Toit, Marais & Motlatla, 2004:45; Deaken & Freel, 2003:37) and even across countries (Cronje *et al.*, 2004:44; Stokes & Wilson, 2006:4). Therefore, it is difficult to draw a line that distinguishes small from larger businesses (Stokes & Wilson, 2006:4). Policy development and implementation with regard to funding and support, as well as the implementation of tax and general legislation can be supported by appropriate definitions for different size businesses.

Consistent and acceptable definitions are also important to facilitate research (Bridge, O'Neill & Cromie, 1998:102; Deaken & Freel, 2003:38; Stokes & Wilson, 2006:4). Therefore, it can be deduced that a need exists to identify businesses of different sizes.

It is considered problematic and an onerous task to formulate an internationally accepted definition (Cronjé *et al.*, 2004:44; Malagas, 2003:33). It is, therefore, no surprise that there is no uniform and widely-accepted international definition of what constitutes a small or medium-sized business (Deaken & Freel, 2003:37; Longenecker, Moore, Petty & Palish, 2006:7; Scarborough & Zimmerer, 2003:21). Various scholars are of the opinion that it is accepted generally to use quantitative and qualitative criteria when attempting to define small and medium-sized businesses (Bosch, Tait & Venter, 2006:647; Du Toit *et al.*, 2007:49; Cronjé *et al.*, 2004:44; Nieman, Hough & Nieuwenhuizen, 2003:10; Stokes & Wilson, 2006:4, 5).

Variables that can be measured such as annual sales turnover, market share, number of full-time employees, the relative size of the business within the industry, the value of the assets (excluding fixed property), and/or the number of branches or business units, can be referred to as quantitative criteria (Cronjé *et al.*, 2004:4; Nieman *et al.*, 2003:10; Stokes & Wilson, 2006:4).

Qualitative criteria cannot be measured. Examples of such criteria include being a separate and distinct business entity; having independent ownership and management, and not being part of a group of companies; direct personalised management involvement by owners; capital that is supplied by an individual or a few individuals who hold ownership; the area of operations being primarily local, although the market is not necessarily local; a simple organisational structure; the business being small in comparison with the largest competitors in its own industry; and perhaps having multiple liabilities (Bridge *et al.*, 1998:103-104; Burns, 2001:8-9; Cronjé *et al.*, 2004:45; Marx, Van Rooyen, Bosch & Reynders, 1998:728; Nieman *et al.*, 2003:10; Stokes & Wilson, 2006:5).

In South Africa, the government's official policy on smaller business enterprises was translated into the National Small Business Act (102 of 1996), which was amended by the National Small Business Amendment Act (South Africa, 2004:2). In terms of the Act, small enterprises are defined as separate and distinct business entities, together with their branches or subsidiaries, if any, in any sector or sub-sector of the economy, and managed by one or more owner. These include cooperative enterprises and non-governmental organisations (NGOs) (Business blue book of South Africa, 2005:563). In addition, the National Small Business Act (102 of 1996) makes provision for describing smaller business firms based on quantitative criteria, namely full-time equivalent employees, total annual turnover, and total gross asset value.

Based on these criteria, the Act classifies micro-, very small, small, and medium-sized businesses as businesses that employ less than 200 full-time paid employees (Business blue book of South Africa, 2005:567; National Small Business Act (102 of 1996)).

The definition to be applied in this study of small and medium-sized businesses is, therefore, businesses that are independently owned and managed and employ less than 200 persons. This is not only to clarify the criteria by which businesses are categorised in terms of size, but more importantly, to highlight the contribution that these small and medium-sized businesses are making to society in general and to the economies of countries. The importance of small and medium-sized businesses is addressed in the paragraphs that follow.

## **2.3 THE IMPORTANCE OF SMALL AND MEDIUM-SIZED BUSINESSES**

Small and medium-sized business enterprises (SMEs) make an important contribution to economic growth and job creation throughout the world (Nieman, 2006:38; Kuratko & Hodgetts, 2007:5-7; Venter & Boshoff, 2007:42; Longenecker *et al.*, 2006:6; Malagas, 2003:33; Scarborough & Zimmerer, 2003:21,22).

Possible reasons for their growing importance are that SMEs play a valuable role in creating employment, penetrating new markets, and driving technological innovation by finding creative and innovative ways to compete in a turbulent environment (Bosch *et al.*, 2006:649; IDC support to SME sector, 2001:5; Lunsche & Barron, 1998:1; Sunter, 2000:23).

In most countries, including the United States of America (USA), small businesses make up more than 90 percent of enterprises (Kuratko & Hodgetts, 2007:6; Scarborough & Zimmerer, 2003:21). Countries like Canada, Japan, South Korea and China also show similar trends (Pistrui, Huang, Oksoy, Jing & Welsch, 2001:141; Stokes & Wilson, 2006:13).

Comparing business populations in developing countries indicates a trend towards a greater number of smaller businesses, with a clear reduction in the number of larger businesses (Deaken & Freel, 2003:41; Stokes & Wilson, 2006:3) and the number of small businesses is expected to increase significantly for some years to come (Taylor, 2006:68).

A study by the Competition Commission (2004) estimated that 99, 3 percent of South African businesses were SMEs and that these SMEs accounted for 53.9 percent of total employment and contributed 34.8 percent to the gross domestic product (GDP). The World Bank (2007) estimated that in South Africa, the SME contribution to employment generation was 39 percent, and China's SME sector contributed 78 percent to its total employment.

**Table 2.1: Small and Medium Enterprises participation in the economy**

Country Name	Structure of the MSME sector (percentage of all MSMEs)			SME participation in the Economy		
	Micro	Small	Medium	SMEs	SMEs per 1000 people	SME employment (percentage total)
Brazil	93.9	5.6	0.5	4 903 268	27.4	67.0
China	n/a	n/a	n/a	8 000 000	6.3	78.0
Egypt	92.7	6.1	0.9	1 649 794	26.8	73.5

Country Name	Structure of the MSME sector (percentage of all MSMEs)			SME participation in the Economy		
	Micro	Small	Medium	SMEs	SMEs per 1000 people	SME employment (percentage total)
United Kingdom	95.4	3.9	0.7	4 415260	73.8	39.6
Ghana	55.3	42.0	2.7	25 679	1.2	66.0
India	94.0	3.3		295 098	0.3	66.9
Mexico				2 891 300	27.9	71.9
Malawi	91.3	8.5	0.2	747 396	72.5	38.0
Russian Federation				6 891 300	48.8	50.5
USA	78.8	19.7	1.5	5 868 737	20.0	50.9
South Africa	92.0	7.0	1.0	900 683	22.0	39.0

**Source: World Bank (2007)**

A study done by Abor and Quartey (2010) estimated that 91 percent of the formal business entities in South Africa could be classified as small and medium enterprises and that these SMEs contribute between 52 to 57 percent to the GDP, and account for 61 percent of employment.

Like so many developing countries in Africa, the battle against poverty is a continuous one; the main cause is unemployment. South Africa is no exception. According to the General Household Survey of 2011, 14, 9 million people receive social grants and make a living on R1200 per month (Statistics South Africa). To give poor South Africans the means of generating sustained income is, therefore, a very important factor in finding a solution to the unemployment problem.

In South Africa, the public sector and large corporations have proven unable to address the problem of unemployment and as a result, the focus on job creation has increasingly shifted to the role the small business sector can play in solving the problem facing South Africa (Bosch *et al.*, 2006:649).

As mentioned earlier, small businesses contribute to lowering unemployment and improving the economy of the country (Erwin, 2002). The potential solution to some of the economic difficulties in South Africa can certainly be within the small

and medium-sized business environment (Bosch *et al.*, 2006:649), and the development of SMEs is extremely important for the economic development of South Africa.

The new democratically elected government has worked hard since 1994 to create an environment, which can enable SMEs to prosper (Marais, 2001). Various strategies and acts have resulted from these developments, of which the most important are listed below:

- National Strategy for the Development and Promotion of Small Business in South Africa in 1995 (Department of Trade and Industry, 1995)
- National Small Business Act (Department of Trade and Industry, 2008) as well as the Growth Employment and Redistribution Strategy in 1996 (Department of Trade and Industry, 1995)
- Skills Development Act; the Employment Equity Act and Preferential Procurement Act in 1998 (Maas & Diederichs, 2007)
- Broad-Based Black Economic Empowerment Act in 2003 (Maas & Diederichs, 2007).

It would seem that these policies and acts make a positive contribution as the number of SMMEs have grown from 800 000 in 1995 (Department of Trade and Industry, 1995) to 2.5 million SMMEs in 2008 and is growing at about 150 000 SMMEs per year (Department of Trade and Industry, 2008).

Some of the most important reasons are their contribution to the following:

- Economic activity (Kuratko & Hodgetts, 2007:7; Malagas, 2003:47-48; Naidoo, 2006:91; Stokes & Wilson, 2006:3)
- Employment (Cronjé *et al.*, 2004:45; Malagas, 2003:33; Zimmerer & Scarborough, 2002:24)
- Empowerment (IDC boosts the SME sector, 2003; Kuratko & Hodgetts, 2007:11; Longenecker *et al.*, 2006:12; Malagas, 2003:33; Qhena, 2007)

- Innovation (Bosch *et al.*, 2006:650; Kuratko & Hodgetts, 2007:8; Longenecker *et al.*, 2006:6; Malagas, 2003:33)
- Competitive markets (Malagas, 2003:33; Marx *et al.*, 1998:731; Naidoo, 2006:91).

## **2.4 ENTREPRENEURISM AND THE LINK TO FAMILY BUSINESSES**

According to Bennett (2006), there is no single definition of the term entrepreneur. He provides the following variations of a definition:

- an entrepreneur is one who brings together all the components of the functions of a business
- an entrepreneur is simply someone who owns and operates a business, and
- an entrepreneur is one who initiates and drives a business venture.

Family businesses initially fell under the broad category of sociology and later into the small business management category, before the development of the distinct field of family business in the 1980s (Bird, Welsch, Astrachan & Pistrui, 2002).

The field of entrepreneurship emerged from these categories as a separate discipline (Bird *et al.*, 2002). The founder of a new business may fall under the entrepreneur classification until the founder integrated the family system into the business and expressed the desire to pass the business to the succeeding generation. Throughout the existence of the family business, the members of the family may engage in entrepreneurial activity (Poza, 2014:1; Weaver, 2008).

However, a general misconception is the belief that entrepreneurs are all those who are self-employed. Maximising performance can be achieved when family businesses continue to exhibit these characteristics in order to seek opportunities (Weaver, 2008).

Approximately 80 percent of businesses in South Africa could be seen as family businesses (Ackerman, 2001:325; Dickinson, 2000:3; Balshaw, 2003), and are mostly small to medium-sized businesses (Maas, 1999:2). Family businesses can be viewed as synonymous with the entrepreneurial business, as many were started by exploiting opportunities in order to provide financially to the founders' family. Since the opening of international opportunities, South Africa has experienced strong economical and entrepreneurial growth, and much of this growth has been driven by the family business component of the economy.

An important factor for the attainment of entrepreneurial success is proper leadership (Ibrahim *et al.*, 2004) to drive a business venture.

## **2.5 THE IMPORTANCE OF FAMILY BUSINESSES**

It is widely accepted internationally that small and medium-sized businesses are a major contributor to many economies, but it is less known that some of these small and medium-sized businesses are also family businesses (Poza, 2014:2; Muske, Fitzgerald & Kim, 2002:4; Bridge *et al.*, 1998:129), and family-owned and family managed businesses (Bjuggren & Sund, 2005:2; Bosch *et al.*, 2006:684; Lee, 2006:188; Longenecker *et al.*, 2006:86; Serrano, 2000:23).

The consequence of this is there has been a tendency to lump family businesses and small businesses together as a generic term (Leach 1994:xi).

### **2.5.1 International perspective**

Dating back to ancient civilisations, family businesses have been in existence for many generations and have dominated economic activities throughout history (Muske & Fitzgerald, 2006:194; Bird *et al.*, 2002). The contribution of family businesses is recognised increasingly as a potential driver of social and economic growth and wealth creation in the world (Poza, 2014:1; Nieman *et al.*, 2006:38; Basu, 2004:13; Morck & Yeung, 2004; Astrachan & Shanker, 2003; Ibrahim *et al.*, 2001:245)

Today, family businesses are fast becoming the dominant form of business enterprise in both developed and developing countries. Although the majority of family-owned businesses are small, many well-known examples of large family businesses exist (Gersick, Davis, McCollom, Hampton & Lansberg, 1997:2; Lee, 2006:103).

In rankings nationally and internationally, many family businesses occupy positions of importance, and in their own countries, many can be located in the top 500 companies. For example, family companies inform the majority of the 250 largest listed companies in France and Germany (IFERA, 2003:236), whereas more than half of the 3000 companies in Spain are family businesses. Astrachan and Kolenko (1994:251) state that in the USA and Canada, 90 percent of all companies are family-owned, and this is confirmed by statistics listing family-owned businesses as making up 35 percent of the 500 largest companies (Lee, 2006:103; Longenecker *et al.*, 2006:85). Family businesses account for 64 percent of the USAs Gross Domestic Product and employ close to 85 percent of the private sector work force (Poza, 2014: 1; Allio & Allio, 2005:1; Ibrahim & Ellis, 2004:3; Leenders & Waarts, 2003:686). Table 2.2 provides a few examples of the top family businesses that were operational in the USA during 2002 (Allio & Allio, 2005:3).

**Table 2.2: The ten largest family businesses in the USA (2011).**

Rank	Business	Focus	Revenue (US)	Family (%)
1	Wal-Mart	Retail	422	38
2	Ford	Automobiles	129	40
3	Cargill	Commodities	108	85
4	Koch	Oil, Gas, Agric	100	100
5	Carlson	Hotels, Food	38	Not available
6	Comcast	Media	38	68
7	News Corp	Media	33	80
8	HCA Holdings	Health care	32	Not available
9	Bechtel Group	Construction	31	30
10	Mars	Candy	30	100

**Source: Weinmann and Groth (2011).**

## **2.5.2 South African context**

Some of the largest and most powerful South African businesses, all family-owned, dominated, especially in the second half of the 20th century, and include Anglo American and Anglo Vaal, Rembrandt, Liberty, Altron, Pick & Pay, Pepkor, Liberty Life, Sage Life and Toyota SA (Venter, 2003:33; Jack, 2008).

In South Africa, roughly 80 percent of SMEs are owned and controlled by family (Venter, 2003:32-34), and the majority of family businesses appear to be SMEs (IFERA, 2003:236; Lee, 2006:104; Longenecker *et al.*, 2006:86). It is expected that their influence and numbers will increase significantly in South Africa in the near future (Venter, 2003:32-34).

According to Van der Merwe (1998:3), family businesses have been making a positive contribution towards the South African economy for the last three centuries. Approximately 80 percent of businesses in South Africa could be classified as family businesses, and these businesses comprise 60 percent of the companies listed on the Johannesburg Stock Exchange (Maas & Diederichs, 2007:4; Ackerman, 2001:325).

Family businesses are also important at a community level. Successful and stable family businesses provide work for the communities in which they operate and thereby encouraging greater stability in the community (Maas & Diederichs, 2007:4).

## **2.6 THE STUDY OF FAMILY BUSINESSES**

Although the field of family business, according to Klein, Astrachan and Smyrnios (2005: 321), has been regarded as a separate academic discipline since the 1990s (Bird *et al.*, 2002) it has recently emerged as a topic within mainstream business research (Steier & Ward, 2006; Chrisman, Chau & Steier, 2003).

Brockhaus (2004:3) points out that relatively little research has been carried out, in South Africa, on family-run businesses. During the past decade, research on family businesses in South Africa has gained more momentum (Van der Merwe, 1998; Venter, 2003) but more scientific-based research is still urgently needed. This implies that there are more than enough reasons to pursue investigations into the role of the family business, in general, and specifically in the South African economy and by doing so, thus contributing to scientific research.

A major concern is that approximately 85 percent of all new businesses fail. Among those that survive, only 30 percent are successfully transferred to the second generation of the founding family owners (Poza, 2014:3). Astrachan and McMillan (2003:1) mention that the 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 lack 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). Many family business scholars are of the opinion that close family ties and strong working relationships are vital to the longevity of a family business (Venter & Boshoff, 2006: 19; Santiago, 2000:29; Sharma, 2004: 64; Malone, 1989: 349).

A family business is fundamentally different from other forms of business (Poza, 2010:11). The key difference is that the inter-link between the business affairs of a family business are closely aligned with the personal financial affairs of the family, and with the power relationships, blood ties, emotional bonds and inheritance issues within that family (Astrachan & Astrachan, 1993; Morris *et al.*, 1997:387). These relationships between the family and business systems are recognised as the key feature distinguishing this field of study from others (Sharma, 2004:9). It is this reciprocal influence of family and business dimensions on family firms that makes them complex to research (Sharma, 2004:335).

According to Venter (2003:19), the members of a family business need to recognise the distinctive characteristics of their businesses; failure to do so will

incur undesirable consequences for the business and more specifically, the succession of the business. Every family business possesses unique characteristics in their operations, as well as specific dynamics within the family ownership. It is important for these elements to be identified and understood by the current management of the business, as a failure to do so will lay the foundation for unrelenting problems and risks, which could have been prevented but are able to severely damage the continuity of the business.

Researchers in the field of family business have just begun to study the family business in earnest. The first journal dedicated to the field of family business – the *Family Business Review* – began publishing in 1988. This scholarly attention was long overdue as they continue to gain new insights and understanding into the fundamental processes that underlie these businesses, so that their findings can ultimately inform, direct, enrich and guide managerial practice.

To date, numerous conceptual models and approaches to the study of family business have emerged, to create a better understanding of these complex systems (Basco & Perez Rodriques, 2011:154).

## **2.7 FAMILY VERSUS NON-FAMILY BUSINESSES**

To be able to understand the concept of family business and to distinguish family businesses from non-family businesses, one needs to start at the basic core of the business. Different stakeholders demand numerous and often competing concerns which businesses must satisfy. Owners of family businesses often entangle business objectives with family goals. Common goals of growth and profitability may not be the most important as family goals may not be performance oriented (Chrisman *et al.*, 2003). Typical examples are providing employment to family members who are not fully productive; family businesses tend to have a more centralised decision-making process and less formalised control processes (Morris *et al.*, 1997).

The process of succession is much more traumatic and problematic than in non-family businesses because of conflict among family members, which is sustained over long periods of time (Morris *et al.*, 1997). Their entire lives are dedicated to the family business, because they often identify personally with the business. This is less common among managers in the corporate world (Cater, 2006).

While the family business is operational, the likelihood of employment termination is low; however, the failure of the business has serious personal and career implications. Leaders of family businesses are largely accountable to their family and themselves, whereas the non-family manager is accountable to the shareholders of the corporation.

Leaders use a more personal approach in the family business by trusting their employees and relying less on formal written policies (Kelly, Athanassiou & Crittenden, 2000:30). Finally, there is a lower chance of entry into global markets, because family businesses have practiced a more conservative strategy with slower growth (Donckels & Frohlich, 1991:152).

It is the vision of the entrepreneur, who is usually the founder of a family business, is to create a successful business to pass on to his children, and he/she works for years to build up such a business. This fact is echoed by Cater (2006) who found that family businesses, which are run by a single person or a couple who are married, make up 75 percent of all family businesses. Siblings being in control of 20 percent, and cousins in control of 5 percent make up the balance.

## **2.8 DEFINING THE FAMILY BUSINESS**

Before embarking on the task of defining a family business, it is important to establish what essentially constitutes a family.

According to Flören (2002:27), the structure and composition of the family are mostly ignored in family business literature, which is surprising, considering that families themselves differ in their definitions and understanding of the concept of family. A family is a social system consisting of individuals, related either by blood

or by legal adoption, interacting with and influencing each other's behaviour (Stavrou 1999:45).

According to Klein (2000:158), a family is a group of people who are descendants of one couple, their in-laws, and the couple itself. Based on the aforementioned, Flören (2002:28) extended Stavrou's (1999:47) definition of a family to include individuals related not only by blood or legal adoption, but also by marriage. A family business relates to those individuals who are interacting with and influencing each other's behaviour within the context of a business. Simply stated, a family business is a business that is influenced by the family or by family relationships (Leach & Bogod 2003:4).

In the literature, or in communities that focus on teaching and consulting, a family business is not defined universally (Poza, 2014:4; Astrachan, Klein & Smyrnios, 2002:45; Flören, 2002:15; Littunen & Hyrsky, 2000:41). The struggle has existed, since the origin of family business studies as a field of study, to define the confines and uniqueness thereof. It is impossible to gain clarity on the term family business when it has not been defined (Zahra & Sharma, 2004:331-333), this presents a number of problems in the family business field of research, particularly with regard to methodological problems (Handler, 1989:258; Neubauer & Lank, 1998:5).

Lee (2006:105) posits that it is not simple to define family business, Flören (2002:16) states that a definition is a requisite and that many researchers agree to this. Therefore, the family business researcher first and foremost needs to consider elucidation on the definition for family business (Handler, 1989:258). Poza (2010:6) proposes the following working definition:

- That two or more members of one family or of a partnership of families should have 15 percent or more control of the ownership
- Family members should strategically influence the business management
- There should be due consideration for family relationships
- The continuity through generations should be considered.

Although numerous attempts have been made to articulate conceptual and operational definitions of family businesses (Sharma, 2004:3) there is not one precise definition of family businesses upon which researchers have settled. Sharma, Chrisman and Chau (1997), and Stokes & Wilson (2006:457) have found more than 30 different definitions for family businesses in their review of the literature.

The following dimensions should be considered:

- The level of family ownership,
- The level of management from the family
- The transferability of the family business to successive generations

Poza (2010) is of the opinion that generally, other firms do not behave in the same unified fashion as what a family business would. A governing partnership of a family or a small number of family members, who have a dream for the sustainable future of the business, manage the family business for future generations (Cater, 2006:49).

According to Astrachan and Shanker (2003), there are three types of definitions of a family business. The first definition is a broad, comprehensive definition which states that 62 percent of the workforce of the United States of American is employed in family firms. The second definition is termed a middle definition, while the third definition is a narrow definition which states that they are made up of only 27 percent of the workforce.

As long as there is no generally accepted family business definition, it is important that researchers clarify their choice of family business definition. For the purpose of this study, a family business will be referred to as a business in which a single family owns 51 percent of the business and at least two family members are involved with the senior management of the business and they have the desire and ability to pass the business to the next generation (succession), which is probably closer to Astrachan and Shanker's (2003:217) narrow definition.

## **2.9 FAMILY BUSINESS MODELS**

Family businesses have been described as unique, complex and challenging social organisations, with specific characteristics that should be recognised by family members, advisers and researchers (Hume, 1999:15; Whiteside & Brown, 1991:383; Poza, 2014:7). To develop an understanding of the nature of family businesses, many authors have integrated concepts from family systems theories to theories on organisations used by social psychologists and organisational development consultants (Venter & Farrington, 2009:61; Whiteside & Brown, 1991:383). A family business essentially consists of two parts, namely a family and a business.

The family and the business are separate systems, each with its own participants, goals and values that overlap in the family business (Longenecker *et al.*, 2006:168; Rwigema & Venter, 2004:476). Both of these systems have conflicting goals; the main idea of a family is to care for and develop its members; whereas, the business purpose is to produce and distribute goods and make a profit.

For this reason, family businesses are a unique business type as they strive to allow for the simultaneous coexistence of both family and business relationships (Muske *et al.*, 2002:3). Due to this reason, family businesses can no longer be viewed as single systems or two separate individual systems, but rather as an interdependent system with two overlapping units (Muske *et al.*, 2002:3; Rwigema & Venter, 2004:477). Resources are used in either system as a response to a need within the opposite system (Muske & Fitzgerald, 2006:195).

Maas and Diederichs (2007:4) state that a family business is a business that is owned and directed by family members who share the intention to create wealth for future generations. The evolution of these conceptual models and the models themselves will be described in the sections that follow.

### **2.9.1 Systems theory and family business**

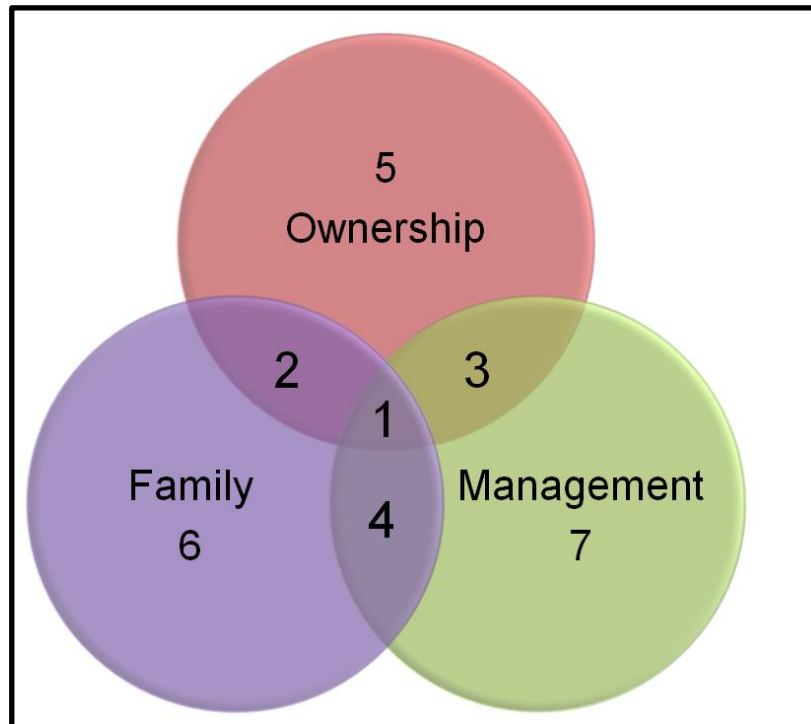
The systems theory is often the most widely used to study family businesses (Poza, 2010:32; Farrington & Venter, 2009).

In the systems theory approach, the family business is modelled as comprising of family, management and ownership. As can be seen in Figure 2.1, this model can be used to describe the family business system as three inter-dependent but overlapping subsystems: business, ownership and family (Poza, 2014:8). Each sub-system maintains boundaries that separate it from the other sub-systems and the general external environment within which the family business operates. For more than a decade, the three-circle model of family business has been the primary conceptual model of family business (Astrachan, 1992:81; Gersick *et al.*, 1997:287; Tagiuri & Davis, 1992:49; Westhead, Cowling & Howorth, 2001:380).

The three-circle model illustrates the positions family and non-family members can take up in the business and views family businesses as a complex system comprising of three overlapping subsystems, namely business, ownership and family (Poza, 2010:9).

The health of a family business relies on parallel developmental processes occurring in all three sub-systems. When a legal arrangement, for example a trust, freezes development in the ownership system, the family business as a whole may suffer (McCullom, 1992:146).

**Fig 2.1: The systems theory model of family business**



**Source: Poza (2010:8)**

Any individual in a family business could be placed in one of the seven sectors formed by the overlapping circles of subsystems. For example, all owners will be in the top circle. Similarly, all family members will be in the bottom left circle, and all employees in the bottom right. A person who has only one connection to the business will be in one of the outside sectors, namely 5, 6 or 7.

The ownership circle includes a shareholder as belonging in Sector 5 but not a member of the family or an employee. When an individual has a number of connections in the business, the individual could overlap the sectors and be in two or three circles simultaneously.

Sector 2, in both ownership and family circles, will also include owners who are also affiliated to the family but not an employee. Sector 3 will be someone who is not a member of the family but is an employee in the business. (Gersick *et al.*, 1997:6; Poza, 2014:9).

The three-circle model illuminates the challenges that are faced by the family business while demonstrating the different places that could be occupied by

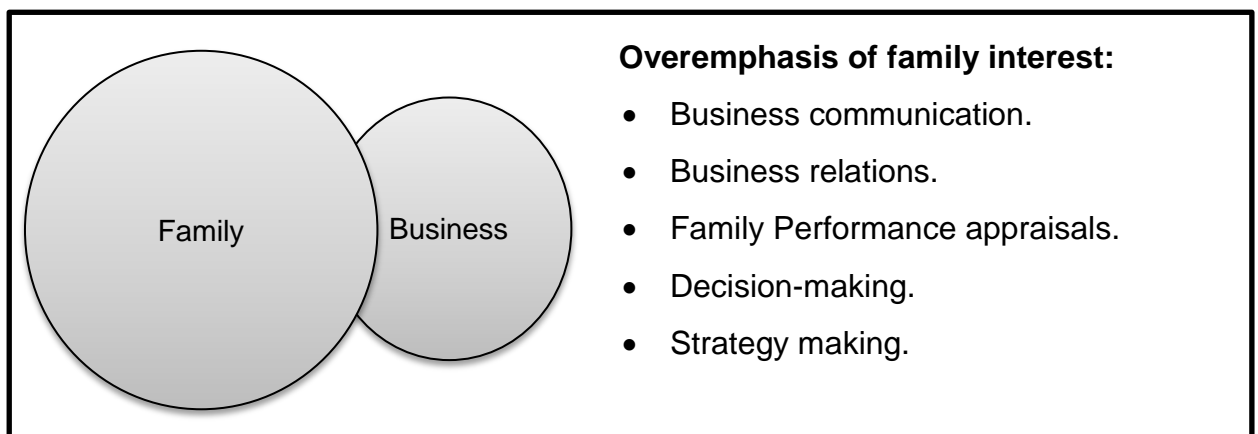
members who are part of the family or not part of the family. Managing the different norms, ideals and expectations creates complex issues, which could lead to categories of family business having the basis of “family first, management - first or ownership - first” perspectives on issues (Poza, 2014:9).

Therefore, priority may be given to one particular subsystem over another. This could lead in extreme cases to significant sub-optimisation of the family-ownership-management system commonly known as a family business, which leads theoretically, to a lower level of performance than the business is capable of achieving (Poza, 2014:9).

### 2.9.1.1 Family- first businesses

This approach focuses on the needs of the family (Reid, Dunn, Cromie & Adams, 1998: 55; Aronoff & Ward, 1995:7). Employment is a birth right (Poza, 2014:9) and the needs and opinions of the family and individuals are placed above the needs of the business, even if it influences the business negatively. Business leaders also have to report to the family in terms of critical decision-making within the business. Figure 2.2 illustrates the effects of overemphasising family interests in the family first approach.

**Figure 2.2: Family- first approach**



**Source: Carlock and Ward (2001:6)**

This approach might be very destructive to the business and it can lead to conflict between managers and shareholders, and result in the business losing its

competitive edge in the market. Keeping everyone in the family happy might result in unavoidable conflict at a later stage that will definitely disrupt family harmony.

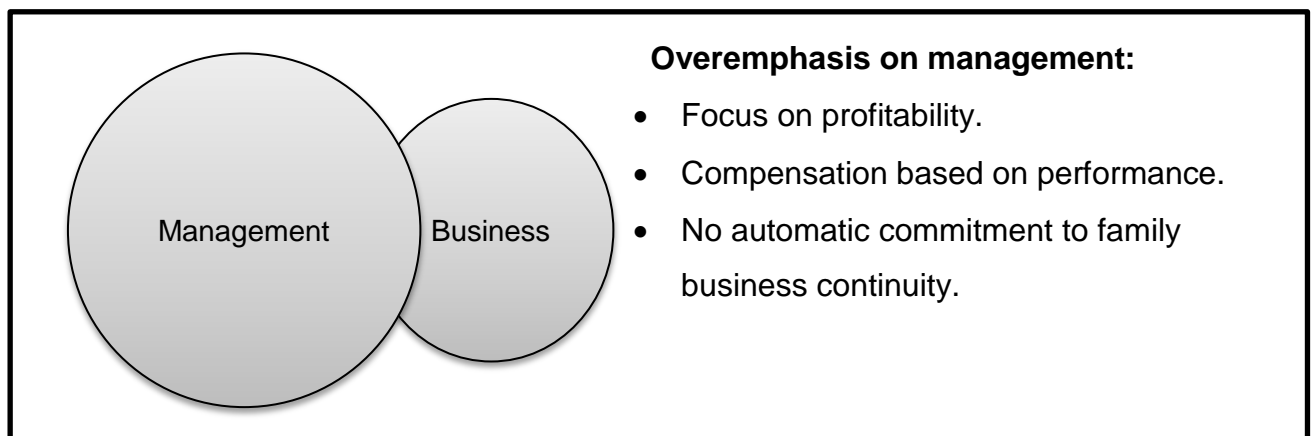
The absence of balance and clear boundaries between family, ownership and management is not always resolved by putting the family first (Poza, 2014:10). Only if these issues are managed properly can it be to the advantage of the family and the business (Ibrahim & Ellis, 2004:109; Carlock & Ward, 2001:6).

### 2.9.1.2 Management-first businesses

The management-first principle is most commonly found when certain family business leaders control the decision-making within the business and discriminates against family members owing to their lack of necessary skills, lack of experience or if they have insufficient knowledge about certain aspects in the business (Poza, 2014:10; Basu, 2004:14; Reid *et al.*, 1998:55-56; Aronoff & Ward, 1995:7).

Figure 2.3 illustrates the approach and it points out the effects of overemphasising management interests.

**Figure 2.3: Management- first approach**



**Source: Carlock and Ward (2001:6)**

This type of approach might result in neglecting to pay attention to family issues and needs. Family members are likely to discourage family members from actively working in the business, which can create tension, influencing the long-term

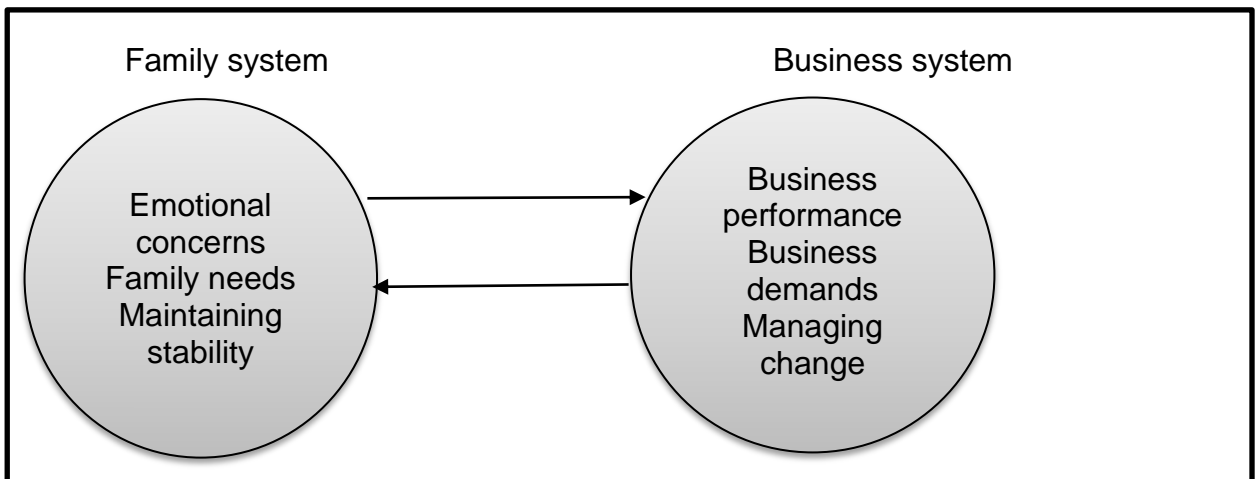
sustainability of the business, and could destroy family harmony (Poza, 2014:10; Reid *et al.*, 1998:55-56).

### 2.9.1.3 Balancing family and business interest

The balancing family and business approach is a very sensible approach, although it might end up with situations where there is an unbalanced or conflicting goal between family and business systems.

A graphic illustration of the balancing family and business approach that have conflicting goals between family and business systems is set out in Figure 2.4.

**Figure 2.4: Balancing family and business approach with conflicting goals between family and business systems**



**Source: Carlock and Ward (2001:6)**

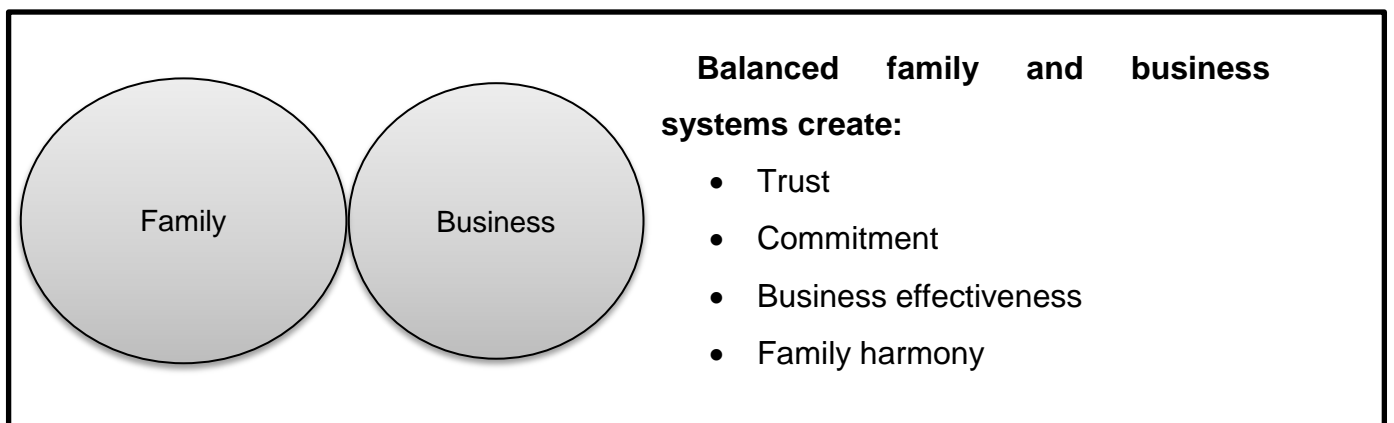
The integration of the family and the business can lead to conflicting roles and confusion in the business, or even in the family system, that could affect relationships and influence effective communication within the family.

These conflicting roles are a result of family emotions, focusing inwards and the family's general resistance to change; whereby, the business is task driven, focusing outwards on the external environment and exploiting change in order for the business to grow (Swart, 2005:31; Emens & Wolper, 2000:2; Reid *et al.*, 1998:55-56; Bork, Jaffe, Lane, Dashew & Heisler, 1996:23).

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

Figure 2.5 contains a graphic illustration of the balancing family and business approach that can be achieved by having a balanced family and business relationship.

**Figure 2.5: Balancing family and business approach with successful balance between family and business systems**



**Source: Carlock and Ward (2001:6)**

Carlock and Ward (2001:146), Shanker (2000:4), Reid *et al.* (1998:55-56) and Aronoff and Ward (1996:9) state that family members have to earn their position in the business by means of qualifications or dedication and exceptional performance.

The family needs to set up a governance process to help the family manage the business in the best possible way to ensure that the business is profitable and sustainable over the long term, to ensure good family relations and to reduce the impact of conflict on the family harmony.

## **2.9.2 Life-cycle approach**

The life-cycle approach is an important concept in family business theory and is derived from biological analogies. A simple model states that all organisms are born, grow, decline and die. In contrast, businesses have a chance during maturity of a rebirth and start the life process all over again (Ward, 1997:331).

The life-cycle approach includes five steps in the organisation's development, which can be used to analyse a family business and its members. According to Lester and Parnell (2004), most organisations will go through the following steps:

- Existence: Also known as the birth stage (Lippitt & Schmidt, 1967) or entrepreneurial stage (Quinn & Cameron, 1983). This refers to the beginning of the development of the business. The focus is on viability; finding enough customers to support the existence of the business. The organisational structure is simple and the ownership and decision making lies in the hands of one or two individuals (Mintzberg, 1979).
- Survival: Businesses build their own distinctive competencies as they grow and move into the next stage (Quinn & Cameron, 1983). The main goal during this stage is to generate enough revenue to continue operations, grow and stay competitive (Churchill & Lewis, 1983). While some businesses grow large and prosper well enough to enter stage three, some fail to generate sufficient revenue and go out of business.
- Success: This stage, commonly called maturity, represents a business, which has passed the survival test, growing to a point that they want to protect what they have gained (Adizes, 1979). This results in one critical problem during this stage, and that is 'red tape' (Miller & Friesen, 1984). This bureaucracy limits the business's ability to respond to changing environments (Hanks, 1990).
- Renewal: During this stage, the business desires to return to a leaner time (Miller & Friesen, 1984) allowing collaboration and teamwork to foster innovation and creativity. Typically the needs of the customers are, as in the survival stage, placed above those of the members of the business.

- Decline: Organisational members become more obsessed with personal goals than organisation goals, which lead to a period of decline where they experience a lack of profit and a loss of market share (Miller & Friesen, 1984).

A life cycle model could provide a road map, identifying critical organisational transitions as far as developing the succession process in family businesses.

### **2.9.3 Agency perspective**

In agency theory, theorists consider the alignment of interest between a principal, who delegates work to another (agent) who performs that work, and the resultant agency costs arising when a conflict of interest occurs (Chrisman, Chua & Litz, 2004).

It is postulated that because of the intricate nature of these agency relationships, the result is higher costs associated with managing these relationships. Researchers have hypothesised that family businesses have one of the more costly forms of organisational governance (Poza, 2014:13). Under agency theory, an owner manager is more diligent than a manager who is not an owner (Chrisman *et al.*, 2004; Chrisman, & Sharma, 2003).

However, Poza (2014:14) is of the opinion that owner-manager family businesses should have lower-agency costs than businesses where the manager was not the owner. This traditional view of agency theory for family business may change because of the competing forces of ownership, management and family (Poza, 2014:13). The opposite may occur for family businesses trying to achieve low agency costs in accordance with the traditional agency model, because of the manager-owner alignment relating to growth, risk and preservation of shareholder wealth.

Agency costs, according to Chrisman *et al.* (2004), could be increased by different factors such as disproportionate compensations, rewards, a long life of members of management, and family member employees who are not productive enough. In addition, there could also be conflict due to family members who are unqualified for positions that they may hold or not doing the job they were appointed for

(Chrisman *et al.*, 2003), with further complications being the pursuit of both economic and non-economic goals.

A family business could be seen as a system with a linkage between the business and the family, and the different dimensions that make up each dimension. Problems could arise when there is a lack of understanding regarding the features of the business and that of the family, which could ultimately lead to on-going problems and missed opportunities.

Therefore, the role of agency theory is a significant component of the family business because the leaders of the family business need to ensure that the performance of the business is maintained, as well as that of family relationships (Poza, 2014:13).

### **2.9.3 Stewardship perspective**

Stewardship theory suggests that a manager behaves as a steward whose objectives are in line with those of the business rather than individual goals as in agency theory. This is in contrast to agency theory, which is based on the rational actor model of man (Poza, 2010:20).

The steward will choose cooperative behaviours, even when his interests are not in alignment with the principal. Managers rather seek intrinsic rewards such as growth, achievement and affiliation, than extrinsic rewards as in agency theory. Moreover, the steward's motivation and actions, which reflect collective goals and objectives, will also benefit the steward (Corbetto & Salvato, 2004).

Altruism is a key aspect of the stewardship perspective, where the objectives of the business and the owner-managers own needs are attempted to be satisfied at the same time (Cater, 2006). This view insinuates that owners are here to provide for the next generation (Poza, 2014:20).

## 2.10 SUCCESSION PLANNING

There are many articles dealing with the topic of succession in the field of family business (Poza, 2010: 22; Ibrahim *et al.*, 2001; Sharma *et al.*, 1997).

Succession refers to the process of transferring ownership and management from one generation to the next. Many authors believe that this inability could be one of the most important reasons of the high failure rate among first- and second-generation family businesses (Corbetta & Montemerlo, 1998:8). The need to identify and understand the factors that influence succession in family businesses in a proactive manner becomes apparent. The more successful the transfer of ownership, the better the chances of success and long-term profitability. It is a delicate process, and a well-considered and planned succession will increase the chances of finding a competent successor and will ensure a smooth transition between generations (Poza, 2014:4; Neubauer & Lank, 1998:133; Murray, 2003). Each generation in a family business has their own peculiar characteristics in areas such as entrepreneurship, laboriousness, frugality and education, to name a few (Chrisman *et al.*, 1998; Sonfield & Lussier, 2004:174). First generation members are stereotyped as very hard working, many times at the expense of leisure and time spend with the family. Contrary to that, the second and later generation members are viewed as spoiled heirs who spend more money than what the business can provide. This perception is captured in several popular sayings, one of which is that a family business goes to the dogs in three generations (Lambrecht, 2005).

According to Friedman (1991:11), the succession process can possibly be influenced by a variety of family-related factors. One such factor, for instance, is if the choice of a successor from among the siblings is interpreted as parental favouritism or nepotism, dysfunctional rivalries could be unleashed among brothers and sisters, which could delay the succession process. On the other side, however, families which are supportive and work well together, stand a better chance of effectively transferring the business to the next generation.

Santiago (2000:18) is of the opinion that the relationship between the business leader and his successor is important, he suggests that the relationship between family members is a critical element for a smoother transition.

In a study on family related factors that influence succession, Venter and Boshoff (2006) investigated the following factors, mutual acceptance of individual roles, agreement to continue the business as a family business, and family harmony. The empirical results show a positive relationship between these factors and the perceived success of the succession process. Various other researchers also provide support for these findings (Santiago, 2000:29).

According to Kets De Vries (1993), family members are often hired into the business even though they do not have the ability to be an effective contributor. This situation can put a financial drain on the organisation. Parents frequently are able to overlook apparent weaknesses in their offspring.

Several problems can occur under these circumstances. One is that non-family members who work under an incompetent family member put that individual in an unattractive position if there is an imbalance between contribution and credit. The absence of “fair play” can result in lack of trust, which influences the company climate, affects job satisfaction, motivation, and performance (Kets De Vries, 1993). On a positive note, family members often have superior business experience because they have been in contact with the business from a very young age (Kets De Vries, 1993).

Sorenson (2000) explains the process of positive outcomes for business and family by placing each at opposing ends of a continuum and comparing the differences between a bureaucracy and a family.

In Max Weber’s bureaucratic model of business, the purpose of the organisation is to maximise productivity, and the reason German organisations did not maximise their performance potential was because people were hired based on their social standing instead of job-related qualifications.

A business should not make hiring and promotion decisions based on family relationships; rather, they should make these decisions strictly from the standpoint of productivity. From the bureaucratic perspective, family members should become employees in the family business only if they contribute to maximising organisational performance.

Furthermore, business and family systems should be kept separate, and family members working in the business should be treated in the same manner as other employees. They should be hired, promoted, and rewarded based on their qualifications.

According to Sorenson's (2000), analysis of the bureaucratic model, if their performance is below standards, they should be reprimanded or fired. At the opposite end of the spectrum, according to Sorenson (2000), family comes first; the available resources would be devoted to family members, even if they were not as qualified as others were from the outside. Family decisions are based on family values and emotions. This implies that there must be some kind of adaptation on the part of either the business or the family, or a means must be found to optimise the interests of both (Sorenson, 2000). There have been historical trends for many family businesses to appoint a successor based on a fixed rule such as choosing the oldest child, the first-born son, or the best-educated child (Barnes & Hershon, 1989; Ward, 1997). This practice, which has roots in the ancient tradition of primogeniture, has the dual advantages of clarity and predictability.

Furthermore, gender bias towards males led families to view only their sons as potential successors. Barnes and Hershon (1989:10) suggests that historically, there was the assumption that the oldest or only sons should take on the major family responsibilities, holding true in "both kingdoms and commerce". Gersick *et al.* (1997) point out two additional considerations; firstly, oldest children often are chosen because they have a head start on their younger siblings in the areas of education and experience. Second, choosing a successor by following a predetermined rule allows the families to avoid having to make a difficult choice,

protecting them from the often-painful feelings of guilt when having to evaluate or favour one child over another (Gersick *et al.*, 1997).

According to Barnes and Hershon (1989), the practice of primogeniture has become less automatic in recent years. Choosing a daughter, particularly in smaller companies, is becoming more prevalent as more managerial women enter the workplace; yet, they face complex challenges by sceptical parents and siblings, to a greater extent than younger sons (Barnes & Hershon, 1989).

In a study conducted by Dumas (1998:221) the researcher found that the path to leadership for females depends on evaluation of the daughter's interest in the business, her skills and education, and her leadership ability and experience. Other considerations were whether the daughter is the only child with an interest in the position, or whether the daughter is the oldest or only child, which either leads to a fortuitous or a limiting outcome (Dumas, 1998:223). Nelton (1999) points out highly visible, successful businesses now being run by women such as Marilyn Carlson Nelson at Carlson Companies, for example, as evidence that female leadership as successor is becoming less of an issue. Chrisman *et al.* (1998) conclude that birth order and gender were the two lowest-ranking attributes, which suggests that incumbents base their choice of successor on personal qualities rather than gender, age, or bloodline.

Conversely, Keaten and Little (1997) found that the main factor for determining a successor was gender, with preference being given to males. Similarly to Keaten and Little (1997), Stavrou (1999) found that daughters are not often considered for a leadership position, even when they are the first-born child. Often, the family business owner would rather sell the business than put the daughter in charge (Stavrou, 1999). Vera and Dean (2005) believe that their findings suggest that women are not being groomed for leadership positions.

A major challenge in some family businesses is that the owners are reluctant to do succession planning (Ibrahim, Soufani & Lam, 2001). Reasons may be that the owners see the loss of power and status as the result of retirement. Many founders have worked so hard their entire lives that they value the control of the

business above anything else. Although planning helps in the transition process, it does not guarantee successful succession. The preservation of the family as a unit is more

Important than formal planning. A prerequisite for a smooth transition is that family members must be able to get along with each other within and outside of the family business (Santiago, 2000).

It is difficult to design a plan of succession, which would enable the sustainability of a family business through generations. This is because there would be a need to address the economic requirements of different generations with inconsistent viewpoints among rival successors (Jaffe & Lane, 2004).

Concerns regarding the plan of succession include the integration of the family, the business and clearly defining roles of ownership. Unfortunately, when a leader lacks the skills of effective leadership, the success of the business could also be affected (Poza, 2010; Ibrahim *et al.*, 2004). This leads to a leadership challenge to balance these competing needs.

## **2.11 CONFLICT IN THE FAMILY BUSINESS**

Researchers agree that conflict is inevitable in the family business, but this is a crucial aspect, which often lacks the understanding of role players (Poza, 2014:45; Davis & Harveston, 2001). This conflict could be either substantive, which is conflict regarding tasks, or affective, which is conflict that includes emotional matters.

According to Kellermanns and Eddleston (2006), when task conflict is present, there will be differences of opinions regarding the business, particularly in relation to the objectives and approaches. When the levels of conflict relating to task conflict are moderate, this could assist the business to succeed. On the other hand, levels that are very high or very low will have an adverse effect on the success of the business.

Conflict that is rooted in relationships or emotions within the family business includes issues of person emotions and compatibility. The result could be negative emotions such as impatience and irritation. These problems with relationships could lead to things like personal threats, and the divisions within the business.

Kellermanns and Eddleston (2006) posit that altruism can assist in sorting out conflicts in relationships within family businesses by assuring the younger generation family members believe that their ideas are heard and that change is being implemented. However, the leaders of family businesses do not make sufficient future plans and often are reluctant to change strategies that are successful (Ward, 1987).

## **2.12 THE PERSPECTIVE AND ATTRIBUTES OF THE INCUMBENT GENERATION**

Researchers have suggested that the individual most responsible for the continuity of the family business is the founder or incumbent leader. The attributes of owners that have brought them success in the business may prove to be hurdles in the process of transferring the ownership to the next generation to ensure the survival of the business. The aim of the founder to transfer the business to future generations is a key defining element of continuing a family business (Poza, 2014:6; Astrachan & Shanker, 2003).

Cabrera-Suarez *et al.* (2001) opine that inflexibility and a rigid control, characteristics that ensured the original success of the family business, do not bode well for the transference of leadership knowledge and skills to the next generation, and could be the very things which threaten the long-term existence of the family business.

Until the founder makes the decision to involve the family and pass the business on to the next generation, the founder remains essentially an entrepreneur or small business owner (Gersick *et al.*, 1997). To become self-employed, the founder is driven by his personality and possible opportunities. The desire to be self-employed and to gain control and independence not obtainable as an

employee is a major push factor in any individual's motivation to become his or her own boss. However, this is insufficient to achieve success (Sadler-Smith, Hampson, Chaston & Badger, 2003).

A second motivation, according to Gersick *et al.* (1997), included the ability to identify an opportunity, and the drive to exploit such an opportunity for the founder's own benefit. Therefore, the founder must exhibit certain entrepreneurial behaviours in order to maximise the opportunities presented. As the business grows, it is important to attain key leadership skills for the success and sustainability of the business (Sadler-Smith *et al.*, 2003).

New developments and modifications are behavioural traits of typical entrepreneurs. This will lead to the promotion and creation of taking risks, creativity, and opportunities. In business, the founder executives create a vision, are able to develop products, attract customers and employees and ensure the development and growth of the business (Wasserman, 2003).

Success is generated from the entrepreneurial leader's ability to:

- Develop a vision and long-term goals: leaders envision the future by imagining exciting possibilities. They need to make something happen, to change the way things are, to create something new and know what the results should look like
- Use problem solving skills: leaders are confronted with challenges and should use their skills to solve them
- Make timely decisions: this is paramount in the ever changing environment in which leaders operate
- Accept risk: every leadership case involved a change from the status-quo and risk should be minimised as far as possible (Fernald, Solomon & Tarabishy, 2005).

Although, the general problem was that the current succession process results in the high failure rate in the succeeding generation, Collins (2005) found the

presence of strong leadership characteristics in the business leader correlated with the success of the business. This is an important point because, the abovementioned skills, together with the skills noted by Wasserman (2003), and Sadler-Smith *et al.* (2003) are aligned to the leadership skills as promoted by Kouzes and Posner's (2012) exemplary leader in terms of vision, risk taking and employee involvement.

The types of leadership practices suggested by Kouzes and Posner (2012) are important and will be elaborated on within the scope of this study.

## **2.13 THE PERSPECTIVE AND ATTRIBUTES OF SUCCESSORS**

Although the topic of succession has a strong presence in the field of family business literature (Wortman, 1994; Dyer & Handler, 1994) little attention has been given to who is considered the most desirable successor (Chrisman *et al.*, 1998).

It is obvious that if a family business is to survive, someone is to take over the leadership role when the incumbent generation retires. However, the literature on family business also mentions the problems related to the successor generation in the path of succession. For instance, some family members do not want the stress, pressures and conflict associated with working with other family members. Other family members simply have interests in other occupations (Poza, 2010:91). Another challenge is for the successor to acquire the incumbent's knowledge of the business in order to maintain and improve the performance of the family business. This knowledge may be viewed as capacity, which can be a source of competitive advantage (Barney, 1991:101).

During the initial phase of start-up and the development of a business into a sustainable business, the vision and strategy may be with the owner. It is then important for the owner to convey his strategy to others, especially for the incoming generation to be able to make sense of the resources and capabilities available in the business (Cabrera-Suarez *et al.*, 2001). Of course, this transfer of

knowledge is facilitated better when there is a strong working relationship between the founder and successor.

The following section provides an overview of successor characteristics and competencies found in the literature, which are important. Carlock and Ward (2001) identify seven characteristics, referred to as the 7-Cs, which have a strong influence on the decision over who will take leadership roles in the family business. The contributing behaviours for high successor performance potential are conscience, credibility, competence, commitment, coaching, capability, and communication (Carlock & Ward, 2001).

Conscience is the central characteristic in the 7-C model because there is the assumption that families prefer a leader who demonstrates trust, personal integrity, and ethical behaviour. The behaviours of credibility, competence, and commitment are tied to specific organisational outcomes.

According to Carlock and Ward (2001), credibility refers to earning the respect of the family and business based on accomplishments and personal style; competence encompasses technical ability or skills needed for business management; and commitment is the personal choice to support the interests of both the family and the business. The characteristics of coaching, capability, and communications are utilised in many situations both inside and outside of the workplace.

Coaching is the ability to teach and develop skills and talents in others; capability is possession of intellectual and emotional talents important for future leadership growth; and communication is having the ability to build meaningful relationships through sharing information (Carlock & Ward, 2001). Carlock and Ward (2001) believe that these seven competencies are overlooked at times when evaluating potential successors because they are not easy to quantify or tie to a particular job task.

They acknowledge that it is difficult to find all seven of the behaviours in any one particular individual; therefore, selection criteria should be rooted in the family's

core values and the business situation. Ibrahim *et al.* (2004) also studied the qualities, which are considered essential to an effective family business successor. In their research, they asked 42 CEOs of small and medium-sized businesses to respond to statements describing effective successor qualities, which were based on traits and skills from human resources, leadership, entrepreneurship, and family business literature as being key characteristics.

The data analysis resulted in three key factors, which respondents considered critical attributes necessary for successor success. The first factor contained six items tied to the successor's capacity to lead; specifically, these items were ability to lead, influences others, work independently, motivate others, communicate effectively, and resolve conflict.

The second factor included five items related to management skills and competencies. Specific items tested were strategic planning, market positioning, financial management, general management, and industry-specific experience.

The third factor analysed items regarding successor willingness and commitment to assume control of the business. The items measured were successor's commitment, motivation to work in the family firm, and their respect and understanding of both family and non-family members (Ibrahim *et al.*, 2004). The researchers concluded that leadership attributes, management skills, and motivation can be enhanced through formal education (Ibrahim *et al.*, 2004).

Brockhaus (2004) confirmed that common criteria for evaluating a potential successor's attributes include education, technological skills, managerial skills, and financial management skills.

Venter *et al.* (2005) promotes the concept of an integrated model, which consists of three components. These components includes the concern and enthusiasm of the successor to take over the family business, the experience of the successor with regard to educational experience or outside work experience, and the relationship the exists between the founder of the business and the potential successor. Venter *et al.* (2005) found there was a positive correction between

these three factors and the satisfaction, process of succession and profitability of the company.

Garcia-Alvarez *et al.* (2002) outlines two stages of socialisation with potential successors and encourages founders to ensure children are exposed, from a very early age, to the norms and values of family. The first stage is made up of primary socialisation, which entails the communication of values, norms and behaviours to the child. This is done by the family and the founder of the family business. The second stage is when specific business information is shared with the prospective successor(s) (Garcia-Alvarez *et al.*, 2002). Garcia Alvarez *et al.*, (2002) believed that, particularly the first stage should be conducted when the children are very young, to ensure the transition between the founder and next generation is successful.

On the other hand, Ibrahim *et al.* (2004) while recognising the importance of family relationship and that the family interact with the business, does not necessarily believe that family relationships lead to the positive economic performance of the business when passed on to a successor. The unrelentingly high rate of failure (Aronoff, 1998), may change the focus to more objective, business-related methods (Brockhaus, 2004).

Cater and Justis (2009) added to the body of knowledge by conducting an exploratory study to understand the development of successors, which included their approach to business leadership. Using a case study approach, they identified six variables, which help explain family business successor leadership. Firstly, a positive parent-child relationship begins by preparing children when they are young for future leadership once it has been decided that the goal is to pass the business on, thereby beginning to form a bond of trust and respect (Cater & Justis, 2009). The parents typically speak in unbiased terms regarding the positive and negative aspects of the business. Next, they can gain experience with the business through early summer employment. This is another opportunity to build trust and begin the development of leadership skills. Second, persistence comes from thinking in the long-term, sometimes at the expense of short-term goals. Third, a spirit of cooperation between generations was crucial to leadership

success. Fourth, acquiring knowledge suggests that the experienced leader passes knowledge on to the follower in a relationship involving interaction and trust; therefore, the incumbent leader should mentor and coach the next generation. The fifth variable, the role of manager-builder, means that successors describe their role as a manager rather than as an entrepreneur. The successor then builds on the founders ideas and capitalises on them.

The leadership style of the successor may be different, therefore, because of the difference in role perception. Finally, the researchers found that the successor must understand their own level of risk-taking propensity to enhance their own development as a leader (Cater & Justis, 2009).

Barach and Gantisky (1995) believe that the succession process is a time for the outgoing leader to assist the younger leader with educational and operational opportunities, and it is a time for potential successors to fine-tune their own expertise, along with understanding the family values and special competencies. Barach and Gantisky's (1995) work resulted in a framework of controllable factors, which can be used for finding directions for positive change. As part of this framework, they offer insight into three factors, which favour or inhibit successful succession on the part of the offspring. The first group focuses on actual and perceived responsibility, competence, and decision-making capacity. Credibility earned through advancement and training and becoming self-confident and open to learning are necessary qualities favouring success. Inhibiting items are inability to gain trust and appearing incapable.

The next area described by Barach and Gantisky (1995) is relationships with others. Favourable qualities include mentoring and training others and sharing team spirit with other executives and family members. Inhibiting characteristics include needing outsiders such as parents to resolve conflicts and succumbing to rivalry.

As mentioned earlier, for those successors fortunate enough to have sympathetic founders who transitioned the business in a planned way, the accountability for the business failure may still rest with the successor (Ibrahim *et al.*, 2004).

Without the vision and leadership of two generations, the future is bleak for family-controlled businesses. Due to the economic challenges facing business owners, combined with the intricacies of the family system and ownership (Poza 2010:7), the consideration of the leadership abilities of the second generation requires further investigation.

## **2.14 PROBLEMS LEADING TO FAILURE IN THE SUCCEEDING GENERATION**

According to Aronoff (1998), Tio and Kleiner (2005:144), it has been estimated that only 30 percent of family businesses successfully transferred to the second generation, 10 to 15 percent to the third generation and only three to five percent successfully survived to the fourth generation (Poza, 2010).

In South Africa, only one in four family businesses survive into the second generation, and one in ten makes it to the third generation (Hugo, 1996:8). The incumbent's inability to move on was found to be a major factor, which can lead to problems in the family (Sharma, Chrisman & Pablo, 2003). Girard (1996) is of the opinion that jealousy is inevitable due to human desire. Therefore, in the context of the family business, the founder may support and encourage the child to take charge of the business, but at the same time, refuse to let go of control. Conflict and rivalry within the family may result then in a failure in succession. The founder's general type of behaviour during the succession process will lead some businesses to fail regardless of the successor's abilities (Grote, 2003).

Dyck, Mauws, Strake and Mischke (2002) compare the process of succession to a relay race. Very few family businesses cross the finishing line. Sharma *et al.* (1997) identified other reasons for the failure in succession, these include incompetent or unprepared successors and unclear succession plans.

Another study showed that first generation family businesses were less likely to do any form of succession planning compared to second and later generation family businesses, and this was seen as a contributing factor for failing in the succession process (Poza, 2010:4).

Various authors (Brockhaus, 2004; Le Breton-Miller, Miller & Steier, 2004; Venter *et al.*, 2005, Sharma *et al.*, 2003) developed an understanding of specific factors that work within the systems and sub-systems of family businesses. Their efforts are described in the next section.

- Lack of ability of potential successors: According to Prior (2012), the ability of a potential leader to take over the family business is most often defined by other members of the family. It is unlikely that a successful transfer of leadership will occur if there is little belief in the ability of the successor (Brockhaus, 2004). A contributing factor that can be added to the ability of the successor is determined by the will of that successor to take over. By combining attitude and aptitude potential, successors can be better prepared for the task of taking over the business (Venter *et al.*, 2005).
- Lack of trust in the potential successor: As mentioned in section 2.16, the study by Venter *et al.* (2005) found that the succession process is influenced greatly by the successor. If the perception is, that the successor is ill prepared or there is no harmonious relationship, a sense of distrust from other family members will result.
- No communication and sharing the decisions related to the succession process with other stakeholders
- Failure to develop successors accordingly. Failing to give sufficient feedback about their progress and exposing the potential leader to the family business will contribute to the insufficient development of successors (De Massis, Chau & Chrisman, 2008).
- Negative growth in business performance due to Economic uncertainty.

In summation, it is complex to design a succession plan because of the need to address factors such as the financial needs of the different generations and the difficulty in the integration of the family business and ownership roles (Poza, 2010:6; McCann, 2005). The challenge is then the ability to balance these needs. As a result, family business leaders lacking the necessary leadership skills may affect the ultimate success of the business (Ibrahim *et al.*, 2004).

## **2.15 LINKING FAMILY BUSINESS AND LEADERSHIP**

As mentioned in the introduction to the chapter, the focus of this study is on leadership in small and medium-sized family businesses and it is, therefore, important to connect these two concepts.

According to Cater (2006:28), research on leadership related to the study of family business is needed. Scholars in family business literature acknowledge that leadership is vital to the survival and success of the business.

According to Morris, Allen and Avila (1997), the main topic of academic research into family business, which began in the 1980s, is succession. Succession refers to the next generation taking over the leadership of the family business and is considered a crucial issue that faces family businesses (Poza, 2010:1; Morris *et al.*, 1997).

Generally, family business researchers use the term succession and not leadership succession, which differs from the terminology used in the literature when leadership is described. Seldom do the two fields of study intersect, evidence of which is found in the literature where the different scholars rarely reference each other. The literature on family business indicates a recognition of the value of succession, while the literature on leadership indicates it to be a vital element of the success and continued existence of the business. Cater (2006:66) posits that if this gap is bridged, family business literature will benefit greatly and there will be an improved understanding of both fields of study.

## **2.16 SYNOPSIS**

The main purpose of Chapter 2 has been to present a general overview of the literature related to the study of small and medium-sized family businesses. This overview included an examination of small and medium enterprises (SMEs) and family businesses.

Small and medium-sized businesses are a major contributor to many economies, but it is lesser known that some of these small and medium-sized businesses are also family businesses. In order to classify SMEs, often businesses are referred to according to size. However, a consistent international acceptable definition of small and medium-sized businesses could not be found.

For the purpose of this study, the definition applied in this study of small and medium-sized businesses is, therefore, businesses that are independently owned and managed and employ less than 200 persons. A similar hurdle was met when trying to find a comprehensive definition of family business. Even though scholars are struggling to define and classify a family business accurately, progress has been made and the important dimensions agreed upon.

For the purposes of this study, a family business will be referred to as a business in which a single family owns 51 percent of the business; where at least two family members are involved with the senior management of the business and they have the desire and ability to pass the business to the next generation.

Although they faced similar challenges, the literature showed that family businesses are very different to other non-family businesses due to their uniqueness and the overlapping of the family and business relationships. Advances have been made on building a model to explain its workings. Apart from the circle of family business scholars, other researchers are beginning to recognise the importance of the family, especially in the broader area of entrepreneurship, as evidenced by the establishment of the issues of *Journal of Business Venturing*, and *Entrepreneurship Theory and Practice*, which were dedicated to family business studies. The literature overview further included the exploration of the concepts of leadership succession, conflict in family businesses, founder and successor-related abilities, and problems leading to failure in the second and later generations.

A major cause for concern is the lack of longevity, as very few family businesses survive to the second and later generations. The literature has recognised the

importance of succession and has shown that leadership is an essential part of the success and survival of the business.

A basic review of leadership theory is provided in the following chapter, which will lead to an in-depth investigation of the leadership practices used by generations of family businesses. Bridging this gap will greatly benefit family business literature, and will enhance the understanding of both fields of study.

Chapter 3 includes the literature review on the concept of leadership and the applicability of leadership theory to the study of family business.

# **CHAPTER 3**

## **LITERATURE REVIEW ON LEADERSHIP**

### **3.1 INTRODUCTION**

The focus of this chapter is to review the existing literature on the areas related to this study. The need to address the problems in family businesses, especially those related to the high failure rates in second and later generations, as well as the absence of studies in South Africa, meant focusing on the qualities and processes for effective leadership practices in second or later generations. Hence, this chapter examines leadership practices and the link to business performance. This type of information is useful to enable first generation family business leaders to encourage successors to develop these practices or consider the applicability of these practices when choosing a successor.

The basis of this literature review is to focus this research on the field of leadership. The first section will review the concept of leadership. Next, the literature review will discuss in broad scope the historical theories and the evolution of leadership theories through the years and will focus on the theories more relevant to this research. The third section will focus on recent research on the concept of the relationship between leadership practices and business performance.

### **3.2 LEADERSHIP**

Leadership is one of social science's most examined phenomena (Day & Antonakis, 2012:4). This is not surprising, seeing that it is a world-wide activity evident in humankind and in animal species. According to Day and Antonakis (2012:5), there is widespread belief that leadership is vital for effective organisational and social functioning and without leadership there would not be the extraordinary efforts necessary to solve existing problems (Kouzes & Posner, 2012:1).

Leadership is about setting a vision, guiding the followers and influencing them to reach the vision and to achieve common goals (Ponder, 2005). It is a process of transforming a business from what it is to what the leader wants it to become. There are many theories and models describing these critical components and concepts of leadership within individuals and organisations.

Kouzes and Posner (2012:33) identified certain characteristics and practices in this process of getting things done through other people. Leadership defines the role rather than the person and leadership is understood by most people as having the freedom in their role to make a difference. Other authors posit that leadership can be measured and taught (Kouzes & Posner, 2012:9; Avolio & Bass, 1995).

There are many different definitions of leadership. Even in the absence of universal agreement, a broad definition is required before introducing the construct as a domain of scholarly attention. According to Bass and Bass (2008:3), "Leadership is one of the world's oldest preoccupations". They identify various approaches to the definition, which particularly focus on group processes, personality, specific acts or behaviours, goal achievement, group interaction effects, differentiated roles, initiation of structure, as well as the ability to induce compliance, influence, forms of persuasion, and power relationships. The following definitions provide a representative sample of some of the scholarly thoughts on what the topic of leadership is as the field evolved over time:

- Leadership is "the result of an ability to persuade or direct men, apart from the prestige or power that comes from office or other external circumstances" (Reuter, 1941:133).
- Leadership is the behaviour of an individual, which involves the directing of activities of a group towards a shared goal (Hemphill & Coons, 1957).
- Leadership is the art of getting others to want to do something that the leader is convinced should be done (Packard, 1962).
- Leadership is the "influential increment over and above mechanical compliance with the routine directives of the organisation" (Katz & Kahn, 1978: 2).
- Leadership is "the process of influencing the activities of an organised group toward goal achievement" (Rauch & Behling, 1984:1).

- Leadership is about articulating visions, embodying values, and creating the environment so objectives can be accomplished (Richards & Engle, 1986).
- Leadership is “an influence relationship among leaders and followers who intend real changes that reflect their mutual purposes” (Rost, 1993: 102).
- Leadership is a process through which leaders can influence the attitudes, behaviours and values of others (Vecchio, 1995).
- A leader is a person who manifests direction, integrity, and courage in a consistent pattern that inspires trust, motivation, and responsibility on the part of the followers who, in turn, evolve into leaders themselves (Bennis, 1998).
- Leadership is defined as a social influencing process in which the leader focuses on obtaining the voluntary participation of employees to reach organisational goals and objectives (Schneider & Schneider, 2001).

Most leadership scholars agree, leadership can be defined in terms of (a) an influencing process and its outcomes that occur between a leader and followers and (b) how this influencing process is explained by the leader’s characteristics and behaviours, follower perceptions and attributes of the leader, and the context in which the influencing process occurs.

For the purpose of this study leadership is required to guide and direct all the relevant resources toward the objectives of the business to ensure that all the business functions are aligned with the external environment.

### **3.3 CONCEPTUAL FRAMEWORKS OF LEADERSHIP**

There are many distinctive challenges associated with family businesses due to different family members being involved in different business issues (Sorenson, 2000). There are different fundamental theories that could be used to explore the relationship between leadership qualities of the leaders in the family business leaders and the performance of the business (Weaver, 2008:15). The family systems theory suggests there is an understanding that making leadership decisions includes overlapping the requirements of the family, ownership and the business management (Gersick *et al.*, 1997; Poza, 2014:8).

The theory of entrepreneurship and entrepreneurial activities were possibly a part of the success of the primary venture of the family business by the founder (Poza, 2014:5; Weaver, 2008:12). Bird *et al.* (2002) posits that the platform for the development of family business theories is grounded in entrepreneurial theory, which provided a platform to develop early family business theories (Bird *et al.*, 2002); whereas, House and Aditya (1997) believe that neo-charismatic theories, which represented the dreams of the leaders, formed the basis of leadership attributes in the founders and their successors. In order to get perspective on this new leadership approach it is important to review the development of leadership theories in the next section.

### **3.4 THE EVOLUTION OF LEADERSHIP THEORIES**

Research on leadership theory has evolved (Day & Antonakis, 2012:6) and can be divided into four overlapping stages: the trait approach, the behavioural approach, the contingency approach and the new leadership approach.

These approaches are presented in the next section. Although advances and contributions to leadership knowledge have been made by researchers, no single approach has been proven as the best way to measure and explain leadership.

#### **3.4.1 The Trait Approach**

Much of the early research on effective leadership reflects an assumption that leaders were different from other people because of certain traits and characteristics that separated leaders from others. The trait theories originated from the belief that, “If the leader is endowed with superior qualities that differentiate him from his followers, it should be possible to identify these qualities” (Antonakis, 2011; Stogdill, 1974:17).

This super human theory implied that leaders are born with certain traits or characteristics separating them from other individuals. This trait approach could therefore be classified into three categories: physical traits, abilities and personality characteristics (Cater, 2006). While this is a valid and appealing approach, efforts to test this theory have met many dead ends.

The consistency of trait research was questioned by both Gibb (1947) and Stogdill (1948) after research results were found to be inconsistent and not replicated in other studies

(Bryman, Collinson, Grint, Jackson & Uhl-Bein, 2011: 286). Other studies by Bird and Jenkins supported the conclusion that no personal characteristics would predict leadership ability (Stogdill, 1974).

As more and more studies were conducted on trait theories, the list of leadership traits grew exponentially, which created further problems (Van Wart, 2003). Because the traits approach explains only certain parts of leadership, most researchers agree that traits are important determinants of several other characteristics commonly associated with leadership (Kirkpatrick & Locke, 1991).

### **3.4.2 The behavioural approach**

From 1950 until about 1980, leadership research became interested in the behavioural school of leadership. Contingency theories describe how aspects of the leadership situation modify a leader's influence on an individual (Bryman *et al.*, 2011).

The independent variables in most contingency theories are leadership behaviour. This interest in the behavioural approach is characterised by efforts to identify leadership styles and to identify the best combination of leadership behaviours (Kerr, Schriesheim, Murphy & Stodgill, 1974). The Universities of Michigan, Harvard and Ohio were the leading centres of work in this approach.

The Michigan Studies headed by Likert, focused a study on differences between high producing and poor producing managers.

He observed that high producing managers have the following traits: workers measuring their own performance using self-guidance, workers having positive attitudes towards their jobs and making use of all the available technical resources (Likert, 1961).

In these high performing organisations, workers tended to be highly motivated, because workers were treated as human beings and managers tried to view things through their employee's eyes and thereby valuing their personal worth and developing supportive

relationships with workers. Likert (1961) favoured group decision making and viewed the use of work groups as essential.

Likert (1961) also identified a connection between levels of management where a superior's decisions could only be affected if the supervisor has sufficient influence with his own supervisor. To be effective, a supervisor must exert influence up in the organisation. The higher one goes in an organisation the more important this linking process becomes.

Most contingency theories of effective leadership use broadly defined categories of behaviour. These two broad classes of leader behaviours include task-oriented behaviour, relations-oriented behaviour, participative leadership and contingent reward behaviour. (Bryman, *et al.*, 2011:287).

Task-oriented behaviour is primarily concerned with accomplishing tasks in an efficient manner by following the company rules and regulations. Common labels for this meta-category include initiating structure, instrumental leadership and directive leadership. The specific component behaviours vary depending on the theory and measure. The degree of two way communication and consultation, warmth, respect and mutual trust a leader displays toward his followers is embedded in consideration and involves a real concern for subordinates as people. Initiating structure refer to the degree which a leader defines communication channels, organizes group activities and methods of accomplishing work (Bryman, *et al.*, 2011:287).

During the development of the Ohio State concepts, Korman (1966) found that researchers had not paid enough attention to the chances that leader effectiveness may be situationally contingent. This means that in some contexts, leader behaviour may be effective and ineffective in others.

### **3.4.3 The contingency approach**

As a result of the problems identified with the behavioural approach, the next wave of leadership research, known as the contingency approach (late 1960s to early 1980s) arose, which gave priority to situational factors.

Five important theoretical viewpoints were included in this approach and are summarised in the next sections:

- Fiedler's contingency theory of leadership (Fiedler, 1967; 1971),
- Path-Goal theory of leader effectiveness (House, 1971),
- Hersey and Blanchard's (1969) life cycle theory,
- Cognitive resource theory (Fiedler & Garcia, 1987),
- Decision process theory (Vroom & Yetton, 1973).

#### **3.4.3.1 Fiedler's contingency theory of leadership**

Fiedler's contingency theory of leadership was first published in 1964. This approach, asserted that situational variables interact with leader personality and behaviour (Fiedler, 1967). In other words, the effectiveness of group performance is contingent upon the leader's motivational pattern and the degree to which the situation allows the leader power and influence (Bryman, *et al.*, 2011:286).

Fiedler developed the least-preferred co-worker (LPC) questionnaire that contains, as a measurement of leadership direction and a definition of the favourableness of situations in three-parts, and which uses the scale of the least preferred co-worker as a measurement.

According to Bryman *et al.* (2011:291) the LPC includes an 8-point scale separated by adjectives in pairs. The respondent is required to consider the individual, presently or previously, that they least enjoyed working with, and use the adjectives to describe them. The scoring of responses is from 1 = most negative to 8 = most positive. The scores, according to Fiedler, indicate in term of the leader that lower the LPC scores, the more task oriented, the higher the LPC scores the more relationship oriented.

Leader member relations, task structure and position power was referred to by Fiedler (1972) as the three dimensions of situation favourableness. Leaders will gain support of their followers and gain more power if they use trust and respect to structure relationships.

Leaders will have greater influence if they are in situations in which tasks are clearly defined and structured. Leaders will also have more influence if they can reward and punish their followers.

A major finding in Fiedler's research was that it is better to change the work situation to fit the leader, because it is difficult to change a leader's personality (Bryman *et al.*, 2011:291).

### **3.4.3.2 Hersey and Blanchard's situational leadership model (SLM)**

This theory is based on the idea that a group of people evolves and that different approaches are needed to lead them during the different stages of maturity of the group and its members.

This model featured four different styles of leadership: delegation, participatory, selling and telling. It was based on the assumption that leaders could increase their effectiveness by learning to be more successful in their interactions with people. The interaction focuses on the following factors:

- The amount of guidance a leader gives, which is similar to task behaviour
- The amount of socio-emotional support a leader provides, which is similar to relationship behaviour
- The readiness level that followers exhibit in performing a task or function (Bryman, *et al.*, 2011:290; Hersey & Blanchard, 1988).

Furthermore, according to Hersey and Blanchard (1969), this is similar to the relationship between a parent and a child, whereas the child grows and matures; the parent gradually relinquishes the control of the child. A theory was developed by Hersey and Blanchard where the "task-relevant maturity of the subordinate" is the factor that is most important when the behaviour of the leader is determined.

Job maturity (being able to perform the job) and psychological maturity (the self-worth and confidence of the individual) are the two facets of task-relevant maturity. The effectiveness of the style of leadership will be determined by the level of maturity of the

sub ordinate, and needs to be relevant to the subordinate's maturity level. The style of leadership can only be effective if it is appropriate for the sub ordinates maturity level. For example, a manager may need to provide concentrated task direction (telling) to an employee who is new in the company, but once the employee has developed job maturity,

less task direction is required and the leader could increase in relationship behaviour (selling). This could become less task behaviour and more relationship behaviour (participating) as more time passes.

When the subordinate reaches greatest heights, the leader will allow him/her to operate independently (delegation). Short-term behaviour is the focus of the model, however, over time the leader intervening and assisting in the building of skills and confidence could increase the maturity of the subordinate. (Bryman *et al.*, 2011:290). According to House and Aditya (1997) there is very little practical research to validate this model, but because of the obvious face validity, it has been accepted.

Effective leaders should possess all of these styles and know the opportune time and audience to use them.

### **3.4.3.3 The path-goal theory of leader effectiveness**

The path-goal theory aimed to resolve the conflicting findings concerning task oriented and person oriented leaders (House, 1971). According to House, effective leadership involves behaviours that increase follower performance and or satisfaction. The necessary paths should be clarified by the leader's behaviour and influence for the follower to travel to attain his personal goals. Rewards are made available by the leader and he specifies the path for subordinates to follow, to attain the rewards. The basis of the path-goal theory is expectancy theory, which states that motivation to perform a given act, is a function of expectancies, instrumentalities and valences (Jago, 1982).

According to House (1971), leaders may display four types of behaviour: directive, which involves telling followers what to do; supportive, which entails being friendly to followers; participative, which necessitates seeking followers' suggestions; and achievement, which requires setting challenging goals (Bryman *et al.*, 2011:290; House

& Aditya, 1997). Depending on the situation leader's face, they should adapt the four kinds of behaviour.

#### **3.4.3.4 The cognitive resource theory**

Fiedler continued working on his leadership approach using the LPC scale, even though there was criticism against it. This led to the development of the cognitive resource theory (CRT), which used the personal variables of the experience and intelligence of the leader and the situational variable stress (Fiedler & Garcia, 1987). The realisation was that when the stress is low, there is a positive relationship between performance and intelligence and a negative relationship between experience and performance (Bryman *et al.*, 2011:291). Under conditions of high stress, the opposite was true and there is a negative relationship between performance and intelligence, with a positive relationship between experience and performance.

The conclusion, according to House and Aditya (1997) is that intelligence and experience interfere with each other. Bryman *et al.* (2011:291) suggest that businesses should select and employ people who possess the intelligence, experience and knowledge to achieve leadership that is effective. Thereafter, these leadership attributes should be enabled for the leaders then to make use of their cognitive resources that they possess and work under conditions that allow them to use these resources. Another crucial factor is the stress experience and the leader being in control of the situation.

#### **3.4.3.5 The decision process theory**

The Decision Process Theory developed by Vroom and Yetton (1973) is the final situational leadership theory, which was extended by Vroom and Jago (1988). The foundation of the approach is to aid managers in the process of making difficult technical or economic decisions. In the original model, Vroom and Yetton (1973) describe five decision-making processes, which could be followed to determine the amount and type of leader participation depending on seven contingencies. The model is in the format of a decision tree, with branches that apply rules particular to the specific situation (Vroom & Yetton, 1973). It is based on sequential questions concerning the problem. The questions address quality requirements, sufficient

information, problem structure, acceptance by subordinates, goals of subordinates, and conflict among subordinates.

According to House and Aditya (1997), there has been a greater support from field studies than laboratory studies overall. The disapprovals include the supposition that the leader's objectives are always compatible with those of the organisation, lack of interest in discussion skills that the leader requires for group problem-solving, and the theory that is markedly multifarious (Field, 1979).

When revising the model, Vroom and Jago (1988) added five situational factors, as well as making changes to the provision of the key variables; and the manner of presenting the model prescriptions was also made by Vroom (2000). Even though the original model was updated over time, the Vroom, Yetton and Jago research shows the importance of taking the situation into account (Vroom & Jago, 2007). Vroom and Jago (2007:23) are further of the opinion that their research underscores the significant role of situational forces in guiding actions and based their opinion on organisational effectiveness and how situations shape and influence the behaviour and consequences of leader behaviour.

However, by the end of the 1980's interest in the contingency approaches had waned due to researchers becoming disenchanted when they found inconsistent results in their studies using the various theories (Bryman *et al.*, 2011:294). In a continuous search for explanations on how leaders could improve on the results in their businesses evidently led to new developments in leadership theories.

### **3.5 THE NEW LEADERSHIP APPROACH**

Additions to the study of leadership from the 1980s to the present fall under the label of a new leadership approach (Bryman *et al.*, 2011:9; Bryman, 1996). In a review of the leadership theory, a new paradigm shift led to a group of leadership theories called neo-charismatic leadership theories (House & Aditya, 1997). Cater (2006) believes that theories on new leadership search for explanations in the way leaders accomplish results that are exceptional in their businesses. They also seek to find ways of motivating employees to attaining elevated levels of value, trust, and performance, while

influencing these followers to share their leader's dream for the continued success of the business. The focus of the current study is on neo-charismatic leadership theories and uses the model of the exemplary leader by Kouzes and Posner (2012) to form the basis of the measurement of leadership practices of founders and successors of family businesses.

Included in this category are the Theory of Transactional leadership explained by the Leader-Member Exchange (LMX) (Liden, Erdogan, Wayne & Sparrowe, 2006); Transformational Leadership (Burns, 1978; Bass, 1985); Servant Leadership (Greenleaf, 1977); Collins Level 5 Leader; the concept of Exemplary Leadership (Kouzes & Posner, 2012), and Quinn's Fundamental State of Leadership.

A review of these leadership theories identified the main aim of trying to explain how leaders can motivate employees, achieve outstanding results and influence followers to share their leader's vision for the business (House & Aditya, 1997). These leadership related theories is outlined in the next section.

### **3.5.1 Transactional leadership**

Leadership can be viewed through the transactional lens as the exchange of items of value whether economic, political or psychological in nature. In a work context, this style could be explained by the follower agreeing to perform work in exchange for money from the leader. There is nothing beyond the benefits derived from the exchange that binds the parties together, as long as the follower performed his duties satisfactorily, the leader would not intervene (Burns, 1978; Bass, 1960). According to Bass (1990) transactional leadership is in many cases a prescription for mediocrity.

Leader-Member Exchange (LMX) is a popular transactional leadership theory (Dansereau, Graen & Haga, 1975). The central view highlights the value of high quality relationship between leaders and followers in organisations (Maslyn & Uhl-Bien, 2001). This focus on relationships is the distinguishing feature of LMX research (Liden *et al.*, 2006; House & Aditya, 1997). LMX researchers have also looked at the characteristics of leaders and followers, their interaction, and contextual considerations (Wang, Law, Hackett, Wang & Chen, 2005). The LMX literature shows that effective relationships between managers and subordinates can have many positive outcomes for organisational performance (Bryman, *et al.*, 2011:312). The leader give more time and

attention to the followers in this group, as well as trusting them more and giving them privileges (Dansereau *et al.*, 1975). There is a statistically significant relationship, as has been revealed by research, between superior relationships and performance, organisational commitment, employee citizenship behaviour, and job satisfaction (Uhl-Bien & Maslyn, 2003). Furthermore, there is a negative relationship between LMX and employee turnover (Graen Liden & Hoel, 1982) and LMX and turnover intentions (Vecchio & Gobdel, 1984). In an explanation of the way that LMX works, Liden and colleagues (Dienesch & Liden, 1986; Liden, Sparrow, & Wayne, 1997) describe it as a process of questioning steps between leaders and members; the groups test each other's responses to see if a superior relationship can be formed. If the party that initiates the exchange behaviour finds the response satisfactory, then the exchange continues, but if the response is negative or non-existent, then the relationship stays at a low level. The assumption of the individual exerting effort to commence and respond to exchanges is at the core of the process.

Furthermore, Uhl-Bien and Maslyn (2003) state that LMX theory describes a process of "role-making," as opposed to "role-taking." In role making, "the dyad partners generate relationships built on trust, respect, and obligation to work beyond the standard requirements of the job", while role taking is "the fulfilment of the job contract, but does not involve any extra effort". There is an active process of negotiation between managers and subordinates in role making, which goes beyond what is contained in the job description; there is no process of negotiation in role taking, and specified grounds along which employees proceed formally (Lau & Liden, 2008).

### **3.5.2 Transformational leadership theory**

This leadership approach has received the most scholarly attention (Avolio, 2005). Originated by Burns (1978:20) this concept refers to when the leader reaches beyond the transactional elements of initiation, meaning that when the leader broadens the interest of his followers then only does superior leadership performance occur (Bryman *et al.*, 2011:299; Seltzer & Bass, 1990).

However, Boehnke, Bontis and DiStefano (2005) are of the opinion that transformational leadership is more than just inducing desired performance. Followers are motivated to perform at the highest levels, transcending self-interest (Shoemaker, 1999). The leader

reaches beyond transactional elements of consideration and of initiation of structure when applying transformational leadership (Bryman *et al.*, 2011:300; Judge & Bono, 2000).

Bass's (1985) model claimed that problems are handled by leaders in a transactional manner, but leadership does not stop at this level. There are six main principles that underline transformational leadership (Podsakoff, MacKenzie, Moolman & Fetter, 1990; Bass, 1985):

- Identifying and articulating a vision – behaviour on the part of the leader aimed at identifying new opportunities for his unit and developing and inspiring others with his vision of the future.
- Providing an appropriate model – behaviour on the part of the leader that sets an example for employees to follow that is consistent with the values the leader advocates.
- Fostering the acceptance of group goals – behaviour on the part of the leader aimed at promoting cooperation among employees and getting them to work towards a common goal.
- High performance expectations – behaviour that demonstrates the leader's expectation for excellence, quality and high performance from the followers.
- Providing individualised support – behaviour on the part of the leader that indicates that he respects followers and is concerned about their personal feelings and needs.
- Intellectual stimulation – behaviour on the part of the leader that challenges followers to re-examine some of their assumptions about their work and rethink how it can be performed.

These underlying concepts are also identified and repeated in other leadership theories such as Collins' (2005) level 5 leader and Kouzes and Posner's (2012) exemplary leader and has a positive relationship with business performance.

### **3.5.3 The theory of servant leadership**

The theory of servant leadership is a new and underdeveloped area of leadership study Greenleaf (1977). It is founded in the proposal of the servant leadership who initially serves others and the growth of the followers is a measure of the results. Contrary to transformational leaders, servant leaders do not seek authority, recognition, or self-interests. Servant leadership seek to persuade the employees and the community positively, rather than pursuing a profit that is short-term.

There is negative criticism levelled against the theory of servant leadership in that it is believed to foster inefficiency and that the servant leader is not an emotionally strong form of leadership, which is opposing to the requirements of leadership in business. It is suggested as a good model for non-profit organisations. Leaders need to support the past history of personal values and morals. In addition, servant leaders need followers who are reliable, or need to be able to take remedial action to ensure their trustworthiness (Liden *et al.*, 2008:162). The positive aspect of servant leadership is that everyday people can become servant leaders and it is not necessary to possess an extraordinary personality to become a servant leader, making organisations full of servant leaders (Liden *et al.*, 2008:162).

According to Greenleaf (1977:27), the terms “servant” and “leader” initially appear to be contradictory and leads to the question of how it is possible that the two can merge; Greenleaf promotes the view that the servant leader is servant first, “It begins with the natural feeling that one wants to serve, to serve first” (Greenleaf, 1977:27).

According to Bryman *et al.* (2011:319), empirical research is still developing, and the appeal of the servant leadership concept is emerging because of the stress it places on principles, integrity and moral responsibilities.

#### **3.5.4 Collins’ level 5 leader**

A study was conducted by Collins close to the end of the 1990’s, where he developed a new leadership model to determine the elements on how a good company could become a great company, if possible.

A specific leadership style emerged as a common denominator in the eleven companies that met the criteria and this same style was absent in the eleven comparing companies

that was used as a control group. This leadership style was named level 5 leadership (Collins, 2005) and provided an additional model for neo-charismatic leaders to use. Interesting to note is that the characteristics exhibited by the level 5 leaders enabled them to (a) motivate followers, (b) achieve outstanding goals and (c) instil a vision to attain long-term results, which are all aligned with the neo-charismatic theories (Collins, 2005).

- Level 5 (Executive): Builds enduring greatness through a paradoxical combination of personal humility plus professional will.
- Level 4 (Effective Leader): Catalyses commitment to and vigorous pursuit of a clear compelling vision, which stimulates the group to high performance standards.
- Level 3 (Competent Manager): Organises people and resources toward the effective
- and efficient pursuit of predetermined objectives.
- Level 2 (Contributing Team Member): Contributes to the achievement of group objectives, works effectively with others in a group setting.
- Level 1 (Highly Capable Individual): Makes productive contributions through talent, knowledge, skills and good work habits.

Collins (2005:73) further concludes that leaders often arise as a result of a life changing experience and is of the opinion that Level 5 leaders have ambitions for their companies and therefore select outstanding successors. Collins notes that good to great companies did not rely on an outsider leader to assist in the transformation because using an outside change agent was negatively correlated with the good to great transformation.

Even though there are researchers that believe there are flaws in Collins methodology in choosing the “good to great” companies, there are groups of researchers that acknowledge that his ideas have had a great impact on managerial thinking (Resnick & Smunt, 2008).

### **3.5.5 Kouzes and Posner's theory of exemplary leadership**

The basis of this theory by Kouzes and Posner (2012:35) found that the study of leadership and practices leaders use in organisations originates with the relationship between aspiring leaders and followers to accomplish extraordinary goals. Without understanding these relational connections between leaders and followers, strategic tactics, skills and practices are meaningless. As a result their research began 25 years ago and focused on finding out what essential qualities the followers most look for and admire in a person they would be willing to follow (Kouzes & Posner, 2012:4).

The results reveal that there are four qualities, which received more than 60 percent of the votes. These include emotional satisfaction, shared visions of the future, a focus on trust and collaborative relations (Kouzes & Posner, 2012:3). They realised over time that these fundamentals remained constant even if the context of leadership situations changed (Kouzes & Posner, 2012:26). While observing leaders who performed successfully and studying those specific situations, Kouzes and Posner (2012:5) developed a theory of exemplary leadership, which is a model developed from their research findings. They believe that average leaders can be developed into extraordinary leaders through practices that can be learned. Their work led to the development of the leadership practices inventory (LPI).

This LPI assessment gives feedback to leaders on their performance with respect to five practices of exemplary leadership defined by Kouzes and Posner (2012:17). The identified five practices common to these achievements are the following. The first was leading by example and model the way - which referred to standing up for beliefs. In the second practice, leaders inspire a shared vision, a positive outcome for the organisation and sharing that vision with others. Third, leaders embraced change and risk-taking by challenging the process. Exemplary leaders enable others to act by fostering collaborative efforts and sharing power. Finally, exemplary leaders celebrate victories and recognise the follower contribution by encouraging the heart. An organisational climate that empowers followers to transform problems into successes is created when leaders follow these five actions (Kouzes & Posner, 2012:31). Kouzes and Posner (2012:28) further emphasise that people wanting to develop exemplary leadership skills can do so if they are willing to learn about themselves. Self-confidence can be developed by building on strengths and overcoming weaknesses.

What is prominent about the five practices of exemplary leadership of Kouzes and Posner (2012:31) is that they are attainable by leaders in smaller capacities, unlike the other neo-charismatic leadership theories, which focused on leaders of large companies which is more applicable to the current study.

### **3.5.6 Quinn's fundamental state of leadership**

Quinn (2005:5) noted that leadership studies and training programmes are often based on the assumption that the best way to achieve leadership excellence is to emulate the qualities and behaviours of other successful leaders. Quinn, however, observed that during times of crisis or significant life challenges, leaders often perform at an extremely high level by drawing on their own fundamental values, capabilities, and instincts. While operating during such times of stress, decisions are made without regard to the expectations of others. Quinn defined this frame of mind as the "fundamental state of leadership". In developing this theory, Quinn (2005) studied personal accounts of leaders who had successfully worked through a time of personal crisis or had been at the helm of a successful organisational transformation. From these stories, he gained insight into the question of what separates exceptional leadership performance from adequate competence. Quinn (2005) found that individuals usually work in their normal state, which is based on a person's own comfort zone. In the normal state, a leader is described as comfort centred, externally directed, self-focused, and internally closed. Conversely, leaders operate in the fundamental state when faced with a challenge. In this state, they respond from the opposing perspectives of being results centered, internally directed, other focused, and externally open (Quinn, 2005).

Quinn's leadership theory is based on the idea that leaders can develop the skills necessary to transition to the fundamental state of leadership at will, rather than only during times of stress. Although operating in the fundamental state is temporary, Quinn believes that with each experience one gains renewed energy and vision, learns to act with courage derived from his core values, and is open to new learning. The individual will be able to inspire and motivate others to high performance as well (Quinn, 2005).

The above mentioned theory of Quinn incorporates many of the same assumptions as

Kouzes and Posner's (2012:25) exemplary leadership and other transformational theories. It is however relevant to this study to determine whether leadership practices contributes to business performance.

### **3.6 THE IMPORTANCE OF NEO-CHARISMATIC LEADERSHIP FOR BUSINESS PERFORMANCE**

A good indicator of the success of a business is the presence of strong leadership characteristics, according to Collins (2005). The results of the study of level 5 leaders showed remarkable monetary success (Collins, 2005).

However, Ready (2004) discovered that leaders who lacked neo-charismatic leadership skills faced some difficulties aggregating enterprises. Many developing leaders lacked the ability to lead larger enterprises even though they possessed sufficient skills to lead smaller business units (Ready, 2004). Grinnell (2003) investigated whether leadership styles were different in small firms using centralised structures as opposed to entrepreneurial firms using decentralised approaches and found few differences. This is important for two reasons. Firstly, it was observed by Grinnell that CEO's did not alter their leadership approach when moved from small firm to small firm. Secondly, Grinnell avoided the focus on transformational leadership behaviours and suggested that the small business leader use visionary, transactional and empowering behaviours rather than autocratic approaches.

Overall, the relationship between leadership attributes and economic performance indicators of the business are supported by researchers in the literature (Collins, 2005; Duffy Atkin, 2002). However, studies focusing on relationships between leadership and business performance are rare. A similar study was done by Weaver in the USA, but no scholarly work related to the above mentioned factors could be identified in South Africa. Weaver suggests the field needs studies testing the association between the two dimensions to expand the validity of these results. Neo-charismatic leaders with their collaborative, visionary and emotive traits appear to be suited to face the challenging aspects of family businesses (Weaver, 2008).

## 3.7 LEADERSHIP PRACTICES

The leadership practices inventory used in this study formed the basis to determine the differences in the type of leadership practices present in first and second generation family business leaders. The leadership practices inventory (LPI) include the measurement of leadership practices as follows: (a) *model the way*, (b) *inspire a shared vision*, (c) *challenge the process*, (d) *enable others to act*, and (e) *encourage the heart*.

Different leadership behaviours are involved in each of these practices (Kouzes & Posner, 2012:34). In order to highlight strengths and weaknesses, each respondent receives a separate score for the frequency of each of the practices. In the following section, the key elements of each practice are described in detail.

### 3.7.1 The Five Practices of Exemplary Leadership

Kouzes and Posner (2012:34) found that the study of leadership originates with a relationship between individuals who choose to follow the leader and the aspiring leader. An important instrument in this relationship is the credibility of the leader. Achieving credibility is for the leader to do what he or she says he or she is going to do. This forms the basis of the five leadership practices.

1. *Model the way*: Leaders that have a firm understanding of the values that guide their actions will establish credibility. According to Kouzes and Posner (2012:46), this first leadership practice is supported by two commitments.

The first is “find your voice by clarifying your personal values” (Kouzes & Posner, 2012:47) and the second is, “set the example by aligning actions with shared values” (Kouzes & Posner, 2012:48). It is critical for a leader to find his voice (Kouzes & Posner, 2012:50) and it is much more than simply learning how to communicate. The credible leader commits to a clear set of values because of his passion about causes of interest.

The development of the leader’s personal values and what drives his passion is an important part of the process (Kouzes & Posner, 2012:56). To cultivate a strong leader–follower relationship by simply telling sub-ordinates what to do is not sufficient (Kouzes & Posner, 2012:57). Commitment to values and motivating sub-ordinates to share those

values will be more successful if the leaders perform and participate in the process of accomplishing goals by leading by example. Setting goals and leading and inspiring others to follow forms the basis of the next leadership trait (Kouzes & Posner, 2012:58).

2. *Inspire a shared vision*: This leadership attribute consists of two related elements. Kouzes and Posner (2012:89) called the first, “envision the future by imagining exciting and ennobling possibilities” and the second, “enlist others in a common vision by appealing to shared aspirations”. The ability of leaders to visualise future goals and motivate followers to achieve those goals becomes easier for leaders possessing these. The ability to look into the future and implement actions to achieve extraordinary results relates to the vision in a business setting.

The first step for the leader is to develop a dream and goals comprising of the leader’s aspirations, hope desires, questions and concerns. Once developed with the help of the followers, the leader can focus the action on achieving the goals (Kouzes & Posner, 2012:94). For the followers to be inspired and motivated to work towards the common good, the leader must understand the motivations of the followers.

Achieving goals is a shared effort and requires the leader to take advice where needed and to listen to others. They form a partnership based on respect and trust to achieve dynamic results. However, the process cannot become stagnant. New goals and new challenges must be set continuously by the leader, once a business reaches its goals (Kouzes & Posner, 2012:99).

3. *Challenge the process*: The third practice emphasises the seeking of new and shared goals. Two behaviours involved in this practice include “search for opportunities by seeking innovative ways to change, grow and improve” and “experiment and take risks by constantly generating small wins and learning from mistakes” (Kouzes & Posner, 2012:137).

To create a culture that builds energy, inspiration and innovation will be developed when leaders regularly seek out opportunities and challenges for change. To seek out challenges that foster innovation and make something happen are encouraged by both the leader and follower. This creates an environment that is conducive for innovation and is essential to the process (Kouzes & Posner, 2012:140). Innovation is finding new

and better ways of doing things and requires an environment that is supportive of the process of experimenting and the inevitable mistakes.

Avoiding all possible mistakes is an element of the traditional management approach, but Kouzes and Posner (2012:144) support the development and creation of a process involving small incremental steps.

By taking small steps, innovators monitor, evaluate and adjust each step as needed, minimizing risk and encouraging followers to reach beyond existing routines (Kouzes & Posner, 2012:148).

4. *Enable others to act*: By dividing goals into smaller achievements, the leader sets an example and plays an important role in the creation of a supportive environment (Kouzes & Posner, 2012:189).

The two sub-parts of the process are “foster collaboration by promoting cooperative goals and building trust” and “strengthen others by sharing power and discretion” (Kouzes & Posner, 2012: 185). A climate of trust that encourages interdependence and interaction is created by leaders who are skilled at fostering collaboration. The reward of joint effort, mutual give and take and the establishment of group goals all foster collaboration.

Face to face, interaction on a frequent basis is found by Kouzes and Posner to be the most critical element. Power sharing, not only liberates people, but also facilitates establishing trust and respect to take initiative and maximise performance. With power comes accountability and the leader must hold people accountable for actions within the group in order to work together and help all team members feel a sense of ownership for group achievements (Kouzes & Posner, 2012:196).

5. *Encourage the heart*: Employee’s needs encouragement in order to sustain strong performance. According to Kouzes and Posner (2012: 232) this practice requires leaders to “recognise contributions by showing appreciation for individual excellence” and “celebrate the values and victories by creating a spirit of community”. They recognised that the most significant impact on productivity is the

nature of the relationship with the employee's immediate supervisor (Kouzes & Posner, 2012:238).

Clear standards set by the leader in terms of goals and values will allow for feedback regarding progress. Because of the notion that expectations shape behaviour, Kouzes and Posner (2012:239) suggest setting high, yet attainable expectations to maximize performance. Group values are also reinforced and generate a spirit of camaraderie when you have public recognition of achievements. Followers are motivated by effective leaders who harness the power of public storytelling to teach (Kouzes & Posner, 2012:252).

Successful leaders possess the five practices of exemplary leadership, which forms the basis of leadership practices (Kouzes & Posner, 2012:14). Citing numerous examples of ordinary people who used leadership skills to achieve beneficial results, Kouzes and Posner (2012:21) suggest that leadership could be learned by leaders who desire to develop these skills. Exemplary leadership as mentioned above, is particularly important for this study because these leadership practices implies that successors to family businesses are capable of cultivating leadership practices in an attempt to maximise performance in these businesses.

### **3.8 COMPARISON WITH OTHER CURRENT LEADERSHIP ASSESSMENTS**

The research questionnaire on multifactor leadership (Bass, 1990) and the inventory on leadership practices (Kouzes and Posner, 2012) are available for projects in research and both appeared in the Mental Measurements yearbook.

There are 45 statements on the questionnaire on multifactor leadership, which describe behaviour in leadership. Respondents use a five-point Likert scale to indicate responses (Pittenger, 2004). The following four leadership behaviour categories are measured by the instrument: (a) transformational leadership, (b) transactional leadership, (c) the absence of leadership or laissez-faire style, and (d) the ability to create satisfaction

among followers (Pittenger, 2004). The five exemplary leadership practices are covered with the 30-question survey of the leadership practices inventory (Kouzes & Posner, 2012) with a 10-point Likert scale being used by respondents. The regularity of actions is indicated with the scale. According to Enger (2004), this instrument has a high reliability and validity making it suitable for use in research of many organisations and levels of leadership. Over 250 researchers have utilised the leadership practice inventory in their dissertations or projects (Kouzes & Posner, 2012:18).

There are five practices of exemplary leadership that the small business leaders could achieve, according to Kouzes and Posner (2012:26), but the focus for other neo-charismatic theories is on the larger company.

Weaver (2008) posits that small to medium-sized family businesses need “good leaders”, but not necessarily “great leaders”. Kouzes and Posner’s system dictates that the small family business needs the capability of promoting good relationships and the ability to inspire visions, along with the realisation of economic accomplishment (Kouzes & Posner, 2012:27).

### **3.9 BUSINESS PERFORMANCE INDICATORS**

Financial statement scrutiny is often relied upon to determine a business’ performance. Therefore it may be unsuitable to rely on only one measure of analysing economic performance for the scrutiny of family concerns (Carton & Hofer, 2005; Haber & Reichel, 2005; Miller & Besser, 2005; Miller, Besser, Gaskill, & Sapp, 2003; Wang, 2005; Wolff & Pett, 2006).

In research, one-sided measures were historically used by researchers to calculate the performance of smaller businesses (Miller & Besser, 2005; Wolff & Pett, 2006), where they questioned the owner’s insight regarding fiscal performance as compared to rivals in the industry (Wolff & Pett, 2006), sale variations in over time (Miller & Besser, 2005; Rasheed, 2005).

In addition, measures of non-financial matters like (a) satisfaction (Miller *et al.*, 2003), (b) achievement of values regarding family inheritance (Lambrecht, 2005), and (c) the expectation of the owner regarding the business’ future achievements (Miller *et al.*,

2003) are all indicative of the importance of the role of the leader in the preservation of the family concern for future generations (Lambrecht, 2005). Haber and Reichel (2005) suggest combining subjective and objective measures to calculate financial performance in family concerns.

According to Lee (2004) the effects on performance of family-owned businesses have only been addressed in a few studies. The absence of an agreement regarding adequate measures of business performance is noted in the larger field of small businesses (Carton & Hofer, 2005).

A study of the development regarding several multidimensional benchmarks (including performance pyramid, performance prism and balanced scorecard) (Wang, 2005) dating back to the 1980s, was done in an associated observation, in which was noted that the majority of these studies were more suitable for larger companies than smaller private businesses. An evaluation taking into consideration both dimensions of business and family is required because of the interconnection of family and aspects relating to the business in family concerns (Poza, 2014:12; Wang, 2005). Due to the lack of exact substantiation among variables in the literature, an opportunity has arisen for the development of measures of financial performance in family businesses.

The recommendation for evaluation of family businesses, according to Wang (2005), using a multidimensional method, allows for deliberation of both subjective and objective measures. The development of a simplified, multi-dimensional version of an organisations economic performance was researched, and difficulties were noted due to varying environmental circumstances, which altered the priorities of performance. The inclusion of performance alterations over a period of time was then encouraged (Carton & Hofer, 2005).

As a result of Carton and Hofer's (2005) research, Wolff and Pett (2006) established that sales increase of the business (small to medium-sized) related positively to profitability, and the business attained productivity by cultivating existing clientele, or developing new markets. In terms of the current study, the development of suitable objective measures is the first step.

### **3.10 BUSINESS PERFORMANCE APPROACHES: AN OVERVIEW**

According to Chaharbaghi & Willis (1999:43), business performance is broadly viewed from two perspectives namely, an objective and subjective measures. Where objective measures refer to financial aspects, subjective measures test the non- economic performance of the business.

Matsuno and Mentzer (2000:8) also supported the concept that business performance should be observed not only as fiscal performance in tangible figures that signify the performance of the business, but also as non-financial performance in the form of the image of the corporation, the satisfaction of employees, the satisfaction of the customer and the social acceptability.

#### **3.10.1 Objective business performance approach**

Figures gathered from the financial statements of the business are one of the facets of the objective measures for business performance. Sales turnover, investment returns, profit margins and staff turnover could be included in these figures, along with other percentages calculated from information on financial statements (Plakoyiannaki *et al.*, 2008:268; Lee, 2004:152). Methods that were standardised were used to obtain and calculate these figures easily and these figures were also similar between intervals.

The administering by researchers of the American Family Business survey for family businesses (MassMutual/Raymond Institute, 2003), calculated the improvement in sales income from 2000 through to 2002. In research on the large family businesses economic performance, a series of measures of performance was developed covering operations, profitability, and financial categories (Lee, 2004).

The measures of operations and profitability included a number of monetary ratios traditionally applied in performance evaluation, including gross and net profit, return on assets, and turnover on inventory. Net income and revenue growth over a period was looked at to gauge financial stability.

Galbraith (2003) made use of net income, sales growth index, working capital, gross profit index and total equity to determine the effect divorce has on economic

performance in family concerns. Within the research regarding the likely competence of successors and the outcome on business performance, using the third year subsequent to succession, King (2003), measured the difference in gross sales, amended for industry growth. Because the calculation of sales reflects the size and intricacy of the business, King selected it instead of raised profits. King also expressed unease regarding the rationale behind owner's manipulation of year-end profits in a bid to reduce income taxes. King detected a link between the increase in gross sales and other evaluations of the performance of organisations. King adjusted the total receipts from the first to the third year of succession to account for variations in business performance, by a reduced rate based on the rate of growth of each business.

Replicating the method in the current study, the change in sales revenue over time was an accessible measurement and seemed appropriate to assess economic performance in family businesses. The changes in the employee numbers over time was another objective measure of financial performance. Haber and Reichel (2005) used a multidimensional method when they surveyed small tourism undertakings and for each of three years, respondents were requested to indicate profitability, number of employees and revenues. There was a positive correlation between a boost in revenues and the increase in the number of employees.

To determine performance of small businesses, Sadler-Smith *et al.* (2003) used a combination of income growth (sales) and number of employees over previous 5 years. Although financial measures are solid indicators of business performance, other vital factors such as market to equity ratios, stock prices, and other market gauges, which forecasters utilise for larger businesses, could also be applicable for family businesses (Yammeesri & Lodh, 2004).

The use of financial measures as a meter of a business's performance was prevalent in the majority of previous studies, yet little attention was paid to market measures (Yammeesri & Lodh, 2004). In their research, combining market indicators with accounting measures they determined that there was very little correlation between market indicators and the performance of a firm (Yammeesri & Lodh, 2004).

Jacob, Madu, and Tang (2004) found, in contrast, a possible correlation between higher market value and positive financial performance (measured by accounting processes) in a study of Malcolm Baldrige Award winners. The use of both the financial measures of return of assets, and the market indicators of Tobin's q was applied by Anderson and Reeb (2003). This was to measure business performance in both family and non-family controlled firms. Tobin's q concerned dividing the market value of total assets by their cost of replacement. Jaskiewicz and Klein (2005) in a study involving the re-evaluation of 55 analyses relating to the performance of significant or publicly listed family firms, found that the most widely-used measure of financial performance by researchers was Tobin's q.

The method was not used in the study because it was difficult to calculate on small family firms; on the other hand, stock returns are able to be calculated for the family business that is larger. An indication of growth in the smaller family business is measurable by figures that are attained easily from the combined change in revenue and the employee numbers.

Using subjective measures combined with objective measures provides a more conclusive method for researching in the field of performance for small to medium-sized family firms, in order to capture their type of performance more accurately (Haber & Reichel, 2005).

### **3.10.2 Subjective Measures: Perceptions of the Business Profitability**

Where earlier sections contained an account of objective measures of business performance, this section contains information by researchers that using self-reported, subjective measures which has validity for small firms (Miller & Besser, 2005; Wolff & Pett, 2006).

To be able to have good insight into the businesses overall performance and knowledge of competitors, the owner should be dynamically involved in the entire functioning of the business (Miller & Besser, 2005; Wolff & Pett, 2006). In addition, the contentment of the business owner is an important factor for family businesses (Miller & Besser, 2005).

Over time, because unrestricted objective financial information is not easily available, subjective measures have been used to measure the performance of small private firms (Miller & Besser, 2005).

In addition, owners of many private businesses preferred responding to questions themselves rather than providing researchers with financial statements containing confidential financial information (Miller & Besser, 2005; Wolff & Pett, 2006).

Respondents

were requested to indicate sales from prior years in an open-ended question in a study by Miller and Besser (2005). Wolff and Pett (2006) used a five-point Likert-type scale for questions involving comparisons between the performances of a business with that of their competitors. Respondents were asked in a similar approach whether there was an increase, decrease or the financial results remained static over the previous three years (Rasheed, 2005).

When lacking accuracy, acquiring fiscal information in this way, assists in determining the company's position in the industry and its transformation in business operations over time. (Miller & Besser, 2005; Rasheed, 2005; Wolff & Pett, 2006). Family-related issues may influence profitability reports of family businesses, which are small to medium-sized (Miller & Besser, 2005).

A useful gauge in a multi-faceted approach is the owners' observation of profitability compared to comparably situated businesses (Wolff & Pett, 2006). The owners' perceived contentment in the management position relates to the final gauge of business performance.

### **3.10.3 Subjective Measures: Perceptions of Satisfaction in Leadership Position**

The gratification of stakeholders in a business, as well as family members, is a challenge the leader of a family firm has to deal with (Poza, 2010:8). The level of satisfaction with the leadership position may be affected by the extent to which the leader deals with these competing forces (Lambrecht, 2005).

Studies found nonfinancial evaluations (*inter alia* the perceptions and anticipations of the owner) have an influence on the performance of the business. The notion that business

performance include more than fiscal measures was proposed by Miller and Besser (2005). Miller *et al.* (2003) recommends using measures such as the expectations of the owner, the fulfilment of the individual with work, and goal achievement in the interpretation of the ability for success of the company, together with objective financial information. A sequence of Likert-type five-point questions were designed by Miller and Besser (2005) based on this, along with an open-ended question regarding sales for the previous year. This was used to appraise the issues when comparing the accomplishment of networked and non-networked family firms.

Broadening this concept, Lambrecht (2005) corroborated nonfinancial measures concerning (a) achievement of values regarding family inheritance; (b) safeguarding the family name and its portrayal of the family history; and (c) the advantages of upholding a family firm in terms of versatility, vision and the power of the family to affect the business. The importance of upholding the family business and the leader's role in preserving the family heritage is conveyed by these measures. This nonfinancial yardstick of satisfaction goes further than the personal fulfilment of work performance and the fulfilment in being able to sustain the family firm for future generations (Lambrecht, 2005).

### **3.11 MULTIPLE MEASURES OF PERFORMANCE: IMPLICATIONS FOR THE STUDY**

Assessment of business performance becomes multifaceted given the blend of priorities surrounding management, family and ownership of the firm (Wang, 2005).

A number of approaches are provided in a review of the literature, but there are no definitive recommendations. In earlier studies, several researchers used a combination of aspects, including several characteristics of business performance, and seem to maintain the four-part measure for the existing study. A shortage of experimental studies was reported by Westhead (2003) which scrutinised the performance of family firms. A proposal was made by Westhead (2003) that the slowing down of operations in

a business could be attributed to the multifaceted overlapping of the ownership, family and management systems, but concluded no significant distinction in first and multigenerational family business operations. Additionally, levels of profitability were influenced by direct performance and long-term sustainability measures (Haber & Reichel, 2005).

The concurrent use of subjective and objective performance gauges is supported by Haber and Reichel (2005) as well as taking into account profitability together with other nonfinancial and financial aspects to achieve an understanding of both immediate performance and long-term sustainability of the business.

In various empirical studies, the analysis and comparison between the performance of a business and the family business indicates the distinction between the subjective and objective measures and means for determining the performance of the business. A concrete basis was provided for using the following as a measure of the performance indicators of a business, as defined for the study, by the classification and analysis of the various measures and aspects in other studies.

Changes in yearly sales and in the average number of employees are included in the objective measures, while subjective measures include the perception of the leader on the profitability of the business, when compared to competitors, and his/her personal fulfilment in the position as the leader.

### **3.12 SYNOPSIS**

A suitable measure of the success of a business is the presence of strong leadership characteristics. This chapter provided a presentation and analysis of the literature related to leadership and business performance. Scholars have attempted to apply the principles of scientific research to the subject over the past few decades, since recognising leadership as a subject of human interest from ancient times.

After researchers failed to identify common qualities or combinations of traits, which indicated the separation of leaders from non-leaders, they turned to researching other approaches; the style or behavioural approaches. The Ohio State studies recognised the consideration and initiating structure concepts, which opened the door for

researchers to recognise that the personal and behavioural characteristics of the leader interact with the variables of a situation.

After thirty years of improving the contingency approach to leadership, researchers have now begun to focus on a new approach called, Neo-charismatic leadership theories. These new leadership theories provide the context of the study of leadership practices, the independent variable of the current study. These theories focused on collaboration, development of a future vision, the attainment of shared goals and the emotional aspect of leadership. Concepts such as transactional leadership, Bass's transformational leader, servant leadership, Kouzes and Posner's exemplary leader, Collins level 5 leader and the emerging theory of Quinn's fundamental state of leadership are included in the Neo-charismatic leadership theories.

The current literature and research related to family business, especially in South Africa is inadequate in identifying how theories and practices may promote leadership and the sustainability of family businesses.

The five practices of Kouzes and Posner's leadership practices inventory include model the way, inspire a shared vision, challenge the process, enable others to act and encourage the heart. The current study utilises these five practices to measure the leadership practices being undertaken in family businesses. The latter part of this chapter included a review of the objective and subjective measures comprising business performance for the dependent variable.

The next chapter includes the method utilised in the study and includes sections on the research questions and hypotheses. A discussion on the research design, sampling strategy and data collection follows. The final section includes a review of the data analysis, reliability and validity as well as a discussion on structural equation modelling (SEM).

# CHAPTER 4

## RESEARCH METHODOLOGY

### 4.1 INTRODUCTION

In the previous chapter, a literature review was carried out regarding the concept of leadership. The broad scope on the historical theories and the evolution of leadership theories over the years was also addressed. The last part of the chapter focused on the concept of leadership practices and the relationship with business performance.

This chapter focuses on the methodology used to obtain information concerning leadership practices of family business leaders and the impact on business performance. The purpose of this study was to investigate the correlation between the five leadership practices and business performance by family business leaders in the Sedibeng district. In addition, the secondary purpose was to determine the differences between the sub-groups of first and second generation family business leaders.

Research methods can be seen as a way in which data are gathered for a research project. It is a plan, which guides the collection, interpretation and analysis of the data to fulfil the research objectives (Cooper & Schindler, 2007:163; Creswell, 2005:66). Multivariate analysis refers to all statistical techniques that simultaneously analyse multiple measurements on individual objects under investigation (Hair, Black, Babin & Anderson, 2010: 4) and is appropriate for this study.

The research methodology used for this study followed a typical research process and evolved through eight steps. The initial step was to determine the research problem. The problem to be studied was whether there is a correlation between leadership practices of first and second generation family business leaders and the business performance of small and medium-sized family businesses.

Step two focused on the research approach and design used in this study, step three consisted of identifying a data generation instrument that was reliable, valid and easy to use for participants.

Step four of the research design involved the determination of the population for the study. Financial considerations limited the population to those family businesses located in the Sedibeng district and step five through eight consisted of collecting, editing, coding, analysing the data, interpreting the results and drawing conclusions.

## 4.2 RESEARCH QUESTIONS

Guidance for the study was provided by the research questions with a focus on understanding and acknowledging the importance of leadership practices, and the correlation of these practices and business performance indicators of family businesses for, and between, first and second generation leaders.

The research questions for this study include:

- Do leadership practices have an influence on business performance?
- What are the correlations between the five individual leadership practices and the business performance indicators of the family businesses for first generation family business leaders?
- What are the correlations between the five individual leadership practices and the business performance indicators of the family businesses for second and later generation family business leaders?
- What are the differences between the five individual leadership practices for the total group of first generation family business leaders, as compared with the total group of the second and later generation family business leaders?

## 4.3 HYPOTHESES

*Ho1a.* There is a significant positive association between the individual leadership practice *model the way* and the business performance for the first generation family business leaders.

*Ha1a.* There is no significant positive association between the individual leadership practice *model the way* and the business performance for the first generation family business leaders.

*Ho2a.* There is a significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the first generation family business leaders.

*Ha2a.* There is no significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the first generation family business leaders.

*Ho3a.* There is a significant positive association between the individual leadership practice *challenge the process* and the business performance for the first generation family business leaders.

*Ha3a.* There is no significant positive association between the individual leadership practice *challenge the process* and the business performance for the first generation family business leaders.

*Ho4a.* There is a significant positive association between the individual leadership practice *enable others to act* and the business performance for the first generation family business leaders.

*Ha4a.* There is no significant positive association between the individual leadership practice *enable others to act* and the business performance for the first generation family business leaders.

*Ho5a.* There is a significant positive association between the individual leadership practice *encourage the heart* and the business performance for the first generation family business leaders.

*Ha5a.* There is no significant positive association between the individual leadership practice *encourage the heart* and the business performance for the first generation family business leaders.

*Ho1b.* There is a significant positive association between the individual leadership practice *model the way* and the business performance for the second generation family business leaders.

*Ha1b.* There is no significant positive association between the individual leadership practice *model the way* and the business performance for the second generation family business leaders.

*Ho2b.* There is a significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the second generation family business leaders.

*Ha2b.* There is no significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the second generation family business leaders.

*Ho3b.* There is a significant positive association between the individual leadership practice *challenge the process* and the business performance for the second generation family business leaders.

*Ha3b.* There is no significant positive association between the individual leadership practice *challenge the process* and the business performance for the second generation family business leaders.

*Ho4b.* There is a significant positive association between the individual leadership practice *enable others to act* and the business performance for the second generation family business leaders.

*Ha4b.* There is no significant positive association between the individual leadership practice *enable others to act* and the business performance for the second generation family business leaders.

*Ho5b.* There is a significant positive association between the individual leadership practice *encourage the heart* and the business performance for the second generation family business leaders.

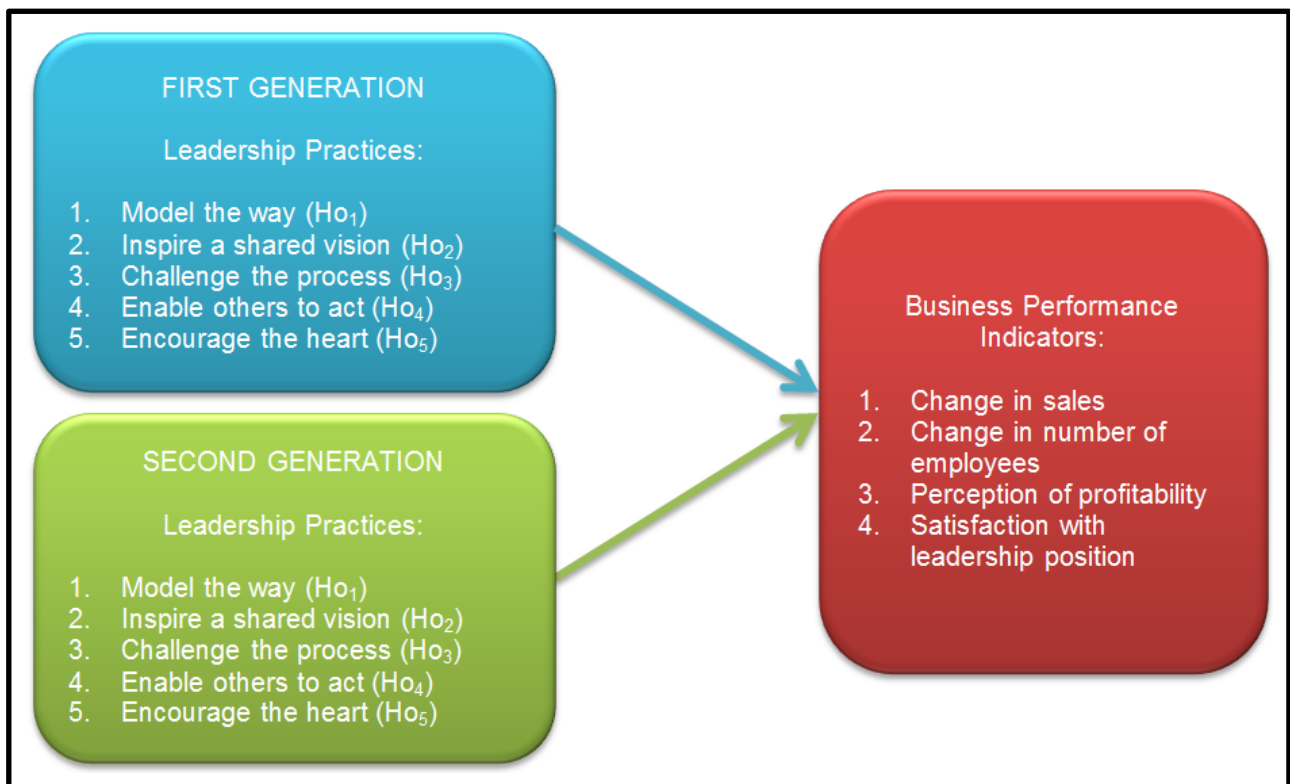
*Ha5b.* There is no significant positive association between the individual leadership practice *encourage the heart* and the business performance for the second generation family business leaders.

*Ho6.* There are differences between the five individual leadership practices for the group of first generation family business leaders as compared to the group of second generation family business leaders.

*Ha6.* There are no differences between the five individual leadership practices for the group of first generation family business leaders as compared to the group of second generation family business leaders.

Consequently, Figure 4.1 depicts the hypothesised relationships and proposed conceptual model.

**Figure 4.1: Proposed conceptual model**



#### **4.4 RESEARCH APPROACH**

The nature of the research problem drives both the research method and the research design. At present, there are two recognised approaches to research, namely the quantitative and the qualitative research paradigms (Trochim & Donnelly, 2008:142).

Quantitative methods provide data that are collected through questionnaires and can be used for statistical analysis. Quantitative research is appropriate when establishing a tendency or an inquiry into a social or human problem, based on testing a theory composed of variables, measured with numbers and analysed with statistical procedures in order to determine whether or not the predictive generalisations of the theory hold true (Kumar, 2014:14; Malhotra, 2010:137, Creswell, 2005:19).

Normally, the research questions allow for comparison between variables because the research questions are narrow, specific and relate to observable data regarding the variables (Creswell, 2005:55; Neuman, 2006:44). The main objective of quantitative research is to quantify the data and then generalise the results to the population of interest.

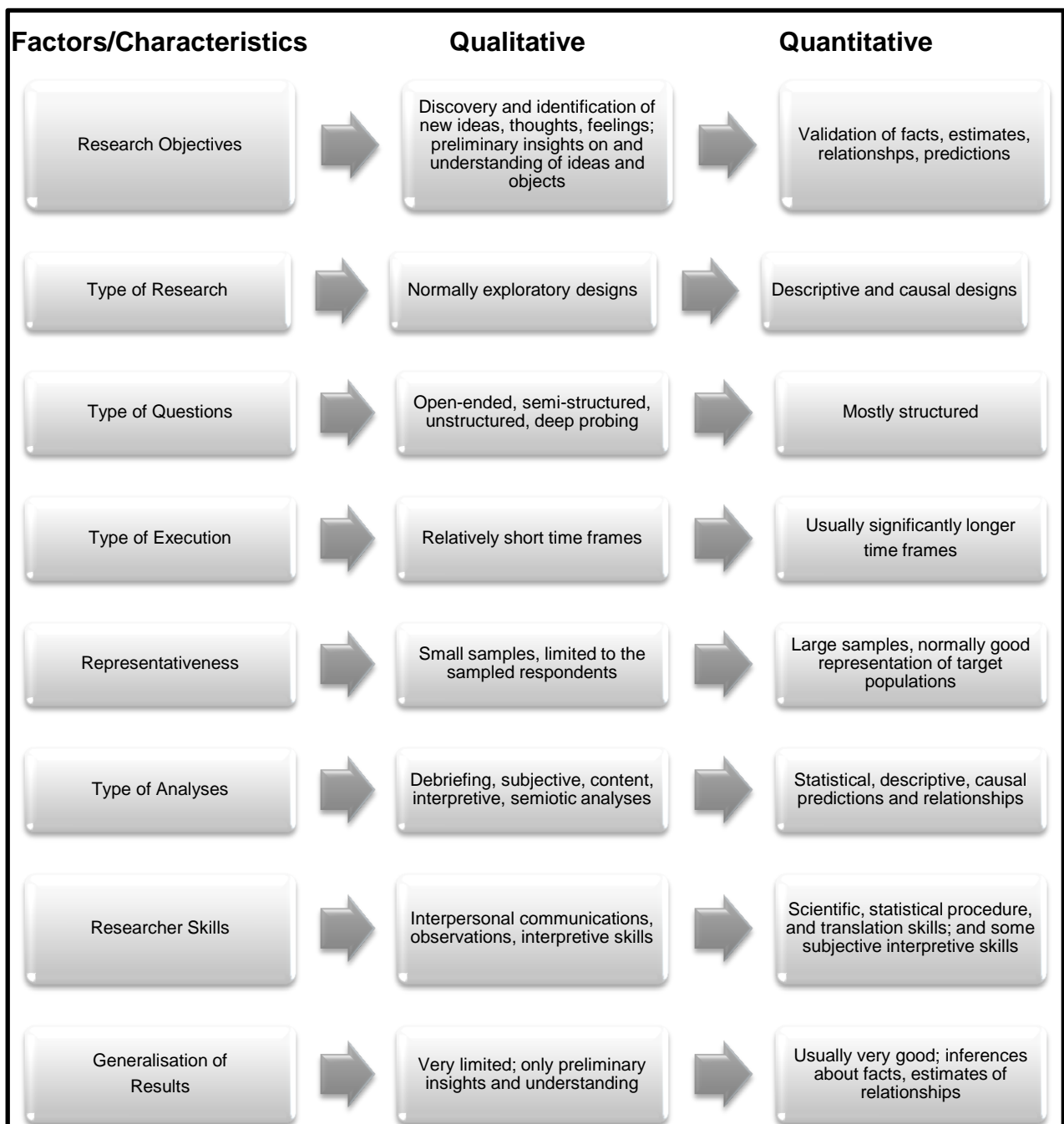
Quantitative research is an objective approach and allows researchers to use limited resources and is less time-consuming, it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships (Cooper & Schindler, 2006:166). Qualitative research takes a wider view by collecting and selecting data such as documents, observations and interviews and does not make use of statistical analysis.

The prospective researcher should orientate himself to the differences between these two approaches and come to a decision as to which approach is the most suited for the study (Kumar, 2014:15).

For this study, a quantitative approach was used because of the focus on the measurement of variables. As mentioned in Chapter 1, the philosophical approach of this study is positivism, meaning that the goal of knowledge is simply to describe the phenomena that are experienced. The purpose of science is to keep to what can be observed and measured, in other words, the assumption is that causal relationships can be found.

The differences between the quantitative and qualitative approaches to research are presented below.

**Figure 4.2 Differences between qualitative and quantitative research methods**



**Source: Hair, Bush and Ortinau (2000:215).**

## 4.5 RESEARCH DESIGN

The research problem and the purpose of the study drive the research design (Creswell, 2005:47). As mentioned in section 1.2 the problem statement for this study relates to

the high failure rate of family businesses in the second and later generations (Aronoff, 1999:29; Poza, 2010:44; Tio & Kleiner, 2005:33).

The most effective design for the defined problem is descriptive correlational design. Given the importance of leadership in contributing to the success of a business (Collins, 2005:210), a lack of certain leadership practices may correlate with the high failure rate. An examination of the degree and direction of the relationship between the frequency of leadership practices and the business performance of the businesses are allowed by the correlational approach (Creswell, 2005:46; Leedy & Ormrod, 2005: 142; Neuman, 2006:49).

According to researchers, research design includes three types of research, namely, casual, descriptive and exploratory research (Trochim & Donnelly, 2008:5; Kumar, 2014:14). The most appropriate technique to answer the research questions in this study is descriptive research methodology. Descriptive research includes the gathering of information to portray an accurate profile of events, people or situations (Trochim & Donnelly, 2008:5).

Among the variations of descriptive research, survey research is the most widely used due to the type of data required to answer the research questions. Usually, this method is used in quantitative research with a descriptive or casual research design (Hair *et al.*, 2010:105).

## **4.6 RESEARCH VARIABLES**

To determine if a relationship exists between variables, researchers use correlational research when relating two or more variables. Correlations reveal the relationship between variables and indicate whether the variables move in the same or a different path (Trochim & Donnelly, 2008:6; Creswell, 2005:83; Neuman, 2006:58). Explanatory correlational research, examines the simple association between variables, where a change in one variable results in a change in the second variable.

The independent variables in this study are the frequency of responses for each of the five leadership practices according to pre-determined categories in the leadership practices inventory consisting of:

- *model the way*
- *inspired a shared vision*
- *challenge the process*
- *enable others to act*
- *encourage the heart* (Kouzes & Posner, 2012:25).

The dependent variables include the business performance indicators of the family businesses, namely:

- change in sales
- change in the number of employees
- the leader's perception of the profitability of the business as compared to similar sized businesses
- the leader's perception of personal satisfaction relating to the leadership position.

## **4.7 SAMPLING STRATEGY**

As alluded to by Kumar (2014:40) a sample comprises of certain elements of a population considered for actual inclusion in the study, or the researcher can view a subset of elements drawn from a population. The following aspects were covered in the sampling strategy of this research study:

### **4.7.1 Target population**

The population consists of an entire group of people from whom information is needed and must be representative of the total group for the purpose of the research investigation (Hair *et al.*, 2010:129; Trochim & Donnelly, 2008:33).

The population for this study consisted of small and medium sized family businesses in the Sedibeng District and the Metsimaholo municipality in Southern Gauteng. The definition of a family business, as defined by Ibrahim and Ellis (2004:5) has been adopted as the definition for the purpose of this study. To be classified as a family business, the following requirements must be met:

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

The term small business and medium-sized businesses are classified in the South Africa National Small Business Act (2006) as micro, very small, small and medium-sized businesses with less than 200 full-time paid employees.

The geographic location in which this study took place consists of the Emfuleni, Midvaal and Metsimaholo municipalities in South Africa, which are situated in the southern part of Gauteng and the northern part of the Free State provinces respectively (Slabbert & Slabbert, 2002:3).

This area, formed by the cities of Vereeniging, Meyerton, Vanderbijlpark and Sasolburg, was previously known as the Vaal Triangle. The Emfuleni municipal area (EMA) consists of the following suburbs and townships: Boipatong, Boitumelo, Bophelong, Evaton, Rust ter Vaal, Roshnee, Sebokeng, Sharpville, Tshepiso, Vanderbijlpark and Vereeniging. The Metsimaholo municipal area (MMA) is situated in the northern part of the Free State and includes the following suburbs and townships: Coalbrook, Deneysville, Oranjeville, Refenkgotso, Sasolburg, Viljoensdrift and Zamdela. The Midvaal local municipality (MEY) includes the areas of Meyerton, Randvaal, Rissiville and Walkerville (Demarcation Board, 2007).

#### **4.7.2 Sampling frame**

When doing research, the researcher should normally decide on either including the whole population, also referred to as a census, or only selecting a sample of the population to study. A sample involves selecting some of the elements of the population and is much cheaper to conduct, than a census (Trochim & Donnelly, 2008:36).

For this study, the snowball sampling method was used. Local and national government agencies have not officially compiled separate databases for family businesses. A preliminary name list of all businesses was obtained from the local business chambers.

Therefore, the only available option was to rely on snowball sampling as the sampling method, which is discussed in more detail in the following section.

### **4.7.3 Method of sampling**

Sampling methods can be divided into two broad categories, namely probability and non-probability sampling. Probability sampling is based on the concept of random selection, one in which every element has a known non-zero probability of being selected, whereas non-probability sampling involves choosing units subjectively (Kumar, 2014:40).

A non-probability sample is used when a researcher requires focusing on a specific group; it does not involve random selection. Trochim and Donnelly (2008:48-49) distinguish between two broad types of non-probability sampling: purposive and accidental. In general, sampling methods are purposive in nature because the researcher approaches the problem with a specific plan. The researcher samples with a purpose in mind.

With a purposive sample, the researcher is likely to obtain information and opinions of the target population. In this study, therefore, the sampling was purposive, with the focus on small and medium sized family businesses.

According to Trochim and Donnelly (2008:48-49), sub categories of purposive sampling are the following: the researcher might sample for a specific group of people as in modal instance, expert or quota sampling. The researcher can also sample for diversity, as in heterogeneity sampling or can identify specific respondents who are difficult to locate, as in snowball sampling. Snowball sampling is often used when the members of a special population are difficult to locate (Kumar, 2014:244) and are thus a subgroup of convenience sampling (Page & Meyer, 2000:100). According to Trochim and Donnelly (2008:50), the procedure for snowball sampling is implemented by identifying people who meet the criteria of the target population. These individuals are then located and asked to recommend and to provide information needed to locate other members of the population whom they may know.

#### **4.7.4 Sample size**

The number of respondents included in a study refers to the sample size. The determination of a sample size in a non-probability study is usually a subjective, intuitive judgment made by the researcher based on previous studies (Kumar, 2014: 246, Hair *et al.*, 2010:139). Weaver (2008) conducted a similar study in the United States and used a convenience sample of 183 family business leaders. This substantiates the 197 small and medium-sized family business owners that were used as the sample size for this study.

### **4.8 DATA COLLECTION**

Data collection is important because it represents the actual implementation of the planning that was done for the study. Data can be collected through human methods, by using personal or telephone interviews. This method usually is used in qualitative research. Another method uses computers and online surveys to collect the data (Kumar, 2014:172). The survey research method is a data collecting method that uses self-administered or self-completion questionnaires and is used for quantitative research with a descriptive or causal research design. Instructions should be clear and concise to ensure that respondents can complete them without any assistance (Hair *et al.*, 2010:105). In this study, a self-administered questionnaire using the snowball sampling method was used to obtain the required data.

#### **4.8.1 Questionnaire design**

A questionnaire is a structured technique for data collection that consists of a series of questions, written or verbal, that respondents answer. A questionnaire, whether it is called a schedule, interview form or measuring instrument is a formalised set of questions for obtaining information from respondents (Kumar, 2014:184). Structured questions, with a predetermined set of responses or scale points are usually used in quantitative research. Typically, a questionnaire is only one element of a data collection package that might also include fieldwork procedures and communication aids such as maps. Kumar (2014:183) propose six functions of a questionnaire:

- It translates the research objectives into specific questions that are asked of the respondents;
- It standardises those questions and the response categories so every participant responds to identical stimuli;
- By its wording, question-flow and appearance, it fosters cooperation and keeps respondents motivated throughout the interview;
- Questionnaires serve as a permanent record of the research;
- Depending on the type of questionnaire used, a questionnaire can speed up the process of data analysis; and
- Finally, questionnaires contain the information on which reliability assessments may be made, and they are used in follow-up validation of respondents' participation in the survey.

It is paramount to construct the questionnaire in a way that it supports the objectives of the study (Hair *et al.*, 2010:171). This study used two separate questionnaires to measure the dependent and independent variables. The questionnaires were accompanied by a cover letter (Annexure B), which listed the researcher's details, the topic of the study and the purpose of the study. Instructions were clearly stated so that respondents knew exactly what was expected (see Annexure C).

The first questionnaire used, was the existing leadership practices inventory of Kouzes and Posner (2012:25), which is outlined in Annexure D. This instrument measures the five practices of exemplary leadership, which include: *model the way, inspire a shared vision, challenge the process, enable others to act and encourage the heart.*

The five practices are evaluated by six dimensions each on the leadership practices inventory. Six dimensions, each on the leadership practices inventory, evaluate the five practices.

Table 4.1 presents the measurement questions relating to each construct.

**Table 4.1: Leadership practices inventory scoring information**

Research constructs: leadership practice	Research measurement: dimensions for each construct	
<i>Model the way</i>	Mtw-1	I set a personal example of what I expect from others.
	Mtw-6	I spend time and energy making certain that people I work with adhere to the principles and standards we have agreed on.
	Mtw-11	I follow through on the promises and commitment that I make.
	Mtw-16	I ask for feedback on how my actions affect other people's performance.
	Mtw-21	I build consensus around a common set of values for running our organisation.
	Mtw-26	I am clear about my philosophy of leadership.
<i>Inspire a shared vision</i>	Isv-2	I talk about future trends that will influence how our work gets done.
	Isv-7	I describe a compelling image of what our future could be like.
	Isv-12	I appeal to others to share an exciting dream of the future.
	Isv-17	I show others how their long-term interest can be realised by enlisting in a common vision.
	Isv-22	I paint the "big picture" of what we aspire to accomplish.
	Isv-27	I speak with genuine conviction about the higher meaning and purpose of our work.
<i>Challenge the process</i>	Ctp-3	I seek out challenging opportunities that test my own skills and abilities.
	Ctp-8	I challenge people to try out new and innovative ways to do their work.
	Ctp-13	I search outside the formal boundaries of my business for innovative ways to improve what we do.
	Ctp-18	I ask "What can we learn?" when things do not go as expected.
	Ctp-23	I make certain that we set achievable goals, make concrete plans and establish measurable milestones for the projects and programs that we work on.
	Ctp-28	I experiment and take risks even when there is a chance of failure.
<i>Enable others to act</i>	Eoa-4	I develop cooperative relationships among the people I work with.
	Eoa-9	I actively listen to diverse points of view.
	Eoa-14	I treat others with dignity and respect.
	Eoa-19	I support the decisions that people make on their own.
	Eoa-24	I give people a great deal of freedom and choice in deciding

Research constructs: leadership practice	Research measurement: dimensions for each construct	
		how to do their work.
	Eoa-29	I ensure that people grow in their jobs by learning new skills and developing themselves.
<i>Encourage the heart</i>	Eth-5	I praise people for a job well done.
	Eth-10	I make a point to let people know about my confidence in their abilities.
	Eth-15	I make sure that people are creatively rewarded for their contribution to the success of our projects.
	Eth-20	I publicly recognise people who exemplify commitment to shared values.
	Eth-25	I find ways to celebrate accomplishments.
	Eth-30	I give the members of the team lots of appreciation and support for their contributions.

By interviewing and surveying leaders about positive leadership experiences, Kouzes and Posner (2012:113) developed the conceptual framework of the leadership model. The current leadership practices inventory consisting of 30 statements, with six statements covering each of the five practices, evolved after receiving input from over nearly two million people around the world.

The leadership practices inventory was appropriate for the current study because of its documented validity and application in a wide range of situations (Weaver, 2008:57; Enger, 2004:39; Kouzes & Posner, 2012:24). Due to the easy format, and the clear and concise instructions, respondents completed the instrument independently, therefore, eliminating the need for on-site administration. A contributing factor in selecting the questionnaire was its reputation as reviewed in the Mental Measurements Yearbook and the widespread use in a variety of settings for leaders at different levels (Enger, 2004:44).

Another factor was the suitability of Kouzes and Posner's theory to family businesses. Small to medium-sized family businesses may need good leaders, but not necessarily great leaders. These leaders may need to demonstrate the ability to build relationships and inspire vision. Kouzes and Posner (2012:34) suggest that leaders who have the desire to develop leadership skills could improve these skills through training interventions. This concept was important for the current study because it implies that

successors to family businesses are capable of developing leadership practices in an attempt to maximise performance for the family business.

In addition, the respondents completed a business performance and demographic questionnaire as used by Weaver (2008) in a similar study in the United States, with questions on both the respondent and the business performance of the family business (refer to Annexure E).

The review of the literature revealed little consensus regarding the measurement of performance for smaller businesses (Weaver, 2008:121; Carton & Hofer, 2005:88). Examining objective measures such as growth in sales and in the number of employees, combined with the subjective performance indicators identified by the leaders' perception of satisfaction, and the profitability of the business compared to competitors, were suggested by Haber and Reichel (2005:81) and used by Weaver (2008).

By conducting a similar study to Weaver, the business performance indicators for this study included the following questions: (a) annual sales for the business for 2009, 2010 and 2011 (b) the average number of employees for 2009, 2010 and 2011 (c) the leaders perception of the profitability of the business as compared to similar sized businesses (determined on a 5-point Likert scale), and (d) the leaders level of satisfaction with the leadership role in the business.

## **4.9 DATA COLLECTION PROCESS**

The researcher conducted the formal survey for this study during the period from June 2012 to April 2013. The researcher conducted the fieldwork for the study personally.

Because, of the absence of officially compiled databases for family businesses, the only available option was to rely on snowball sampling as the sampling method.

A starting point was to obtain a preliminary name list of all businesses from the local business chambers, and from there the researcher identified a number of family businesses. Another contributing factor in identifying family businesses was that the researcher also owned five small family businesses in the town of Vanderbijlpark during

the past 22 years. Furthermore, being a resident in the Emfuleni district for 48 years, further assisted the researcher in identifying family businesses through social and business contacts.

The approach used was to make telephonic appointments with those respondents who met the requirements for the study. During the meeting, the researcher briefly described the research topic, reason for the study, possible outcomes expected from the study and the anticipated advantages for the family business leaders. The respondents were informed of the principle of voluntary participation, privacy, and the fact that they could withdraw from the study at any time. Privacy is the respondent's right to restrict and control the researcher's access to the respondent and their personal information. To help protect the privacy of the respondents, Trochim and Donneley (2008:24), suggest applying the following two standards:

- Confidentiality guarantees that the respondent's information will not be made available to any-one, and
- Anonymity, which means that the respondent will remain anonymous throughout the study.

It was however important for this study to collect the survey instruments at a more convenient time for the respondents. Due to the difficult nature of collecting information via the snowball method it was impossible to not identify the respondents. However, confidentiality was applied by reassuring respondents that the survey instruments would be treated with the highest form of confidentiality.

Assigning numbers to the survey instruments helped maintain confidentiality and facilitated the administrative process. The covering letter, together with the numbered questionnaire and instructions (see Annexures B, C, D and E), was then handed over. The total estimated time to complete the two instruments was roughly 30 minutes. A small number of questionnaires were also sent by e-mail and later returned by the respondents. A total of 250 of the self-administered questionnaires were delivered or e-mailed to the accessible population of small and medium-sized family businesses and later collected. Of the 250 questionnaires distributed, 197 were returned, which is a response rate of 78.8 percent.

## **4.10 DATA PREPARATION**

Some of the data preparation methods that were used in this study, include, editing, coding and tabulation. Each questionnaire should be inspected, and errors, where possible, should be corrected (Malhotra, 2010:45). Screening the data is the first step towards obtaining some insight into the characteristics of the data. The purpose of editing is to ensure completeness, consistency and readability of the data to be captured.

The researcher should also check for errors and omissions and if the questionnaire has too many missing values it is advisable not to capture this data (Kumar, 2014:294). Coding is a process of identifying and classifying each answer with a numerical score or other character symbol (Hair *et al.*, 2010:224).

Responses were coded with an identification number related to a specific family business in a specific geographical area. Accurate coding can make data capturing easier. The scoring software tool received with the leadership practices inventory provided a convenient technique for coding and scoring the responses.

## **4.11 METHOD OF DATA ANALYSIS**

According to Creswell (2005:121), statistical analyses to interpret data is the focus of quantitative research methodology and includes several statistical methods. The following methods were used to analyse the empirical data.

- Descriptive analysis
- Factor analysis
- Reliability and validity analysis
- Correlation analysis
- Structural equation modelling

The above-mentioned methods used in this study are explained in the following sections.

Initially, coefficient alpha was used in determining the internal consistency of each construct. The Smart PLS program was used to perform factor analysis as the assessment of final measures. Other procedures used to validate measures consisted of assessment of items and scale reliability, uni-dimensionality and convergent and discriminant validity.

Chapter 5 presents details of the analysis of structural equation modelling used in this study as well as the interpretation of the results.

#### **4.11.1 Descriptive statistics**

Descriptive statistics are techniques that help to state the characteristics of sample data and are concerned with the summary of data from respondents (Kumar, 2014:332; Trochim and Donnelly (2008:23).

Descriptive statistical analysis transforms raw data into meaningful information that will make it easier to understand and interpret. According to Kumar (2014:334), the central tendency in the distribution of a variable, the spread of distribution and the association of variables are determined by descriptive analysis. Data are displayed with the use of tables and frequency distributions and are presented in Section 5.3 in the following chapter.

#### **4.11.2 Frequency distribution**

Frequency distributions such as tables and bar charts are utilised to display research findings. Figures are also used to depict absolute and relative magnitudes, differences, proportions and trends (Kumar, 2014:334, Hair *et al.*, 2010:524). These methods use both horizontal and vertical bars to examine different elements of a given variable.

#### **4.11.3 T-test statistics**

The t-test for independent samples can be used to determine the difference in the means or average scores of two groups (Trochim & Donnelly, 2008:302). The comparison of the results from the leadership practices inventory for first generation family business leaders versus second generation family business leaders used the t-

test for independent samples. This analysis deals with drawing conclusions and facilitates the making of predictions about the relationships between the data based on information gathered from the sample.

A calculated value higher than the critical value or the value at which any observed difference occurs by chance results in the rejection of the null hypothesis (Salkind, 2002:201; Trochim & Donnelly, 2008:303). The t-test for independent samples are reported under Section 5.11 and 5.12 in Chapter 5. This test was carried out to compare and determine whether there are differences between the two groups of generations and whether they are statistically significant.

#### **4.11.4 Reliability of the measuring instrument**

Reliability refers to the extent to which the application of a scale produces consistent results if repeated measures are taken (Hair *et al.*, 2010:125; Malhotra, 2010:284; Kent, 2007:132).

Fundamentally, reliability is classified according to whether it is concerned with the stability of results over time or internal consistency of items in a scale. When analysing findings, a reliable instrument minimises errors and bias, therefore offering consistent measurements over time and across the various items on an instrument (Hair *et al.*, 2010:124; Kumar, 2014:216).

Using reliable instruments assures researchers that temporary and situational factors will not get in the way of their research. Internal consistency is a popular measure of reliability and is concerned with the homogeneity of individual items to other items measuring the same construct (Cooper & Schindler, 2007:323).

This study used Cronbach's alpha, composite reliability (CR) and average value extracted (AVE) to check the measures' reliability.

#### **4.11.5 Cronbach's coefficient $\alpha$**

When items are used to form a scale, they need to have internal consistency. The items should all measure the same thing, so they should be correlated with one another. A useful coefficient for assessing internal consistency is Cronbach's alpha. Cronbach's

alpha coefficient ( $\alpha$ ) is one of the most common internal consistency approaches (Hair *et al.*, 2010:125; Cooper & Schindler, 2007:322). Cronbach's alpha coefficient  $\alpha$ , determines the mean reliability coefficient for all possible ways of splitting a set of items in half. Due to this advantage, Cronbach  $\alpha$  is the most commonly used approach for assessing the reliability of a measurement scale with multi-point items.

The value of  $\alpha$ , which ranges from zero to one, represents the level of the reliability in the measurement. The closer the value of  $\alpha$  to one the better the reliability. If the value is low, either there are too few items or there is little commonality among the items (Deluga & Perry, 2011:239; Malhotra, 2010:285).

No concrete rules have been offered for evaluating the magnitude of reliability coefficients; they usually depend on the purpose of the research. Research indicates a reliability estimate of 0.70 or above suggests good reliability, whereas newly developed measures can be accepted with an alpha value of 0.60 (Hair *et al.*, 2010:125). The Cronbach alpha coefficient  $\alpha$  for the different constructs in this study is computed using the reliability procedure in the computer programme SPSS (version 19).

#### **4.11.6 Composite reliability**

Composite reliability (CR) index is one method commonly used to check internal consistency of the measurement model. The following formula can be used to calculate the index:

$$(CR): CR_{\eta} = \frac{(\sum \lambda_{yi})^2}{[(\sum \lambda_{yi})^2 + (\sum \epsilon_i)]}$$

Composite reliability = (square of the summation of the factor loadings)/{(square of the summation of the factor loadings)+(summation of error variances)}.

The resultant coefficient is similar to that of Cronbach's  $\alpha$ . The threshold for composite reliability (CR) index of 0.7 for basic research and 0.6 for exploratory research is suggested by Hair *et al.* (2010:61).

#### **4.11.7 Average variance extracted (AVE)**

Another method used to check reliability is that of examining whether the average variance extracted (AVE) for two constructs is greater than the square of the correlation

between the constructs (Hair *et al.*, 2010:688). The average variance extracted estimate reflects the overall amount of variance in the indicators accounted for by the latent construct. Higher values for the variance extracted estimate (greater than 0.50) reveal the indicators well represent the latent construct.

The formula below is used to calculate Average Variance Extracted (AVE):

$$V\eta = \frac{\sum \lambda_i^2}{\sum \lambda_i^2 + \sum \epsilon_i}$$

**AVE** = {(summation of the squared of factor loadings) / {(summation of the squared of factor loadings) + (summation of error variances)}}

Combined, the construct reliabilities and the average variance extracted estimates suggest the scales are internally consistent (Chinomona, 2010:184). The assessments of discriminant validity for this study are shown in Chapter 5 under Section 5.4.

#### **4.11.8 Validity of the measuring instrument**

Validity is concerned with the extent to which a test or instrument measures the attributes that it is supposed to measure (Hair *et al.*, 2010:126; Cooper & Schindler, 2007:720). It is concerned with the accuracy of measurement, whether the instrument being used is measuring what the researchers actually think they are measuring and whether the concept is being measured accurately (Hair *et al.*, 2010:59). Since one never has direct evidence of the 'true value of the concept under measurement, validity assessment is a complex issue. Construct validity is the overarching category to estimate the validity of an instrument (Hair *et al.*, 2010:59). This study is concerned with construct validity, which is a type of validity that addresses the question of what construct the scale is measuring. It is concerned with the extent to which a measure relates to other measures to which it should be related (Hair *et al.*, 2010:59; Malhotra, 2010: 269).

To determine this type of validity, two categories of construct validity normally need to be determined: convergent validity and discriminant validity (Hair *et al.*, 2010:61; Venter, 2003:248).

##### **4.11.8.1 Convergent validity**

Convergent validity refers to the degree to which the scale correlates in the same direction with other measures of the same construct, *inter alia* the items show homogeneity within the same construct. Ideally, an item is likely to be related to other items that measure the same constructs (Cooper & Schindler, 2007:320; Hair *et al.*, 2010:709).

In contrast, the extent to which the scores on a scale do not correlate with the scores of the items that measure different constructs is referred to as discriminant validity (Cooper & Schindler, 2007:320; Hair *et al.*, 2010:723). Both categories are commonly evaluated by using factor analysis (Hair *et al.*, 2010:91).

Factor loadings refer to the correlation between each variable and other factors (Hair *et al.*, 2010:590). Factor loadings, like correlations, can vary from +1,0 to -1,0. For this study, a factor was distinguished by items that have relatively high factor loadings on it and relatively low loadings on other factors.

Variables with high factor loadings were considered to be similar to the factor in some sense, while those variables close to zero loadings were treated as being not similar to the factor. The factor loadings acceptable for this study were at least 0.500 and are presented in the next chapter.

#### **4.11.8.2 Discriminant validity**

Discriminant validity is concerned with the extent to which a measure is different from other measures, *inter alia* it shows heterogeneity between different constructs (Malhotra, 2004:269). Discriminant validity ensures that measures of different constructs should load on separate constructs. That means the constructs are distinct.

This study used the correlation matrix to ascertain the discriminant validity of the research constructs. According to Churchill and Iacobucci (2005:512) and Hair *et al.* (2010:101), correlation analysis involves measuring the closeness of the relationship between two variables at a time. Linear correlation coefficient measures how closely the points are spread around the regression line in a scatter diagram (Coakes & Steed, 2001:33). The direction of relationships that exist between the independent and

dependent variables of interest is depicted by the level of association (Hair *et al.*, 2010:102).

A relationship of cause and effect does not necessarily indicate a high degree of correlation. Two variables may be highly correlated, yet the relationship may have no meaning, therefore, correlation analysis must be based on logical reasoning and intelligent investigations when making final conclusions (Shao, 2002:492).

If research constructs are distinct then their correlation (pair-wise) value should be less than one (1.0). However, a correlation value between constructs of less than 0.7 is recommended in the empirical literature to confirm the existence of discriminant validity (Hair *et al.*, 2010:103).

#### **4.11.9 Structural equation modelling approach**

Structural equation modeling (SEM) stems from multiple regression analysis and provides a more effective option than other multivariate techniques (Hair *et al.*, 2010:630; Cooper & Schindler, 2007:584).

SEM is becoming a popular evaluation technique and is now considered the dominant multivariate statistical technique used to build and test statistical models (Cooper & Schindler, 2007:583; Hair *et al.*, 2010:634).

In order to analyse the measurement and structural models statistically, this study used the Smart PLS software for structural equation modeling (SEM) technique (Ringle, Wende & Will, 2005). In SEM, the measurement model refers to the linkages between the latent variables and their manifest variables, and the structural model captures the hypothesised causal relationships among the research constructs (Chin & Newsted, 1999).

SEM enables the simultaneous examination of both the path (structural) and factor (measurement) models in one model. In addition to that, Smart PLS combines a factor analysis with near regressions, makes only minimal assumptions, with the goal of variance explanation (high R-square) (Ringle *et al.*, 2005).

Furthermore, Smart PLS supports both exploratory and confirmatory research, is robust to deviations for multivariate normal distributions, and is good for a small sample size. Since the current study's sample size is relatively small (197), Smart PLS was found to be the most appropriate tool and befitted the purpose of the current study.

In order to test the proposed relationships simultaneously, structural equation modelling (SEM) is required. With SEM, the structure of relations can be modelled pictorially enabling a clearer conceptualisation of the theory under study. The hypothesised model can be tested statistically in a simultaneous analysis of the entire system of variables to determine the extent to which it is consistent with the data (Hair *et al.*, 2010:741).

The next part of the chapter contains three sections. The first section defines structural equation modelling and explains what structural equation modelling is all about. This section is followed by one that discusses the concept of a basic model in SEM.

Under this section, three types of models that will be used in this study are discussed. They are (1) measurement model, (2) path model and (3) full latent variable model (Hair *et al.*, 2010:631). The final section is concerned with some specific rules and details of using standardised and un-standardised estimation in SEM.

#### **4.11.10 Analysis of structural equation modelling**

Structural equation modelling (SEM) is a statistical methodology that takes a confirmatory approach to analysis of structural theory bearing on some phenomena (Hair *et al.*, 2010:634). It uses various types of models to predict relationships among observed variables, with the basic goal of providing a quantitative test of a theoretical model hypothesised by an investigator.

Schumacker and Lomax (2004:3) believe that the goal of SEM analysis is to determine the degree of support that the theoretical model is provided by the sample data. The possibility of hypothesising more multifaceted theoretical models exists if the existing theoretical model is supported by the sample data. On the other hand, the absence of sample data support for the theoretical model will lead to either the modification and retesting of the original model or the development and testing of new theoretical models (Hair *et al.*, 2010:635).

To get a better understanding of the model, two major types of variables are introduced. First, latent variables or factors are variables that are not observed or measured directly. They are observed indirectly and therefore, are inferred from a set of variables that researchers measure using statistical techniques such as tests or surveys. In other words, the researcher must operationally define the latent variable of interest in terms of behaviour believed to represent it (Hair *et al.*, 2010:635). Therefore, the latent (unobserved) variable is linked to one that is observed, making its measurement possible. In SEM, a circle ○ (or an ellipse) represents the unobserved latent variable.

Second, observed or manifest variables are a set of variables that researchers use to define or infer the latent variables (Hair *et al.*, 2010:636). These variables serve as indicators of the underlying construct that they are presumed to represent. In SEM the observed variable is represented by a square (or a rectangle).

In addition, these two types of variables can be defined as either an independent variable (exogenous) or dependent variable (endogenous). According to Schumacker and Lomax (2004:3), an independent variable is a variable that is not influenced by any other variable in the model. A dependent variable is a variable that is influenced by another variable in the model (Hair *et al.*, 2010:637).

#### **4.11.11 Basic model**

In this study, three types of models are related to SEM. Firstly, a model that centres specifically on the link between variable measurements and the factors, namely a confirmatory factor analysis (CFA) measurement model is applied.

Hair *et al.* (2010:94) identifies two fundamental types of factor analyses, namely exploratory factor analysis (EFA), and confirmatory factor analysis (CFA). The design of EFA is specifically for situations where links are in doubt or unknown between the variables that are experiential and those that are dormant or latent. The analysis, in the form of an exploratory model, determines how the experiential variables are linked to the dormant or latent variables. According to Hair *et al.* (2010:94), among the experiential variable, the researcher desires to identify the least number of factors that cause the co-variations.

On the other hand, CFA is utilised when the researcher is aware of some causal latent changeable structure. Based on either knowledge of the theory or on empirical research, one can then hypothesise the relationship between the experiential measures and the factors that are underlying the hypothesised structure (Hair *et al.*, 2010:100). CFA is designed for a situation where links between the observed and latent variables can be identified, and for which empirical variables serve to determine each factor. EFA is for a situation where the number of factors is unknown or uncertain, and which experiential variables appear to measure each factor the best. Another difference is the existence of a specified theoretical model, which the researcher has in CFA; whereas, no such model is available for the researcher with EFA (Hair *et al.*, 2010:116).

The second type of model is a path model, also known as path analysis. This model follows the path of the judgment of apparent causal relations among observed variables. According to Kline (2005:94), path analysis is used to measure how well the model accounts for the experimental data that are associated or are co-variances. In path analysis, the researcher specifies a model, which endeavours to clarify the reason for the correlation between X and Y. This clarification could include supposed causal effects (example X causes Y), as well as supposed non-causal relations (example the unfounded association between X and Y).

Finally, the full latent variable model is the third type of model. The requirement of a regression organisation is the basis of this type of model, among the underlying variables; in the shaping of the causal direction, the researcher is able to hypothesise the influence of one latent theory on another (Hair *et al.*, 2010:635). The path model or path analysis is the model used in this study because of the apparent causal relations between the observed variables.

#### **4.11.12 Goodness-of-fit test**

It is important to consider the extent to which the data and the theoretical models meet the assumptions of SEM when evaluating the goodness-of-fit (GoF) results. Goodness-of-fit tests determine whether the structural equation model fits the sample data or how well the theory fits reality as represented by the data (Hair *et al.*, 2010:665).

To ascertain whether the model should be rejected or not, Goodness-of-fit tests are used. The recommended threshold of  $GoF > 0.36$  is suggested by Wetzels, Odekerken-Schroder and Van Oppen (2009). The calculated goodness-of-fit measures for the current study are presented in Section 5.10.1.

#### **4.11.13 Hypotheses testing**

Hypotheses testing entails comparing two variables to determine whether differences exist, and the nature of the hypotheses and the type of data will determine the choice of tests to use. To determine which difference to accept or reject, two hypotheses should be constructed. A null hypothesis indicates that no real difference exists and an alternative hypothesis suggests a significant difference exists (Trochim & Donnelly (2008:32). The significance of the differences is determined by measuring the differences between the variables and is done by hypothesis testing. This study tested the hypothesis by using SEM, goodness-of-fit statistics and path analysis with each hypotheses being tested separately for each of the dependent measures (Morgan *et al.*, 2012:273).

The results for the hypotheses testing are reported in Tables 5.15 and 5.16. The individual hypothesis path coefficients of the modularised relationship outcomes are also provided. The empirical model is depicted in Figures 5.2 and 5.3 in the next chapter with the relevant interpretations and discussions.

## **4.12 SYNOPSIS**

Chapter 4 addressed the various steps that were undertaken as part of the research methodology used in this study. A description of the population studied, as well as the sampling units and sampling techniques were presented. Included in this chapter were sections on the research design, research questions and hypotheses.

Additional sections included a review of the data collection method and processes, data analysis, reliability and validity where discussed. The various statistical procedures used in this study were outlined including a section on structural equation modelling (SEM), which was used to test hypotheses.

The following chapter presents the analyses of the data obtained during the study. These results will enable the researcher to interpret and report on the information obtained in the form of meaningful data using various statistical methods.

# **CHAPTER 5**

## **PRESENTATION OF DATA MEASUREMENT RESULTS**

### **5.1 INTRODUCTION**

Even though family businesses are important to economic and social development, a major concern is that they are failing in the succeeding generations (Venter & Boshoff, 2007:1; Poza, 2014; Tio & Kleiner, 2005).

One of the reasons for their lack of survival is the problems faced by family businesses in integrating the family, business and ownership roles, which have different responsibilities in the family business (McCann, 2005). To determine whether recent successors have sufficiently developed the necessary leadership activities to sustain the business performance is important in improving the survival rate of these family businesses and it is therefore the aim of this study.

Chapter 4 presented an overview of the research design and methodology of this study. This overview pointed out several statistical analyses techniques to test the reliability and validity of the measuring instrument and to test the proposed conceptual model.

The purpose of Chapter 5 is to present and analyse the results of the data analyses for the study. Testing the hypothesis using structural equation modelling (SEM) with Smart PLS is presented in this chapter.

Chapter 5 begins with the presentation of the data analysis procedure used in the current study. Next, the sample description is provided. Following the sample description, a test of measures and accuracy analysis statistics are given. This section of the chapter mainly tests for the measures' reliability and validity using different methods to ascertain the accuracy in both the first and second generation studies that make up this study. For measuring reliability, the Cronbach's Alpha and the composite reliability (CR) value are used, while for validity, the average value extracted (AVE), factor analysis to check convergent validity and a correlation matrix is used to check discriminant validity. Path diagrams are used to display the relationships between the various constructs. A presentation of the research models fit follows this section.

Three subsections are presented, that is, SEM goodness of fit, hypothesis testing results, and finally a discussion of the results. Lastly, a summary of the chapter is given.

## **5.2 STATISTICAL ANALYSES OF RESULTS**

A team consisting of the researcher, the promoter and a statistician were involved in the process of the planning and execution of the data analysis for the research study.

### **5.2.1 Compilation of data and missing data**

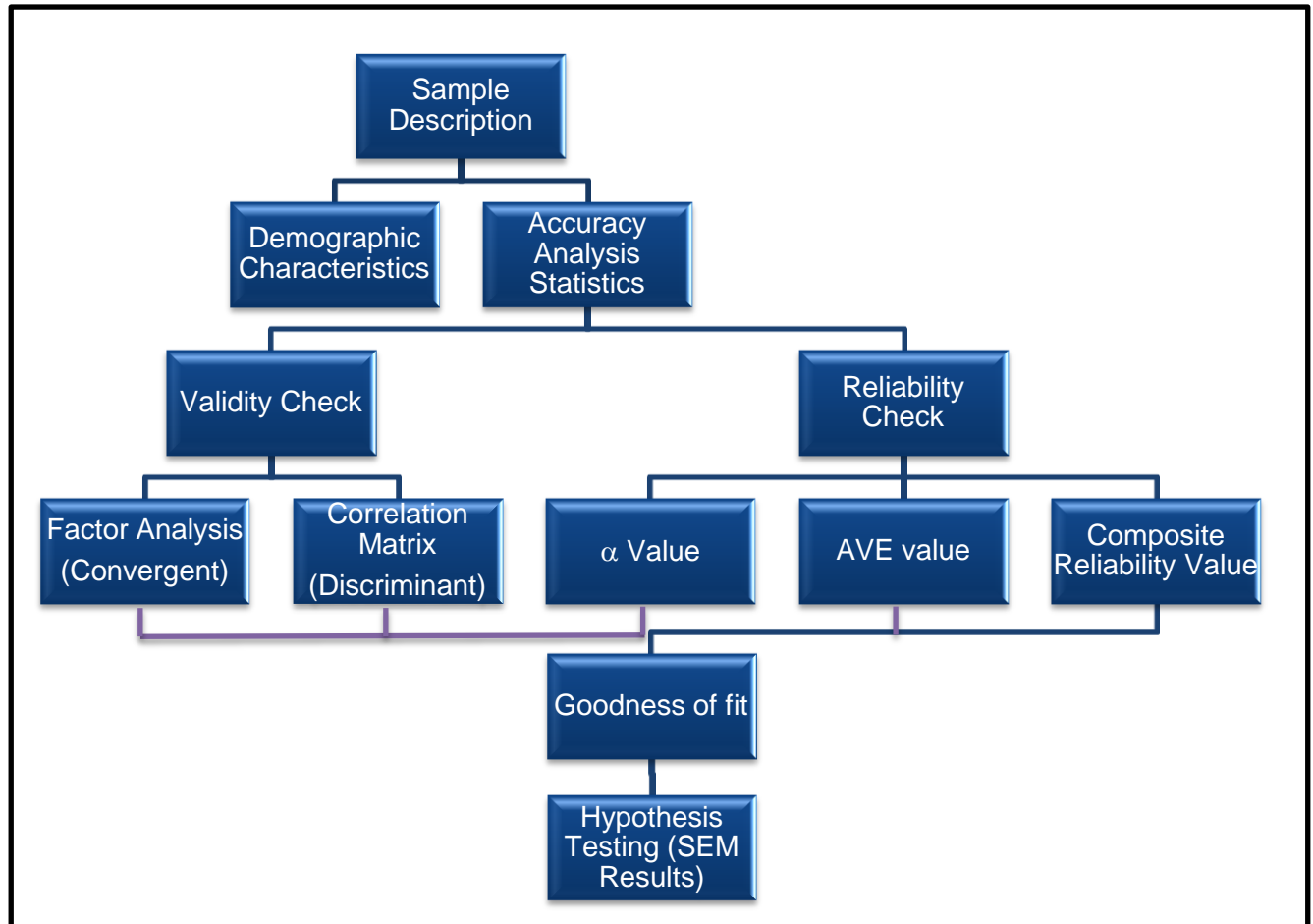
Entering the raw data responses for the two instruments on to an Excel spreadsheet converted the data into scores for the five individual leadership practices and four numeric scores representing each aspect of the measure of business performance. Capturing demographic data helped generate descriptive statistics and enabled the researcher to group the respondents for each of the hypotheses.

Various respondents requested the researcher to offer the percentage of change in sales rather than the actual rand values. This was acceptable because the formula converted the two sets of scores to a percentage of change and therefore did not affect the calculation of the scoring for the business performance indicators.

An initial examination of the leadership practices inventory identified roughly 19 (10 percent) missing items. The instructions for the Leadership questionnaire indicated that a respondent should code any question as a one if it did not apply to the respondent. This guideline resulted in all missing items receiving a score of one.

The procedure of statistical analysis that was used in this chapter is shown in Figure 5.1.

**Figure 5.1: Statistical analysis procedures**



### **5.3 DATA DEMOGRAPHICS**

The population included in this study were family businesses that met the following criteria:

- An ownership control of 51 percent and higher
- The desire to pass the business to the next generation (Poza, 2010).
- A maximum of 200 employees

The population for this study was further qualified by the number of years in the leadership position. The classification for the first generation of the family business was either the founder or the exiting leader and had held the position for more than five years. The second or later generation was the leader who had taken over the leadership position within the past five years and was a member of the underlying family.

The table and paragraphs to follow present a summary of all the demographic information gathered from the usable questionnaires. The demographic and business performance questionnaire required respondents to report their demographic information including gender, age, generation and years in a leadership position in the family business.

**Table 5.1: Demographic information of the respondents**

	<b>FIRST GENERATION (n=150)</b>		<b>SECOND GENERATION (n= 47)</b>	
<b>Gender</b>	<b>Frequency</b>	<b>Percentage (%)</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Male	148	98.6	41	87.2
Female	2	1.4	6	12.8
<b>Age of the respondent</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Frequency</b>	<b>Percentage</b>
21 - 30			18	38.3
31 – 40	3	2	19	40.4
41 - 50	21	14	10	21.3
51 – 60	78	52		
61 - 70	48	32		
<b>Years as leader</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Frequency</b>	<b>Percentage</b>
1 - 5			47	100
6 - 10	6	4		
11 - 20	24	16		
21 - 30	86	57.3		
31 - 40	34	22.7		

In this research survey, the profile of respondents comprised 150 first generation and 47 second generation leaders, representing 76.1 percent and 23.9 percent of the family businesses respectively.

It can be seen from Table 5.1 above, that 148 males (98.6 percent) and 2 females (1.4 percent) for the first generation and 41 males (87.2 percent) and 6 females (12.8 percent) represented the second generation family business leaders respectively. Based on interest, experience and involvement of the researcher in family businesses it was expected that, males of the first generation family business leaders, 98.6 percent (n=150), would dominate the respondent pool.

For the first generation (n=48), 32 percent were over the age of 60, thereby demonstrating their desire to remain involved in the business close to their retirement age. Perhaps another possible explanation is that many family businesses have not done succession planning or there may be no willing family members to take over the reins of the business (Van Duijn, Breunesse & Malindz 2007:13; Rwigema & Venter 2004: 486). In addition, 80 percent of the first generation family business leaders had more than 20 years of experience in a leadership position.

Similarly, males (87.2%) also dominated the second generation of family business leaders. For the second generation, the majority of the respondents in this study were under the age of 40 and had 5 years and less (100%) experience as a leader. The remaining respondents were between the ages of 41 – 50 years old (12.8%) or between 51 – 60 years old (8.5%).

In addition, all the respondents employed fewer than 200 employees. The annual sales/turnover for the three years ranged from R700 000 to R165 000 000 for the first generation family businesses, and between R550 000 and R103 000 000 for the second generation family businesses. Various family business leaders were reluctant to report actual sales figures and offered the percentage of change in sales from 2009 to 2010 and 2011. This was acceptable because the scoring of this business performance indicator considered the change in sales for the above-mentioned years.

The next step in the data analysis was the scoring of the leadership practices inventory,

using an Excel spreadsheet which converted the input of the entries for the 30 questions into five scores representing each of the five leadership practices. The mean, standard deviation, and range for the first and second generation family business leaders appears in Table 5.2 and 5.3. The mean scores for females were higher than for males for the first generation family business leaders but the reverse occurred in the second generation.

Overall, the mean scores for males were slightly higher than the second generation leaders. The contributing factor is perhaps the fact that 96 percent of the first generation had more than 10 years of experience as a leader. The more you apply the leadership practices the more comfortable you become in finding your own voice and creating a vision that is shared by each person in the business.

**Table 5.2: LPI scores for first generation business leaders**

Practices	Males			Females		
	M	SD	Range	M	SD	Range
MTW	47.17	7.44	31-57	47.23	9.58	28-59
ISV	43.82	8.84	32-59	44.38	10.38	22-56
CTP	44.95	6.92	35-58	45.10	7.45	31-58
EOA	48.13	6.03	29-55	48.30	8.93	31-60
ETH	42.17	7.89	31-58	43.12	9.23	29-59
Total	226.24	37.12	158-287	228.13	45.57	141-292

**Table 5.3: LPI scores for second generation business leaders**

Practices	Males			Females		
	M	SD	Range	M	SD	Range
MTW	45.21	6.34	25-53	44.23	7.05	28-55
ISV	43.12	6.92	28-54	41.38	7.15	30-58
CTP	42.43	7.13	29-57	42.10	7.46	31-57
EOA	47.83	7.38	29-56	47.10	7.89	33-57
ETH	41.97	6.03	31-57	41.12	6.84	31-58
Total	220.97	33.8	142-277	215.93	36.39	153-285

Scoring the measure of business performance was the following step. Question 5 and 6 formed the part of the objective measures and requested the annual sales of the businesses, and the average number of people employed in the business, over a period of three years. A basic formula was used to determine the scoring of the percentage change over the three years. The above-mentioned scores and the scores for Questions 7 and 8 which is related to the subjective measure of business performance, were also captured on the Excel spread-sheet. Questions 9, 10 and 11 also required the subjective opinions of the respondents and a summary of the results indicated that communication, openness and empowerment were some of the contributing success factors of these businesses. This is then evident in the fact that the majority of respondents described their management style as participative in nature. In addition, all respondents indicated that their employees view them as good leaders. The results for the business performance indicators for both generations appear in Table 5.4 and 5.5, respectively. The scores for each component were higher for females for both the first generation and second generation business leaders and were considered insignificant due to the small number of female respondents.

Additionally, the scores for each component of the business performance indicators were higher for the first generation family business leaders than the second generation leaders. Due to the many years in the leadership position the first generation leaders are comfortable with how they apply the leadership practices that have a positive influence on the business performance.

**Table 5.4: Business performance scores for first generation**

Indicator	Males			Females		
	M	SD	Range	M	SD	Range
BP 1	4.12	1.14	1.00-5.00	4.78	0.88	1.00-5.00
BP 2	3.86	1.10	1.00-5.00	4.12	0.94	1.00-5.00
BP 3	3.74	1.04	1.00-5.00	4.21	1.17	1.00-5.00
BP 4	4.42	1.11	1.00-5.00	4.56	1.22	1.00-5.00
Average	16.14	4.75	5.00-20.00	17.67	4.21	5.00-20.00

BP 1 = change in sales. BP 2 = change in number of employees. BP 3 = comparison to other businesses. BP 4 = satisfaction of leader.

**Table 5.5: Business performance scores for second generation**

Indicator	Males			Females		
	M	SD	Range	M	SD	Range
BP 1	3.86	1.09	1.00-5.00	4.01	1.42	1.00-5.00
BP 2	3.21	1.16	1.00-5.00	3.34	1.15	1.00-5.00
BP 3	3.18	1.41	1.00-5.00	3.52	0.98	1.00-5.00
BP 4	4.12	1.18	1.00-5.00	4.55	0.72	1.00-5.00
Average	14.37	4.84	5.00-20.00	15.42	4.27	5.00-20.00

BP 1 = change in sales. BP 2 = change in number of employees. BP 3 = comparison to other businesses. BP 4 = satisfaction of leader.

## 5.4 VALIDITY OF THE MEASURING INSTRUMENT

According to Hair *et al.* (2010:7), the term validity refers to a measuring instrument or scale that has the ability to measure what it is intended to measure.

Convergent validity was assessed by determining whether individual item loadings for each corresponding research construct was above the recommended value of 0.5 (Hair *et al.*, 2010:709; Aldaigan & Buttle, 2002:369) and the item to total correlation values.

To assess discriminant validity, the inter-construct correlation matrix was used. This is an evaluation of whether the correlations among latent constructs were less than 1.0 (Hair *et al.*, 2010:710). The average variance extracted (AVE) values compared to the shared variance (SV) were also used to further confirm the existence of discriminant validity. The values presented in table 5.12 indicates the existence of discriminant validity

## 5.5 RELIABILITY OF THE MEASURING INSTRUMENT

Reliability refers to the extent to which test scores are accurate, consistent and stable at different time intervals (Hair *et al.*, 2010:705; Cooper & Schindler, 2007:323).

A measurement model of the conceptual model with six latent variables was estimated. All constructs were modelled using reflective indicators.

Construct reliability was assessed by three methods, Cronbach's alpha test (Cronbach's  $\alpha$ ), composite reliability test (CR) and average value extracted (AVE) test. The following section shows the results of all the tests used to check the research measure reliability.

## **5.6 LEADERSHIP PRACTICES INFLUENCING THE BUSINESS PERFORMANCE INDICATORS OF FIRST GENERATION FAMILY BUSINESS LEADERS**

The following section includes the measures of factor-analysability and reliability for the dependent and independent variables identified and used in this study. These factors are tabled and reported on. Discriminant validity is reported on in Section 5.7.

### **5.6.1 Model the way**

All six items (MTW1, MTW2, MTW3, MTW4, MTW5, MTW6) measuring the factor *model the way* loaded together on this factor. Convergent validity was assessed by checking if individual item loadings for each corresponding research construct was above the recommended value of 0.5 (Aldalaigan & Buttle, 2002:369).

Factor loadings higher than 0.666 for all of the items are reported in Table 5.6. The Cronbach's-alpha coefficient is 0.778, suggesting that the measuring instrument used to measure this construct is reliable.

This means that the Cronbach's alpha exceeded the recommended threshold of 0.700 in the literature (Hair *et al.*, 2010:125; Churchill & Iacobucci, 2005: 363) and therefore, confirming that the measures used in this study are reliable.

The internal reliability of each construct was also evaluated using the composite reliability (CR) index test. According to the literature, a composite reliability index that is greater than 0.7 depicts an adequate internal consistency of the construct (Hair *et al.*, 2010:710). The result in Table 5.6 indicates that the composite reliability (C.R.) index was 0.702. These values exceeded the estimate criteria used in prior literature.

The third reliability test was the average variance extracted (AVE). The AVE value

reflected that the overall amount of variance in the indicators were accounted for by the latent construct. A value for AVE greater than 0.50 (Hair *et al.*, 2010:709; Neuman, 2006:59) revealed that the indicators represented the construct well. Altogether the tests suggest the scales mentioned in Table 5.6 are internally consistent.

**Table 5.6: Factor 1 – Model the way (MTW)**

C.R. Value: 0.702 AVE Value: 0.530		Cronbach Value: 0.778		
Item	Item	Factor Loading	Item-total correl.	Cronbach Alpha
MTW 1	I set a personal example of what I expect from others.	0.666	0.517	0.774
MTW 2	I spend time and energy making certain that people I work with adhere to the principles and standards we have agreed on.	0.717	0.582	0.783
MTW3	I follow through on the promises and commitment that I make.	0.765	0.649	0.771
MTW 4	I ask for feedback on how my actions affect other people’s performance.	0.828	0.675	0.773
MTW 5	I build consensus around a common set of values for running our organisation.	0.803	0.831	0.779
MTW 6	I am clear about my philosophy of leadership.	0.882	0.820	0.792

*Model the way* means that it is important to understand the values that guide action. In other words, this practice deals with credibility as the foundation of leadership. This effectively means setting examples by working closely with others, telling stories so that others can envision values and by asking probing questions for others to think about their own values and priorities (Kouzes & Posner, 2012:26). To establish credibility, leaders should understand their own passion and personal values in finding their own voice as explained by the literature in Section 3.7 of Chapter 3.

**5.6.2 Inspire a shared vision**

In the next concept of the Kouzes and Posner model, leaders create a vision of the future in a business to determine a plan of action needed to achieve results. In order to get others to share in the vision, leaders need to know their followers and understand their hopes, dreams, visions and values in order to gain their support (Kouzes & Posner, 2012:27).

All six items (ISV1, ISV2, ISV3, ISV4, ISV5 and ISV6) measuring the factor *inspire a shared vision* loaded together on this factor. Factor loadings higher than 0.854 for all of the items are reported in Table 5.7. The indicators for both the Cronbach-alpha coefficient (0.819) and the CR value (0.754) for *inspire a shared vision* were all high.

The value for AVE was also greater than 0.50, which reveals that the indicators represented the construct well (Hair *et al.*, 2010:709). This suggests that the measuring instrument used to measure this construct is reliable.

**Table 5.7: Factor 2 – Inspire a shared vision (ISV)**

<b>C.R. Value: 0.754 AVE Value: 0.512</b>		<b>Cronbach Value: 0.819</b>		
<b>Item</b>	<b>Item</b>	<b>Factor Loading</b>	<b>Item-total correl.</b>	<b>Cronbach Alpha</b>
ISV 1	I talk about future trends that will influence how our work gets done.	0.875	0.903	0.872
ISV 2	I describe a compelling image of what our future could be like.	0.869	0.798	0.873
ISV 3	I appeal to others to share an exciting dream of the future.	0.895	0.862	0.870
ISV 4	I show others how their long-term interest can be realised by enlisting in a common vision.	0.936	0.902	0.878
ISV 5	I paint the “big picture” of what we aspire to accomplish.	0.863	0.815	0.722
ISV 6	I speak with genuine conviction about	0.854	0.843	0.702

C.R. Value: 0.754 AVE Value: 0.512		Cronbach Value: 0.819		
Item	Item	Factor Loading	Item-total correl.	Cronbach Alpha
	the higher meaning and purpose of our work.			

### 5.6.3 Challenge the process

In this study, *challenge the process* refers to the processes, which allow the seeking of new and shared goals. Challenge is the crucible for greatness. Every single personal-best leadership case involved a change from the status quo.

Based on the cases studied by Kouzes and Posner (2012:28), irrespective of what the particular challenge was, all were looking for opportunities to change the status quo. The challenge might have been an innovative new product, a cutting edge new service or an economic downturn, which had an influence on the business. Accepting new challenges ultimately requires experimentation and risk-taking. Although risk-taking and experimenting sometimes leads to mistakes and failure, Kouzes and Posner (2012:28) propose that the key is a chance to learn from these failure and successes.

All six items (CTP1, CTP2, CTP 3, CTP 4, CTP 5 and CTP 6) expected to measure the factor *challenge the process* loaded together on this factor. Factor loadings higher than 0.793 for all of the items is reported in Table 5.8.

The Cronbach-alpha coefficient and the CR value for *challenge the process* is 0.752 and 0.741 respectively and the AVE is 0.582. This confirms that the measures used to measure this construct are reliable (Hair *et al.*, 2010:710; Churchill & Iacobucci, 2005: 363).

**Table 5.8: Factor 3 – Challenge the process (CTP)**

C.R. Value: 0.741 AVE Value: 0.582		Cronbach Value: 0.752		
Item	Item	Factor Loading	Item-total correl.	Cronbach Alpha
CTP 1	I seek out challenging opportunities that test my own skills and abilities.	0.842	0.804	0.721
CTP 2	I challenge people to try out new and innovative ways to do their work.	0.793	0.773	0.730
CTP 3	I search outside the formal boundaries of my business for innovative ways to improve what we do.	0.832	0.776	0.739
CTP 4	I ask "What can we learn?" when things do not go as expected.	0.888	0.837	0.729
CTP 5	I make certain that we set achievable goals, make concrete plans and establish measurable milestones for the projects and programs that we work on.	0.850	0.823	0.725
CTP 6	I experiment and take risks even when there is a chance of failure.	0.915	0.825	0.872

#### 5.6.4 Enable others to act

All six items (EOA1, EOA2, EOA 3, EOA 4, EOA 5 and EOA 6), measuring the factor *enable others to act* loaded together on this factor.

*Enable others to act*, refers to the important role a leader plays in the creation of a supportive environment and sets the example of dividing goals into smaller achievements. "Authentic leadership is founded on trust and the more people trust their leader and each other, the more they take risks, make changes and keep organisations and movements alive" (Kouzes & Posner, 2012:30). People are empowered to become leaders themselves when sharing power with others and building relationships based on trust.

Factor loadings higher than 0.658 for all of the items can be viewed in Table 5.9. The Cronbach-alpha coefficient for *enable others to act* is 0.869 and the composite reliabilities (CR) value is 0.715, with the AVE value reported as 0.530. This suggests the scales used in the measuring instrument are internally consistent and reliable (Hair *et al.*, 2010:710; Churchill & Iacobucci, 2005:363).

**Table 5.9: Factor 4 – Enable others to act (EOA)**

C.R. Value: 0.715 AVE Value: 0.530		Cronbach Value: 0.869		
Item	Item	Factor Loading	Item-total correl.	Cronbach Alpha
EOA 1	I develop cooperative relationships among the people I work with.	0.749	0.720	0.873
EOA 2	I actively listen to diverse points of view.	0.658	0.596	0.874
EOA 3	I treat others with dignity and respect.	0.896	0.867	0.872
EOA 4	I support the decisions that people make on their own.	0.716	0.650	0.873
EOA 5	I give people a great deal of freedom and choice in deciding how to do their work.	0.881	0.844	0.872
EOA 6	I ensure that people grow in their jobs by learning new skills and developing themselves.	0.891	0.835	0.852

### 5.6.5 Encourage the heart

All six items (ETH1, ETH2, ETH 3, ETH 4, ETH 5 and ETH 6) expected to measure the factor *encourage the heart* loaded together on this factor.

Factor loadings higher than 0.573 for all of the items is reported in Table 5.10. The

Cronbach-alpha coefficient is 0.796 and the CR value are 0.709 for *encourage the heart*, suggesting that the measuring instrument used to measure this construct is reliable. The reported AVE value is also greater than 0.50.

**Table 5.10: Factor 5 – Encourage the heart (ETH)**

C.R. Value: 0.709 AVE Value: 0.599		Cronbach Value: 0.796		
Item	Item	Factor Loading	Item-total correl.	Cronbach Alpha
ETH 1	I praise people for a job well done.	0.773	0.747	0.773
ETH 2	I make a point to let people know about my confidence in their abilities.	0.865	0.839	0.782
ETH 3	I make sure that people are creatively rewarded for their contribution to the success of our projects.	0.573	0.569	0.724
ETH 4	I publicly recognise people who exemplify commitment to shared values.	0.866	0.791	0.792
ETH 5	I find ways to celebrate accomplishments.	0.809	0.805	0.873
ETH 6	I give the members of the team lots of appreciation and support for their contributions.	0.835	0.758	0.837

*Encourage the heart* refers to the nature of the relationships between the supervisor and the employees. In order to sustain performance, leaders need to recognise the contribution employees make, and encourage and appreciate their efforts by creating a culture of celebrating values and successes (Kouzes & Posner, 2012:31).

**5.7 RELIABILITY RESULTS FOR BUSINESS PERFORMANCE**

The results for the measure of business performance for the first generation appear in

Table 5.11. Four items (BP1, BP2, BP3, BP4) were expected to measure the factor *business performance* in this study.. Factor loadings higher than 0.511 for all of the items is reported in Table 5.10. The AVE value (0.601), Cronbach-alpha coefficient (0.773) and the CR value (0.723) for business performance are all above the recommended measures as indicated in the literature, therefore, signifying that the measuring instrument used to measure this construct is reliable (Hair *et al.*, 2010:709).

**Table 5.11: Factor – Business performance (BP)**

C.R. Value: 0.723 AVE Value: 0.601		Cronbach Value: 0.773		
Item	Item/Question	Factor Loading	Item-total correl.	Cronbach Alpha
BP1	Percentage change in sales over three years	0.550	0.374	0.874
BP2	Percentage change in number of employees over three years	0.714	0.440	0.724
BP3	What is your perception of the profitability of your business as compared to other similar sized business?	0.621	0.374	0.744
BP4	How satisfied are you with your experience as the leader of your family business?	0.510	0.215	0.753

BP 1 = change in sales. BP 2 = change in number of employees. BP 3 = comparison to other businesses. BP 4 = satisfaction of leader.

## 5.8 DISCRIMINANT VALIDITY

One of the methods used to ascertain the discriminant validity of the research constructs was the evaluation of whether the correlations among latent constructs were less than 1.0. As indicated in Table 5.12, the inter-correlation values for all paired latent variables are less than 1.0 (Hair *et al.*, 2010:710), thus, indicating the existence of discriminant validity.

**Table 5.12: Correlations between constructs - first generation**

RESEARCH CONSTRUCTS	BP	CTP	EOA	ETH	ISV	MTW
Business Performance (BP)	<b>1.000</b>					
Challenge The Process (CTP)	0.577	<b>1.000</b>				
Enable Others to Act (EOA)	0.563	0.590	<b>1.000</b>			
Encourage The Heart (ETH)	0.580	0.411	0.531	<b>1.000</b>		
Inspired a Shared Vision (ISV)	0.595	0.527	0.564	0.646	<b>1.000</b>	
Model The Way (MTW)	0.539	0.661	0.656	0.471	0.456	<b>1.000</b>

Note: BP = Business performance; CTP = Challenge the process; EOA = Enable others to act; ETH = Encourage the heart; ISV = Inspire a shared vision; MTW = Model the way.

The following section lays out the statistical analyses of the same individual leadership practices and business performance indicators for the second generation family business leaders.

## 5.9 LEADERSHIP PRACTICES INFLUENCING THE BUSINESS PERFORMANCE INDICATORS OF SECOND GENERATION FAMILY BUSINESS LEADERS

All the different leadership practices and business performance indicators for the second generation family business leaders loaded together for all the items and are presented in a different format in Table 5.13 below to avoid being too repetitive.

**Table 5.13: Accuracy analysis statistics (second generation)**

Research Construct	Mean Value	R-Squared Value	Cronbach's $\alpha$ value	C.R. Value	AVE Value	Communality	Factor Loading
BP 1							0.613
BP 2	4.022	0.348	0.741	0.734	0.533	0.533	0.507
BP 3							0.537
BP 4							-0.339
CTP 1							0.625
CTP							0.715

Research Construct		Mean Value	R-Squared Value	Cronbach's $\alpha$ value	C.R. Value	AVE Value	Communality	Factor Loading
	2							
CTP	CTP 3	4.229	0.000	0.775	0.771	0.569	0.569	0.760
	CTP 4							0.646
	CTP 5							0.617
	CTP 6							0.732
	EOA 1							0.874
	EOA 2							0.816
EOA	EOA 3	4.589	0.000	0.766	0.773	0.589	0.589	0.584
	EOA 4							0.874
	EOA 5							0.816
	EOA 6							0.580
	ETH 1							0.523
	ETH 2							0.705
ETH	ETH 3	4.314	0.000	0.734	0.729	0.539	0.539	0.757
	ETH 4							0.748
	ETH 5							0.808
	ETH 6							0.822
Research Construct		Mean Value	R-Squared Value	Cronbach's $\alpha$ value	C.R. Value	AVE Value	Communality	Factor Loading
	ISV 1							0.793
	ISV 2							0.511
ISV	ISV 3	4.249	0.000	0.767	0.766	0.563	0.563	0.641
	ISV 4							0.673
	ISV 5							0.707

Research Construct		Mean Value	R-Squared Value	Cronbach's $\alpha$ value	C.R. Value	AVE Value	Communality	Factor Loading
	ISV 6							0.724
	MTW 1							0.577
	MTW 2							0.720
MTW	MTW 3	4.369	0.000	0.742	0.749	0.531	0.532	0.715
	MTW 4							0.649
	MTW 5							0.673
	MTW 6							0.594

Note: BP = Business performance; CTP = Challenge the process; EOA = Enable others to act; ETH = Encourage the heart; ISV = Inspire a shared vision; MTW = Model the way. C.R.: Composite reliability; AVE: Average variance reliability

## 5.10 RELIABILITY ANALYSIS

The same three tests used to check the research measure reliability for the first generation leaders were used for the analysis for the second generation leaders. Table 5.13 shows the results of all these tests.

The values for Cronbach - alpha were computed and provide evidence that each of the scales exhibit satisfactory reliability, with values ranging from 0.734 to 0.775. The composite reliability (CR) coefficient was the second measure used to test the internal consistency. The CR measure of 0.70 is a threshold for “modest” construct reliability (Hair *et al.*, 2010:709) and can be interpreted in the same way as a Cronbach's alpha. The higher the level of CR coefficient, the higher the reliability of the scale.

Table 5.13 indicates that all CR values exceed the threshold of 0.70 recommended in the literature as previously mentioned. The CR values ranged from 0.734 to 0.779. The third test was the average variance extracted (AVE). As indicated in Section 5.9.1, an AVE value of greater than 0.50 is acceptable. As noted in the above table, AVE values range from 0.531 to 0.589. The indication, therefore, is that the above measures suggest that the scale is reliable and internally consistent.

## 5.11 CONVERGENT VALIDITY

As mentioned earlier in Section 5.5, convergent validity (internal consistence) was assessed using Item loading values as a measure with a suggested benchmark of 0.5 (Hair *et al.*, 2010:709).

As can be noted in Table 5.13 as well as Figure 5.2 all the item loading values reached the recommended benchmark – implying that all items converged well on the construct they were supposed to measure and hence confirming the existence of convergent validity.

## 5.12 DISCRIMINANT VALIDITY

To assess discriminant validity, the AVE of the construct should be greater than the shared variance between the construct and the other model constructs (Hair *et al.*, 2010:712). Table 5.14 lists the correlation matrix with correlations among constructs and the square root AVE on the diagonal for the second generation leaders. Diagonal elements are the square root of Average Variance Extracted. The other values are the inter-construct correlations. As shown in Table 5.14, the diagonal elements are greater than the off-diagonal elements in the corresponding rows and columns, therefore, confirming that discriminant validity indeed exists.

**Table 5.14: Inter-construct correlations and shared variance - second generation**

RESEARCH CONSTRUCTS	BP	CTP	EOA	ETH	ISV	MTW
Business performance (BP)	<b>1.000</b>					
Challenge the process (CTP)	0.577	<b>1.000</b>				
Enable others to act (EOA)	0.563	0.590	<b>1.000</b>			
Encourage the heart (ETH)	0.580	0.511	0.531	<b>1.000</b>		
Inspire a shared vision (ISV)	0.595	0.527	0.564	0.546	<b>1.000</b>	
Model the way (MTW)	0.539	0.461	0.456	0.471	0.556	<b>1.000</b>

Note: BP = Business performance; CTP = Challenge the process; EOA = Enable others to act; ETH = Encourage the heart; ISV = Inspire a shared vision; MTW = Model the way.

## 5.13 STRUCTURAL EQUATION MODELLING

In order to analyse the measurement and structural models statistically, this study used the Smart PLS software for structural equation modelling (SEM) (Ringle *et al.*, 2005).

In SEM, the measurement model refers to the linkages between the latent variables, and their manifest variables and the structural model captures the hypothesised causal relationships among the research constructs. SEM enables the simultaneous examination of both the path (structural) and factor (measurement) models in one model. In addition to that, Smart PLS combines a factor analysis with near regressions, makes only minimal assumptions, with the goal of variance explanation (high R-square) (Anderson, Schwager & Kerns, 2006).

Furthermore, Smart PLS supports both exploratory and confirmatory research, is robust to deviations for multivariate normal distributions, and is suitable for small sample size. Since the current study sample size is relatively small (197), Smart PLS was found to be appropriate and befitting the purpose of the current study.

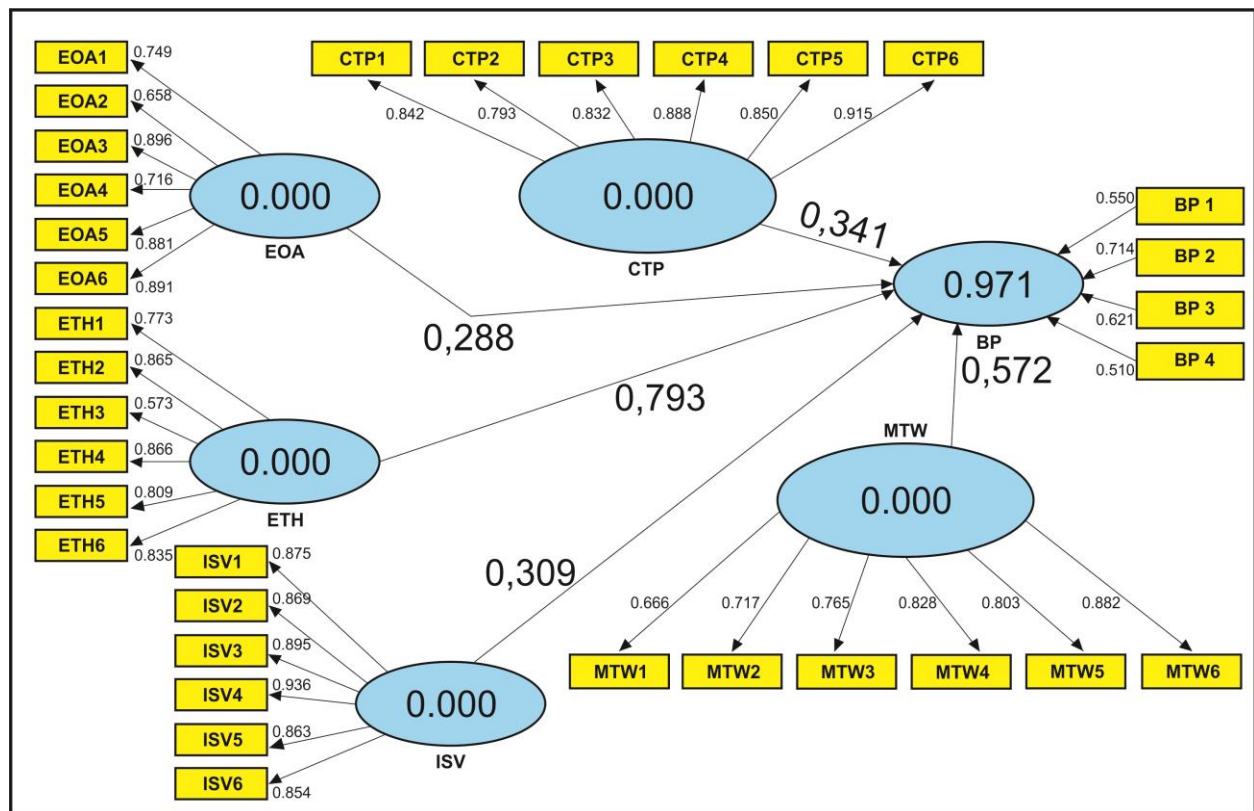
The Smart PLS software programme was used as a tool to analyse SEM. A powerful programme which helps to establish a model that reflects complex relationships with the ability to use observed variables to predict any numeric variables. Furthermore, it is the only programme that allows researchers to analyse SEM in graphical form, rather than with complicated command functions.

The structural model was tested using the loadings and significance of the path coefficients (indicates the strengths of relationships between dependent and independent variables), and the R<sup>2</sup> value (the amount of variance explained by independent variables).

The statistical significance of each path was estimated using a Smart PLS bootstrapping method utilising 100 resamples to obtain t-values (Hair *et al.*, 2010:618). Figure 5.2 and Table 5.15 (first generation), and Figure 5.3 and Table 5.16 (second generation) present the results of the PLS analysis on the structural model along with the path estimates and t-values.

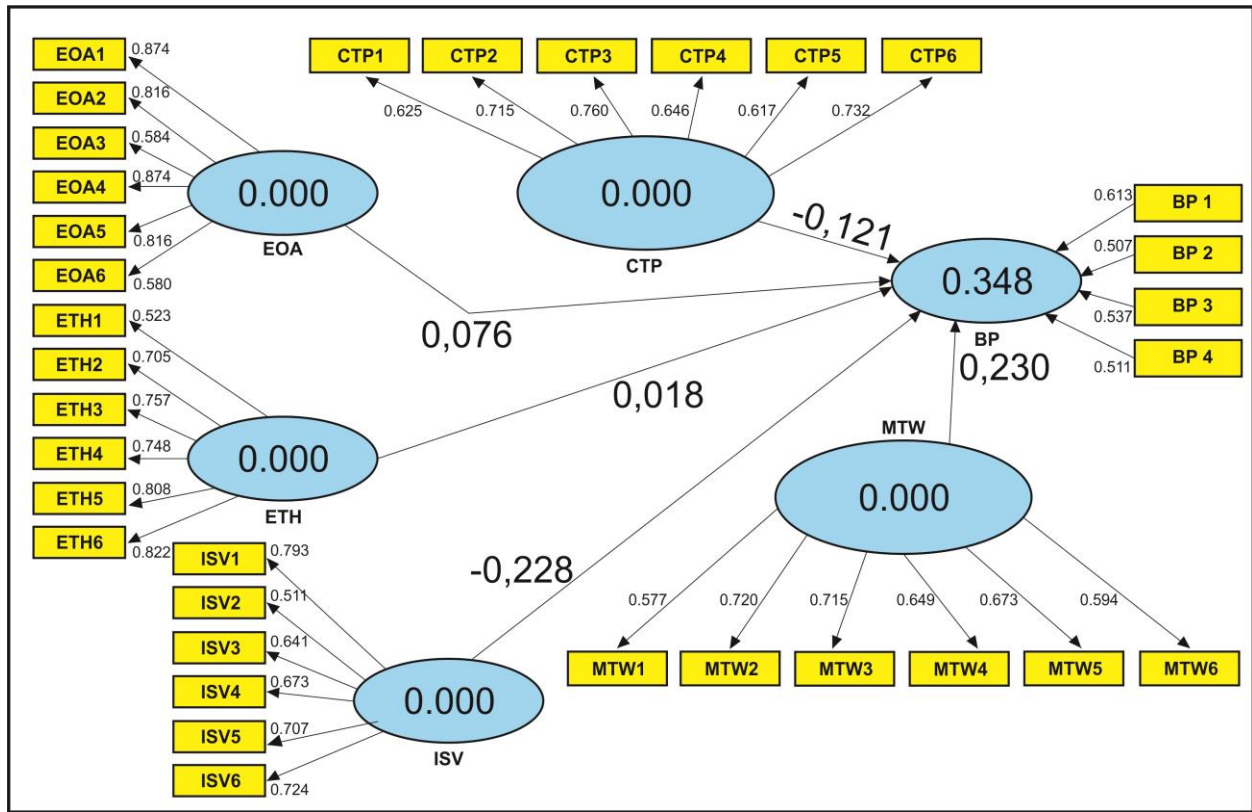
Support for the study hypotheses, which are labelled on their corresponding paths in Figure 5.2 and 5.3 could be ascertained by examining the directionality (positive or negative) of the path coefficients and the significance of the t-values. The standardised path coefficients are expected to be at least 0.2 and preferably greater than 0.3 (Hair *et al.*, 2010:658).

**Figure 5.2: Measurement and structural model results - first generation**



For the first generation classification the R<sup>2</sup> value for the dependent variable – business performance (BP) is 0.971. This result indicates that the leadership practices of *model the way, inspire a shared vision, challenge the process, enable others to act* and *encourage the heart* explain 97.1 percent of the variance in business performance (BP), hence suggesting that these variables almost fully explain the variations in business performance indicators for the first generation family businesses. In other words, these are the leadership practices that most affect the performance of the business.

**Figure 5.3: Measurement and structural model results - second generation**



For the second generation classification the  $R^2$  value for business performance (BP) is 0.348.

This result suggests that the leadership practices explained only 34.8 percent of the variance in business performance (BP). In other words, the leadership practices of the second generation did not have a significant impact on performance.

### 5.13.1 Evaluating the global goodness-of-fit measure

Smart PLS software does not provide goodness-of-fit measures for the full path model as is the case with LISREL and AMOS software programmes, but it provides only  $R^2$  values for the dependent variables. However, a method to calculate a global goodness-of-fit (GoF) measure was proposed by Amato, Esposito and Tenenhaus (2004) and this method takes into account both the quality of the measurement model and the structural model (Tenenhaus, Vinzi, Chatelin & Lauro, 2005; Streukens, 2008).

The global goodness-of-fit (GoF) statistic was calculated using the following equation:

$$\text{GoF} = \sqrt{\overline{AVE} * \overline{R^2}}$$

Where  $\overline{AVE}$  represents the average of all AVE values for the research variables while  $\overline{R^2}$  represents the average of all  $R^2$  values in the full path model.

The calculated global goodness of fit (GoF) is 0.74 and 0.44 for the first and second generation respectively, which exceeds the recommended threshold of  $\text{GoF} > 0.36$  suggested by Wetzels *et al.* (2009). Thus, this study concludes that the research model provides an overall goodness of fit giving credence to the initial expected values and observations of the study.

## 5.14 RESULTS AND INTERPRETATION OF HYPOTHESES TESTING FOR THE FIRST GENERATION

The model fit statistics shown in the previous section were above the recommended thresholds, suggesting that the proposed conceptual model converged well and could be a reasonable representation of the empirical data structure. The corresponding path coefficients of the research hypotheses indicate observable existence of positive relationships between the five individual leadership practices and business performance for first generation family business leaders. A summary of these significant relationships can be found in Table 5.15.

**Table 5.15: Results of structural equation model analysis - first generation**

Proposed Hypothesis Relationship	Path Coefficient	T-Statistics	Rejected / Supported
<i>Ho1a.</i> There is a significant positive association between the individual leadership practice <i>model the way</i> and the business performance for the first generation family business leaders.	0.572	3.423	Supported

<b>Proposed Hypothesis Relationship</b>	<b>Path Coefficient</b>	<b>T-Statistics</b>	<b>Rejected / Supported</b>
<i>Ho3a.</i> There is a significant positive association between the individual leadership practice <i>challenge the process</i> and the business performance for the first generation family business leaders.	0.341	2.929	Supported
<i>Ho4a.</i> There is a significant positive association between the individual leadership practice <i>enable others to act</i> and the business performance for the first generation family business leaders.	0.288	2.243	Supported
<i>Ho5a.</i> There is a significant positive association between the individual leadership practice <i>encourage the heart</i> and the business performance for the first generation family business leaders.	0.793	3.434	Supported

Note: BP = Business performance; CTP = Challenge the process; EOA = Enable others to act; ETH = Encourage the heart; ISV = Inspire a shared vision; MTW = Model the way.

The model illustrated in Figure 5.2 identified five significant relationships between the various leadership practices and business performance for the first generation family business leaders.

The stated hypotheses are given next, and an explanation of the results for all the hypotheses is provided in the following section.

*Ho1a.* There is a significant positive association between the individual leadership practice *model the way* and the business performance for the first generation family business leaders.

*Ha1a.* There is no significant positive association between the individual leadership practice *model the way* and the business performance for the first generation family business leaders.

Hypothesis 1 indicated a positive relationship between the leadership practice model the way and business performance. The results show a positive ( $\beta = 0.572$ ) and significant ( $t = 3.423$ ) relationship between the leadership practice *model the way* and business performance. As a result, *Ho1a* is supported.

Titles are granted, but it is the behaviour of individual leaders that earn respect. To effectively *model the way*, you must first be clear about your own guiding principles. You must clarify values by finding your own voice. Once you know that then you can give your values a voice and share them with others. However, leaders' deeds are far more important than their words. Words and deeds should be consistent. Exemplary leaders set an example by aligning their actions with shared values. Hence, a leader who sets a good example is going to positively affect the performance of the business.

*Ho2a*. There is a significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the first generation family business leaders.

*Ha2a*. There is no significant positive association between the individual leadership practice *inspire a shared vision* and the business performance for the first generation family business leaders.

The results show a positive ( $\beta = 0.309$ ) and significant ( $t = 3.018$ ) correlation between the leadership practice *inspire a shared vision* and business performance, therefore, *Ho2a* is supported. A higher level of inspiring a shared vision is associated with an increase in business performance. Leaders describe their personal best leadership experience as times when they imagined an exciting, highly attractive future for their businesses. They had visions of what could be. The vision is the force that creates the future. Leaders envision the future imagining exciting possibilities such as growth in market share and an overall increase in business performance. As with the above mentioned hypotheses, *Ho2a* is supported.

*Ho3a*. There is a significant positive association between the individual leadership practice *challenge the process* and the business performance for the first generation family business leaders.

*Ha3a*. There is no significant positive association between the individual leadership practice *challenge the process* and the business performance for the first generation family business leaders.

Hypothesis 3 posited a positive ( $\beta= 0.341$ ) association between the leadership practice *challenge the process* and business performance. The results also indicated a significant ( $t=2.929$ ) relationship between this specific leadership practice and business performance. Therefore, *Ho3a* is supported.

Not one person claimed to have achieved a personal best by keeping things the same. Leaders who *challenge the process* ventures out, they do not sit idle and wait for things to happen. Leaders are pioneers, willing to step out into the unknown. These leaders have to look constantly outside themselves and the business to search for opportunities by seizing the initiative and by looking outward for ways to improve. This constant seeking of ways to improve is bound to have an impact on business performance.

*Ho4a*. There is a significant positive association between the individual leadership practice *enable others to act* and the business performance for the first generation family business leaders.

*Ha4a*. There is no significant positive association between the individual leadership practice *enable others to act* and the business performance for the first generation family business leaders.

The results for hypothesis *Ho4a* show a positive relationship between the leadership practice *enable others to act* and business performance and is accepted. The results show a positive ( $\beta=0.288$ ) and significant ( $t=2.243$ ) relationship between the leadership practice *enable others to act* and business performance.

A big dream does not become a significant reality through the actions of one individual only; it requires a team effort. It requires trust, commitment and strong relationships. This sense of teamwork extends beyond a few direct instructions, and these leaders typically engage all to make a project work.

Kouzes and Posner (2012:31) are of the opinion that when you strengthen others by increasing self-determination and developing confidence, they are more likely to give it their all and exceed expectations. It becomes easier to achieve shared goals when you involve people in the decision-making process, trust them to handle the execution, and give them responsibility and feedback during this time. By focusing on the needs of others, you build trust in a leader.

The more people trust their leaders and each other the more they take risks, make changes, and keep the businesses improving, hence the resulting effect on business performance.

*Ho5a.* There is a significant positive association between the individual leadership practice *encourage the heart* and the business performance for the first generation family business leaders.

*Ha5a.* There is no significant positive association between the individual leadership practice *encourage the heart* and the business performance for the first generation family business leaders.

Table 5.14 illustrates a positive relationship between the leadership practice *encourage the heart* and business performance. The result indicates that there is a positive ( $\beta=0.793$ ) and significant ( $t=3.434$ ) relationship between the leadership practice *encourage the heart* and business performance. Thus, sufficient evidence has thus been found to support hypothesis *Ho5a*. This could be interpreted as that a greater level of encouraging the heart is related to higher levels of business performance. Leaders recognise contributions by showing appreciation for individual excellence, and it is these acts of caring which draw people forward. This recognition can come from dramatic gestures or simple actions. These leaders are always on the lookout for ways to create an environment in which people feel cared about and appreciated. Acknowledging aspects during a project that were successful and giving positive feedback to people who deserve credit is very important. It builds morale and contributes to a more cooperative work environment.

## 5.15 RESULTS AND INTERPRETATION OF HYPOTHESES TESTING FOR THE SECOND GENERATION

Table 5.16 and Figure 5.3 indicated that mixed results occurred, with leaders achieving various degrees of positive and negative correlations that essentially offset each other.

Hypothesis *Ho1b* posited a positive relationship between the leadership practice *model the way* and business performance. The results show a positive ( $\beta = 0.195$ ) but insignificant ( $t = 0.736$ ) association between the leadership practice *model the way* and business performance and is rejected.

Hypothesis *Ho2b* is rejected as the results indicated a positive but insignificant relationship between the leadership practice *inspire a shared vision* and business performance. The results show a positive ( $\beta = -0.228$ ) but insignificant ( $t = 0.082$ ) relationship between the leadership practice *inspire a shared vision* and business performance.

Hypothesis *Ho3b* posited a negative association between the leadership practice *encourage the heart* and business performance. Table 5.15 and Figure 5.3, indicates that there is a negative ( $\beta = 0.118$ ) and significant ( $t = 1.998$ ) association between the leadership practice and business performance. Therefore, *Ho3b* is accepted. Hypothesis 4 posited a positive relationship between the leadership practice *enable others to act* and business performance. *Ho4b* is therefore rejected, because the results show a positive ( $\beta = 0.076$ ) but insignificant ( $t = 1.370$ ) correlation between the leadership practice *enable others to act* and business performance.

Hypothesis *Ho5b* posited a negative relationship between the leadership practice *challenge the process* and business performance as seen in Table 5.16 and Figure 5.3. This indicates that there is a negative ( $\beta = -0.121$ ) and significant ( $t = 2.019$ ) relationship between the leadership practice *challenge the process* and business performance. Therefore, *Ho5b* is also accepted.

The above-mentioned results indicate that the leaders of the second generation family businesses did not frequently exhibit all of the five practices of exemplary leadership.

The inexperience of the successors based on the years in a leadership position resulted in them, perhaps not understanding the leadership challenge.

Leaders more often than not, achieve results through their employees. Leaders mobilise others to accomplish shared aspirations, and this means that, leadership is a relationship. It could be that these leaders have not yet developed the behaviour to use these practices more frequently as a leader.

The first step a leader should take is inward. It is a step towards discovering personal values and beliefs. They should find their voice and in so doing stand up for their beliefs and look towards the future. These leaders should try to enhance the perception that they are dynamic and competent. In addition, honesty plays an important role in how leaders encourage others to perform. These second generation leaders still need to develop these competencies.

**Table 5.16: Results of structural equation model analysis - second generation**

Proposed Hypothesis Relationship	Path Coefficients	T-Statistics	Rejected / Supported
<i>Ho1b.</i> There is a significant positive association between the individual leadership practice <i>model the way</i> and the business performance for the second generation family business leaders.	0.195	0.736	Rejected
<i>Ho2b.</i> There is a significant positive association between the individual leadership practice <i>inspire a shared vision</i> and the business performance for the second generation family business leaders.	-0.228	0.082	Rejected
<i>Ho3b.</i> There is a significant positive association between the individual leadership practice <i>challenge the process</i> and the business performance for the second generation family business leaders.	0.118	1.998	Supported

Proposed Hypothesis Relationship	Path Coefficients	T-Statistics	Rejected / Supported
<i>Ho4b.</i> There is a significant positive association between the individual leadership practice <i>enable others to act</i> and the business performance for the second generation family business leaders.	0.076	1.370	Rejected
<i>Ho5b.</i> There is a significant positive association between the individual leadership practice <i>encourage the heart</i> and the business performance for the second generation family business leaders.	-0.121	2.019	Supported

Note: BP = Business performance; CTP = Challenge the process; EOA = Enable others to act; ETH = Encourage the heart; ISV = Inspire a shared vision; MTW = Model the way.

The secondary purpose of this study was to determine the differences in the correlation of the leadership practices and business performance for the total group of first generation family business leaders as compared to the second generation family business leaders. Based on the secondary purpose, the following hypothesis was formulated.

*Ho6.* There are differences between the frequency of each of the five individual leadership practices and the performance indicators for the family businesses for the total group of first generation family business leader's as compared to the second generation family business leaders.

*Ha6.* There are no differences between the frequency of each of the five individual leadership practices and the performance indicators for the family businesses for the total group of first generation family business leader's as compared to the second generation family business leaders.

A comparison of the path coefficients and the significance of the t-values for the first and second generation business leaders is shown in Table 5.17. The interpretation of these values for hypothesis six follows in the subsequent section.

**Table 5.17: Comparison of results for first and second generation**

First generation				Second generation			
Hypothesis	Path Goal	T Test	Supported/ Rejected	Hypothesis	Path Goal	T Test	Supported/ Rejected
<i>Ho1a</i>	0.572	3.434	Supported	<i>Ho1b</i>	0.195	0.736	Rejected
<i>Ho2a</i>	0.309	2.243	Supported	<i>Ho2b</i>	-0.228	0.082	Rejected
<i>Ho3a</i>	0.793	2.929	Supported	<i>Ho3b</i>	0.118	1.998	Supported
<i>Ho4a</i>	0.288	3.018	Supported	<i>Ho4b</i>	0.076	1.370	Rejected
<i>Ho5a</i>	0.793	3.423	Supported	<i>Ho5b</i>	-0.121	2.019	Supported

Based on the results, it can be seen that due to the significance of the correlation between the leadership practices and business performance for the first generation family business leaders, resulted in the null-hypotheses being supported. Mixed results, occurred for the succeeding generation where the various degrees of correlations essentially offset one another. These differences between first and second generation, is a result of how they behave as leaders.

These five leadership practices are the core leadership competencies that emerged from analyses done on thousands of personal-best leadership experience cases by Kouzes and Posner (2012:32). When these leaders do their best they *model the way, Inspire a shared vision, challenge the process, enable others to act and encourage the heart.*

Based on the results of this study, exemplary leadership behaviour makes a difference in individual's commitment and performance at work. Leaders who more frequently engage in these leadership practices are considerably more effective. These results are supported by empirical evidence from Kouzes and Posner (2012:33).

However, to reject some of the hypotheses for the second generation family business leaders, did not determine that no association between the variables existed, but the

instruments and methods used in this study, did not detect any meaningful significant association between the variables.

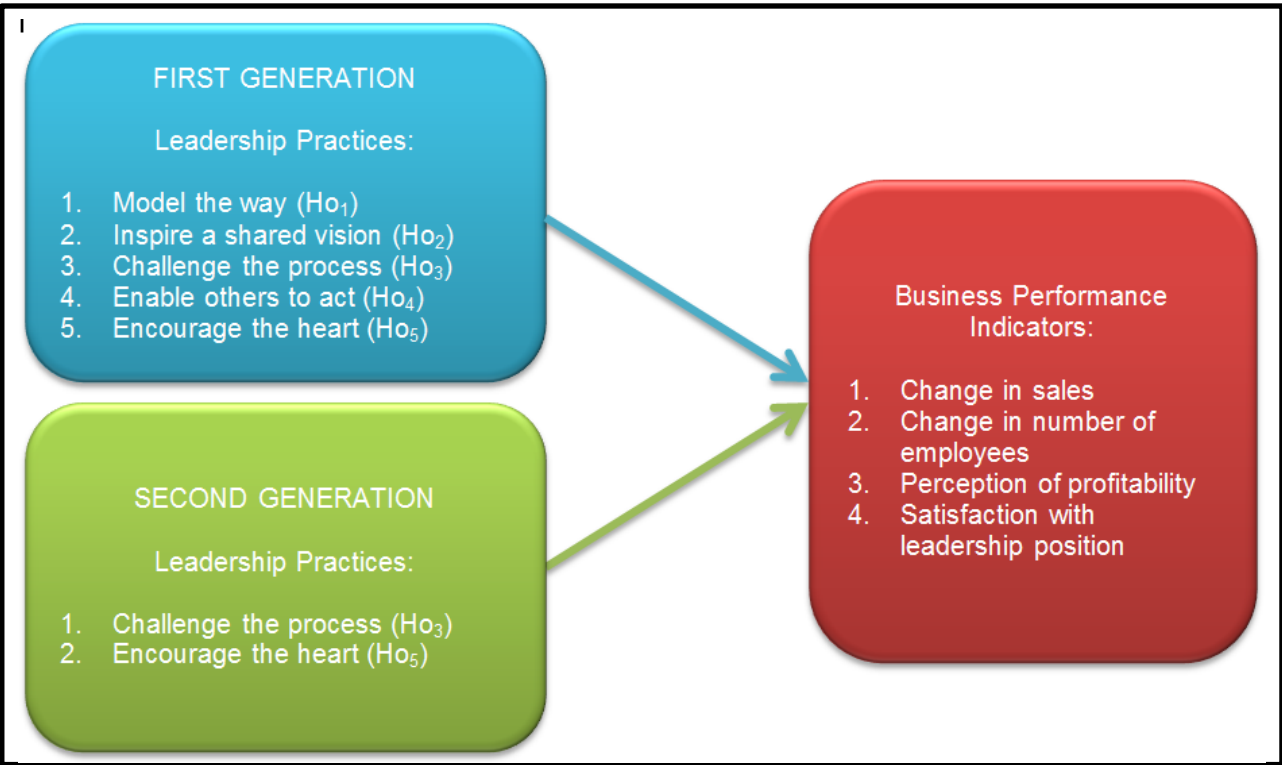
By implication, it shows that the second generation family business leaders might possibly use some of the individual leadership practices or there was someone else who was the effective leader within the business who effectually was sustaining the business performance.

Although, previous research has focused on attributes of successful successors to family businesses, this current study was the first empirical study that attempted to examine the concept of leadership practices and the correlation with business performance in South Africa. This study represented a new approach in addressing the general problem relating to the longevity of family businesses in the succeeding generation and the specific problem that leaders of the second and later generations might not have developed the necessary leadership practices to sustain the business performance of the family business.

Because of the differences between the two groups of generational leaders in the selected family businesses, hypothesis *Ho6* is supported.

The empirical model depicted in Figure 5.4 is represented next, highlighting that all the leadership practices of the first generation family business leaders had an impact on the performance of these selected businesses. In contrast, the second generation family business leaders only engaged in *challenge the process* and *encourage the heart*, which had an impact on business performance.

**Figure 5.4: Model of leadership practices and the correlation with business performance**



**5.16 SYNOPSIS**

By using a validated leadership index, the aim of this study was to explore the associations between the types of individual leadership practices and business performance for first and second generation leaders of small and medium-sized family businesses located in the Sedibeng region. The first generation leaders and males dominated the 197 respondents who returned the questionnaires for the study. The results also showed that all the respondents of the first generation had more than five years of leadership experience and 100 percent of the second generation had less than five years of leadership experience in the family business.

The path coefficients show significant positive associations between the leadership practices and business performance for first generation family business leaders and enough evidence was provided to support hypotheses *Ho1a* to *Ho5a*. The hypothesised

results for the second generation family business leaders had diverse combinations resulting in rejecting hypotheses *Ho1b*, *Ho2b* and *Ho4b* and supporting *Ho3b* and *Ho5b*.

By comparing the overall hypothesised results for both generations it was concluded that the null-hypothesis *Ho6* was supported. There was indeed a difference between the two groups of generational leaders in terms of how frequently they used the five practices of exemplary leadership.

Chapter 5 also included the data analysis regarding the respondents and the respective family businesses. The results of the statistical analysis and the testing of the hypotheses and summary completed the chapter. Finally, Chapter 6 includes the overview, conclusions, limitations and recommendations relating to the research study.

# CHAPTER 6

## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 6.1 INTRODUCTION

Small and medium-sized family businesses contribute greatly to employment and growth in any given economy. However, they face numerous challenges based on the intertwinement of the needs of the family and the business. A major concern is the survival to the next generation.

This study sought to address the problem of longevity by focusing on the leadership practices required from first and second generation family business leaders, as well as their link to the firm's performance. This final chapter of this study includes an overview of the study as well as the findings. These findings and their implications for family business leaders is presented. This is followed by recommended actions based on the empirical findings of this study and lastly, the contributions and limitations of this study is discussed and recommendations for future research suggested.

### 6.2 OVERVIEW OF THE STUDY

By using a validated leadership index, the aim of this study was to explore the associations between the types of individual leadership practices and business performance for first and second generation leaders of small and medium-sized family businesses located in the Sedibeng region in South Africa. The independent variables were the five leadership practices displayed and measured by the leadership index (see Section 3.7.1), which included:

- *Model the way*
- *Inspire a shared vision*
- *Challenge the process*
- *Enable others to act and*
- *Encourage the heart* (Kouzes & Posner, 2012:4).

The dependent variable included in this study was the business performance of the identified small and medium sized family businesses as identified by the indicators:

- Change in sales
- Change in number of employees
- The leaders perception of the profitability of the family business compared to the opposition
- The perception of the leader's personal satisfaction with the leadership position (refer to Section 3.10).

The theoretical and empirical objectives are revisited in the following section in order to illustrate their attainment in this study.

### **6.2.1 Theoretical objectives**

The theoretical objectives, as set out in Chapter 1, provided the framework for the current study which focused on the failure of family businesses in the second or succeeding generation (Tio & Kleiner, 2005) and the possible effect that leadership practices have on the failure of these family businesses.

According to Ibrahim *et al.* (2004), the second generation leader or successor's capacity to lead was critical to ensure that the succession is accomplished. Improving and enhancing the leader's attributes and skills through formal training could improve the rate at which family businesses survive in the succeeding generation.

The following secondary objectives were addressed in the study:

#### **6.2.1.1 To undertake a theoretical investigation into:**

- The nature and importance of small and medium-sized family businesses
- The theories and approaches to family businesses

An extensive review of the literature was undertaken in Chapter 2 to classify and explain the importance of small and medium-sized family businesses (refer to Sections 2.2 to

2.5). The literature sources used included journal articles, textbooks, online resources, newspapers and magazines. Several models to study family businesses and theories were also described in this chapter (refer to Section 2.9).

#### **6.2.1.2 To carry out a theoretical investigation into the various leadership theories in general and related to this study**

Chapter 3 included a literature review of leadership and associated theories. This chapter covers definitions, the evolution of leadership theories, and the new leadership approach also known as neo-charismatic leadership (refer to Sections 3.2 to 3.5). Section 3.6 describes the importance of the new leadership approach for business performance. Included in this new leadership approach is Kouzes and Posner's (2012) theory of exemplary leadership, which is used as the independent variable in this study and is presented in Section 3.7.

A gap was identified in previous research, which failed to address the relationships between leadership practices and the business performance of family businesses. Previously, most studies focused on challenges, priorities, relationships and financial planning for family businesses. Other studies included leadership styles and qualities of the founder to the exclusion of the leadership style of subsequent generations.

Chapter 4 presented an outline of the research methods and design used in this study. Small and medium sized family business leaders in the Sedibeng region formed an accessible population for this study (refer to Section 4.7.1). The snowball sampling method used in this study resulted in collecting 197 usable study instruments (refer to Section 4.7.3). The various statistical measures used are also outlined and explained in Section 4.11.

#### **6.2.1.3 To undertake an empirical investigation to examine the possible relationships between the dependent variable namely business performance of selected family businesses, and the independent variables (leadership practices).**

The results of the statistical analysis for the research questions and specified hypotheses

were reported in Chapter 5. By using Smart PLS, a software programme used in structural equation modelling (SEM), the statistical testing determined the direct and indirect correlations between the five individual leadership practices and business performance of the family businesses for first and second generation leaders (see Section 5.13). The assessment of the proposed conceptual model fit was indicated by the goodness-of-fit (GoF) index (Section 5.13.1).

#### **6.1.1.4 To generate a conceptual model of the leadership factors that could influence the business performance of family businesses.**

Based on the literature review in Chapters 2 and 3, a conceptual model of the leadership practices that could influence the business performance of the family business is presented in Chapter 5.

### **6.3 SUMMARY OF THE LEADERSHIP PRACTICES**

Five leadership practices that are relevant today but also critical to a leader's success were identified in the literature portion of the study using previous studies on the topic and were presented in Section 3.7. The study indicated that all of the leadership practices were present to some degree within those family businesses that made up the population of this study.

However, the five individual leadership practices measured in first generation family business leaders were significant to the extent that they were all present and showed a positive relation to the business performance of the family businesses. The mean values for the 30 statements related to the five leadership practices were the highest compared to the second generation family business leaders, indicating that these leadership practices were the most widely used in these family businesses. Although the results for the second generation family business leaders showed that these practices were also present to a degree, the relation to business performance was insignificant.

### **6.4 OVERVIEW OF THE EMPIRICAL RESULTS**

The original premise of this study was to determine whether there are any associations between the five individual leadership practices as measured by the leadership practices inventory and business performance for first and second generation family business leaders. In Chapter 5, the five leadership practices were reported as having an influence on business performance for the first generation of family business leaders. These relationships are interpreted in the sections to follow.

The results for the first generation leaders indicated five positive significant correlations between the leadership practices and business performance. This highlights one of the major findings of this study that the individual leadership practices of *model the way*, *inspire a shared vision*, *challenge the process*, *enable others to act*, and *encourage the heart* (Kouzes & Posner, 2012:36) correlate with the business' performance indicators, which indicates that the leadership practices used by first generation family business leaders could have a positive influence on business performance.

In addition, this finding is supported by a similar study done by Weaver (2008) in the United States of America. These leaders would typically commit to exemplary leadership by clarifying values with finding their own voice and set an example by aligning actions with shared values. They would also envision the future by imagining exciting possibilities and enlist others by appealing to shared aspirations.

In addition to their commitment, they would search for opportunities by seizing the initiative and looking outward for innovative ways to improve. They learn from experience when they experiment and take risks; they build trust, facilitate relationships with all stakeholders, and in the process strengthen others by increasing self-determination and developing competence; and they recognise contributions by showing appreciation for individual excellence.

The first generation family business leaders in this study exhibited leadership practices that result in successfully managing and leading the small and medium-sized family business. While correlation analysis does not establish any causal relationship it is an important first step in exploring potential differences between first and second generation leaders, and the effect of these differences on the success of the business.

The results for the second generation leaders showed mixed results between the leadership practices and the business performance indicators. For the most part, the participants of this study exhibited characteristics that did not have much in common with the leadership practices when compared to the business performance indicators. A few commonalities were observed, but in general the correlation observed was low. This is an equally important finding because a review of the literature regarding the concept of leadership practices suggest that a correlation was to be expected (Weaver, 2008:179). Prior to starting the research, there was the expectation from the researcher that leadership styles, practices and personality traits might have an influence on business performance. The results from this study support the only other similar study in which there were no significant relationships between leadership practices and the business performance indicators for successors. Collins (2005) presented a constructive argument signifying that high-level leadership capabilities or practices are essential to achieving success. The issue of successor leadership is complex because the new leader may not have the same motivation for entering the business as the founder (Cater & Justis, 2009). It could also be possible that the second generation leaders might not yet have developed the necessary leadership practices to ensure the sustainability of the family business due to their inexperience as leaders.

The first generation family business leaders should be aware that successors face different challenges from those faced by the first generation leaders. Second generation leaders may require attributes that are not necessarily the same as those needed by first generation leaders. It is important that the members of the second generation be developed in the five leadership practices. Although characteristics and abilities are important qualities for successors, this current study has presented the five leadership practices which may have more importance to the success of the transfer of ownership and leadership to the second and later generations.

## **6.5 CONTRIBUTIONS OF THE STUDY**

In an effort to try to explain the persistent failure rate of succeeding family businesses this study has contributed to the field of family business and leadership research by using the concept of quantifying leadership. This study also uses the leadership practices inventory to ascertain whether these leadership practices show a relationship with the business performance of the selected family businesses. The use of structural

equation modelling to signify relationships enhances the contribution because most studies on family businesses have focused on case study methodology. Taking the theories related to leadership succession in family business into account, an examination of the five leadership practices has been conducted and provided insight into where the potential problem areas lie in the second or later generation of family business leaders.

The finding that a relationship exists between the leadership practices and the measure of business performance for first generation leaders only is also supported by a study done by Weaver (2008:176). This may relate to the adaptation of entrepreneurial theory in the family business literature. Entrepreneurs are the unique individuals who identify creative business opportunities, take the risk of establishing a business, and have the talent and skills to manage and grow a business. Founders of small and medium-sized businesses typically would consider change, innovation and risk, and this may have resulted in them being classified as entrepreneurs. Successful entrepreneurial leaders also promote innovation and change, risk taking, strong business values and the establishment of a shared vision and mission for the business (Sadler-Smith *et al.*, 2003). These qualities align with the five leadership practices advocated by Kouzes and Posner (2012:21) and support the use of the leadership practices inventory used in this study. Family businesses continuing to show these features may be poised to seek opportunities that allow them to capitalise on performance.

First and second generation family business leaders could take note of these potential problem areas and use this research to improve on the leadership practices used in their respective businesses. This is an area of research that has not yet been conducted in South Africa. Propositions are given in Section 6.6 regarding how to take action to improve leadership success and to sustain family businesses to later generations.

## **6.6 RECOMMENDATIONS**

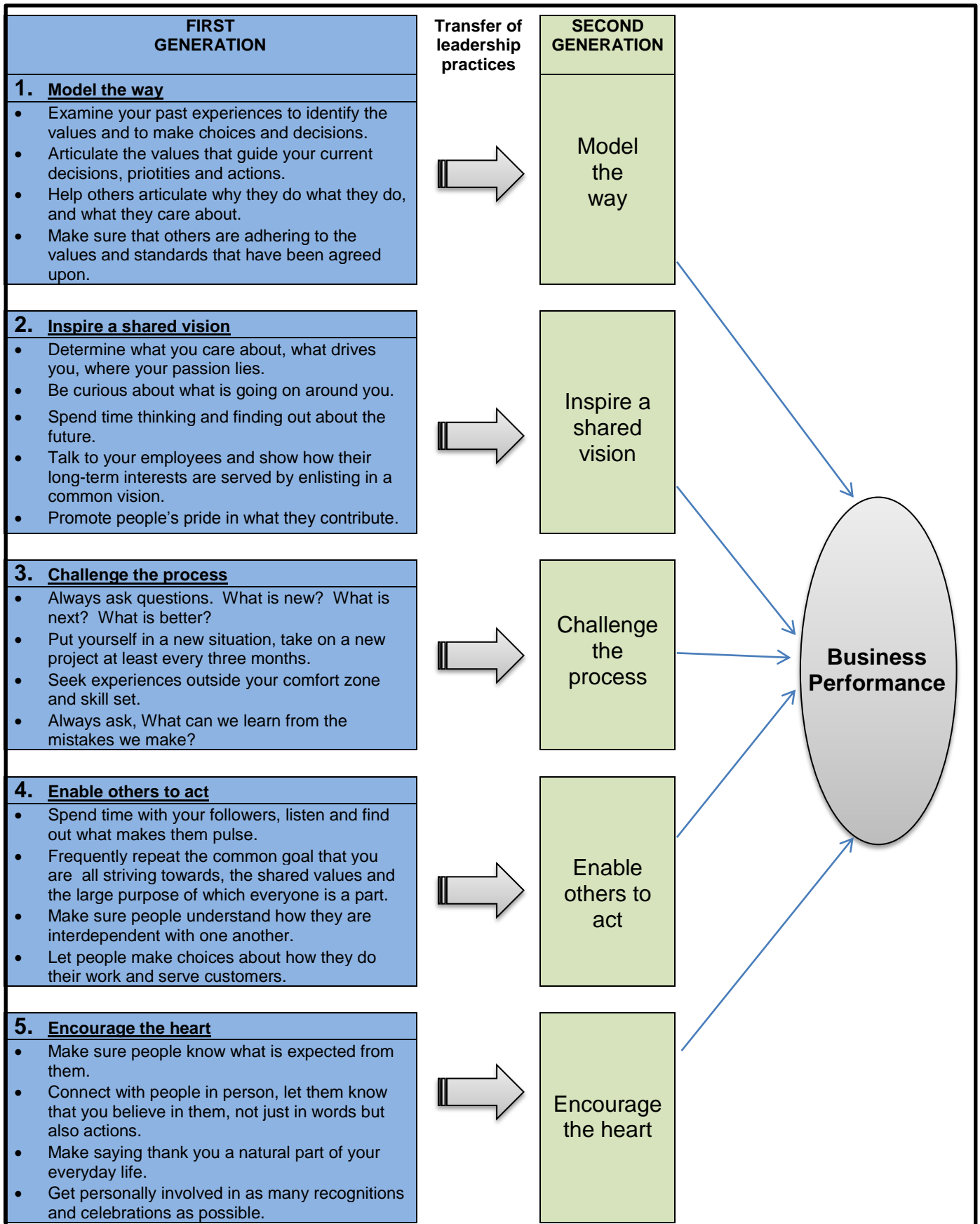
The following are recommendations that emanated from the findings of the current study.

The literature supports the concept of leadership and the relationship to positive business performance (Collins, 2005). Advisors and mentors to family businesses may want to promote this concept further.

The demographic information indicated that 32 percent of the first generation leaders are over the age of 60 and are probably planning to retire in the next few years. This may result in a large number of new leaders being introduced into the economy. Creating and providing emerging family business leaders with leadership and training opportunities may help to improve the success rate of the second and later generation family businesses.

A model is conceptualised on the development of second generation leaders from followers to leaders in family business and are shown in figure 6.1. The model shows the actions that can be taken by the incumbent family business leader to indicate how to develop the leadership practices of the successor.

**Figure 6.1: Model of the development of the second generation from followers to leaders in family businesses.**



The first generation business leaders should ensure that these actions, skills and knowledge are passed on to the second generation business leaders to emulate, and be encompassed in any training programmes undertaken.

## **6.7 LIMITATIONS AND FUTURE RESEARCH OPPORTUNITIES**

In all empirical studies, limitations should be identified and taken into account when making recommendations and conclusions. Only family businesses located in the Sedibeng region participated in this study, owing to the use of a non-probability snowball convenience sample, therefore the sample cannot be considered to be representative of all small and medium-sized family businesses in South Africa. As a result, the findings reported cannot be generalised to the general family business population.

Another limitation of this study is that the current study required that the family business leaders would fill in a self-reported version of the leadership practices inventory to record the leader's perception of the leadership practices employed by the respondents. It is possible that these own perceptions were biased in some form. Future studies could obtain additional observations by others evaluating the leadership practices of the leader and may provide a better assessment of the leaders' leadership practices rather than sole reliance on the self-reported version.

In addition, a mixed method approach might shed light on the lack of correlation between the individual leadership practices and the measures of business performance for the second generation business leaders. By using the qualitative component of interviews, researchers may determine what other factors could be occurring in the business environment. Some of these factors might be the role of other leaders within the business, the involvement of the founder on a regular basis or other economic factors such as a downturn in the economy.

Some other elements that can be included in the study of leadership include the type of higher education, the work experience outside the family business, the progression of work experience within the family business and the degree of mentoring received.

Notwithstanding the above limitations, this study has added to the empirical body of family business research. Based on the fact that published evidence of a quantitative nature on the leadership practices and the correlation with business performance in small and medium-sized family businesses is still lacking, these findings presents opportunities for further research.

## **6.8 CONCLUDING REMARKS**

The aim of this study was to explore the associations between the types of individual leadership practices and business performance for first and second generation leaders of small and medium-sized family businesses located in the Sedibeng region in South Africa in an effort to address the failure rate of family businesses in the second and later generations.

The theoretical framework proposed that the presence of leadership practices correlated positively with business performance and that a lack of development of these leadership practices in the second and later generations might contribute to the failure rate in the succeeding generation. The most logical interpretation and conclusion is that the succeeding generations might not have sufficiently developed the leadership practices to ensure the sustainability and success of the business.

The results of this study showed that positive significant relationships existed between the leadership practices and the measures of business performance for first generation family business leaders. In comparison to the analysis of the second generation family business leaders, mixed correlations existed between the leadership practices and the business performance indicators. These results further emphasised the potential differences in the manner in which first generation leaders, and leaders from subsequent generations lead family businesses.

This study provides a starting point for further investigations into the development and leadership of successors. Researchers who strive to quantify leadership practices and measures of business performance may contribute to this effort to train future and existing leaders in leadership practices. This stream of research may supply advances in not only theoretical knowledge, but also the management of the succession process in family businesses, an important consideration given the high failure rate in the

transition of leadership. Family business leaders and advisors may use the information to provide platforms for training in leadership practices to successors, or use the information when choosing a successor for the family business. This should allow for a measure of transference from first generation to second generation business leaders, and contribute to the sustained success of family firms.

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## ANNEXURE A: Permission letter

Dear Mr. van der Westhuizen

Thank you for your request to use the LPI®: Leadership Practices Inventory® in your dissertation. This letter grants you permission to use either the print or electronic LPI Self instrument in your research.

You may *reproduce* the instrument in printed form at no charge beyond the one-time cost of purchasing a single copy; however, you may not distribute any photocopies except for specific research purposes. To use the print instrument, you will need to purchase one copy, which you may do through Amazon, through the Wiley website. (<http://eu.wiley.com/WileyCDA/WileyTitle/productCd-1118182715.html>) or through our sales representatives. Please let me know if you would like a sales representative to get in touch with you.

If you prefer to use the electronic distribution of the LPI you will need to separately contact Marisa Kelley ([mkelley@wiley.com](mailto:mkelley@wiley.com)) directly for further details regarding product access and payment. Be sure to review the product information resources before reaching out with pricing questions.

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- (3) One (1) **electronic** copy of your dissertation and one (1) copy of all papers, reports, articles, and the like which make use of the LPI data must be sent **promptly** to my attention at the address below; and,

(4) We have the right to include the results of your research in publication, promotion, distribution and sale of the LPI and all related products.

Permission is limited to the rights granted in this letter and does not include the right to grant others permission to reproduce the instrument(s) except for versions made by non-profit organizations for visually or physically handicapped persons. No additions or changes may be made without our prior written consent. You understand that your use of the LPI shall in no way place the LPI in the public domain or in any way compromise our copyright in the LPI. This license is non-transferable. We reserve the right to revoke this permission at any time, effective upon written notice to you, in the event we conclude, in our reasonable judgment, that your use of the LPI is compromising our proprietary rights in the LPI.

Thank you again for your interest in the Leadership Practices Inventory.

*Debbie*

**Debbie Notkin**

**Contracts Manager**

Wiley

One Montgomery Tower – Suite 1200

San Francisco, CA 94104-4594

[www.wiley.com](http://www.wiley.com)

+1 415 782 3182

## **ANNEXURE B: NWU cover letter**

Dear Family Business Leader,

I am a student at the North West University's Vaal Triangle campus, working on a PhD degree. I am currently conducting research and am inviting you to be part of this study.

The title of the study is: Leadership Practices of First and Second Generation Family Business Owners and the Correlation with Business Performance.

In this research, there are no foreseeable risks to you. The possible benefit of your participation is to help advance a better understanding of the types of leadership practices in family business leaders that correlate with business performance. If there is indeed a correlation or relationship, family business owners could engage in training to improve skills or use the information to make better informed decisions when selecting a successor for the business.

Your participation will involve completing two survey type instruments. The first is a brief questionnaire gathering data regarding business performance of your business and demographic information for grouping characteristics of all the respondents. The second is a validated Leadership Practices Inventory, a validated questionnaire used by leaders and practitioners in different organizations and sectors throughout the world.

The estimated time for completion of both survey instruments is less than 30 minutes.

Your participation in this study is voluntary and you may choose not to participate or you can withdraw from the study at any time. The results of the research study may be

published and your name will not be used. The study results will be kept in a confidential file by the researcher for a period of five years, after that time, the documents will be shredded. The coding on the questionnaires is for data collection purposes only.

If you have any questions concerning the research study, please call me at 0832878052 or email me at [johanvdw@vut.ac.za](mailto:johanvdw@vut.ac.za)

Since there is a relatively short time-frame for collecting data, I would appreciate efforts to complete the documents within 1 week if possible.

Thank you in advance for participating in this research study.

Sincerely,

Johan vd Westhuizen

# ANNEXURE C: Instructions on leadership practices inventory

## LPI SELF

Leadership Practices Inventory

### INSTRUCTIONS

Below your identifying number, you will find thirty statements describing various leadership behaviors. Please read each statement carefully, and using the RATING SCALE on the right ask yourself:

### “How frequently do I engage in the behavior described?”

- Be realistic about the extent to which you actually engage in the behavior.
- Be as honest and accurate as you can be.
- DO NOT answer in terms of how you would like to behave or in terms of how you think you should behave.
- DO answer in terms of how you typically behave on most days, on most projects, and with most people.
- Be thoughtful about your responses. For example, giving yourself 10s on all items is most likely not an accurate description of your behavior. Similarly, giving yourself all 1s or all 5s is most likely not an accurate description either. Most people will do some things more or less often than they do other things.
- If you feel that a statement does not apply to you, it’s probably because you don’t frequently engage in the behavior. In that case, assign a rating of 3 or lower.

For each statement, decide on a response and then record the corresponding number in the box to the right of the statement. After you have responded to all thirty statements, go back through the LPI one more time to make sure you have responded to each statement. *Every* statement *must* have a rating.

By James M. Kouzes & Barry Z. Posner

The RATING SCALE runs from 1 to 10. Choose the number that best applies to each statement.

- 1 = Almost Never
- 2 = Rarely
- 3 = Seldom
- 4 = Once in a While
- 5 = Occasionally
- 6 = Sometimes
- 7 = Fairly Often
- 8 = Usually
- 9 = Very Frequently
- 10 = Almost Always

When you have completed the LPI-Self, please save the document to your computer and email the document as an attachment to: [johanvdw@vut.ac.za](mailto:johanvdw@vut.ac.za)

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## ANNEXURE D: Leadership practices inventory

### Section B

Identifying Number \_\_\_\_\_ LEADERSHIP PRACTICES INVENTORY

To what extent do you engage in the following behavior? Choose the response to each statement and record it in the box to the right of the statement.

1.	I set a personal example of what I expect of others.	
2.	I talk about future trends that will influence how our work gets done.	
3.	I seek out challenging opportunities that test my own skills and abilities.	
4.	I develop cooperative relationships among the people I work with.	
5.	I praise people for a job well done.	
6.	I spend time and energy making certain that people I work with adhere to the principles and standards we have agreed on.	
7.	I describe a compelling image of what our future could be like.	
8.	I challenge people to try out new and innovative ways to do their work.	
9.	I actively listen to diverse points of view.	
10.	I make it a point to let people know about my confidence in their abilities.	
11.	I follow through on the promises and commitment that I make.	
12.	I appeal to others to share an exciting dream of the future.	
13.	I search outside the formal boundaries of my business for innovative ways to improve what we do.	
14.	I treat others with dignity and respect.	
15.	I make sure that people are creatively rewarded for their contribution to the success of our projects.	
16.	I ask for feedback on how my actions affect other people's performance.	
17.	I show others how their long-term interest can be realized by enlisting in a common vision.	
18.	I ask "What can we learn?" when things do not go as expected.	

19.	I support the decisions that people make on their own.	
20.	I publicly recognize people who exemplify commitment to shared values.	
21.	I build consensus around a common set of values for running our organization.	
22.	I paint the “big picture” of what we aspire to accomplish.	
23.	I make certain that we set achievable goals, make concrete plans, and establish measurable milestones for the projects and programs that we work on.	
24.	I give people a great deal of freedom and choice in deciding how to do their work.	
25.	I find ways to celebrate accomplishments.	
26.	I am clear about my philosophy of leadership.	
27.	I speak with genuine conviction about the higher meaning and purpose of our work.	
28.	I experiment and take risks even when there is a chance of failure.	
29.	I ensure that people grow in their jobs by learning new skills and developing themselves.	
30.	I give the members of the team lots of appreciation and support for their contributions.	

# ANNEXURE E: Business performance and demographics questionnaire

**Section A**  
**DEMOGRAPHIC QUESTIONNAIRE**  
**LEADERSHIP PRACTICES OF FIRST AND SECOND GENERATION FAMILY BUSINESS OWNERS AND THE CORRELATION WITH BUSINESS PERFORMANCE**

*Instructions:*  
 Please note your response in the correct box and return with the Leadership Practices Inventory.  
 Please answer all questions. Thank you.

**1. Gender**      Male       Female       **2. Age**   
*Place an X in the correct box*      *Write in your age*

**3. Generation: First generation**       **Second generation**   
*Place an X in the correct box (see below)*      *Write in the number of years*

*(Note: For the purposes of this study, a **Founder** is an experienced leader who is the original or current leader of a family business in a leadership role. A **Successor** is a second or later generation leader in their position.)*

**4. Years as Leader**

**5. Please write the turnover for your company for each of the following years in the box:**

2009       2010       2011

**6. Please write the average number of employees in your business for each of the following years in the box:**

2009       2010       2011

**7. What is your perception of the profitability of your business as compared to similar sized businesses in your industry and geographic area?** *(Place an X in the correct box)*

<b>Much Less</b>	<b>Somewhat Less</b>	<b>About the Same</b>	<b>Somewhat More</b>	<b>Much ore</b>
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

**8. How satisfied are you with your experience as the leader of your family business?**  
*(Place an X in the correct box)*

<b>Very Dissatisfied</b>	<b>Somewhat Dissatisfied</b>	<b>Neutral</b>	<b>Somewhat Satisfied</b>	<b>Very Satisfied</b>
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

**9. What would you say are the greatest factors contributing to the success of your business?**

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