UNIEKE UITDAGINGS EIE AAN FAMILIEBESIGHEDE

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UNIQUE CHALLENGES FACING FAMILY BUSINESSES

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DEDICATION

Dedicated to:

Hester

Lourens

Jan

Pieter

Jakomi

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ABSTRACT

Participating in the dynamics of a family business, whether as owner / manager or non-family employee, active or inactive member of the business, can both be an exhilarating and a daunting life experience that will have a profound impact on their quality of life and work life. Balancing the fine line between family and business harmony is a taxing and intricate art, sure to challenge the *reigning* family generation to find their way through the history of the family and the future of both the family and the business.

The need to focus attention on the unique challenges encountered in the demanding landscape of the family business developed into a research study encompassing a range of practical tools for the family business to employ in its search for harmonious co-existence of family members and business management members. The goal of the study entails providing assistance in evaluating and overcoming the challenges to leverage the positive traits of the family business into achieving sustainable competitive advantage from generation to generation. Traits such as shared family values, the family spirit, tenacity, skills and common goals can be significant factors to put to good use in the tough arena where family businesses come up against conglomerates, corporate enterprises and other role players claiming to be the economic heartbeat of the economy.

In view of the constant overlap between family and business goals, the study converges on identifying and addressing problems that occur in family businesses. The importance of taking pro-active corrective measures to curb unnecessary (real and emotional) damage and cost, receives prominence in the report.

The research was conducted by means of a literature and empirical study. The literature study documents the initiatives of family businesses in providing the preparations necessary to ensure the harmony of the family and highlights the unique challenges facing family businesses. Thus, the literature study formed the basis for establishing what unique challenges are facing family businesses. The knowledge gained from the literature study was used to theoretically model the independent variables identified against the dependent variable and to empirically test the independent and dependent variables against each other in practise and to analyse it.

In light of the findings of the empirical study, it was concluded that the four most testing challenges facing family businesses are corporate governance, ownership succession, performance measurement and compensation of the family members and management succession.

ABSTRAK

Om deel te wees van die dinamika van 'n familiebesigheid, of dit nou as eienaar, bestuurder, of as 'n nie-familie werknemer van die onderneming is; of om deel te neem as aktiewe familielid al dan nie, kan vir die betrokkenes 'n wonderlike, dog spannende lewenservaring wees wat ongetwyfeld 'n aanvoelbare effek sal hê ten opsigte van hul kwaliteit van lewe en werklewe. Die kuns lê daarin om die byna onsigbare lyn tussen familiebelange en werksbelange sodanig te balanseer sodat die besturende generasie van die familiebesigheid hul weg kan baan deur die *bagasie en reputasie*, hetsy positief of negatief, van die familie se verlede sowel as om die toekoms van die familieonderneming te verseker vir die opkomende geslag.

Die behoefte om die aandag te vestig op die unieke uitdagings wat familiebesighede teëkom in die veeleisende omgewing waarin die besigheid sake doen, het gelei tot 'n navorsingstudie wat 'n aantal praktiese hulpmiddels aan familieondernemings bied in hul soeke na harmonie in die komplekse verhouding tussen die emosionele en die rasionele besluitnemingsprosesse van die familieonderneming. Die doel van die studie is om gesaghebbende bystand te verleen wanneer besighede hul ondernemings evalueer om uitdagings die hoof te bied, sowel as om die vele positiewe en unieke eienskappe van sodanige ondernemings te hefboom om die veranderende arena van besigheid te betree met sukses as doelwit tussen al die groot rolspelers wat deel vorm van die ekonomiese hartklop van die land.

Die studie identifiseer en adresseer probleme wat ontstaan as gevolg van die alomteenwoordige teenstydighede wat families teëkom in die bedryf van hul ondernemings. Die belangrikheid van pro-aktiewe optrede en korrektiewe stappe word beklemtoon om onnodige en duur foute te voorkom.

'n Literatuur- en empiriese studie het die basis van die studie gevorm. Die literatuurstudie het gefokus op familieharmonie en ander unieke faktore wat uitdagings aan familie besighede bied. Dus, die literatuurstudie het die basis vir die bepaling van die unieke uitdagings eie aan familie besighede, gevorm. Die verworwe kennis van literatuurstudie is gebruik om, met behulp van 'n bestaande vraelys, empiries te bepaal watter unieke faktore die mees uitdagendste vir famile besighede is.

In die lig van die resultate en die analise van die empiriese studie, is die gevolgtrekking gemaak dat korporatiewe beheermaatreëls in die familie besigheid, eienaarskapopvolging, prestasiemeting en vergoeding van familielede en bestuursopvolging, die vier uitdagings in familiebesighede is wat die meeste aandag vereis.

Laastens, word aanbevelings gemaak oor hoe die uniek uitdagings eie aan familebesighede, die hoof gebied kan word.

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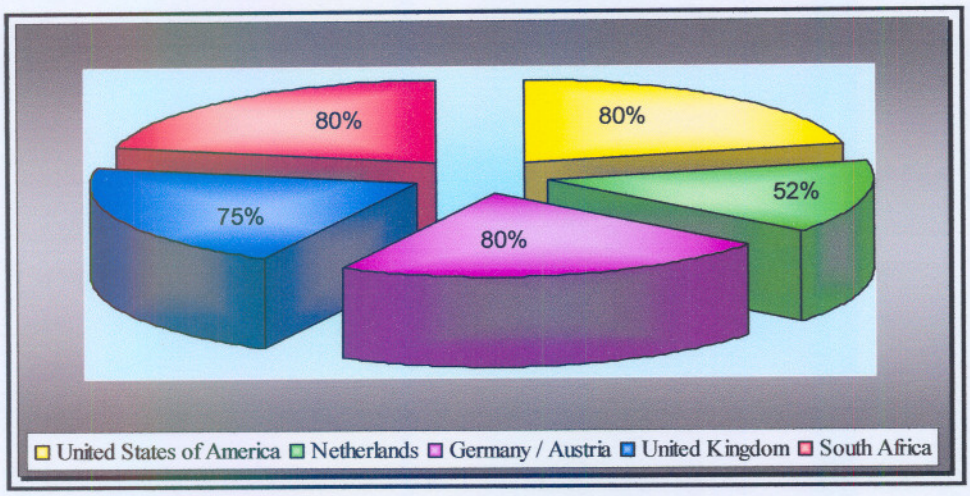
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CHAPTER 1: NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Family businesses are part of our economic life, providing jobs and lasting legacies to millions of people (Ibrahim & Ellis, 1994:3). Figure 1.1 represents the percentage family businesses in various countries.

Figure 1.1: Percentage family businesses in various countries



Source: Ackerman (2001:325); Fleming (2000:12); Kets de Vries (1996:3); Leach & Bogod (1999:xiii)

Between 70% and 90% of businesses in the United States of America (U.S.A.) can be classified as family businesses (Aronoff *et al.*, 2002:3; Fleming, 2000:12; Ibrahim & Ellis, 1994:3; Leach & Bogod, 1999:xiii; Maas *et al.*, 2005:6). In Europe, according to Kets de Vries (1996:3), the percentage range from 52% in the Netherlands to more than 80% in Germany and Austria. Family businesses comprise over 75% of all businesses in the United Kingdom (Leach & Bogod, 1999:xiii).

Family businesses employ roughly 48% of the work force and contribute nearly 50% of the gross domestic product of the U.S.A. (Fleming, 2000:12; Ibrahim & Ellis, 1994:3; Leach & Bogod, 1999:xiii). It was estimated by Hermandez (2004:1) that family businesses account for 78% of all new jobs created and 60% of the U.S.A.'s employment.

Kets de Vries (1996:4) stated that family businesses in the U.S.A. comprise one third of Fortune 500 companies and almost two thirds of all companies trading on the New York Stock Exchange. These figures are supported by Aronoff *et al.* (2002:589), Fleming (2000:12) and Hermandez (2004:1).

Based on the above statistics, a person can agree with Fleming (2000:12) that the greatest part of America's wealth lies with family-owned businesses. Fleming (2000:12) urges the business media to focus on family businesses, since the health of family businesses affects and reflects the health of the economy.

South Africa is no exception. Maas *et al.* (2005:6) stated that family businesses have been making a positive contribution towards the South African economy for the last 300 years. Ackerman (2001:325) said approximately 80% of businesses in South Africa could be classified as family businesses and that they comprise 60% of the companies listed on the Johannesburg Stock Exchange.

Family businesses are becoming the leading form of business enterprise in both developing and developed economies and play a vital role, both economically and socially, in these economies (Venter *et al.*, 2003a:1). Family businesses can therefore offer powerful opportunities for further economic growth in South Africa.

1.2 IMPORTANCE OF FAMILY BUSINESSES

Maas *et al.* (2005:4) stated that the importance of family businesses in the South African economy has been established gradually over the past 15 years. Boplaas in the Boland is the oldest family business in South Africa and is owned by the van der Merwe family since 1743 (Maas *et al.*, 2005:7). The current managers are two brothers who are members of the ninth generation.

The oldest known family business is the Japanese firm of Kongo Gumi and was established in the year 578 (Maas *et al.*, 2005:7). The Kongo Gumi family business is surviving for 40 generations and the current Chief Executive Officer (CEO) is Toshitaka Kongo (Maas *et al.*, 2005:7).

For South Africa, like so many other developing countries, the battle against poverty is a continuous one. Venter *et al.* (2003a:1) stated that the root cause of poverty is unemployment. The number of unemployed persons in South Africa rose steadily from 4.2 million in September 2000, to a peak of

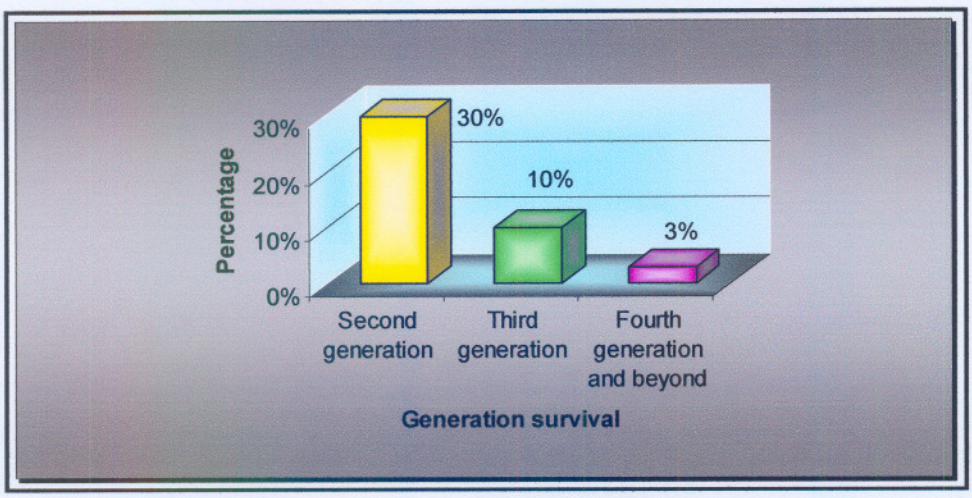
5.1 million in March 2003, before declining to 4.3 million in March 2005 (Statistics South Africa, 2005:ii).

It is therefore important to find solutions to the unemployment problem in South Africa in order to give South Africans the means of generating a sustained income. Unfortunately in South Africa, existing large businesses and the public sector have proven unable to address the prevalent problems of unemployment (Venter, 2003:1). Today's economic realities and unemployment have forced many people to start their own business or to enter an existing family business (Maas *et al.*, 2005:6).

Thus, family businesses are important in resolving unemployment in South Africa as they are primary contributors to the business economy and can offer powerful opportunities for further economic growth in South Africa (Venter *et al.*, 2003a:1). As family businesses are primary contributors to the economy, their general lack of longevity is a cause for concern (Lansberg, 1999:1). The vast majority of start-up ventures fail within the first five years.

The survival of family businesses into the next generations is indicated in Figure 1.2.

Figure 1.2: Survival of family businesses into the next generations



Source: Fleming (2000:12) and Maas *et al.* (2005:8)

Less than 30% of family businesses last into the second generation, and of these, only about ten percent make it to the third generation (Fleming, 2000:12, 13; Maas *et al.*, 2005:8).

However, Frankenberg (1999:2) is more optimistic and puts the survival of the third generation at 15% and Bareither and Reischl (2003:21) take the generation issue even further and put the survival of the fourth generation and beyond at three percent.

In South Africa, the estimated percentage of survival into the second generation is 30% and only ten percent survive into the third generation (Maas *et al.*, 2005:8). However, Hugo (1996:8) puts the survival into the second generation as only 25%.

1.3 PROBLEM STATEMENT

Given all the generation successions, Kets de Vries (1996:5) puts the average lifespan of a family business, after successful start-up, at 24 years. Although the family business as an entity has been in operation for a long time, it has only within the last decade become a subject of serious consideration, either in terms of management consulting or in the academic field in terms of research or course offering (Ibrahim & Ellis, 1994:3).

Based on the literature it can be stated that family businesses are fast becoming the dominant form of business enterprise in both developing and developed economies and thus play a vital role in these economies, both economically and socially. The influence and number of family businesses can be expected to increase substantially in the near future. This rapid growth could be attributed to the rationalising process taking place in many large businesses.

Family businesses can therefore offer powerful opportunities for further economic growth in South Africa (Maas *et al.*, 2005:5). It is apparent that to be able to manage succession properly, a person needs to identify and understand the factors that influence succession in family businesses. Only then can family members address succession pro-actively (Venter *et al.*, 2003b:3).

Successfully managing the transition of the family business from one generation to another is crucial to the survival of the family business. In some cases, a business will be sold off or wound up as part of a planned strategy that makes good commercial sense. Based on the statistics above, the assumption can be made that, in general, the family business will have collapsed or declined because of the failure to manage the complex issue of succession from one generation to the next. The owner of the family business must accept that there will come a time when he will no longer be the best person to run his business.

The easier and more successful the transition, the better are the chances of survival and long-term profitability. So far, relatively little research has been carried out on family-run businesses (Thornton, 1998:5).

This study is therefore important to highlight the unique challenges facing family businesses, as to ensure successful transition from one generation to another. If the unique challenges facing a family business can be properly managed and planned, the survival of the family business is probable.

1.4 OBJECTIVES OF THE STUDY

The primary objective of this study is to evaluate the unique challenges facing family businesses and to provide recommendations on how to overcome these unique challenges.

In order to realise the primary objective, the following secondary objectives must be met:

- To determine what a family business is.
- To identify the unique challenges facing a family business by means of a literature study.
- To empirically evaluate the unique challenges facing family businesses by means of an existing questionnaire (Van der Merwe, 2004) and to analyse the evaluation.
- To determining the conformity between the literature study and the questionnaire.
- To determine the reliability of the existing questionnaire.
- To determine the practical significance for the differences in the arithmetic mean.

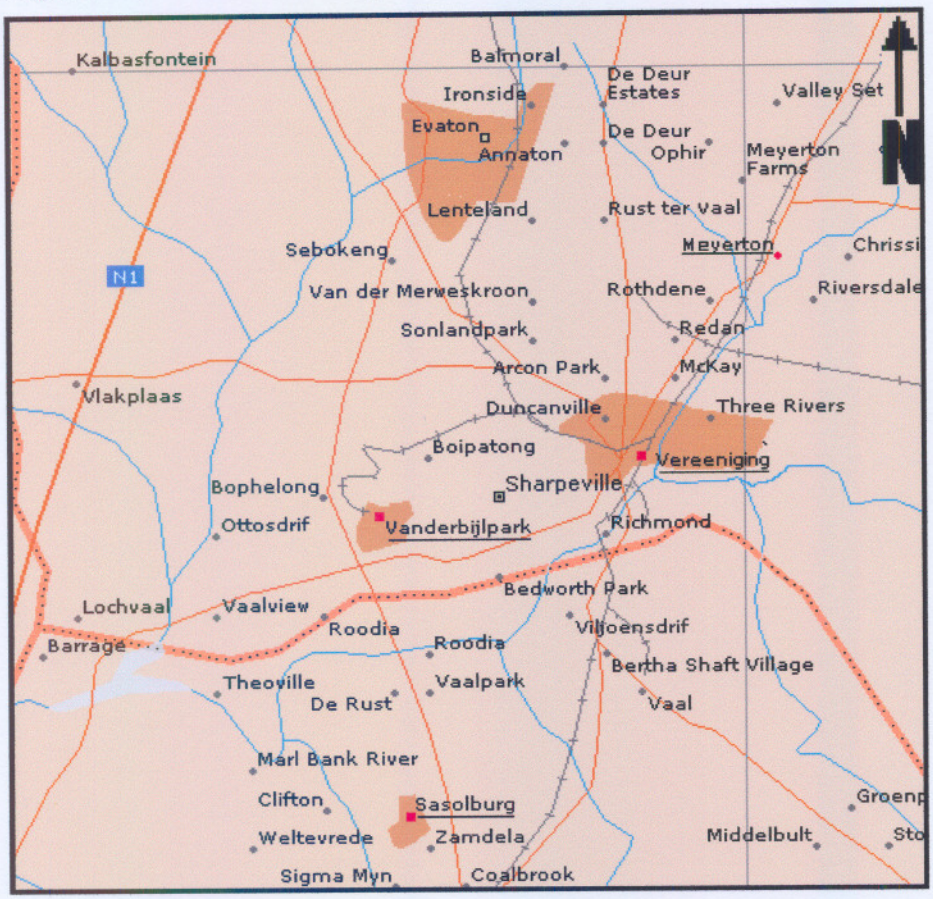
1.5 SCOPE OF THE STUDY

The scope of this study is restricted to family businesses in the Sedibeng District and the Metsimaholo Municipality, in Southern Gauteng. The Sedibeng District and the Metsimaholo Municipality is an area formed by the city of Vereeniging and the towns of Vanderbijl Park and Sasolburg, previously known as the Vaal Triangle.

The growth of the area stems from the late 1870's when coal was discovered on the banks of the Vaal River by George William Stow. The coal deposits and the close proximity of water led to the area becoming a major industrial region, home to Mittal SA, the giant steel manufacturer of South Africa, and Sasol, the world's largest oil-from-coal processing plant. The importance of Mittal SA and Sasol lies in the fact that they are major suppliers of work to the businesses in the study area.

Refer to Figure 1.3 for a location map of the Sedibeng District and the Metsimaholo Municipality.

Figure 1.3: Location map of the study area



Source: Anon (2006)

The scope further focuses on the unique challenges facing family businesses. This study will not only test the existence and magnitude of the unique challenges facing family businesses, but also compare and contrast which of these factors are important for the two major stakeholder groups in the family business, namely the active (family members employed by the family business) and inactive family members (family members not employed by the family business).

It is important for the continued prosperity of the family business and harmony within the family, that family business leaders and all stakeholders have a sound understanding of the unique challenges facing family businesses.

1.6 RESEARCH APPROACH

1.6.1 Defining research

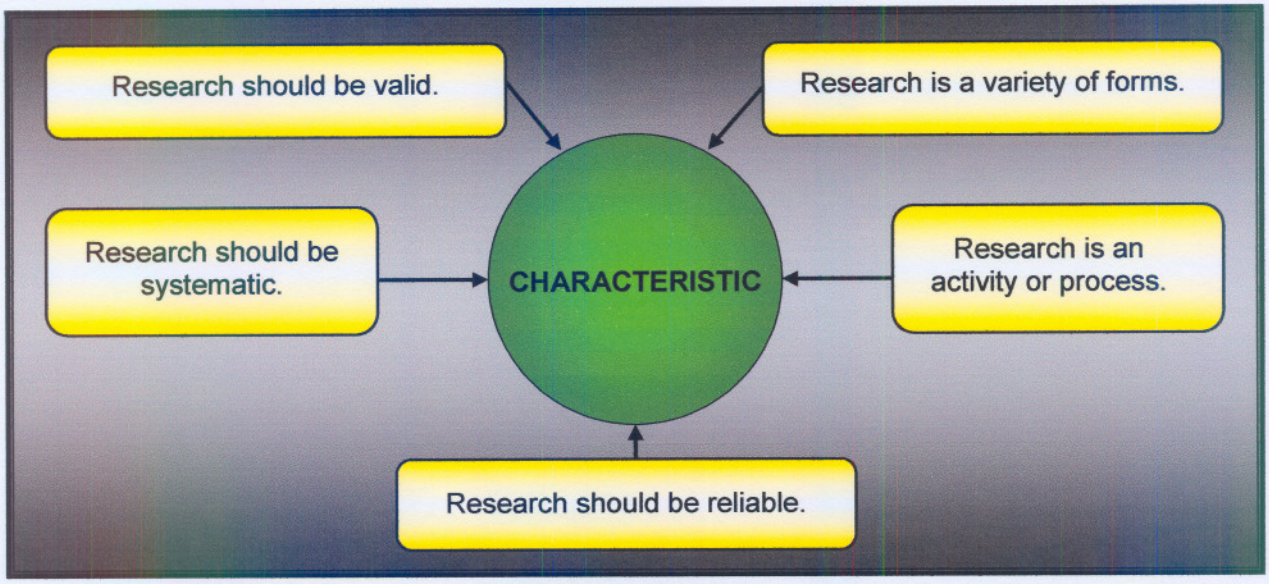
Du Plooy (1995:30) stated that there are many definitions of research. Page and Meyer (2000:14) defined research as a carefully planned process, designed to manipulate influences systematically, while holding other influences constant, in order to observe and measure the outcomes in relation to the theory. Welman and Kruger (1999:2) stated that research involves the application of various methods and techniques, in order to create scientifically obtained knowledge, by using objective methods and procedures.

Both the above definitions contain the basic elements necessary for defining research, namely that successful research is a pre-planned, conscious and deliberate process in which the researcher attempt to systematically investigate a problem (Babbie, 1998:24). Thus, simply stated, irrespective of what definitions of research is chosen, research always originates with a problem and ends with a conclusion or a proposed solution.

1.6.2 Characteristics of the research process

The research process has a number of characteristics, of which the most important are indicated in Figure 1.4 and are then subsequently discussed.

Figure 1.4: Characteristics of the research process



Source: As indicated below

1.6.2.1 Research should be valid

Validity refers to the problem of establishing whether the data collected presents a true picture of what is being studied (Bless & Higson-Smith, 1995:82). According to Du Plooy (1995:31) validity in research therefore deals with the accurate interpretability (i.e. internal validity) of the results and the generalisation of the results (i.e. external validity).

1.6.2.2 Research takes on a variety of forms

A number of different research procedures or methods may be used in the research process. For example, observations, surveys, field surveys, content analysis, or ethnography (Bless & Higson-Smith, 1995:105; Du Plooy, 1995:31).

1.6.2.3 Research is an activity or process

Huysamen (1994:10) stated that the concept *research*, is used to refer to the process by which scientific methods is used to expand knowledge in one's field of study. The view of Du Plooy (1995:31) supports Huysamen (1994:10) by stating that the research process may be viewed as a sequence of planned activities directed at solving a problem

1.6.2.4 Research should be reliable

The reliability of research concerns the repeatability and consistency of the methods, conditions and results (Bless & Higson-Smith, 1995:130; Neuman, 1997:138; Welman & Kruger, 1999:5). If the method of data collection is reliable, it means that anybody else that uses the same method, or the same person using the same method at another time, would come up with the same results (Du Plooy, 1995:31). In other words, the research could be repeated and the same results would be obtained.

Internal reliability refers to the extent to which data collection, analysis and interpretation are consistent, given the same conditions (Du Plooy, 1995:31). External reliability deals with the issue of whether or not independent researchers can replicate studies in the same or similar settings and obtain similar results (Du Plooy, 1995:31).

1.6.2.5 Research should be systematic

The research process must be planned, orderly and systematic (Du Plooy, 1995:31; Welman & Kruger, 1999:5). Huysamen (1994:139) concludes that systematic implies that it is replicable, in other words, that other, independent observers, should also be able to observe and report whatever the researcher observes and reports.

1.6.3 The research process

Authors vary as to the number of steps to be followed in the process of conducting research. Although Welman and Kruger (1999:1) indicate 11 steps, Babbie (1998:107) and Du Plooy (1995:34) indicate eight steps and Page and Meyer (2000:35) indicate five steps. All the steps, as proposed by the various authors, are closely interrelated.

For the purpose of this study, the five steps as proposed by Page and Meyer (2000:35), will be used and are indicated in Figure 1.5 on the following page.

1.6.3.1 Step 1: Generating ideas

The first step in the research process is that of identifying a research problem (Du Plooy, 1995:35). Before deciding on the final topic of this study, various ideas were generated. While generating ideas, a person should not evaluate them or be concerned about availability of literature or availability of appropriate sampling (Du Plooy, 1995:35).

To be successful, a researcher needs to enjoy his / her research (Page & Meyer, 2000:34). Thus, the final topic of this research was decided based on a positive answer to the following questions:

- Will the topic be interesting?
- Will the topic be relevant to enhance a person's knowledge in business administration?
- Will it be possible to be able to substantiate the importance and usefulness of the research?
- Will the research idea maintain one's enthusiasm and conviction?
- Is there enough literature available to enable a person to do a proper literature study?
- Is it possible to define the scope of the research properly?
- Is the data susceptible to analyses?
- Will the supervisor be positive and dedicated to the outcome of the study?

Figure 1.5: The research process



Derived from: Page and Meyer (2000:35)

Based on the above, a research problem, namely the unique challenges of family businesses, was identified.

1.6.3.2 Step 2: Literature study

Once the research idea has been decided, a literature study must be conducted (Page & Meyer, 2000:38). The purpose of the literature study is to hone a person's theoretical understanding of the topic, to familiarise one with the latest theoretical developments and debates in the area of research and to acquaint one with the problems, hypotheses and results obtained by previous research (Du Plooy, 1995:37).

Bless and Higson-Smith (1995:11) stated that theory serves as an orientation for the gathering of facts since it specifies the type of facts to be systematically observed. Theory, method (conceptualisation) and research activities are interwoven in a contextual and circular process so that theory guides research, while the research guides theory (Du Plooy, 1995:30). This implies a close working relationship between the research method and the research finding. Thus, unless the research is directly tied to a problem in theory, it is of little value or use (Du Plooy, 1995:30).

The literature on family businesses covers various countries and views and is found locally, internationally and on internet. It documents the initiatives of family businesses in providing the preparations necessary to ensure family harmony and the continuity of the family business through generations. The literature study formed the basis for establishing what the unique challenges facing family businesses, are.

The knowledge gained from the literature study was used to empirically test the independent and dependent variables against each other in practise and to analyse it. Thus, the literature study ensures that this study doesn't simply duplicate the efforts of others, but contributes something original and meaningful to the body of knowledge by discovering something new. The literature study also served to identify gaps in existing knowledge.

1.6.3.3 Step 3: Research design

Research design is discussed in detail in Section 1.7.

1.6.3.4 Step 4: Management of the research process

A research project requires careful management (Page & Meyer, 2000:49). This means planning and control of the project from start to finish, with appropriate time management along the way. The management of the research process entails preparation, funding and ethical issues as well as data and people management.

The preparation phase entailed the generation and evaluation of the ideas. A personal timetable for the research project was determined and dates were set for the completion of literature searches and survey postings. A weekly routine was established with a major increase in the time spent on the study during the last few weeks. Ideas were recorded as they occurred and a system was developed for filing references and notes.

Funding the study was done by the author, with the assistance of his employer. Before the research commenced, the participants were informed of the true purpose of the research, its nature and duration. A high standard of expertise and confidentiality were maintained during the entire research process. Thus, as the participants were voluntary and not adversely affected, ethical issues were not a concern.

The study involved vast quantities of data. In each family business, all the active and inactive family members completed a questionnaire. This gave a total of 163 completed questionnaires. After the data was collected, it was checked, filtered and analysed. In order for the data to be analysed, it was collated and stored in an appropriate form. This was done by means of coding the data using a numbering system. This coding was done by pre-coding of the questionnaires. Good management of the data throughout the study was done to ensure high quality research.

The responsibility of the study rested entirely with the author. The author had to listen to the supervisor and glean the advice he offered, but there were limits to the extent to which the thinking and direction of the research were determined by the supervisor. Initially, the author was somewhat reliant on the supervisor for advice. However, as the literature review progressed, the author developed an independent attitude towards the research.

1.6.3.5 Step 5: Evaluating and reporting the results

Writing the research report rounds the research process of (Welman & Kruger, 1999:228). The objectives of the study, nature of the problem, methods employed and analytic techniques adopted must be clearly stated at the beginning of the report (Du Plooy, 1995:44). The layout of the report must be carefully considered to ensure that is logical and systematic. The report should demonstrate an original focus on the problem. Finally, the report must be neat and professional in its appearance (Du Plooy, 1995:44).

1.7 RESEARCH DESIGN

The research design is step three in the research process. With the research idea and a theoretical framework in place, the research project can be designed in detail. The research design generally comprises the following stages (Page & Meyer, 2000:41):

- Translation of the research questions into research variables.
- Population and appropriate sampling.
- Data-collection methods.
- Choosing appropriate analyses methods.

Each of these stages is discussed below.

1.7.1 Translation of the research questions into research variables

The language of quantitative research is a language of variables, hypotheses and casual explanation (Neuman, 1997:106). The task of refining a diffuse topic into a well-focussed research problem or question is a critical step in the research process (Neuman, 1997:106). Researchers, who focus on casual relationships, begin with an effect and then search for its causes by using variables (Neuman, 1997:107).

1.7.1.1 Independent and dependent variables

Variables can be classified into independent and dependent variables (Babbie, 1998:29; Neuman, 1997:107; Page & Meyer, 2000:64). The cause variable, or the one that identifies forces or conditions that act on something else, is the independent variable (Neuman, 1997:107; Page & Meyer, 2000:64).

The variable that is the effect, result or the outcome of another variable, is the dependent variable (Neuman, 1997:107; Page & Meyer, 2000:68). The dependent variable is the one that needs to be explained, described or simply understood. Another way of thinking of dependent variables is to consider that the main variable, the one the study is focussing on, is dependent on other variables for explaining it (Du Plooy, 1995:39).

The independent variable is *independent of* prior causes that act on it, whereas the dependent variable *depends on* the cause. Research topics are often phrased in terms of dependent variables because depended variables are the phenomenon to be explained. (Neuman, 1997:107). For example, in examining unique challenges facing family businesses, the succession of the family business is the dependent variable.

1.7.1.2 Validity

Validity is the degree of accuracy with which the research has measured the cause and effect relationship (Babbie, 1998:133; Page & Meyer, 2000:86). Validity is usually discussed in terms of internal and external validity (Page & Meyer, 2000:86).

Internal validity refers to the extent to which the measure can be said to reflect changes in responses caused by manipulation (changing levels, values and hence influence). If internal validity is satisfied, it implies the degree to which the procedures intended to produce the independent variable of interest indeed succeeded in generating this variable, rather than something else (Welman & Kruger, 1999:108). Thus, it implies that the independent variables caused the effect and not other factors outside the study area.

External validity refers to the extent to which the results are relevant to individuals and settings beyond the study conditions (Page & Meyer, 2000:86). For the purpose of this study, external reliability is met if the unique challenges facing family business in the Sedibeng District and the Metsimaholo Municipality can be drawn to family businesses in South Africa in general.

1.7.2 Population and appropriate sampling

The target population refers to the specific pool of cases the researcher wants to study (Neuman, 1997:202; Page & Meyer, 2000:98). Thus, a population refers to the entire set of data that is of interest and a sample is a representative part of that population (Neuman, 1997:202; Wisniewski, 2002:100).

1.7.2.1 Choosing the target population

The target population of this research was family businesses in the Sedibeng District and the Metsimaholo Municipality.

The Sedibeng District and the Metsimaholo Municipality were chosen for the following reasons:

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

1.7.2.2 Samples

Page and Meyer (2000:44) defined a sampling frame as a list comprising all of the members of the research population. A sampling member is the unit of analysis or case in a population (Neuman, 1997:202). It can be a person, a group, an organisation, a written document or even a social action that is being measured (Neuman, 1997:202; Page & Meyer, 2000:98). Sampling, like random assignment, is a process of systematically selecting cases for inclusion in a research project (Neuman, 1997:201).

For example, with a well conducted sample, a researcher can measure variables with 2 000 cases, generalised to 200 million and not be off by more than two to four percent from the results that would be obtained if all 200 million were used (Neuman, 1997:202). It is less costly and more manageable to work with samples (Neuman, 1997:201).

There are two types of sampling, namely probability and non-probability sampling (Babbie, 1998:194; Neuman, 1997:202; Page & Meyer, 2000:98). Probability sampling involves the selection of a *random* sample from a list, containing the names of all the members in the population to be studied (Babbie, 1998:194). Probability sampling remains the primary method for selecting large, representative samples for social science research, e.g. political polls (Babbie, 1998:194).

However, many research situations make probability sampling impossible or inappropriate (Babbie, 1998:194). Thus, the other option is non-probability sampling. The four general types of non-probability sampling include:

- Reliance on available subjects.
- Purpose or judgemental sampling.
- Snowball sampling.
- Quota sampling.

Such samples cannot be fully representative of the population, but there is no other way of accessing the members of the population (Page & Meyer, 2000:44).

1.7.2.3 Sampling method used in this study

Business people were contacted by the researcher to obtain a database, listing family businesses in the Sedibeng District and the Metsimaholo Municipality, but to no avail. According to Venter (2003:221), no list distinguishing family businesses from their non-family counterparts, is available in either South Africa or most other countries. Therefore, the only available option was to rely on less rigorous and non-probability sampling methods. The sampling method used in this study was snowball sampling.

Snowball sampling is often used when the members of a special population are difficult to locate (Babbie, 1998:195) and are thus a subgroup of convenience sampling (Page & Meyer, 2000:100). According to Babbie (1998:195) as well as Page and Meyer (2000:100), the procedure of snowball sampling is implemented by collecting data on the few members of the target population that can be located, and then asking those individuals to provide the information needed to locate other members of that population whom they happen to know.

Because of the possible bias in snowball sampling, it is dangerous to generalise the findings from the research to the entire population of the study (Page & Meyer, 2000:101). Thus, one of the assumptions of this study is that this convenience sampling method, namely snowball sampling, can be seen as a random sample.

1.7.3 Data-collection methods

The next step in the research design is data-collection. Data collection is the means by which measurement is realised (Du Plooy, 1995:42). Whatever the research design, there are only a few basic ways to collect data. The most widely used techniques are observing behaviour and / or asking questions (Du Plooy, 1995:42).

Data obtained in this way is known as primary data, that is, data which is collected for the first time and original in character. Primary data is collected during the course of conducting research surveys, personal interviews, questionnaires, in-depth interviews and content analyses (Du Plooy, 1995:42; Page & Meyer, 2000:110).

Secondary data is data which has already been collected by someone else. This data may be published or unpublished and can be found in journals, magazines, books, newspapers, reports and dissertations (Du Plooy, 1995:42).

An existing questionnaire (as mentioned in Section 1.4) was used in this study as the data collection method. Refer to Appendix A for an example of the questionnaire used in this study.

1.7.3.1 Questionnaire construction

The questionnaire construction has two format or layout issues. Firstly, the overall physical layout of the questionnaire and secondly, the format of the questions and responses. The questionnaire layout is discussed in this section and the format of the questions is discussed in Section 1.7.3.2.

Questionnaires should be clear, neat and easy to follow (Babbie, 1998:153; Neuman, 1997:249). Each question must be numbered and identifying information must also form part of the questionnaire, e.g. the name of the business (Neuman, 1997:249). Questions must not be cramped together, or create a confusing appearance in order to save money (Babbie, 1998:153), as confusion can ultimately cost more in terms of lower validity due to a lower response rate or of confusion of respondents (Neuman, 1997:249).

A professional appearance with high-quality paper and printing, space between questions, and good layout, improves accuracy and completeness and helps the questionnaire flow (Neuman, 1997:249). Respondents must be given instructions on the questionnaire which are printed in a different style from the questions (Neuman, 1997:249).

1.7.3.2 Guidelines for asking questions

By using the guidelines as proposed by Babbie (1998:147-153) and Du Plooy (1995:132-139), the following important fundamentals for asking questions were derived:

- **Questions and statements**: Though the term questionnaire suggests a collection of questions, an examination of a typical questionnaire reveals as many statements as questions. Using both in a questionnaire gives more flexibility in the design of items and can make the questionnaire more interesting as well.
- **Questions should be relevant**: Questions asked in a questionnaire should be relevant to most respondents. When one obtains responses to fictitious issues, the responses can be discarded. However, when the issue is real, the researcher has no way of telling which responses genuinely reflect attitudes and which reflect meaningless answers to irrelevant questions. Ideally, the researcher would like respondents to simply report that they don't know, have no opinion or are undecided in those instance where that is the case.
- **Avoid double-barrelled questions**: Frequently, researchers ask respondents for a single answer to a combination of questions. That seems to happen most when the researcher has personally identified with a complex question. As a general rule, whenever the word *and* or *or* appears in a question or questionnaire statement, the chances are good that it can be a double-barrelled question.
- **Make items clear**: The questionnaire items should be clear and unambiguous. Often the researcher becomes so deeply involved in the topic under examination that opinions and perspectives are clear to him / her but not to the respondents.
- **Respondents must be competent to answer**: In asking questions to provide information, the researcher should continually ask himself / herself whether they are able to do so reliably. It is important that the respondents are able to answer without the need to do their own research or to do calculations.
- **Respondents must be willing to answer**: Sometimes respondents may say that they are undecided when, in fact, they have an opinion but they think they are in a minority. Under that condition, they may be reluctant to tell a stranger (the interviewer) what that opinion is.
- **Short items are best**: In the interest of being unambiguous and precise, and pointing to the relevance of the issue, the researcher is often led into long and complicated items. That should be avoided. The respondent should be able to read an item quickly, understand its intent and select or provide an answer without difficulty.
- **Avoid negative items**: The appearance of a negation in a questionnaire item paves the way for easy misinterpretation. Rather ask the respondent to agree or disagree with the statement.

- **Avoid biased items and terms**: The meaning of someone's response to a question depends, in large, on its wording. This is true of every question and answer. Some questions seem to encourage particular responses more than other questions do. Questions that encourage respondents to answer in a particular way are biased.
- **Open-ended and close-ended questions**: An open-ended question allows respondents to answer the question in their own words. With open-ended questions the researcher needs to code the responses before they can be processed for computer analysis. This coding often requires that the researcher interprets the meaning of responses, opening the possibility of misunderstanding and researcher bias. There is also a danger that some respondents will give answers that are essentially irrelevant to the researcher's intent. A close-ended question contains a fixed number of answers from which a respondent has to select one. The advantage of close-ended questions is that they provide a greater uniformity of response and are more easily processed. In this study, close-ended questions were used and had to be answered by using the Likert scale.

1.7.3.3 The Likert scale

A Likert scale, also referred to as a summated scale, consists of a collection of statements about the attitudinal object (Huysamen, 1994:125). In respect of each statement respondents have to indicate their degree of agreement or disagreement with its content on, say, a five point scale (Huysamen, 1994:125).

In this study, a seven point scale was used, with the same number of positively and negatively formulated items. It is presently the most popular type of scale in the social sciences (Huysamen, 1994:126; Page & Meyer, 2000:75). This popularity stems from the fact that it is easier to compile than any of the other attitude scales, e.g. Guttman and Thurstone scales (Huysamen, 1994:126).

In the questionnaire used in this study, the following format was used:

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A1	Relevant question / statement.	1	2	3	4	5	X6	7

All the questions may be answered by making a cross in the relevant block by using the following key:

1 = Strongly disagree.	**2** = Disagree.	**3** = Slightly disagree.	**4** = Neutral view.
5 = Slightly agree.	**6** = Agree.	**7** = Strongly agree.	

To answer the question, the respondent selected the number which best describes how he / she felt about the item.

1.7.3.4 Process followed with the questionnaire design

For this research, an existing questionnaire was used. However, the following were done to ensure the correctness of the questionnaire and that the primary and secondary objectives of the study could be met:

- The author conducted a literature study to familiarise himself with the concepts of family businesses. The literature study was the starting point for evaluating the existing questionnaire.
- Each and every question was evaluated to determine if it would indeed assist in reaching the stated objectives.
- Questionnaires were given to three independent people to complete to be able to have an idea of how long it takes to complete the questionnaire. (This was seen as important information to be able to give to the respondents when requesting them to complete a questionnaire.)
- The questionnaire was then checked for spelling errors, logical layout and whether it complies with the theory regarding questionnaire layout and question construction.
- After the above criteria were met, the questionnaire was finalised, printed, bound and made available in both English and Afrikaans.

1.7.3.5 Ordering items in the questionnaire

The order in which questionnaire items are presented can affect responses (Babbie, 1998:157; Du Plooy, 1995:141). It is therefore important to develop and maintain sensitivity to the order of the questionnaire.

Du Plooy (1995:141) suggested the following three general ordering guidelines:

- Use a logical sequence.
- Group questions on a similar topic together.
- Ask demographic questions at the end.

Du Plooy (1995:141) suggested that the first page of a self-administered questionnaire must contain an introduction. The principles to keep in mind with the writing of the introduction are that it should be short, realistically worded, non-threatening, serious, neutral and pleasant but firm (Du Plooy, 1995:141). In addition to stressing the importance of the survey, the introduction must also give respondents the assurance of confidentiality and anonymity.

The questionnaire used in this study was introduced by means of a short description of the importance of family businesses. Confidentiality and anonymity were confirmed and general instructions on how to complete the various sections of the questionnaire were given. Terminology was explained to ensure that the respondents understand all the definitions, before completing the questionnaire.

The questionnaire was subsequently divided into the following five sections:

- **Section A**: All family members had to complete this section. This includes active and inactive family members. This section addressed family harmony between all family members, continuation of the family business operation, ownership succession and governance. There were a total of 53 questions in Section A.
- **Section B**: Only the active family members had to complete this section. Section B was directed towards the separation of family and business matters, family harmony between active family members, performance measurement, compensation of family members and ownership succession. Section B had a total of 82 questions.
- **Section C**: All active family members had to complete this section. Section C addressed the successful participation of the younger generation (successor), development of the younger generation (successor), factors that necessitate succession, executive managers' readiness for succession and management succession. However, in cases where no family members of the younger generation is employed by the family business, this section didn't has to be completed as no transfer of management is envisaged for the next ten to fifteen years. Section C consisted of 89 questions.
- **Section D**: Section D had to be completed by all respondents. This information was needed for statistical analyses of data comparisons among different interest groups. This entailed the demographic data of the respondents. There were seven questions in this section.
- **Section E**: This section was completed by only the senior generation executive manager / owner of the family business and consisted of five questions. This section gave general information regarding the structure of the business, e.g. the number of employees, age of the business and the legal status of the business.

1.7.3.6 Methods used to collect the data

Du Plooy (1995:109-124) and Neuman (1997:251-263) list the following methods to collect primary data:

- Observation.
- Mail and self-administered questionnaires.
- Face-to-face interviews.
- Telephone interviewing.
- Focus groups.

The steps followed in collecting the data in the study are discussed below.

The first step in collecting the data was to put together a list of family businesses in the Sedibeng District and the Metsimaholo Municipality. As already stated in Section 1.7.2.3, there was no list available and snowball sampling was used to compile the final list.

To compile a preliminary list, well-known business people were contacted and an article, stating the purpose of the study, and requesting family businesses to participate in the study, was published in the local Vanderbijl Park newspaper. As a result, a preliminary list of 46 names was compiled.

These businesses were then grouped according to the four major towns in the Sedibeng District and the Metsimaholo Municipality, namely Meyerton, Vereeniging, Vanderbijl Park and Sasolburg. The businesses were then contacted via telephone or a personal visit. The purpose of the study was explained to them and their participation requested. If they were willing to participate, it was first determined whether the specific business adhered to the definition of a family business. If they were not willing, or if it was not a family business, their names were removed from the list.

If it was a family business, the following process was followed from this point onwards:

- Questionnaires were left with the business and a contact person was requested to collect the completed questionnaires from the respondents, i.e. the active and the inactive family members.
- These completed questionnaires would then be collected at a specific date, typically three weeks after *delivery*. Thus, the initial idea was to have self-administered questionnaires.
- The contact person was contacted on a weekly basis to determine the status, and to act as a reminder about the completion of the questionnaires.

- Nearly none of the questionnaires were completed within the promised time. The decision was then made to change the approach and arrange interviews with the active family members.
- As the completion time of the questionnaire for an active family member took, on average, 45 minutes, the major hindrance was to get a 45 minute appointment made. The general complaint was that the active family members were too busy.
- The solution to the above hindrance was twofold, namely to arrange appointments outside normal working hours and to be assertive in obtaining a completed questionnaire.
- As the completion time of a non-active family member's questionnaire took ten minutes on average, the inactive family members were asked to complete the questionnaire by means of a telephonic interview. This worked especially well, and with the exception of four people, all inactive family members were willing to immediately answer the questions via telephone.

Thus, the three methods used were self-administered questionnaires, face-to-face interviews and telephone interviews. All things considered, the data collection took a period of approximately three months, with four weeks being solely dedicated to the data collection. A total of 32 family businesses completed questionnaires. This amounted to a total of 163 questionnaires, with a distribution of active and inactive family members of 105 and 58 respectively.

All completed questionnaires were edited for obvious mistakes as well as completeness. Where necessary, the respondents were immediately requested to rectify the problem. Prior to the coding and analysis of the data by means of Statsoft, Inc (2004), it was once again screened for any obvious errors.

1.7.3.7 Advantages and disadvantages of the data collection methods used

The advantages and disadvantages of self-administered questionnaires are indicated in Table 1.1 on the following page.

Table 1.1: Advantages and disadvantages of self-administered questionnaires

ADVANTAGES	DISADVANTAGES
• Researchers can give questionnaires directly to respondents or mail them to respondents who read the instructions and then record their answers. • It is a cheap survey method. • It can be conducted by a single researcher. • The respondent can complete the questionnaire when it is convenient. • They are very effective and response rates may be high for a target population that is well educated or has a strong interest in the topic.	• Since people don't always complete and return questionnaires, the biggest problem is a low response rate. • Most questionnaires are returned within two weeks, but other trickle in up to two months later. • A researcher cannot control the conditions under which a mailed questionnaire is completed. • No one is present to clarify questions or to probe for more information when respondents give incomplete answers.

Source: Derived from Bless and Higson-Smith (1995:112) and Neuman (1997:251)

The advantages and disadvantage of the telephone interview method are indicated in Table 1.2.

Table 1.2: Advantages and disadvantages of telephone interviews

ADVANTAGES	DISADVANTAGES
• About 95% of the population can be reached by telephone. • Very high response rates achieved. • It is a flexible method with most of the strengths of face-to-face interviews, but at about half of the costs. • A specific respondent is chosen and is likely to answer all the questions alone.	• Relative high cost and limited interview length. • Respondents without telephones are impossible to reach. • The call may be made at an inconvenient time for the respondent. • Interviewers can only note serious disruptions and respondent tone of voice or hesitancy.

Source: Derived from Bless and Higson-Smith (1995:112) and Neuman (1997:251)

The advantages and disadvantages of a face-to-face interview are indicated in Table 1.3 on the following page.

Table 1.3: Advantages and disadvantages of face-to-face interviews

ADVANTAGES	DISADVANTAGES
• Face-to-face interviews have the highest response rates and permit the longest questionnaire. • The interviewer can observe the surroundings and can use non-verbal communication and visual aids. • Well-trained interviewers can ask all types of questions and can use extensive probes. • The advantages of telephone interviewing are also applicable.	• High cost. • The training, travel, supervision and personnel costs for interviews can be high. • Interviewer bias is high. • The appearance, tone of voice, question wording and so forth of the interviewer may affect the respondent. • Interviewer supervision is less than for telephone interviews, which supervisors monitor by listening in.

Source: Derived from Bless and Higson-Smith (1995:112) and Neuman (1997:251)

1.7.4 Choosing appropriate analyses methods

After the data has been collected, the task of analysing and interpreting the data needs to be done. This will enable the researcher to draw conclusions and make recommendations. The interpretation of data is essential for the simple reason that the usefulness and relevance of the research findings lie in proper interpretation (Du Plooy, 1995:42). Interpretation refers to the task of drawing inferences from the collected facts and implies a search for the broader meanings of the findings (Du Plooy, 1995:42). The statistical techniques used in this study are discussed below.

1.7.4.1 Frequency distribution

Frequency distribution is the grouping of data into mutually exclusive classes showing the number of observations in each (Lind *et al.*, 2002:22). Thus, it is a way to describe a set of data as descriptive statistics. The data can be grouped in a frequency table, thus making the data more meaningful (Wisniewski, 2002:50). It may also be appropriate to show the frequency distribution in the form of percentages of the total (Wisniewski, 2002:53).

One of the most common ways to portray a frequency distribution is a histogram (Lind *et al.*, 2002:35). A histogram is a graph in which the classes are marked on the horisontal axis and the class frequencies on the vertical axis (Lind *et al.*, 2002:35). The class frequencies are represented by the heights of the bars and the bars are drawn adjacent to each other. A histogram provides an easily interpreted visual representation of a frequency distribution.

1.7.4.2 Arithmetic mean

The arithmetic mean is one of the three measures of central tendency (Neuman, 1997:298). Wisniewski (2002:91) stated that descriptive or *deductive statistics* endeavours to describe and analyse a subject or group, to determine some measure of an average and some measure of variability around the average.

The arithmetic mean is the sum of the total values, divided by the number of values measured (Wisniewski, 2002:92). In this study, the mean indicates the average response on the Likert scale for a specific question. The mean is the most widely used measure of central tendency (Neuman, 1997:300). The arithmetic mean is the only measure of central tendency where the sum of the deviations of each value from the mean will always be zero (Lind *et al.*, 2002:68).

The arithmetic mean is calculated with the following formula (Lind *et al.*, 2002:79):

Arithmetic mean = $\sum fX/n$

Where:	X	= the midpoint of each class.
	f	= the frequency in each class.
	fX	= the frequency in each class times the midpoint of the class.
	$\sum fX$	= the sum of these products.
	n	= the total number of frequencies.

A person is only able to comment on the reliability of this mean if he / she has access to the original data and can see the original figures. There is no way of knowing if the arithmetic mean is a typical or a representative value (Wisniewski, 2002:93). The mean includes all the data items, including any extreme values and is strongly affected by changes in extreme values (Neuman, 1997:300; Wisniewski, 2002:95).

Thus, the mean can be seen as a balance point for a set of data. It is used to determine the relative importance of the statements in each section and to rank them according to their importance. The higher the arithmetic mean, the higher the relative importance of the statement / question relative to other statements / questions.

1.7.4.3 Standard deviation

The measure of variability used in this study is that of standard deviation. Standard deviation is the most difficult to compute measure of dispersion, but it is also the most comprehensive and widely used (Neuman, 1997:301). Its intent is to demonstrate the measure of variability around the average value (Wisniewski, 2002:96). It is based on the mean and gives an *average distance* between all the *scores* and the mean. Standard deviation is calculated with the following formula:

$$\text{Standard deviation} = \sqrt{\sum(x-X)^2/(n-1)}$$

Where: x = value.
X = sample mean.
fX = number of values recorded in the sample.

The above formula is for the calculation of sample standard deviation and not population standard deviation. The sample standard deviation is used as an estimator of the population standard deviation (Lind *et al.*, 2002:107) and is of limited use by itself, as it is used for comparison purposes only (Neuman, 1997:301).

1.7.4.4 Reliability of the research instrument

In order to determine the internal consistency between the variables in the questionnaires, the Cronbach alpha coefficient was calculated (Page & Meyer, 2000:292). The Cronbach alpha coefficient is based on the average correlation of variables within a test.

For example, a reliability coefficient of 0.75 implies that 75% of the variance in the observed scores (the actual scores obtained on the measure) is due to the variance in the true score. A high reliability coefficient generally indicates that the measure is highly reliable, whereas a low coefficient would generally indicate weak reliability. A Cronbach alpha value of one, indicates perfect internal consistency.

Although some authors stated that reliability coefficients lower then 0.60 are deemed to be questionable, those close to 0.70 are considered acceptable (Page & Meyer, 2000:293), greater than 0.80 as good (Bernardi, 1994:767; Page & Meyer, 2000:292). However, Nunnally (1978:295) stated that a value of 0.5 is still acceptable.

1.7.4.5 Practical significance versus or in combination with, statistical significance

According to Neuman (1997:320) statistical significance means that results are not likely to be due to chance factors. It indicates the probability of finding relationships in the sample when there is none in the population. As probability samples involve a random process, it is always possible that sample results will differ from a population parameter. Thus, a researcher wants to estimate the odds that sample results are due to a true population parameter or to chance factors of random sampling.

Statistical significance uses probability theory and specific statistical tests to tell a researcher whether the results (e.g. a difference between two means) are produced by random error in random sampling (Neuman, 1997:320). It cannot prove anything with absolute certainty. It states that particular outcomes are more or less probable. Statistical significance is not the same as practical significance. Results can be statistically significant but theoretically meaningless or trivial. For example, two variables can have a statistically significant association due to coincidence, with no logical connection between them (e.g. length of fingernails and ability to speak French) (Neuman, 1997:320). Statistical significance only tells what is likely (Neuman, 1997:320).

An advantage of drawing a random sample is that it enables a person to study the properties of a population with the time and money available (Ellis & Steyn, 2003:1). In such cases the statistical significance tests (e.g. t-tests) are used to show that the result (e.g. the difference between to means) is significant. The *p*-value is a criterion of this, giving the probability that the obtained value (or more extreme) could be obtained under the assumption that the null hypothesis (e.g. no difference between the population means) is true (Ellis & Steyn, 2003:1).

A small *p*-value (e.g. smaller than 0.05) is considered as sufficient evidence that the result is statistically significant. Thus, statistical significance doesn't necessarily imply that the result is important in practice, as these tests have a tendency to yield small *p*-values (indicating significance) as the sizes of the data sets increase.

In many cases researchers are forced to consider their obtained results as a sub-population of the target population due to the weak response of the planned random sample. In other cases data obtained from convenience sampling are erroneously analysed as if it were obtained by random sampling (Ellis & Steyn, 2003:1). These data should be considered as small populations for which statistical inference and *p*-values are not relevant.

Statistical inference draws conclusions about the population from which a random sample was drawn, using the descriptive measures that have been calculated. Instead of only reporting descriptive statistics in these cases, effect sizes can be determined (Ellis & Steyn, 2003:1). Practical significance can be understood as a large enough difference to have an effect in practice.

The calculation of effect sizes for means is indicated in Table 1.4.

Table 1.4: Calculation of effect sizes for means

TEST	CONDITIONS	EFFECT SIZE
t	$\sigma_1 = \sigma_2$: Take s the pooled standard deviation from the samples.	$d = \frac{\lvert \bar{x}_1 - \bar{x}_2 \rvert}{s}$
ANOVA	$\sigma_i = \sigma_j$ for all i, j: Take *MSE* the mean square error of analysis of variance.	$d = \frac{\lvert \bar{x}_i - \bar{x}_j \rvert}{\sqrt{MSE}}$

Source: Ellis and Steyn (2003:2)

Cohen (1988:20-27) gives the following guidelines for the interpretation of the effect sizes:

- Small effect for $d = 0.2$.
- Medium effect for $d = 0.5$, thus a possibility exists in practice.
- Large effect for $d = 0.8$, thus a large possibility exists in practice.

1.8 LIMITATIONS OF THE STUDY

Due to the nature of the study, the validity and the aptness of the results are limited by the following factors:

- In looking at the three systems in a family business, namely family, business and ownership, this study does include the family and business systems, as well as the overlap between the systems, but doesn't include the business system.
- As the scope of this mini-dissertation is limited to family businesses in the geographical area of the Sedibeng District and the Metsimaholo Municipality, the results and conclusions are therefore only typical to the circumstances of this area.
- There is no database available on family businesses in the Sedibeng District and the Metsimaholo Municipality. The test samples were determined by means of a snowball sampling

technique. This technique was not designed to generate a random sample, therefore certain family businesses might be excluded from this study.

- There is no method to determine the honesty and open-heartedness with which the questionnaires were completed. The possibility exists that some of the participants only completed the questionnaire for the sake of getting it done.
- Only limited research is available on South African family businesses. Therefore, the literature study of this mini-dissertation is mainly based on foreign literature.

Based on the above, care must be taken when the results and conclusions of this mini-dissertation are applied to family businesses in a broad sense.

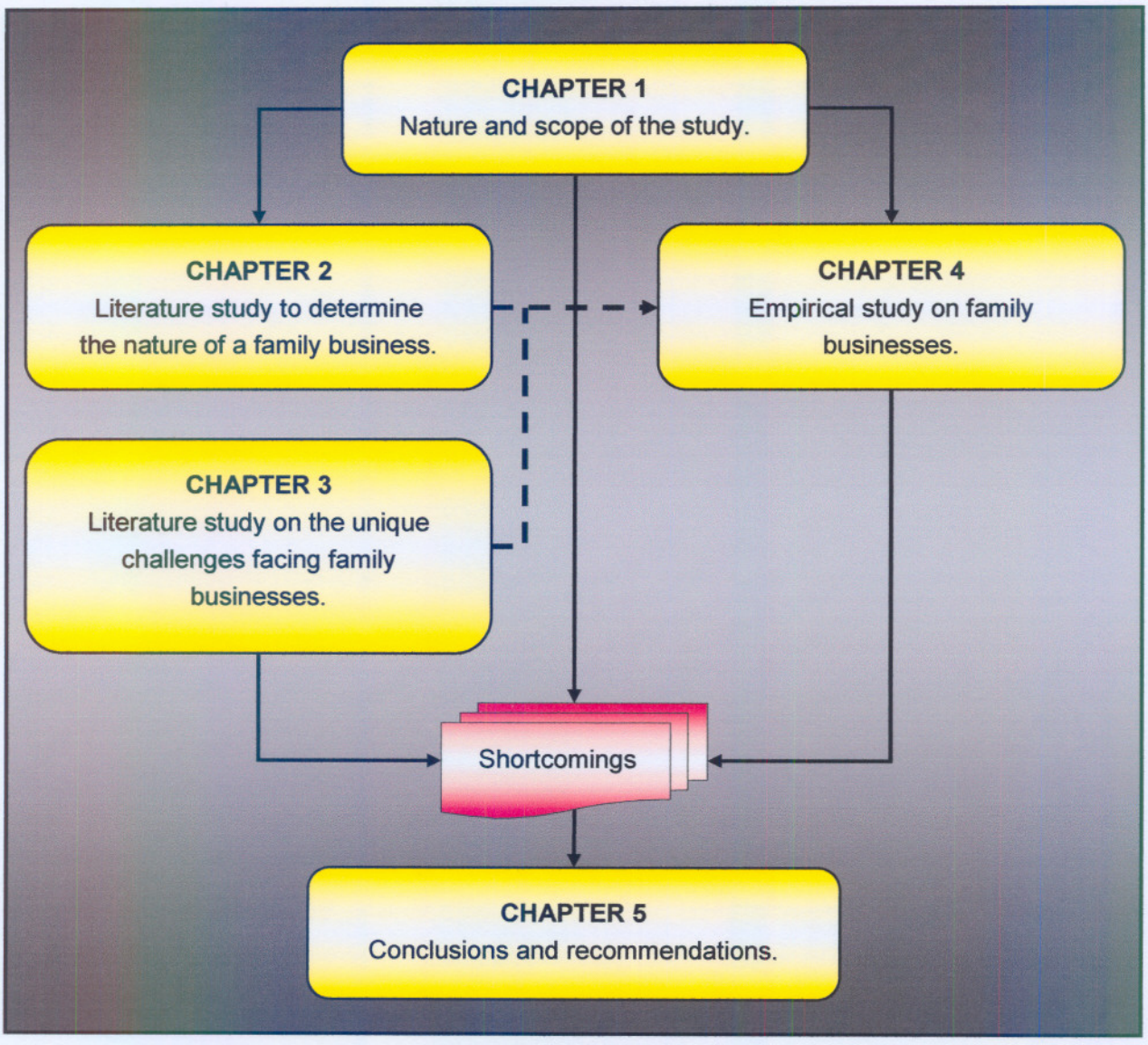
1.9 LAYOUT OF THE STUDY

This study consists of five chapters, and the relationship between these five chapters is schematically shown in Figure 1.6 on the following page.

The layout of the study can be described as follows:

- **Chapter 1** provides an overview of the study, giving background to family businesses and the importance thereof. The problem statement, objectives, framing of the study, research methodology, a list of applicable definitions appropriate to undertake this study and the limitations of the study will further contribute to this chapter.
- **Chapter 2** discusses the nature of a family business. Topics discussed include an introduction to family businesses, the definition of a family business, the three systems in a family business, advantages and disadvantages of a family business, and family harmony. The discussion of family harmony entails family culture and values, relationships between the family members, communication, conflict and disciplinary action in family businesses.
- **Chapter 3** discusses additional unique challenges facing a family business. Topics discussed are compensation in a family business, management and ownership succession of a family business as well as corporate governance in a family business.
- **Chapter 4** entails the research methodology. The analysis thereof is discussed in detail to produce a comprehensive report discussing the results. The empirical study findings underscore the concepts discussed in the literature study. The discussion of the research methodology elucidates the results of the report and presents observations.

Figure 1.6: Relationship between the chapters of the mini-dissertation



- **Chapter 5** entails recommendations and conclusions, as based on the literature study from chapters two and three, as well as the empirical study conducted in chapter four. Topics for further studies are also proposed.

CHAPTER 2: LITERATURE STUDY TO DETERMINE THE NATURE OF A FAMILY BUSINESS

2.1 INTRODUCTION TO FAMILY BUSINESSES

From the earliest times and in almost every culture, the family business has been prominent (Jaffe, 1991:28). Ancient kingdoms were actually family businesses (Jaffe, 1991:28; Lea, 1991:5). Enterprising fathers with large families built many commercial businesses in the Old World (Bork, 1993:1). On the shores of the New World, one spark that drove America toward independence was the wish of the founders to develop American businesses and keep its profits (Bork, 1993:1). Thus, although the spirit of free enterprise may have been in Europe, its strongest roots were planted in the American colonies (Bork, 1993:1).

Jaffe (1991:28-30) states that most of the mega-companies of today started as family businesses, and many of them have remained so through several generations. Examples of such companies are Levi Strauss, Johnson Wax, Tyson Foods, Estee Lauder and Hallmark. They all have very responsive family owners, who are approachable and care for their employees (Cohn, 1992:9; Jaffe, 1991:30).

The most important reason for the prevalence and success of a family business is that family closeness and understanding is a powerful resource in the business world (Aronoff *et al.*, 2002:4; Jaffe, 1991:31). Family members have a shared history and sense of identity. Family members trust and care for each other, are loyal to each other and feel deeply committed to each others' welfare and future (Ibrahim & Ellis, 1994:5; Jaffe, 1991:31).

But, the problems family businesses face in attempting to combine business with family politics is unique, often explosive, and can prevent the family business from achieving its full potential (Thornton, 1998:5). One of the main barriers to their longevity and growth is a lack of advice when they encounter problems, sibling rivalries or a succession problem (Thornton, 1998:5).

2.2 DEFINITION OF A FAMILY BUSINESS

There is no consensus on the definition of family businesses in the research, consulting communities, among journalists and the general public (Neubauer & Lank, 1998:3). Even those running a family business are unsure about a formal definition (Neubauer & Lank, 1998:3). This lack of a formal definition is simultaneously frustrating and understandable. After all, as a distinct field of study it has existed for only about 30 years in the United States and for a decade or so in Europe (Neubauer & Lank, 1998:3).

A review of the literature revealed a long list of elements used by various authors to construct their varying definitions. The following are the most common elements of the numerous definitions found (Aronoff *et al.*, 2002:4; Neubauer & Lank, 1998:5, 6):

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

This list is neither exhaustive nor mutually exclusive. Still, most of the key variables used in the literature are noted. Thus, the definition of a family business, in its simplest form, is any instance in which two or more people, from the same family, work together in a business that, at least one of them own (Aronoff *et al.*, 2002:2; Fleming, 2000:11; Goodman & Dreux IV, 1997:1; Lea, 1991:6).

Goodman and Dreux IV (1997:1) took the *two or more people* even further and defined it as one or more members of a single family, one or more branches of an extended family, one or more unrelated families and / or some combination thereof. Bork (1993:24) included succession in his definition of a family business and defined it as "a business that has been started by a family member and has been passed, or is expected to be passed, to succeeding generations of the family". Bork (1993:24) defined a family member as anyone related to the family, either by birth or marriage.

Sometimes, according to Aronoff *et al.* (2002:2), all family members are in the same generation, e.g. siblings, husband-wife teams and occasionally cousins. Bork (1993:24) stated that the legal form of ownership has nothing to do with the scope of the business. More often, businesses recognise themselves as family businesses when at least two generations are involved: an entrepreneur-parent and his or her children or occasionally a nephew or niece (Aronoff *et al.*, 2002:2). By this definition, family members could be included in ownership, management or employee roles (Aronoff *et al.*, 2002:2).

The pervasiveness of family businesses throughout the world is equally matched with variation in size. Family businesses exist in all sizes, from large publicly traded businesses to medium and small-size family businesses (Aronoff *et al.*, 2002:2). In addition to variations in location and size, family businesses can also differ on the following dimensions: ownership, management / control, involvement of family members, and potential for intergenerational transfer (Heck & Stafford, 2001:3).

The four possible family business types, originally developed by Heck and Stafford (2001:3) are compared with the four levels of criteria as stated by London Economics (2002:6) in Table 2.1.

Table 2.1: Comparison of family business types

CRITERIA AS DEVELOPED BY HECK	CRITERIA AS STATED BY LONDON ECONOMICS
• Ownership is 50% or greater.	• More than 50% of ownership is held by a single family.
• Ownership is 50% or greater and a family member as manager.	• A single family group effectively controls the business.
• Ownership is 50% or more, a family member as manager and two or more family members in the business.	• More than 50% of ownership is held by more than one family.
• Ownership 50% or more, a family member as manager, two or more family members in the business and a second generation or higher or intent to keep the business in the family.	• A majority of senior management is drawn from the same family.

Source: Heck and Stafford (2001:3) and London Economics (2002:6)

Although most family business owners own and control a majority of their businesses, the degree of family involvement and plans for the future of the business may vary widely (refer to Table 2.1 above). Some authors take as a criterion the level of equity held by a single family. Others identify a family business on the basis of the degree of implication of the family in the management structure.

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

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

Finally, the concept of family businesses is related to the willingness to transmit the ownership to the next generation, or the commitment to trans-generational wealth creation (Aronoff *et al.*, 2002:2). In recent years, multi-criteria definitions have also been proposed. Other authors base the definition on the perceptions of the managers, i.e. a family business would be one in which managers perceive their business as such (Aronoff *et al.*, 2002:2).

2.3 FAMILY, BUSINESS AND OWNERSHIP SYSTEMS

Family businesses differ in a variety of critically important ways from non-family businesses and family businesses also function differently from non-business families (Leach & Bogod, 1999:3). There are three interrelated and completely different and distinct systems involved in a family business, namely the family, the business and the ownership systems (Bork *et al.*, 1996:73; Carlock & Ward, 2001:4; Fleming, 2000:21; Frankenberg, 1999:32; Ibrahim & Ellis, 1994:44; Jaffe, 1991:54; Leach & Bogod, 1999:26; Voeller *et al.*, 2002:16).

Experts who have worked with family businesses over the last few decades have found that the most effective long-term treatment of family problems is the systems approach (Bork, 1993:23).

Emens and Wolper (2000:2), as well as Leach and Bogod (1999:27), stated that a family focuses inward, encouraging loyalty, nurturing and security. In contrast, a business focus is outward, encouraging change, growth and expansion. It focuses on the production of goods, services or information, placing high value on competent individualism, efficiency and productivity (Emens & Wolper, 2000:2; Leach & Bogod, 1999:27).

In the non-family business these two virtually incompatible systems, namely the family and the business systems, operate independently, but in the family business they don't only overlap, they are actually interdependent (Leach & Bogod, 1999:27). Some overlap between the two can be desirable, but too much overlap, and both the family and the business can suffer (Emens & Wolper, 2000:3).

As the co-workers in the family business are also family members, their disagreements are never either / or situations. Instead, conflict is produced by the overlapping of family and business systems, and the more the overlap between the two systems, the more the conflict (Fleming, 2000:39).

Therefore, what makes a family business so challenging is that a way must be found for these two differing systems to co-exist under a single roof (Voeller *et al.*, 2002:17). Family business members not only must work together, they must also struggle together to keep their family's interaction harmonious. Family members can be either a great strength or a potential weakness for the family business. Ignoring the family members, whatever their agenda, inevitably weaken the business (Voeller *et al.*, 2002:17).

The answers to questions such as how to evaluate the business performance of family members, how to transfer power and whether and how to share ownership of the business, can be very different, depending on whether one is looking at things from a family perspective or a business perspective; in short, from a standpoint of business first or family first.

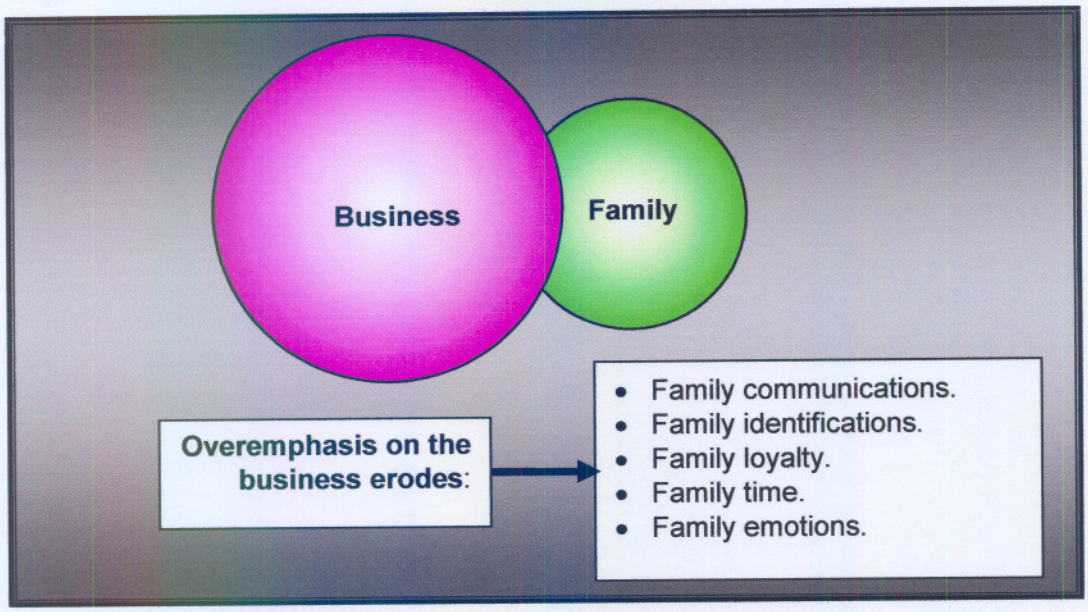
2.3.1 Business first system

Building a business can often become an obsessive pre-occupation for the owner, and his single-mindedness can undermine the quality of the family life (Leach & Bogod, 1999:29).

Figure 2.1 on the following page, shows the outcome of business first thinking.

A family business that overemphasises the business system, and consequently diminishes attention to the family system, often ends up with families that don't relate to each other and psychologically compete with the business (Carlock & Ward, 2001:5). These families report that the business dominates all of the family's time together and that family issues and needs are neglected. This is especially true for first-generation founders (Koenig, 2000:5).

Figure 2.1: Off-balance: business first

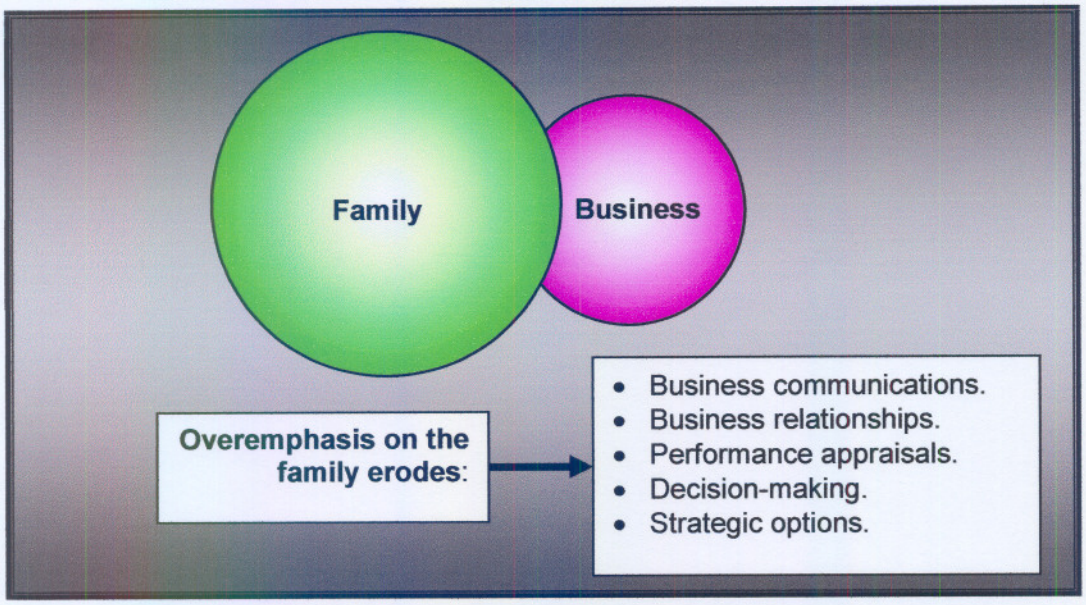


Derived from: Hubler and Ayres (in Carlock & Ward, 2001:6)

2.3.2 Family first system

Then again, families can also overemphasise their thinking about matters at home to the detriment of their business concerns. Figure 2.2 shows the outcome of family first thinking.

Figure 2.2: Off-balance: family first



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

Family considerations and needs become the first priority in business planning and decision-making (Carlock & Ward, 2001:6). Goodman and Dreux IV (1997:17) stated that the family system's focus is inward, upon the members. It is usually solely based on perceived need, and the pre-eminent system values are loyalty, unity and relationships. Confrontation in a family first system is thus avoided.

A desire to make everyone happy can result in unqualified family employees entering the business, threatening effective next-generation leadership. Frankenberg (1999:25) stated that some families will even offer jobs to family members who have limitations. Hopefully, even those jobs will be based on the actual needs of the business, justified through the numbers and defined by the competencies of the family members, whether it is the supervising of a warehouse or answering a phone from a wheelchair.

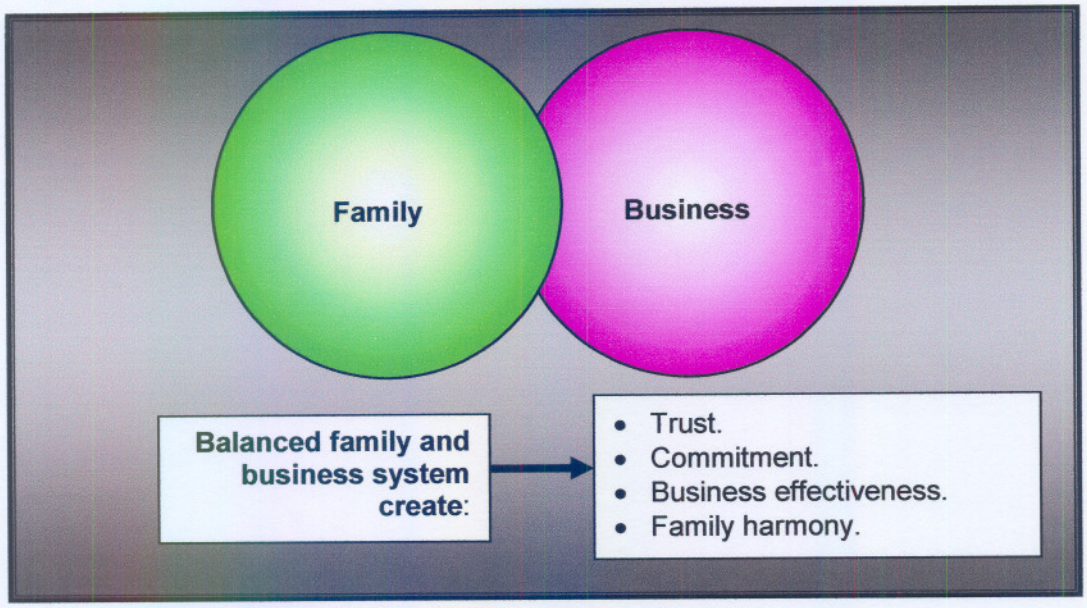
The threat of change is met with resistance, so that equilibrium of the family can remain intact. It resists disturbance of the status quo, the balance and the integrity of the relationships within the system (Goodman & Dreux IV, 1997:17). The business that places the family first often neglects making objective performance appraisals and leadership development plans for family members (Carlock & Ward, 2001:6).

2.3.3 Balancing the business and the family systems

Families who equalise family and business systems create a positive environment where the family thrives and the business performs (Carlock & Ward, 2001:7). This type of thinking is particularly important as the business grows. The successful balancing of the family and business systems are indicated in Figure 2.3 on the following page.

These families earnestly want both a successful family life and a successful business. They are all on the same page, valiantly working at living a balanced lifestyle (Koenig, 2000:13). They are thus families that mean family and families that mean business. This balanced approach to addressing these two subsystems becomes the foundation for healthy family business relationships and for the creation of a family business legacy (Carlock & Ward, 2001:7; Shanker, 2000:35).

Figure 2.3: Successfully balancing family and business systems



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

These families don't have an easy time of it. Were it not for the satisfaction of living up to their values and for the long-term benefits of living a balanced lifestyle, these families would have caved in to temptation (Spector, 2003:35). They diligently run their business like a business. They carry out the purpose of their business and operate according to their business values (Koenig, 2000:13). They have direction and at least a general idea of how to get there (Shanker, 2000:4).

2.3.4 Ownership system

As discussed at the beginning of Section 2.3, there are three systems in the family business. Up to this point, reference has been made to only two of the three systems that make up a family business system, namely the family and business systems. The third system is the ownership group that can include both family and non-family members (Voeller *et al.*, 2002:18). Voeller *et al.* (2002:18) stated that these individuals may or may not be actively involved in managing the business.

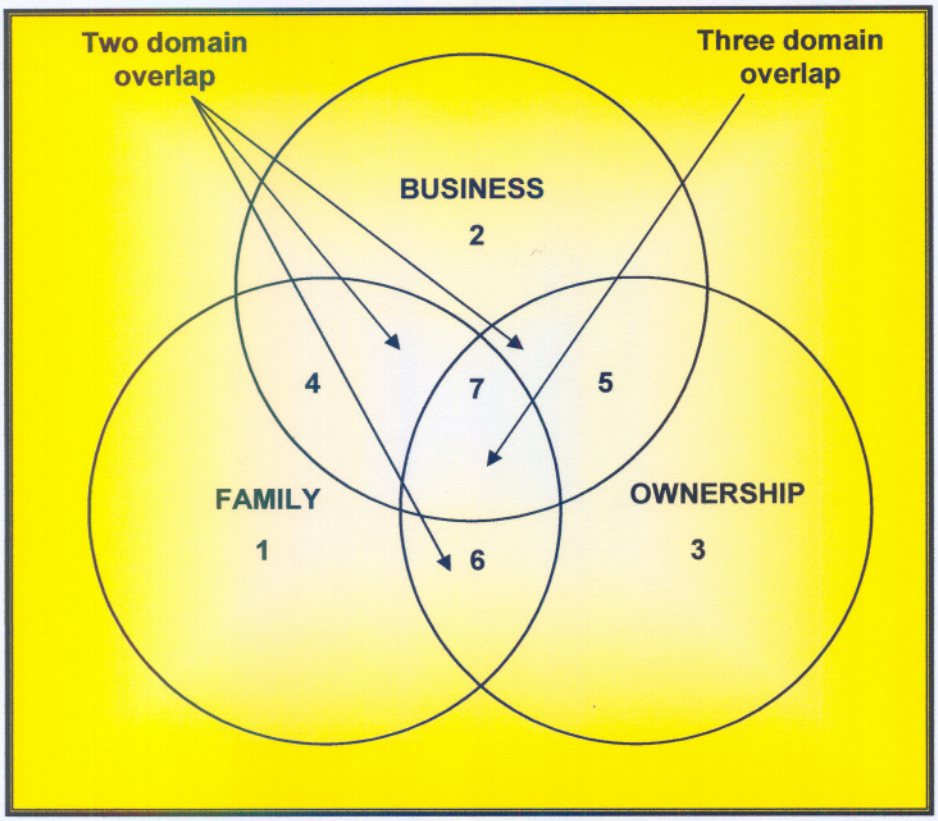
Family business owners, especially the retired variety, have a unique set of priorities and they take pride in the business's accomplishments (Frankenberg, 1999:29). Those who own shares in the family business focus on profit, information, management and marketability goals (Frankenberg, 1999:29; Jaffe, 1991:52).

Owners of the family business must also recognise that they hold the business in trust, not only because of their own dividend checks, or their family's benefit, but also because their decisions affect employees, customers, suppliers and the communities in which the business is located (Frankenberg, 1999:32).

Frankenberg (1999:32) continued that the owners' decisions affect not only those sitting around the table at the annual meeting each year, but also the family's children yet unborn, and all the future stakeholders who stand to inherit the wealth and heritage of the family business.

Figure 2.4 depicts the interaction of these three systems to create seven different sets of circumstances for the individuals involved (Ibrahim & Ellis, 1994:45, 46; Jaffe, 1991:54; Voeller *et al.*, 2002:18).

Figure 2.4: The three domains of a family business



Derived from: Ibrahim and Ellis (1994:44) and Voeller *et al.* (2002:19)

The seven sets of circumstances are described below (Ibrahim & Ellis, 1994:45, 46; Jaffe, 1991:54; Voeller *et al.*, 2002:18):

- **Circumstance 1**: Family member who neither works in the business nor is a shareholder.
- **Circumstance 2**: Non-family member who works in the business and is not a shareholder.
- **Circumstance 3**: Non-family shareholder who doesn't work in the business.
- **Circumstance 4**: Family member who works in the business.
- **Circumstance 5**: Shareholder who works in the business.
- **Circumstance 6**: Family member who is a shareholder but doesn't work in the business.
- **Circumstance 7**: Family member who owns shares and works in the business.

Generally, not everyone in the family will participate in all three domains, so there will be varying combinations of involvement in, experience in, and knowledge of the family business among family members (Ibrahim & Ellis, 1994:45). This variation in involvement leads to differences in knowledge and understanding of business operations and roles, and sometimes, to conflicts of interest.

The overlap of the single domain, i.e. family only, business only and ownership only is described in Table 2.2.

Table 2.2: Overlap of the single domain

CATEGORY	DESCRIPTION
• **Family only**: Family members who don't work in the business or don't have ownership. • **Business only**: Non-family employees. • **Ownership only**: Outside shareholders.	• People who are involved in a single domain will probably have less knowledge of the other domains and may have different expectations as a result. For example, a parent not involved in the business will tend to support an adult child's career in the business without regard to that person's qualifications and experiences. Such support comes from a family relationships perspective, but often doesn't support the needs of the business for the best qualified employees. • Non-family employees are also single-domain players. They work for the business, but don't have the same interests as owners or family members. They may feel a conflict between their own hopes and dreams and those of family employees, particularly when family employees are promoted or when family members discuss business issues at home, thus excluding non-family employees from the discussion.

Source: Jaffe (1991:48-57)

The two domain overlap, with reference to the family and business, family and owner as well as the business and owner, is described in Table 2.3.

Table 2.3: Overlap of two domains

CATEGORY	DESCRIPTION
• **Family and Business**: Employed family members, not owners. • **Family and Owner**: Family shareholders who don't work in the business. • **Business and Owner**: Employee shareholders.	• A family member who has part ownership in the business, but doesn't work in the business on a regular basis may not appreciate the need to retain earnings to ensure business growth. Instead, there may be an expectation that all business earnings should be paid to shareholders. This family member may also be critical of business decisions he or she doesn't understand. • These family members probably have the clearest view about how profits should be divided between salaries, retained earnings and shareholder dividends, but may not understand the viewpoint of others who don't have the perspective of all three domains.

Source: Jaffe (1991:48-57)

The family, business and owner overlap is known as the three domain overlap and is described in Table 2.4.

Table 2.4: Overlap of three domains

CATEGORY	DESCRIPTION
• **Family and Business and Owner**: Family member involved in all three domains; generally the founder fits here while still active in the business.	• Family members who work in the business and who are owners, are involved in all three domains and probably are the most knowledgeable of the inherent workings of all three domains. Since they have more frequent and intimate interaction with all three domains, they may feel great responsibility, or exert greater authority when it comes to business issues. While they may do this legitimately, it often leads to conflict with other family members who have a stake in the business, but less access to information and decision-making. • These family members probably have the clearest view about how profits should be divided between salaries, retained earnings and shareholder dividends, but may not understand the viewpoint of others who don't have the perspective of all three domains.

Source: Jaffe (1991:48-57)

To minimise conflict, the most successful family business people implement two best practices (Koenig, 2000:19). First, they usually place equally powerful priority on both their family lives and their business lives. This allows them to work with loved ones doing what they love to do. They accept the almost daily discipline this requires and the tradeoffs that go with it.

Secondly, they use boundaries to keep work from overwhelming home and home from diminishing work and to keep ownership and management as distinct roles and responsibilities (Koenig, 2000:19). When they consider all other options and temptations, these families adhere to their priorities and boundaries.

To the extent that the three systems overlap, there is potential for conflict. This arises as the family system seeks to preserve harmony and minimise change, while at the same time the business and ownership systems need conflict and change if it is to survive and develop in the long term. Accordingly, where the three systems overlap, the personal and relationship issues in the family and the management need to be addressed and conflict resolution procedures adopted. The scope for conflict is increased as the business, the family and the individual all have their own needs, goals and stages of development.

However, harmony is a rarity as the stages through which a business progresses are not necessarily in synchronisation with the family's or individual's stages of development. Thus, ensuring the proper overlap between the three systems, is one of the unique challenges facing a family business.

2.4 ADVANTAGES AND DISADVANTAGES OF FAMILY BUSINESSES

2.4.1 Advantages

The overriding characteristic that distinguishes most family businesses, is a unique atmosphere that creates a sense of belonging, and an enhanced common purpose among the entire workforce (Leach & Bogod, 1999:5). Although intangible, this factor manifests itself in a number of very concrete and positive advantages that can serve to give a family business a significant competitive advantage. Ibrahim and Ellis (1994:5) recognised that in general, family businesses offer many advantages compared to publicly held businesses. Some of the major advantages of a family business are discussed below.

2.4.1.1 Shared values, beliefs and vision

The values and beliefs of a person, team or business define who and what the person, team or business is, as values are powers which determine human behaviour (Coetsee, 2002:77). If a person feels his values are important, they will guide the person's behaviour and also promote consistent behaviour across situations. The same applies to teams and businesses.

Neubauer and Lank (1998:72) stated that the values and beliefs cherished by the owning family are potentially vast sources of strength and energy for a business. A healthy owning family with strong values, in fact, may be the greatest resources and advantage a business can have (Neubauer & Lank, 1998:72).

It is generally thought that siblings, despite jealousy and rivalry, have a better chance of forming a working business relationship than people who have not grown up together. By the time they are in business together, brothers and sisters (even if they don't love and trust each other), based on the shared values and culture, do know how the other thinks, what motivates them, and how they respond to pressure (Thornton, 1998:15).

2.4.1.2 Common goal and strong sense of mission

Family members often view the family business as an important part of the family's identity and heritage, as well as a source of financial security that enables them to satisfy their lifestyle expectations (Cohn, 1992:33). Cohn (1992:33) further stated that owners of family businesses view the business predominantly as an investment from which they want to receive a fair return.

Thus, family members are dedicated to the success of their family business. They all have high stakes in the business in terms of investment, employment, inheritance, family name and social status (Ibrahim & Ellis, 1994:5).

2.4.1.3 The family spirit

The biological bond that connects all family members is a major ingredient in the success of the family business. This family spirit helps to overcome business crises and promotes family unity in difficult times (Ibrahim & Ellis, 1994:5). Fleming (2000:18) supports Ibrahim and Ellis (1994:5) and states that family members are more likely to fit in as they form a close unit.

Every business has its own culture. In a family business, this culture usually reflects the family itself (Fleming, 2000:18). Employing a family member means employing someone who already fits in. This person will likely share similar values, beliefs and attitudes with both the family and the employer (since they're the same).

2.4.1.4 Perception of the family name

The confidence that customers have in a family name and in a person, rather than a title, is behind the success of many family businesses (Ibrahim & Ellis, 1994:6). The reputation of the family and the business are often tightly interconnected. The business has access to, and may draw upon, all of the family's social connections (Ibrahim & Ellis, 1994:6).

Likewise, the family can act as a strong symbol of corporate purpose (Aronoff *et al.*, 2002:567). The continuity of a single owing family can provide a psychological anchor that eases large scale organisational change. Having a visible family owning the business, engenders a sense that the business will be around as long as the family is alive (Aronoff *et al.*, 2002:567).

2.4.1.5 Flexibility

According to Leach and Bogod (1999:6) flexibility boils down to putting the work and time into the business that is necessary and taking out the money when it is available. Thus, if work needs to be done and time spent in developing the business, then the family puts in the time and does the work. There is no negotiating of overtime rates or special bonuses for a rushed job (Leach & Bogod, 1999:6).

The same flexibility applies concerning money. Most families have a set income derived from wages or salaries paid by an employer. The only decision the family takes regarding income is on how to spend the income (Leach & Bogod, 1999:6). But for families in business, income is not a fixed element in the domestic equation; they must decide how much money they can safely take from the business for their own needs, while at the same time, preserving the business's financial flexibility and its scope for investment. Thus, flexibility in time, work and money leads to a competitive advantage as they can adapt quickly and easily to changing circumstances (Leach & Bogod, 1999:7).

Ibrahim and Ellis (1994:6) also clearly stated that family businesses enjoy more flexibility in decision-making as they are less hierarchal and bureaucratic than professionally managed businesses. Flexibility allows the family business to respond quickly and effectively to a changing environment, be it one characterised by technological, market or socio-economic change.

2.4.1.6 Long-term commitment

Compared to publicly held companies, family businesses generally tend to be better at thinking long-term (Kets de Vries, 1996:16; Leach & Bogod, 1999:7). The fact that families usually have a quite clear view of their commercial objectives across, say, the next ten to 15 years, can therefore represent a considerable advantage (Leach & Bogod, 1999:7).

Family businesses are not fly-by-night operations, playing only for short-term gains at the cost of long-term investment. In many instances, the family business and its products affect the very identity of the family members (Kets de Vries, 1996:16). Family businesses worry less about take-over threats and the executives can save their energy for other causes (Kets de Vries, 1996:17).

Finally, family businesses tend to be more resilient during hard times, given their greater willingness to plough profits back into the business (Ibrahim & Ellis, 1994:6; Kets de Vries, 1996:17). Where public companies operate for only one constituency, namely the shareholders, the family businesses are responsible for five constituencies, the customers, the employees, the vendors, the community as well as the family (Goodman & Dreux IV, 1997:3).

2.4.1.7 Offers economic independence

Kets de Vries (1996:17) stated that, compared to publicly held businesses, family businesses are not the slaves of Wall Street, haunted by quarterly results. Because they are under less pressure and public scrutiny, they experience greater independence of action (Kets de Vries, 1996:17).

Also, family members working in the family business feel more independent in terms of monetary reward, be it salary, compensation or increase in wealth as a result of capital appreciation (Ibrahim & Ellis, 1994:6). They further believe that working in their family's business will provide them with greater responsibility and authority, the opportunity to learn and handle diverse roles, and the ability to have a much larger impact than if they were just another employee at a large business (Fleming, 2000:19).

2.4.1.8 Entrepreneurial culture

Ibrahim and Ellis (1994:6) stated that the founder usually builds a strong entrepreneurial culture that becomes deeply entrenched in the family business. In today's competitive and changing environments, an entrepreneurial culture is critical to the success of any venture (Timmons & Spinelli, 2003:246). Entrepreneurial culture emphasises innovation, idea generation, flexibility, risk-taking, the ability to solve problems creatively and recognise opportunities, as well as goal orientation, commitment to business and the desire to compete and succeed (Ibrahim & Ellis, 1994:7).

Leach and Bogod (1999:8) stated that the founder has usually been around for many years and that the key management personnel are all committed to the success of the business and that they are there for the long term too.

2.4.2 Disadvantages

In spite of immensely valuable advantages, family businesses are prone to some serious and predominant disadvantages. In the same way that family business strengths are not unique to family businesses, neither are their weaknesses. Many of the problems hinge on the inherent conflicts that can arise between family and business values (Leach & Bogod, 1999:11).

The disadvantages of family businesses are discussed below.

2.4.2.1 Family infighting

A major disadvantage of family businesses is the infighting among family members (Ibrahim & Ellis, 1994:7). Fights among children, spousal fights, sibling rivalry and intergenerational infighting as a result of the differences in values between generations, could lead to undesirable behaviour, confusion, poor performance, goal conflict and, ultimately, the bereavement of the family business (Ibrahim & Ellis, 1994:7).

Kets de Vries (1996:15) stated that infighting can become extremely complex in family businesses that have survived a number of generations and are run by large families. Too much time is spent on conspiratorial activities rather than on the substance of the business (Kets de Vries, 1996:15). Sometimes, sibling rivalry can be friendly and sometimes it becomes ugly (Buchholz *et al.*,

2000:273). The fallout may result in business problems, low morale among employees and other family members, and the need for one to leave the family business (Buchholz *et al.*, 2000:273).

2.4.2.2 Boundary problems

When boundaries are confused, conflict and uncertainty results (Jaffe, 1991:62). Ibrahim and Ellis (1994:7) stated that boundary problems are marked by the dual relation in family business, namely being a member of the family and the business system. Since both family and business have their evolving life cycles, problems arise when the family and business the life cycles are not co-ordinated (Jaffe, 1991:27).

However, unhealthy boundaries sit at one of two extremes: they can be claustrophobically tight or too loose to maintain the family as a cohesive unit (Cohn, 1992:45). Boundary problems arise as a result of the inability to separate the family and business systems (Ibrahim & Ellis, 1994:7).

Boundary problems include generational boundaries (Koenig, 2000:106). A common coalition that crosses the generational boundary is the coalition of parents' favourites. On the surface, such affinities seem harmless. But too many important and much-needed relationships are neglected, and these families usually lack the husband-wife team, which is the heart of the family (Koenig, 2000:107).

Boundary problems also arise with other family members who are owners of the family business (Jaffe, 1991:64). As owners, especially if they control significant shares and are on the board of directors, they certainly have some rights to participate and be informed about business decisions. But they should not have the direct authority to make operational or personnel decisions, or to come in and use employees or business resources, for their personal use (Jaffe, 1991:64).

2.4.2.3 Role confusion

Bork *et al.* (1996:149) stated that a key difficulty in family businesses is that lines of communication and authority tend to flow from the family to the business without respect for each family member's appropriate role. Neubauer and Lank (1998:15) observed that the number of roles to be managed by the CEO of a family business, can be as many as 15, e.g. owner, father, member of the board of directors and manager. This confusion is always a result of the dual role the family members play in being a member of the family and also owner / manager of the family business (Ibrahim & Ellis, 1994:7).

This role-confusion often leads to inefficient communication and poor decision-making (Ibrahim & Ellis, 1994:7).

2.4.2.4 Lack of objectivity

Decisions concerning family members working in the family business are often based on emotions rather than an objective assessment of the situation (Ibrahim & Ellis, 1994:7). Decisions concerning compensation, promotion or hiring of family members are often subjective.

Many examples can be cited, such as (Ibrahim & Ellis, 1994:7):

- Offering a higher salary and more benefits to the elder son compared to the daughter and other siblings, regardless of qualification, task and performance.
- Making younger members of the family, or spouses, work with little or no compensation.
- Hiring or promoting family members regardless of their qualifications in order to make peace with an aunt or cousin.

Bareither and Reischl (2003:37) stated that the best way to ensure objectivity and thus future success of the family business is to take advantage of expertise from a variety of qualified advisors, e.g. attorney, insurance agent and a financial planner. Bareither and Reischl (2003:64) further stated that friends, relatives or mentors, are also important informal advisors for the family business.

2.4.2.5 Nepotism

Ibrahim and Ellis (1994:8) defined nepotism as career advancement of family members on the basis of relationship. According to Jonovic (1997:11), the key danger of nepotism is that it seldom takes the needs of the business into account. Instead, individual and / or family needs come first. Integrating offspring into the family business may be perceived by non-family members as a kind of nepotism (Ibrahim & Ellis, 1994:8). Aronoff *et al.* (2002:96) advised that all relatives be given opportunities to learn, but only the most competent should be taken into the family business.

Senior owners / managers often show a remarkable capacity for closing their eyes to the weaknesses of their beloved sons and / or daughters, welcoming family members, regardless of their ability, to contribute to the business (Kets de Vries, 1996:19).

Qualifications and performance of non-family members are often ignored in order to hire or promote a less qualified family member (Ibrahim & Ellis, 1994:8). This absence of fair play undermines one of the pillars of business culture, namely trust (Kets de Vries, 1996:19).

2.4.2.6 Succession

Fleming (2000:128) stated that succession in family businesses is never about succession. If it were, it would be a manageable process. But it's not and will never be, because the process of succession puts two opposing forces in conflict with each other, namely change and stability (Fleming, 2000:128, 129). The succession question is a central factor in family disputes (Ibrahim & Ellis, 1994:7; Leach & Bogod, 1999:14).

When the managing director of a business, as well as the obvious managerial considerations, is changed, one raises a set of emotional issues that has to be settled at the same time (Leach & Bogod, 1999:14). At first glance, family businesses encounter identical problems of those experienced by non-family businesses. But underlying their problems is a minefield of psychological, family-related, emotionally charged dilemmas that, in reality, entirely transform the change of leadership issue into one that can threaten the survival of the business (Leach & Bogod, 1999:14).

Succession usually leads to a bitter family fight, sometimes waged in the courtroom (Ibrahim & Ellis, 1994:8). Therefore, it is not surprising to find that only ten percent of successful family businesses last through the third generation while less than two thirds survive the second generation.

2.4.2.7 Inward-looking

Pickard (1999:83) stated that when one conceives of the notion of a family-run business, one conceptualises the image of tradition. The word tradition implies an inherited, an established and / or a customary pattern. The purpose for upholding tradition in the family-run business is so that the family can hand down its esteemed business reputation from one generation to another, without much change (Pickard, 1999:84).

Sentiments such as "Things are done this way because Dad did them this way" and "You can't teach an old dog new tricks", reflect the ways in which behaviour patterns can become ingrained and family businesses become tradition-bound and unwilling to change (Leach & Bogod, 1999:11). Ibrahim and Ellis (1994:7) observed that family businesses have been criticised for looking inward, rather than outward, for ideas.

2.5 FAMILY HARMONY

To achieve family harmony, the correct degree of balance between the overlap of the family and business systems is necessary. Leach and Bogod (1999:30) stated that if the correct degree of balance is achieved, it will allow the business to run properly while not disrupting family harmony.

The degree, to which one achieves this harmonious state of accomplishment, is influenced by ingrained family dynamics. The family in harmony, i.e. working together in a healthy balance, will merge to create a work environment that is harmonious (Pickard, 1999:5). Every family business mimics the style of the family that created it (Jaffe, 1991:47). Lying behind the business, in its shadow, are the relationships and needs of a family.

Jaffe (1991:47) further stated that many of the frustrations, conflicts, difficulties, misunderstandings and confusions in a family business, have their roots in the ways of the family. The ways of the family entails the family's culture and values. Numerous authors support the view that both a rich value system and a strong, persistent and stable culture, typical characteristics of family businesses are, and, as such, represent the most significant source of strength family businesses have over their non-family competitors (London Economics, 2002:9; Neubauer & Lank, 1998:72).

2.5.1 Family culture

Kreitner and Kinicki (2001:105) defined culture as a pattern of basic assumptions, invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration, that has worked well enough to be considered valid and therefore to be taught to new members as the correct way to perceive, think and feel in relation to those problems. Hellriegel *et al.* (2002:486) defined culture as the unique pattern of shared assumptions, values and norms that shape the socialisation, symbols, language, narratives and practices of a group of people.

Therefore, culture consists of belief, values, norms and traditions shared by all members of the business and the concept of culture as defined above, can be applied to both the family and the business (Dyer, 1986:14).

Just as each family has its own culture developed across generations, businesses also develop an organisational structure and culture (Aronoff *et al.*, 2002:426). When an organisation is a family business, the two cultures overlap and are inter-reliant on each other (Fleming, 2000:39; Voeller *et al.*, 2002:17). Neubauer and Lank (1998:8) stated that the family's cultural heritage can be so strong that it may remain in place even after it has lost ownership control.

Family businesses have a special culture because they share a fundamental belief in the interdependence of family members, stressing and valuing family connectedness (Aronoff *et al.*, 2002:426). Due to this connectedness, the actions and perceptions of one member can have enormous implications for other family members (Aronoff *et al.*, 2002:426). To understand this connectedness, a person needs to know the four basic culture types of family businesses (Dyer, 1986:22).

2.5.1.1 Four basic culture types of family businesses

Dyer (1986:22) stated that there are four basic culture types of family businesses, namely:

- **Paternalistic culture**. This type of culture has hierarchically arranged relationships. In this culture, leaders retain all the power and authority and make all the key decisions. The paternalistic culture is the most common culture.
- **Laissez-faire culture**. This culture also relies on hierarchical relationships, but it differs from the paternalistic culture in its assumptions about human nature and the nature of truth. Employees are viewed as trustworthy and are therefore empowered to make decisions.
- **Participative culture**. The participative culture is based on assumptions that vary dramatically from the first two types. Relationships tend to be more egalitarian and more group oriented. The status and power of the family tends to be de-emphasised. Employees are deemed trustworthy and are given opportunities to develop their talents.
- **Professional culture**. In this culture the owners decide to turn the management of the business to professional managers. In such family businesses, relationships are individualistic, impersonal and competition is keen.

2.5.2 Family values

According to Dyer (1986:18) values reflect general goals, ideas and standards. Hellriegel *et al.* (2002:488) stated that a value is a basic belief about something that has considerable importance and meaning to individuals and is stable over time.

Kreitner and Kinicki (2001:69) said values possess five key components, namely that values:

- Are concepts and beliefs.
- Pertain to desirable end-states or behaviours.
- Transcend situations.
- Guide selection or evaluation of behaviour and events.
- Are ordered by relative importance.

The importance of family values are highlighted by Bork *et al.* (1996:63) by stating that if there is basic agreement about underlying values, then it is possible for a family to create a shared vision for itself and of the business's future and that these values can be pursued harmoniously.

For Koenig (2000:168), family values are like tools: they shape, build, drive and determine the success of both the family and the business. It is what is valued, that determines the quality and outcome of any relationship and endeavour. Koenig (2000:168) concluded his opinion on values in a family business by stating that the question is which values are practiced in a family business, and more important, which values are the most effective tools to build a lasting, successful business.

As children enter the family business, they bring with them the same or similar values as their parents (Neubauer & Lank, 1998:72). This may also explain why family businesses have stronger cultures and value systems than non-family businesses.

2.5.3 Family trust

Shanker (2000:13) stated that the one thing that underlies all the competitive advantage and distinctiveness of family businesses, is trust. Trust is the source of long-term perspectives, loyalty, commitment and stewardship (Shanker, 2000:13). Kreitner and Kinicki (2001:422) defined trust as reciprocal faith in others' intentions and behaviour.

Astrachan and McMillan (2003:24) stated that to resolve conflict and create a good environment for communication, the family members must have trust. However, trust is often considered a *chicken-and-egg* issue, raising such questions as: "Can you build trust without good communication? Can you have good communication without trust?". It doesn't matter which one is first, the most important issue is to behave as if trust exists (Astrachan & McMillan, 2003:24). Behaving as if trust exists, will actually help build trust.

Shanker (2000:14) identified the five components of trust as integrity, competence, consistency, loyalty and openness. When actions and behaviours are consistent with these guidelines, trust is enhanced (Shanker, 2000:14). Business cultures that stress these values reinforce trust. Trust needs to be earned, it cannot be demanded. A lifetime of trust-building can be destroyed by doing something that's inconsistent with one's usual behaviour (Astrachan & McMillan, 2003:25).

Thus, guidelines for building and maintaining trust are (Aronoff & Ward, 2002:54; Astrachan & McMillan, 2003:24; Kreitner & Kinicki, 2001:423):

- **Communication**. Keep family members and employees informed by explaining policies and decisions and providing accurate feedback. Be candid about one's own problems and limitations. Thus, tell the truth.
- **Support**: Be available and approachable. Provide help, advice, coaching and support for family members' ideas.
- **Respect**: Delegation, in the form of real decision-making authority, is the most important expression of managerial respect. Actively listening to the ideas of others is a close second. Empowerment is not possible without trust. See the family members and other employees as assets to the business and understand the power of their contributions.
- **Fairness**: Be quick to give credit and recognition to those who deserve it. Make sure all performance appraisals and evaluations are objective and impartial.
- **Predictability**: Be consistent and predictable in daily affairs. Keep both expressed and implied promises.
- **Competence**: Enhance credibility by demonstrating good business sense, technical ability and professionalism.

In addition to the above, be trustworthy and extend trust. It is important to create systems and then trust the systems to work, e.g. having family meetings, setting up a family council and formalising the participation of spouses in family groups, so that they feel more informed and connected (Astrachan & McMillan, 2003:58).

Trust makes teamwork between ownership and management possible. The more trust family owners show to management, the stronger the business will be (Shanker, 2000:68). Because of the emotional intensity in a family business, the trustworthiness of a leader is essential (Aronoff *et al.*, 1997:50). Leaders earn trust when it is clear they are not out to dominate everyone or tell them what to do. They are not *Bosses*; they are leaders (Aronoff *et al.*, 1997:50).

2.5.4 Relationships in family businesses

All families experience relationship problems, but family businesses face bigger problems as they work so closely together (Carlock & Ward, 2001:73). This proximity often means that family disputes overshadow work, even though the business continues to function normally.

Lea (1991:11) stated that the greatest threats to the continuity of the family business are not estate taxes, laws governing businesses or the mechanics of shock transfers. The greatest threats are the nature of the family relationships, i.e. among siblings, between spouses and between generations, as well as the personality of the founder or senior owner of the business.

One of the reasons family members are in business together, is that they want to work together and to enjoy the fruits of their labours as a family (Astrachan & McMillan, 2003:52). Before a family can encourage the participation of new family members, the family must have some basis for personal relationships (Carlock & Ward, 2001:75). Families need to realise that working together and preparing a family and business for the future, require uncomfortable changes, mistakes and the confrontation of conflict (Carlock & Ward, 2001:75).

2.5.5 Communication in family businesses

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

One way to begin improving communication skills is to take stock. Conduct an inventory of how well the family communicates. When communication is going well, it is a sign that a lot of other things are going well, too (Astrachan & McMillan, 2003:22). If the communication inventory suggests real problems, one needs to take action as quickly as possible, possibly calling in outside professional help (Astrachan & McMillan, 2003:22).

Ibrahim and Ellis (1994:113) stated that it is very important, both from a family and a business perspective, for active and inactive family members to communicate with each other on how the businesses is developing, the problems of the business, as well as the future plans with the business. Sharing will provide the active and inactive family members with the feeling that they have control over their destiny and they will thus be more able to support and encourage each other (Leach & Bogod, 1999:40; Shanker, 2000:14).

There are different patterns of communication in different families. One family may be very argumentative, another may prefer quieter, intellectual discourse, or to hardly communicate at all (Astrachan & McMillan, 2003:15). From the outside, it seems easy to resolve many of the difficulties of families in business. Yet, many families will stop at nothing to avoid discussion of controversial issues (Jaffe, 1991:88).

As much as family members love one another, relationships can be difficult. Conflict arises, many of them as a result of unresolved issues based in childhood (Astrachan & McMillan, 2003:53). Often a family's ability to resolve its differences is obstructed by its conflict and communication patterns and poor communication skills (Bork *et al.*, 1996:52). Shanker (2000:15) stated that a person will be surprised at how communication can lead to better understanding and co-operation.

The reason that communication in a family business is so difficult is that family members don't merely face differences of opinion, feelings or conflicts over policies (Jaffe, 1991:88). They bring with them not just the issue at hand, but a history of expectations, assumptions, hurts and unfulfilled desires as ghosts in the conversation. All the baggage family relationships carry, gets in the way of sharing and resolving differences (Bork *et al.*, 1996:56; Jaffe, 1991:88).

2.5.5.1 Openness in communication

Aronoff *et al.* (2002:299) as well as Neubauer and Lank (1998:73) stated that a culture of open communication, reinforced by structured processes, is an integral precondition in creating a successful family governance process. Buchholz *et al.* (2000:101) stated that one cannot manage, and the children cannot successfully learn the business, without access to full information.

Bareither and Reischl (2003:35) said that the single best way to create a climate for open and direct communication is to use a direct approach. Convene the entire family, which means everyone in or out of the business, including in-laws, at a neutral site. Thus, the first place to start with, is communication between the family members themselves about family matters.

In smaller, first and second generation families, this communication can be achieved through annual family meetings, guided by a good communication process for both family and business matters (Aronoff *et al.*, 2002:299; Bork *et al.*, 1996:107). Families that have grown to a multigenerational stage may require a formal structure, such as a family council and / or a family office. Such meetings (formal or informal), provide an open forum for family members to discuss outstanding matters with each other (Aronoff *et al.*, 2002:299). But, most important, it helps to create and sustain a culture of mutual trust within the family (Cohn, 1992:21).

The second area of communication requires a regular flow of information from the family business to family members (Ibrahim & Ellis, 1994:130). For example, the closed mode of keeping key financial data from all but a small circle of family members should be avoided (Aronoff *et al.*, 2002:299).

These two communication processes among the family members, and between the family and its business, create the knowledge and competency required by family members. Business and investment performance results become more familiar subjects to the family, rather than unknown, distant data.

What is really at the heart of this entire communication process is the creation of trust among family members (Cohn, 1992:21, 22). Openness and inclusion creates trust, and family trust, creates family harmony (Aronoff *et al.*, 2002:299; Leach & Bogod, 1999:68).

2.5.5.2 Forums for communication

Astrachan and McMillan (2003:34) stated that by instituting forums in which family members can talk with one another, a family creates a system for dealing with miscommunication as well as more serious conflict on an ongoing basis, instead of letting disagreements fester until they explode into open hostility. When family members have appropriate forums to voice their concerns, conflict may be avoided, managed and / or minimised (Bork *et al.*, 1996:137).

Family meetings are the mechanism through which most plans are made and the forum in which the family's future hopes and ideals are developed (Bork, 1993:149; Ward, 1987:131). Formal planning is not the only purpose these forums can serve. They can also help settle disputes and increase family members' awareness of the history of the business. They provide a vehicle to communicate any topic of concern (Ward, 1987:131).

Koenig (2000:210) stated that there are informal and formal ways families can meet to communicate. Some family owners meet with each other on an informal basis because they believe in keeping each other informed; they believe three, four or five heads are better than one or two, and that everyone should be on the same page. Neubauer and Lank (1998:80) is of the opinion that the informal meetings may be relative frequent, even daily. *Pillow talk* has been used by Neubauer and Lank (1998:80) as one descriptor.

Koenig (2000:211) is of the opinion that when informal meetings are handled openly, in a friendly and civil manner, they pave the way for having more successful formal meetings in the future. However, there are issues that are simply too complex to be left to informal meetings. These include, for example, the distinction between ownership and management, ownership succession, family members' employment in the business, the values for guiding the business, business education, management succession and the family's response to a crisis or an emergency in the business (Koenig, 2000:212).

At all forums on family business matters, information should be openly recorded and within full view of those attending (Bork, 1993:149). With open, written recording, the communication can be checked until all understand it the same way (Bork *et al.*, 1996:108). Written communication also serves as a permanent record of decisions made (Bork, 1993:150).

In worst-case scenarios, a family is afflicted by lack of trust and honesty and the desire of some family members to exert power and dominance over others (Astrachan & McMillan, 2003:53). In these situations, communication is not merely inadequate, it is destructive. Families in this situation almost invariable need to turn to outside professional help or admit the situation and leave (Emens & Wolper, 2000:9; Ibrahim & Ellis, 1994:130; Thornton, 1998:21).

2.5.5.3 Common pitfalls in communication

The road to good communication is an extremely bumpy one. Based on guidelines from Astrachan and McMillan (2003:20), as well as Kreitner and Kinicki (2001:508, 509), the following nine pitfalls in communication in family businesses were derived:

- Fear that communication will make things worse.
- Life crisis points, such as marriage, birth and death.
- Family patterns of communication and conflict cycles.
- Being locked into a role.
- Misinterpreting what someone else says.

- Multiple levels of communication, e.g. verbal, body language and parallel conversation.
- Fear that others in the family are too fragile to discuss tough issues.
- Hidden personal issues, such as need for parental love or to be a full-fledged family member.
- Fear of an emotional response.

Once one becomes aware of these pitfalls, action can be taken. That may mean discussing how differences in the conflict cycle of the family business will be handled, or the styles of communication. Most of all, it means taking the steps to improve communication in the family, so that all family members can become more skilled in interacting with one another and in managing conflict.

2.5.5.4 Essential steps toward better family communication

Based on guidelines from Gray (2004:139), Kreitner and Kinicki (2001:508) and Lea (1991:1), the following list was derived for essential steps toward better family communication:

- Ask clear, honest and sincere questions.
- Give clear, honest and constructive answers.
- Withhold judgment until all the facts and feelings are on the table.
- Discuss problems and differences in the present moment.
- Try to understand the motivations of others.
- Assume other people's good intentions until you're proven wrong.
- Don't go away mad.

Communication is not a soft subject. From the above it can be seen that a lack of good communication can lead to the downfall of a business. Good communication does more than keeping families and businesses going. It is the essence of relationships, it makes them meaningful and fun and, in the long run, it helps make life worthwhile (Astrachan & McMillan, 2003:54).

2.5.6 Conflict in family businesses

Kreitner and Kinicki (2001:447) stated that a comprehensive review of the conflict literature yielded the following consensus definition of conflict: "Conflict is a process in which one party perceives that its interests are being opposed or negatively affected by another party". Neubauer and Lank (1998:74) defined conflict in a very similar way.

A challenge to the future health of a family business lies in the family's desire to avoid conflict in the interest of familial harmony (Ward, 1987:49). While in many ways this is a laudable goal, conflict among family members may be important to the growth of the business (Ward, 1987:46). Some business families simply avoid contradicting each other under any circumstances (Spector, 2003:iii).

While this tactic may be successful in preventing screaming fits, it also inhibits innovation because it discourages relatives from proposing better ways of doing things. Spector (2003:iii) and Neubauer and Lank (1998:74) stated that it is important to remember that conflict in itself is not a negative phenomenon. In fact, conflict can serve as a mechanism for strengthening relationships and incorporating new ideas into business practices, that is, if it's properly harnessed.

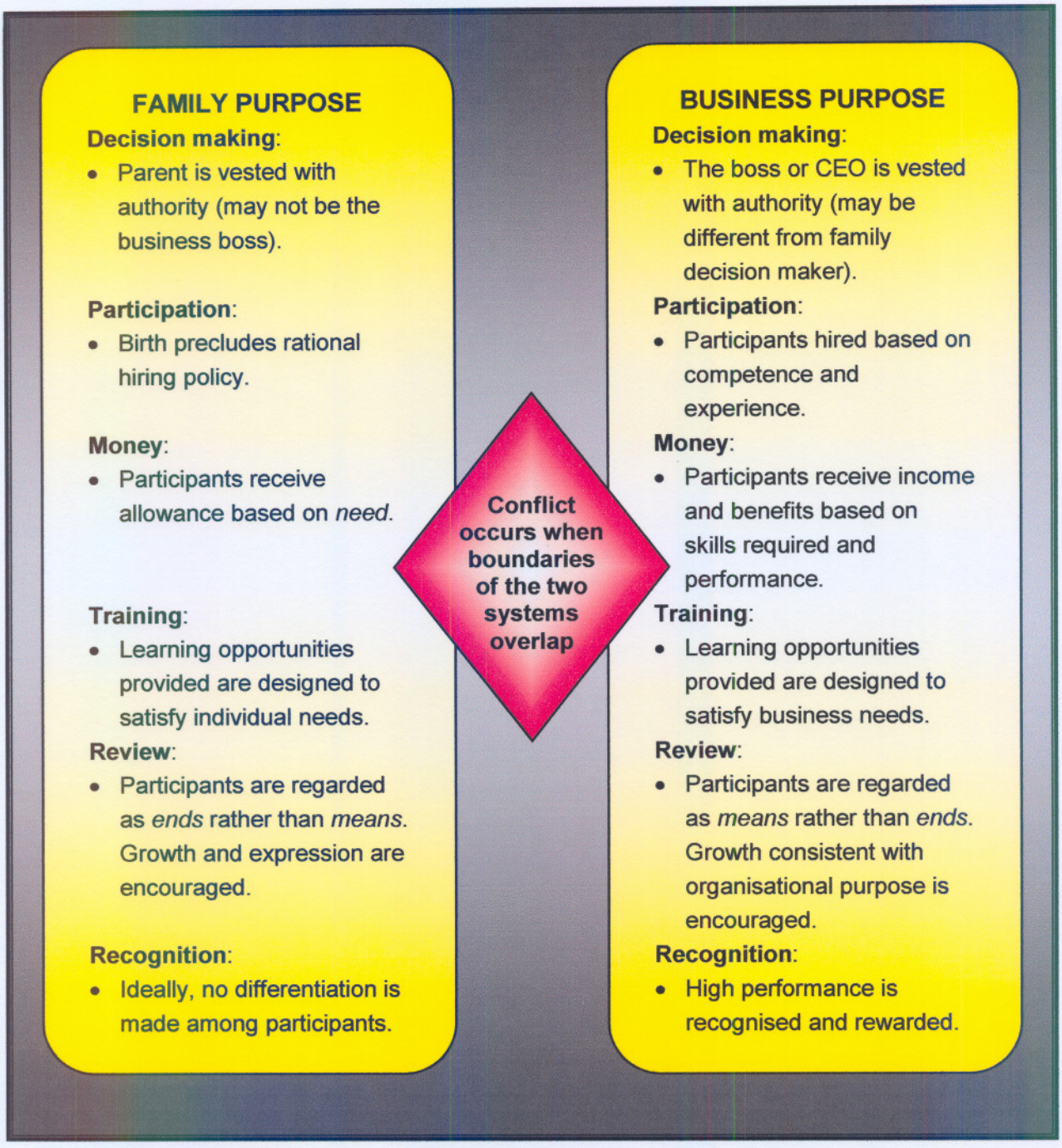
2.5.6.1 Sources of family conflict

Cohn (1992:44) states that the single most frequent cause of conflict is lack of co-ordination between ownership succession and management succession. Ibrahim and Ellis (1994:124) state that a basic reason for conflict in a family business is the dual relationship engendered by a member of the family who is also a member of the business.

Lansberg (1988:121) points out that conflict is the result of innate differences between the family's and the organisation's purpose. The family purpose is to care for and nurture family members and the business's purpose is to provide goods and services at a profit. Thus, it is clear that conflict arises because of the overlap between the family and the business systems. When boundaries between the business and family are not clear, major changes mapped out in the succession plan can detonate emotional conflicts (Cohn, 1992:47).

The areas of operation highlighted in Figure 2.5 (on the following page), have different rules regarding participation, compensation, appraisal of activities and training given to members of each system.

Figure 2.5: System overlap and conflict



Source: Cohn (1992:48)

Sometimes the cross-purposes of being involved in both systems create conflict, because the rules, values, behaviour, communication patterns and the goals of the family system usually conflict with those of the business system (Cohn, 1992:45-49; Fleming, 2000:39; Leach & Bogod, 1999:27).

The sources of conflict, based on the overlap of the family and business systems, as derived from Cohn (1992:48), Goodman and Dreux IV (1997:46) as well as Ibrahim and Ellis (1994:124), are listed below:

- Ambiguity of roles and rules in the family business.
- Differences in power and status among family and non-family members.
- A hasty and / or unfair succession process.
- Rivalries among family members, in particular the founder's offspring.
- The beloved son / daughter syndrome.
- Financial conflict, e.g. family vs. business, intra-ownership, intra-management and lifestyle values.
- Lack of clear and coherent policies regarding career development, compensation and hiring.
- Lack of a code of conduct.
- Lack of a proper job description, roles and clear boundaries.
- Competition for capital as both the business and the family are each looking to the same pool for their future and security.

Establishing appropriate boundaries between the two systems is therefore critical to reducing conflict and ensuring the survival of the family business.

2.5.6.2 Telltale signs that family conflict is simmering

Family feuds often simmer for years before they begin to boil (Cohn, 1992:49). Recognising symptoms of distress early and dealing with the underlying issues that are causing the distress can keep feuds from developing. Sometimes, families think they have no conflict because the conflict is so suppressed (Astrachan & McMillan, 2003:5).

Conflict can be contentious and it can be defined as war, struggle or battle, but conflict in a family business is often much more subtle. It can be hidden or denied and it is sometimes quiet (Astrachan & McMillan, 2003:5). It may be so invisible that people inside and outside the family don't recognise it's there and it almost always hides deeper issues (Astrachan & McMillan, 2003:5).

Telltale signs that conflict may be simmering beneath the surface of a family and its business, are listed in Table 2.5.

Table 2.5: Telltale signs of family conflict

AREA	DESCRIPTION
EXTERNAL	• Customer dissatisfaction. • Loss of market share. • Rise of competitors.
INTERNAL	• Low employee morale. • High employee turnover. • Reasonable increases in sales that fail to translate into increases in profit or cash flow. • Drug or alcohol abuse among family members. • Absenteeism by family members. • Employees are late for meetings or postpone meetings frequently. • Emotional flare-ups. • People in different parts of the family and the business say different things.
ETERNAL	• Patterns (family feuds, problems, addictions, divorces, illnesses such as ulcers and insomnia) that can be traced back through previous generations. • Denial that problems exist.

Source: Bork *et al.* (1996:24) and Cohn (1992:49)

If any of these signs are present, one needs to look more deeply at the family system. It is important not to ignore the signs, but to understand that something deeper is going on (Bork *et al.*, 1996:24).

2.5.6.3 Types of family conflict

Some of the common sources of conflict in the family business, the relationship in which conflict are found and the mechanisms to resolve this conflict are discussed in Table 2.6 on the following page.

The types of conflict and the mechanisms to resolve the conflict as proposed by Ibrahim and Ellis (1994:125) are respectively supported by Leach and Bogod (1999:121 – 130) and Carlock and Ward (2001:77).

Table 2.6: Types of conflict and mechanisms to resolve conflict

TYPES OF CONFLICT	MECHANISMS TO RESOLVE CONFLICT
Father – son / daughter rivalry: Conflicts may occur in the relationships between the founder / owner and his son or daughter for many reasons; these include the founder's psychological make-up, the conflicting values of the older and the younger generations and the offspring's drive to equal or outdo the father.	• Succession planning. • Third-party intervention. • Peacemaker. • Wise man / woman in the family. • Consultant / lawyer, accountant.
Rivalries between offspring: The relationships between brothers may be strained and intensified further, leading to a bitter family feud sometimes fought in courts over the question of who gets what. In some cases, chronic discord or infighting among siblings may stand as obstacles against the founder's wishes to retire and pass the legacy of years of hard work on to his offspring.	• Succession planning. • CEO intervention. • Job descriptions. • Introducing professional management. • Confrontation meeting. • Communication, e.g. weekly supper. • Restructuring, i.e. creating a zone of comfort / territories.
Conflict between other members of the family: The fray between two family members may have its origins in disputes involving their children, nieces and nephews. The succession process is a central factor in family conflict. Other contributing factors may include value differences between generations, ineffective communication among family members and tension over who does what. Many family businesses pay scant attention to division of labour, career development and the formulation of clear guidelines governing different aspects of the business.	• Job descriptions. • CEO interventions. • Confrontation meetings. • Code of conduct. • Communication, e.g. weekly supper.
Conflict between family and non-family members: The quarrels and ill feelings of relatives have a way of spreading out to include non-family employees. Conflict between family and non-family members of the business may arise as a result of nepotism, frustration over the non-consultation in decision-making, lack of clear policies concerning career paths, promotion, compensation and the inability to work with the successor.	• Clear policies concerning career development. • Job descriptions. • Communication. • Introducing professional management.

Source: Ibrahim and Ellis (1994:125-127)

The most effective way of managing conflict is to prevent it from occurring in the first place (Spector, 2003:9). Astute business owners anticipate potential hot-button issues and develop a systematic way of addressing them before they arise, this is, before things get personal (Spector, 2003:47). These successful family and business leaders have adopted a value system that emphasises stewardship of a heritage to be preserved and they teach the next generation to treasure this legacy.

Although not as comprehensive as Ibrahim and Ellis (1994:128-129) above, Bork *et al.* (1996:113-121) supports the same methods for the management of conflict. Ibrahim and Ellis (1994:130) list additional, although not common, conflict resolution methods applicable to the family business, namely the expansion of resources, avoidance, smoothing, compromising, forcing and restructuring.

Neubauer and Lank (1998:73-80), listed three strategic options for the management of conflict, namely avoidance, referral and confrontation. The list of methods for conflict resolution as derived by Ward (1987:156-157), are all inclusive in the techniques as mentioned by Ibrahim and Ellis (1994:128-129).

2.6 CHAPTER SUMMARY

The main purpose of this chapter was to discuss what a family business is. Topics discussed include an introduction to family businesses, the definition of a family business, the three systems in a family business, advantages and disadvantages of a family business and family harmony. The discussion of family harmony entails family culture and values, relationships between the family members, communication and conflict in the family business.

As a major component of the South African economy, the family business should be a focus of discussion, analysis and attention. There is no consensus on the definition of family businesses in the research, teaching and consulting communities, among journalists and the general public. After much synthesis and consideration, a family business was, for the purpose of this study, defined as a business where at least 51% of the business is owned by a single family, at least two family members are involved in management activities and the transfer of leadership to next generation family members is anticipated.

Family businesses differ in a variety of critically important ways from non-family businesses and family businesses function differently from non-business families. There are three interrelated and completely different and distinct systems involved in a family business, namely the family, business and ownership systems.

To the extent that these three systems overlap, there is potential for conflict. This arises as the family system seeks to preserve harmony and minimise change, while at the same time the business and ownership systems need conflict and change if it is to survive and develop in the long term. Accordingly, where the three systems overlap, the personal and relationship issues in the family and the management need to be addressed and conflict resolution procedures adopted. The scope for conflict is increased as the business, the family and the individuals all have their own needs, goals and stages of development.

However, harmony is a rarity as the stages through which a business progresses are not necessarily in synchronisation with the family's or individual's stages of development. Thus, ensuring the proper overlap between the three systems is one of the unique challenges facing a family business.

The overriding characteristic that distinguishes most family businesses is a unique atmosphere that creates a sense of belonging and an enhanced common purpose among the entire workforce. Although intangible, this factor manifests itself in a number of very concrete and positive advantages that can serve to give a family business a significant competitive edge. In general, family businesses offer many advantages compared to publicly held businesses. Some of the major advantages of a family business include shared values, common goals, family spirit, flexibility, long-term commitment and entrepreneurial culture.

As well as immensely valuable advantages, family businesses are prone to some serious and predominant disadvantages. In the same way that family business strengths are not unique to family businesses, neither are their weaknesses. Many of the problems hinge on the inherent conflicts that can arise between family and business values. A number of the disadvantages of a family business are family infighting, boundary problems, role confusion, and lack of objectivity, nepotism, succession and inward-looking.

The most important reason for the prevalence and success of a family business is that family closeness and understanding is a powerful resource in the business world. Family members have a shared history and sense of identity. Family members trust and care for each other, are loyal to each other, and feel deeply committed to each others' welfare and future.

Family values and relationships add uniqueness to family businesses that distinguish them from non-family businesses. It is very important, both from a family and a business perspective, for active and inactive family members to communicate with each other on how the business is developing, the problems of the business, as well as the future plans with the business. Sharing will provide the active and inactive family members with the feeling that they have control over their destiny and they will thus be more able to support and encourage each other.

Conflict and the failure of communication contribute to the fall of a business-owning family. Only through sound communication does conflict get satisfactorily resolved. Healthy communication can often prevent the misunderstandings around which conflict occur. When communication is going well, it is a sign that a lot of other things are going well, too.

Thus, the above issues are all unique challenges facing family businesses. What makes these issues so unique and challenging, are the interrelationship between the family and the business. It is not possible to address business issues without being emotionally part of the family as well.

The following chapter discusses more unique challenges facing a family business. Topics discussed are compensation in a family business, management and ownership succession of a family business, as well as corporate governance in a family business.

CHAPTER 3: LITERATURE STUDY ON THE UNIQUE CHALLENGES FACING FAMILY BUSINESSES

3.1 INTRODUCTION

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

Thus, with an overlap between the three systems, conflict is unavoidable, even in the closest families and the best-run businesses (Spector, 2003:9). Strong business families learn to manage such differences. Indeed, they're apt to find that discussion of alternative viewpoints often leads to constructive change. Business owners who never develop conflict resolution skills may hesitate to put interpersonal issues on the table for fear that the mere articulation of their feelings will damage their relationships with the other party.

Paradoxically, avoidance of these issues can do far greater damage to the relationship in the long run. Spector (2003:9) is of the opinion that the risk of avoidance is much higher in a family business. If a major question, like what compensation will be, what the disciplinary procedures relevant to family members are, who the successor will be and when the current owner will retire isn't discussed frankly, the future health of the family business could be compromised (Spector, 2003:9).

According to Astrachan and McMillan (2003:1) history is filled with instances of family businesses that failed to make it to the next generation because family members couldn't resolve their differences and communicate successfully with one another. Good communication doesn't eliminate conflict but does help one to manage it effectively so that it doesn't become poisonous, overly emotional and destructive (Astrachan & McMillan, 2003:2). Thus, if there is proper communication, there will be family harmony.

The only way to achieve family harmony is to ensure that there are appropriate governing structures in place to address the challenges facing family businesses (Maas *et al.*, 2005:27).

Based on the literature study, the following were also identified as unique challenges to family businesses:

- **Compensation of family members**: According to Bork *et al.* (1996:75), D'Avella and Weisman (1997:1), Emens and Wolper (2000:7), Maas *et al.* (2005:35) and Spector (2001:9) there is no greater source for family business problems, nor more fertile ground for their cure, than the family business compensation system.
- **Management succession**: Poorly managed succession is regarded as one of the most common causes of family business failure (Aronoff & Ward, 1992:40; Bork, 1993:119; London Economics, 2002:11; Neubauer & Lank, 1998:133).
- **Ownership succession**: To manage succession successfully is crucial to the survival of the family business. The most common source of family business conflict comes from a lack of co-ordination between management succession and ownership succession (Cohn, 1992:24; File & Prince, 1996:172; Jaffe, 1991:216; Leach & Bogod, 1999:233).
- **Corporate governance**: Family businesses with effective governance practices are more likely to do strategic and succession planning. On average, they grow faster and live longer (Carlock & Ward, 2001:140; Lansberg, 1999:281; Maas *et al.*, 2005:65; Neubauer & Lank, 1998:ix; Visscher *et al.*, 1995:4).

These unique challenges are subsequently discussed in the following sections.

3.2 COMPENSATION IN FAMILY BUSINESSES

Compensation is a touchy issue in any business (Spector, 2001:7). In a family-owned business the emotions are amplified and the stakes are high. Because it is such a sensitive issue, most families don't do a very good job at coming up with a rational compensation system (Aronoff *et al.*, 2002:137; Bork *et al.*, 1996:75). They often confuse the issues of fairness and equality, and, rather than pay fair market value for each individual's contribution on the job, pay everyone equally (Bork *et al.*, 1996:75).

3.2.1 Merit based awards

Jonovic (1997:xxiii) stated that in order to effectively manage a business as an investment, a formalised process of performance evaluation must be developed. Koenig (2000:37) supported this viewpoint and stated that one best practice that family businesses would do well to adopt, is merit rewards. Successful companies increasingly link employment and reward to merit.

A well-planned and carefully structured compensation system, one which demonstrates a distinct connection between pay and results, can effectively increase owner value and reduce conflict (Jonovic, 1997:xxiii). A compensation program takes the politics out of how much family members are paid (Rawls, 1999:56).

Family businesses cannot afford private-sector welfare, cannot be adult day-care centres, cannot undermine work satisfaction, be rewarding non-performers and cannot afford to lose their best employees by rewarding them the same as average or less than average employees (Koenig, 2000:37). Successful businesses are diligent in giving meaningful performance feedback to all employees, including their leaders. Written performance feedback forms must be developed for the business as a whole, for each area of the business and for each employee (Koenig, 2000:37).

3.2.2 Guidelines for developing a compensation system

The standards for compensation should be clear and tied closely to measurable objectives (Jonovic, 1997:43) and based on both organisational and individual goals (Jonovic, 1997:100). Usually, fewer than ten percent owners of family businesses have goals to measure performance against in writing, says Bork (1993:142).

Jaffe (1991:199) stated that family members should have a clear position, real responsibilities for his / her position and there must be a potential for growth. Leach and Bogod (1999:180) supported this view and stated that the following key conclusions are relevant to measurable objectives:

- **Define roles and responsibilities**: This will ensure that the function of each is known. Family members will know what is expected of them in the work environment and who they report to. Every family member will know for which area of the family business he / she is responsible.

- **Set objectives and provide feedback**: Employees, family and non-family need to know what is expected in their jobs. They also need regular feedback about their performance, including recognition for achievements and constructive advice on aspects of their work that need improving. Such recognition and feedback must be between the older and younger generation as well as between the younger generations themselves.

The most important issue regarding family compensation is that a compensation policy is adopted, recorded, communicated and followed (Rawls, 1999:57). The only way to be really sure one has a compensation plan, is for it to be in writing.

Buchholz *et al.* (2000:264, 265) proposed the following steps to ensure that the compensation of family members is addressed in a professional and equitable manner:

- Establish a compensation policy for family members. Thus, set policies for all types of remuneration, including bonuses, cost-of-living raises, perks and other benefits.
- If possible, make the policies clear before the family members enter the family business.
- Be consistent with family and non-family employees in setting compensation levels and raises.
- Set guidelines for performance reviews.
- Incorporate some form of incentive or performance-based compensation that rewards employees, both family and non-family achieving goals.
- Establish a special group to resolve compensation issues. This group could include owners, directors and managers. A board of independent directors can play a pivotal role.

Factors to be considered to determine fair compensation include business size in terms of sales and revenues, number of employees, cost of living, number of people supervised, hours worked, educational requirements, experience, contacts, performance and degree of specialisation (Buchholz *et al.*, 2000:264).

3.2.3 Pitfalls to avoid in compensation setting

Some common pitfalls to avoid in setting compensation are (Aronoff & Ward, 1993:48; Buchholz *et al.*, 2000:265, 266):

- Using pay to keep children dependent. One shouldn't trap them in their present jobs because you pay so much that they can't leave if they're unhappy or want to do something else.
- If the discrepancies among children's paychecks are too great, parents may need to explain why.

- Using pay to mitigate guilt. Perhaps the owner / senior member didn't spend time with them as children or failed to provide them with certain benefits such as an adequate education. Don't overpay them now to compensate.
- Using pay to take the relationship for granted. A wrong tactic is to think that one can pay family members more and avoid mentoring or advising them.
- The retirement of a business owner who continue to draw a paycheck. Successors' frustration over their inability to control costs can lead them to try to rope the ex-CEO into compensation planning.
- Using salary substitutes such as fancy perks instead of a decent, annual wage.
- Adjusting family members' compensation to address the ups and downs of the business cycles.
- Using pay to punish family members. If the owner doesn't like some of the family members' lifestyle choices, he / she lowers their earnings, or perhaps one doesn't approve of the spouse the son / daughter chose to marry.

3.2.4 Advantages of compensation at market value

Each member of a family business perceives compensation fairness issues from his or her own perspective. A business's long-term strategy should be the prime consideration (Spector, 2001:10).

D'Avella and Weisman (1997:1) stated that there are definite advantages if family members' compensation is at market value. The long-term benefits of paying market value salaries to family members are so great that easing in the program, to be sure that it does become adopted, will be worth the wait (D'Avella & Weisman, 1997:1; Leach & Bogod, 1999:180).

These advantages, as proposed by D'Avella and Weisman (1997:1, 2) are discussed below:

- **Effect on family members**: When compensation is based on performance, there is no better tool for advancing productivity. This is no less true for family members than for non-family members. In cases where family members know that their compensation is completely dependent upon their performance, their performance is greatly enhanced. In addition, their security and confidence grows significantly because they realise that they are not handcuffed to the family business; i.e. they could move to the outside and obtain the same compensation for the same services.
- **Effect on non-family members**: The effect of market value compensation for family members on non-family members is excellent. They feel that they are on an even playing field and a true member of the team. While they recognise a difference between their status and that of family members, they also recognise that it is kept to an absolute minimum.

- **Intra-family relationships**: It is quite evident that the family business' long-term success often depends on how the family members get along. One of the major problems with the family compensation system is that once the senior family member passes on, there is no one to lay down the law with regard to what the compensation should be. As a result, family members begin infighting, and the stronger contributors resent any equal sharing of compensation with their family members.
- **Positive effect on true profitability**: Where family members' compensation is based on family values, one often sees the parents' compensation being excessive and the children's compensation being much less than their fair market value. This would give an inflated picture of the business's profitability. In other situations, the children's compensation is excessive, often based on housing and family needs of the family members as opposed to their worth to the business. This would give an unrealistically low portrayal of the profitability of the business.

If fairness can be achieved in this regard, one finds that family members are not working in the business to protect their investment and don't become a drain on the business (Spector, 2001:20). Where family members stay in the business, it is because they are making a contribution, that contribution is recognised, and they are being treated fairly.

The market value compensation system is designed to enhance the longevity of the business, and reduce the conflicts, both intra-family and intra-business that often exist due to compensation factors (Aronoff & Ward, 1993:59). The system enhances the separate aspects of the family and the business to create a healthier environment ultimately beneficial to the growth of the business and the family's wealth (Jaffe, 1991:199).

In short, if this system represents a change in culture, it will be worth the effort. Clearly, such changes should be attempted with the greatest of care, by first building consensus among the family members and an understanding of the overall benefits of the system by everyone. Outside advisors should probably be brought in to manage the transition since a key element of its success will be the evaluation system, which must be objective, i.e. not family oriented (Spector, 2001:135). Thus, the use of non-family members in the evaluation system is critical.

3.2.5 Disciplinary procedures

Hellriegel *et al.* (2002:51) stated that members of a business need to respect the rules and agreements that govern it. Thus, if the family member doesn't perform, what (disciplinary) action will be taken?

Ibrahim and Ellis (1994:113) observed that some family members find it difficult to discipline other family members, in particular, older ones such as uncles and aunts. Buchholz *et al.* (2000:276) said that every family should establish in advance how it would handle undesirable behaviour by family members. Should the family fire the offender, ostracize him / her, or will a second or third chance be given when it would not be provided to a non-family member.

What can a family do to avoid such problems in the first place? According to Buchholz *et al.* (2000:276) experts suggest that every family creates an environment of nurturing, caring and competence to encourage talking, responsibility and commitment to the business. Don't feel obliged to hire incompetent relatives who may be potential troublemakers and don't settle for an in-law sibling who isn't willing to work his share (Buchholz *et al.*, 2000:277). No other business would deliberately hire an inept or dishonest employee.

According to Buchholz *et al.* (2000:277) the sting can be taken out of a refusal to hire unqualified family members if there are stated rules requiring minimum qualifications for employment. Ensure that policies are in place regarding rules of behaviour, payment, expenses, vacations, benefits and perks. In addition, set rules for what will and won't be tolerated from an employee of the family business and enforce those (Buchholz *et al.*, 2000:277). Create a clear understanding about rules for business loans, personal use of business products and supplies, using business credit cards, making long-distance calls, using other business resources and non-performance.

Management must be able to count on family members to be hard-working and honest. If there is already a troublesome family member working in the business, don't hide from the issue (Buchholz *et al.*, 2000:278). If it cannot be resolved within the family, seek professional help and strongly encourage the offending family member to address the issue. Don't just tolerate the status quo. Decide the punishment in light of the *crime*. If the offense is severe, the punishment must be likewise (Buchholz *et al.*, 2000:278).

When standards are established at the time of employment, and non-performance implications are clearly explained as set out in a supportive disciplinary policy, employees and family members are less likely not to adhere to performance standards (Spector, 2001:60). By linking compensation to performance, both family and non-family employees have incentives to work at an optimal level.

3.3 MANAGEMENT SUCCESSION OF FAMILY BUSINESSES

Rawls (1999:12) defined succession as the process of preserving the real assets, spirit, ideology and mission of a family business for the next generation without extreme financial, emotional or management hardships. Maas *et al.* (2005:53) stated simply that succession is the process during which the business is transferred from one generation to the next.

According to Neubauer and Lank (1998:133) a well-considered and planned succession will maximise the chances of finding a competent successor and will ensure a smooth leadership transition between generations. It is therefore crucial to find out what might be the potential causes for this issue to be so difficult a matter to manage or, in other words, what are the critical obstacles in the succession process.

Bork (1993:119) stated that a smooth transition in a family business requires that a successor be chosen long before the owner leaves. In order to safeguard the continuity and vitality of the business, founders / owners should regard planning for succession, and making sure that it takes place as smoothly and efficiently as possible. Since the most dominant player in the succession process is generally the founder, attention is initially focused on him / her (Bork, 1993:119). According to Aronoff and Ward (1992:40), preparing to pass the family business on to the next generation is perhaps the toughest and most critical challenge facing the business owner.

The founder faces a special set of challenges that make succession a difficult task to handle. The most important ones are accepting his / her own mortality, deciding who of the children would take over the business, losing his / her power and core identity that is strongly linked with the business (Kets de Vries, 1996:65).

Similar conclusions were also reached by Lansberg (1988:121) who stressed strong psychological deterrents of the owners to managing the exit, the reluctance to face mortality, a strong need to retain power and centrality, a fear of losing an important part of their identity and a fear of empty nest syndrome.

A high degree of harmony in the family business may make the succession planning a more tolerable task, and the harmonious relationships may reinforce the importance of succession planning in the owner-manager's mind (Aronoff *et al.*, 2002:41; Neubauer & Lank, 1998:135).

3.3.1 Succession intent

Voeller *et al.*, (2002:33) stated that before succession planning commences, the following important questions must be asked from the owner:

- "If you had to decide now, would you sell the business or try to keep it in the family?".
- "Do you have a vision for the business for the 30, 50 and 100 years from now?".
- "Is it important to you that the business remains in the family?".

If the answers to the above are *Yes*, succession can be a reality. Developing and implementing a succession plan requires many types of commitment from every imaginable constituent in a family business (Cohn, 1992:60). Future successors need to commit to investing huge amounts of time, energy and passion in the family business (Cohn, 1992:60). Owners and successors need to commit to a mutually agreeable strategic vision and business plan to implement common goals.

Immediate family members must make a commitment to the chosen successors, and in-laws must commit to the time and energy their spouses will have to devote to the business (Cohn, 1992:61). Commitment is required of all constituents, including key non-family employees to the future successors and the strategic vision of the business. The senior generation family members' commitment to the family business are demonstrated by their willingness to immerse him / her in the business, understand the business, and at times, sacrifice outside personal pleasure in order for the business to succeed (Cohn, 1992:61; Emens & Wolper, 2000: 11).

The vision of the family business must also be known. Maas *et al.* (2005:15) and Neubauer and Lank (1998:174) defined a vision as a mental image of the desirable state of the business in five or ten year's time. It is the family vision that determines what will eventually be accomplished and that motivates people to achieve their goals (Ward, 1987:145).

The vision usually incorporates and adds to shared family values, by specifying not only the kind of business the family is in, but how it will do business, where it wants the business to go to and what it wants the business to mean to others (Jaffe, 1991:138; Maas *et al.*, 2005:19). Visions start in one person's mind, but if the business is successful, soon they are shared (Jaffe, 1991:138).

The odds of transferring a business to the next generation are greatly improved when the process begins early and families get into the habit of discussing their dreams (Shanker, 2000:18). Families must learn to talk openly about their needs, fears and dreams (Lansberg, 1999:96). It is crucial for families to envision their future.

Without a shared dream, a destination for succession, they cannot plan sensibly (Lansberg, 1999:96). The most productive way to define a feasible destination is to undertake the often difficult task of unearthing, articulating and sharing individual needs, fears and dreams in order to decide whether or not it makes sense to further pursue the dream (Lansberg, 1999:96).

3.3.2 Succession planning

Aronoff and Ward (1992:4) defined succession planning as a lifelong process encompassing everything aimed at ensuring the continuity of the business through the generations. Neubauer and Lank (1998:60) stated that one of the most significant factors determining the continuity of the family business, from one generation to the next, is whether the succession process is planned.

File and Prince (1996:171) stated that succession planning refers to the process of making changes in the top leadership of the business, a process which begins when younger family members first join the business and which ends with their accession to leadership and top management authority. The above is supported by Leach and Bogod (1999:172) and they advised that succession should not be an event, but a carefully planned process that takes place over time.

There is no standard, one-size-fits-all family business succession plan. Both families and businesses come in an infinite variety of shapes and configurations, and each one has its own set of potentials, problems, needs, culture and values (Lea: 1991:99). While planning for succession is likely to be unfamiliar and difficult territory to the business leader who is used to being the decision maker, it is a critical factor in ensuring that the business prospers in future (Thornton, 1998:33).

Proper succession planning will ensure harmony and the continuity of the family business from one generation to the next (Ibrahim & Ellis, 1994:223; Neubauer & Lank, 1998:60). One of the most significant factors determining the continuity of the family business from one generation to the next is whether the family and non-family members contributed to the process of selecting the successor (Ibrahim & Ellis, 1994:224).

The completed succession plan should clearly describe the family's succession process and the actions that should be taken to ensure successful succession (Lea, 1991:100). It should work like an operations manual, with the important goals stated in priority and the steps set down in their logical sequence. It should serve as a reference for the owner and other family members to turn to as the transition process goes forward and when it is successfully finished.

What the succession plan should not do, however, is work like the *Ten Commandments*. All succession plans have to be fleshed out and modified, perhaps many times, as they're being carried out (Lea, 1991:100). People change their minds, events take unforeseen turns and accidents happen. But at least, there will be a chartered course and that will be a lot better than wandering aimlessly from one frustration to another.

Although various authors highlight the importance of succession planning, Ibrahim and Ellis, (1994:224) as well as Jaffe (1991:222), stated that research studies suggest that a very small percentage of family businesses plan adequately for succession.

3.3.2.1 Healthy motivations for family business succession

Shanker (2000:18) stated that any succession plan starts with developing self-awareness, perhaps with discussions to clarify what is being created or having its life extended through succession. At the surface level there is likely the stated value of keeping the family in the business. In the average family business culture, this value is a given (Shanker, 2000:18). However, Shanker (2000:18) is of the opinion that there are deeper, less discussed, less conscious, but more emotional and energising motivations at work. These motivations arise from personal, interpersonal and family-wide hopes, fears, norms, feelings and core beliefs of the family members involved.

According to Shanker (2000:18), these motivations include:

- A desire by the younger generation to consciously take on the tensions of a family business.
- A shared passion for the work across the generations.
- A coincidental congruence between the skills of the younger generation with the future needs of the family business.
- An overwhelming goal for the next generation to grow into full, independent human beings, with family business succession as one action to consider in service of that goal.
- A deep love within the family that creates a desire to work together.
- A family culture that accepts differences and the conflict that naturally grows from differences and re-organises that the family business will accentuate and create more differences.

Regardless of whether one agrees that any particular motivations are conscious, the danger lies in the fact in having them remain unconscious (Shanker, 2000:18). As motivation becomes conscious, the succession will be more real, rather than being one or more steps removed from the core issues.

3.3.2.2 Importance to initiate succession planning as early as possible

Lea (1991:83) stated that the most critical factor in assuring the continuity of a family business is advanced planning. Virtually nothing except blind luck will make ownership and management succession work if no one has thought it through beforehand (Jaffe, 1991:221; Lea, 1991:83, 182; Thornton, 1998:33). For this reason, every founder or owner of a business should begin to develop a succession plan as early as is practical.

The major reasons why planning for succession should be initiated as early as possible, maybe even years before the actual transition, are (Jaffe, 1991:221):

- There is always the possibility of disaster, disability or death. Just as inventory and buildings are insured, so there must be provision for continuity in the event of the owner's death.
- The potential successor must be prepared to seize the reins of the business and establish continuity. That means careful preparation and training. He / she needs time to develop relationships of trust and legitimacy with employees, suppliers, customers, banks, advisors and the community. The successor doesn't automatically gain acceptance.
- The business must remain vital by renewing itself continually, constantly changing and keeping up with new pressures and shifts in the marketplace. Last year's wisdom is this year's folly. While individuals grow older, even become stale or burned out, the business must remain active and have up-to-date leadership.
- If the business is to be sold, either to an outside person or to its own managers or a key manager, the prospective buyers need time to prepare to find financing or to raise the money. They also need to make a good decision about their own future and the owner needs to be satisfied that the buyers can continue to run the business.

While a critical event often sparks planning, the process of looking into the future should start well before that (Jaffe, 1991:222).

3.3.2.3 Guidelines for succession planning

The first question for the owner-manager to address is whether the business will be sustainable without him or her. Some businesses are so dependent on the qualities of a single individual that succession isn't possible (Thornton, 1998:33).

Guidelines for an effective succession plan, as proposed by Ibrahim and Ellis (1994:224, 225) are offered below:

- Early inclusion of offspring in the family business. This step includes proper mentoring and training to prepare the next generation for its future leadership role.
- Inclusion of offspring in the formulation of corporate mission, vision and strategy.
- Plan the gradual transfer of power. This evolutionary process may take three to five years. This allows both the departing CEO and the successor to adjust to their new roles. The importance of planning is highlighted by Jaffe (1991:221), Lea (1991:83) as well as Neubauer and Lank (1998:60).
- Develop an inheritance plan and discuss it with family members.
- Hire professional managers in some key positions to ease the transition and help the successor to manage the change effectively and reduce tension.
- Adjust the job to fit the successor's skills and competence. This may require a restructuring at the top level of the organisation hierarchy. The objective of such restructuring is not to reduce certain family members' power or status, but to make the job more suitable to the successor's capacity to lead and function effectively.
- All attempts made in the re-organising process must provide a zone of comfort for siblings in order to avoid conflict and tension during transition. Indeed, the succession plan must consider the need of all family members involved in the business.
- Family and non-family members must be encouraged to participate in the succession plan.
- Next generation family members' careers, seniority, life stages, ages and needs must be considered in the succession plan.
- Clear guidelines concerning career advancements must be established and communicated to family as well as non-family members. This helps to ease the tension and rivalries among siblings and family members in general.

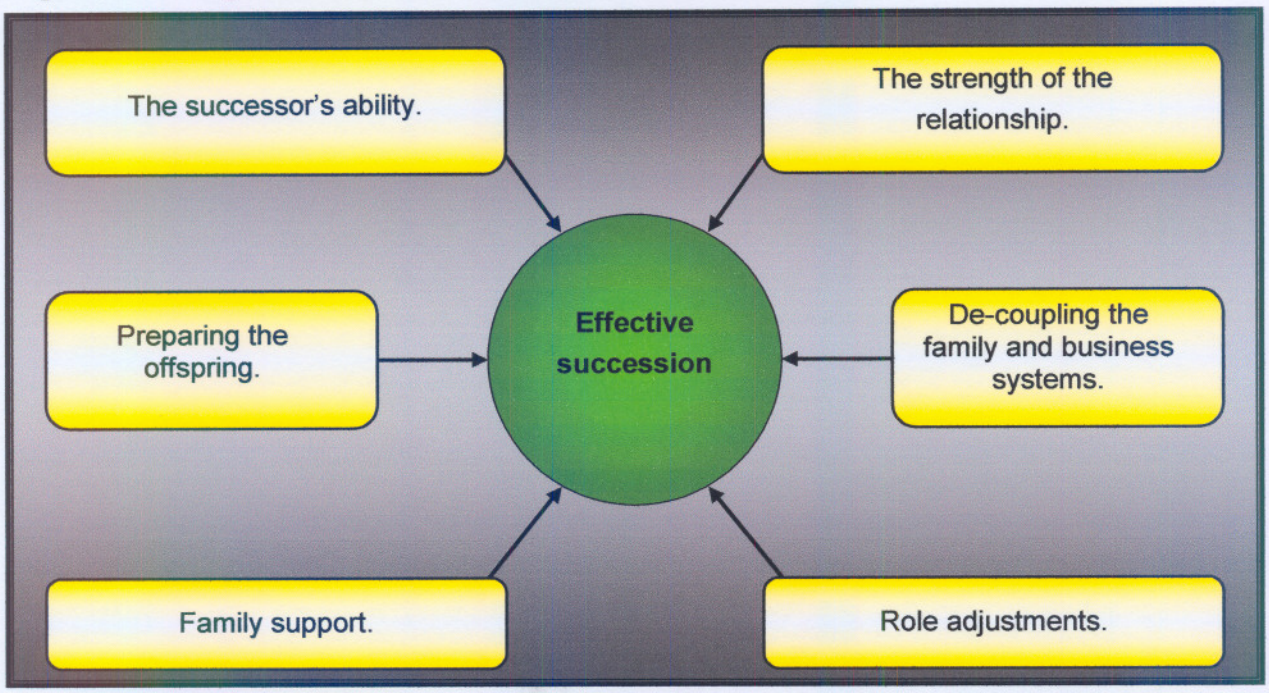
3.3.3 The succession process

Family businesses in transition face many questions they have neither the experience nor the expertise to answer (Jonovic, 1997:68). The process of selecting new leaders, providing for retiring leaders and all the general issues of family fairness must be managed in such a way that it is integrated with everything from estate planning to compensation systems to projections of future business value (Jonovic, 1997:68).

Ibrahim and Ellis (1994:225) stated that an effective succession process is the result of a number of planned steps, including preparing and mentoring the offspring, role-adjustment, de-coupling the family system from the business system, providing for family support, establishing relationships and developing the capability of the successor to lead.

Figure 3.1 highlights the ingredients of an effective succession process.

Figure 3.1: Ingredients for an effective succession process



Source: Ibrahim and Ellis (1994:231)

Each of these factors is briefly discussed below.

3.3.3.1 Preparing the offspring

Preparing the offspring to assume their future roles starts at a very early age before and after they join the family business (Ibrahim & Ellis, 1994:226). This is done by means of pre-entry acculturation and by integrating the offspring into the family business. Ways to integrate the offspring include their participation in different business events, such as the family weekend get-together, dinner table discussions and family business retreats. Pre-entry acculturation allows offspring to become exposed to, and familiar with, the family business.

Integrating offspring into a reasonable position in the family firm is critical to an effective succession process. This approach helps to promote interest and nourish commitment at early age (Ibrahim & Ellis, 1994:226). However, offspring must work hard to prove themselves and to earn legitimacy and credibility among family members and non-family employees.

The three most common modes of entry are:

- **Work outside the family business**: This mode simply suggests that offspring work elsewhere before joining the family business. In other words, the aim is to delay entry of offspring until they gain experience and thus learn legitimacy (Ibrahim & Ellis, 1994:226; Shanker, 2000:34). Thornton (1998:35) stated that as a general rule, family members should come into the family business with between two and five years' experience of the outside world. This will enable them to gain self-confidence and a sense of interdependence. It will also bring a wider perspective into the business, thereby adding real value. This will enhance the individual's credibility in the eyes of non-family executives and employees.
- **Summer job**: This mode of entry suggests employing offspring at an early age in different jobs during the summer to gain the necessary experience before joining the family business in a full-time capacity (Ibrahim & Ellis, 1994:227). This allows offspring to gain basic skills and familiarity with the way the business is run.
- **Shop floor level**: This is the most common type of offspring entry in the family businesses. It allows the potential successor to learn the necessary skills and to gain familiarity with the different aspects of the business (Ibrahim & Ellis, 1994:227). It further allows the offspring to establish relationships with employees at different levels and learn how to handle human resource issues. In addition, it makes it easier for offspring to gain acceptance by fellow employees (Ibrahim & Ellis, 1994:227; Shanker, 2000:34).

Whatever the entry mode might be, the offspring must be able to prove that he / she is competent and has acquired the necessary skills (Voeller *et al.*, 2002:79). Gaining acceptance, credibility and legitimacy among family and non-family members are critical to a smooth and effective succession process (Ibrahim & Ellis, 1994:227).

3.3.3.2 Role adjustment

To ease the tension and difficulties of letting go, and to overcome the owner's hidden fear of retirement, many family businesses may opt for a gradual succession process rather than a hasty act of passing the baton (Ibrahim & Ellis, 1994:227). This allows both the owner and the successor to adjust to the new role.

Early announcement and a gradual succession also allow all the other employees, family and non-family, to adjust to the news and plan their personal careers and development. There is time for the family to find opportunities for those who were disappointed and there is also more time for family members to learn to work together in new relationships (Ward, 1987:64).

3.3.3.3 De-coupling the family and business systems

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

In looking at succession, differentiating between the term *successful* and *unsuccessful* is not easy (Dyer, 1986:121). Some businesses, for instance, made a transition that was successful from the standpoint of the business, but family relationships were virtually destroyed. Other businesses maintained harmony within the family at the expense of the business.

In considering both business and family important, Dyer (1986:122) states that a successful transition would be one where both business and family were relatively effective after the transition had taken place. Conditions favouring successful transition in the family business are indicated in Table 3.1 on the following page.

Table 3.1: Conditions favouring successful transition in the family business

CONDITION	STATUS
FAMILY	• The family shared common views concerning equity. • The family had planned for emergencies and other contingencies. • The families had developed mechanisms to resolve conflict. • The family shared super-ordinate goals. • High trust existed among family members.
BUSINESS	• The transition occurred when the organisation was relatively healthy. • The founder moved gradually away from active involvement of the business's operations. • There was a well-developed training and socialising program for the successor. • There was an interdependent relationship between the founders and their successors.
BOARD	• Power relationships were clear and little ambiguity existed. • The board had the necessary expertise to manage problems of both the business and the family.

Source: Dyer (1986:137)

In successful transitions, the owners or family leaders are generally aware of the motives behind their plans to move away from active operations of the business. Without such self-insight and the ability to accept the fact that eventually a new generation of managers will take over, the owners are likely to experience a great deal of personal pain (Dyer, 1986:126). Such negative personal experiences are likely to affect both business and family.

3.3.3.4 Role of family members

A number of people play different roles in the succession process (Bork, 1993:114; Ibrahim & Ellis, 1994:232; Jaffe, 1991:234; Kets de Vries, 1996:237; Leach & Bogod, 1999:176). These individuals include family and non-family members. Their input during the process is important to an effective succession (Bork, 1993:114; Ibrahim & Ellis, 1994:227; Jaffe, 1991:234).

Family members may include wives, sons, daughters, brothers and sisters. Non-family members may include friends, senior employees and professionals, such as accountants, lawyers and bankers. For a smooth succession these people must be consulted at different levels to provide a neutral and objective point of view (Ibrahim & Ellis, 1994:232; Leach & Bogod, 1999:176). Family members must also make every effort to understand and respect each other's needs, motivation and skills.

3.3.3.5 The strength of relationships

The strength of the relationship between next-generation members and the owner is crucial to the succession process. A strong relationship between the owner and his son(s) / daughter(s) allows for a smooth transition and helps ease the tension (Ibrahim & Ellis, 1994:227). Mutual understanding and respect are key ingredients for a strong relationship between older and younger generations, as well as between siblings (Ibrahim & Ellis, 1994:227).

3.3.4 Factors that necessitate succession

A succession plan differs from a contingency plan primarily in the motivation that accompanies it. The contingency plan is triggered by abnormal, accidental causes. It is the worst-case scenario, because no one can plan if or when the contingency will occur (Cohn, 1992:17). The succession plan is at the other end of the spectrum. It addresses retirement and withdrawal, allows planning for the event to occur and can be triggered by natural causes and describes the best-case scenario (Cohn, 1992:18).

Factors triggering the contingency plan include (Dyer, 1986:80):

- The sudden death of the owner.
- Sudden illness or any other form of physical incompetence of the owner.
- Mental or psychological breakdown that necessitate the retirement of the owner from the business.

A number of factors can trigger initiation of the succession process. It can be owner related or business related (Cohn, 1992:18). Ibrahim and Ellis (1994:214, 215) described symptoms to indicate that the time has come to make the move from the older generation to the younger one as follow:

- The owner is feeling that he / she is overextended and overburdened by work-related activities.
- The owner is of the opinion that he / she no longer has the management skills to handle the growing nature of the business. In particular, there is felt to be a lack of familiarity with functional issues such as marketing, financial and human resources that arise as a result of pursuing a growth strategy, or the growing complexity of the business environment.
- The owner's retirement from active involvement in the business. This can be due to old age and is thus standard retirement (Dyer, 1986:80).
- A decline in the overall performance of the business, e.g. its market share or profitability. While such a decline may be mistaken for general economic downturn, the longevity of such poor

financial performance is, however, a clear manifestation of the lack of congruity between the owner and the business.

- Problems with communication, co-ordination, motivation and interpersonal skills. As the business continues to grow, the style of the owner, as well as the structures and management processes, become a burden.
- Problems with customers and suppliers due to a backlog of orders.
- A decline in the quality of products or service, and as a result, the family business image in the public mind may be negatively affected.
- More mistakes are made in every aspect of the business, which causes the overall performance of the business to deteriorate.

When the business grows, declines or changes direction, it is often found that the owner's skills, which provided so useful at starting the business, now become a liability (Dyer, 1986:81). Without adequate technical or managerial skills to adapt to a changing world, owners begin to flounder and the aura of success surrounding them begins to crumble.

While some or all of these symptoms appear over a period of time, tension grows and often affects the other relationships in the family. A political battle is usually brewing as family members become frustrated with the deterioration of the performance of the business (Ibrahim & Ellis, 1994:215). The owner may be forced out by investors or family members who want to protect their investment (Dyer, 1986:81).

On the other hand, more enlightened owners recognise their weaknesses and either step down willingly or bring in other managers with the skills that they lack (Dyer, 1986:81). All family members should keep their eyes open. Knowing when to start the succession process generally occurs as a window of opportunity, and the window may not stay open very long (Cohn, 1992:19).

3.3.5 Owner's readiness for succession

According to Ward (1987:65) the single most important factor in the success of any transition is the business owner. He / she sets the tone for the rest of the business and has the power to make the shift rough or smooth. However, more often than not, the business owner has difficulty in retiring gracefully (Lea, 1991:143; Ward, 1987:65). In fact, many simply cannot bring themselves to give up their business.

Giving up business control means owners need new outlets for involvement (Jaffe, 1991:225). When a founder leaves the management of a business, he cannot go out to pasture. Many elders have developed new businesses, become venture capitalists and mentors to new businesses and other sons and daughters, or community or political leaders (Jaffe, 1991:225).

The resistance of the owner to letting go is quite common and is attributed to the following factors (Aronoff & Ward, 1997:35, 35; Ibrahim and Ellis, 1994:211-213):

- **Emotional attachment**: Owners usually have a strong sense of attachment to the business they started and nourished over the years. He / she has seen good days as well as many bad days. The business became his / her only connection to the real world.
- **Lack of trust**: The owner's lack of trust in other people's skills and competence, including his / her own family. Owners see their business as part of themselves and, therefore, find it difficult to let someone else assume control.
- **Fear of retirement**: Individuals may exhibit negative behaviour towards retirement because it may possible represent discontinuity of activities and loss of self-respect. Retirement is a reminder of aging and death and owners like to think that they can hang around forever.
- **Lack of other interests**: Resistance to let go also stems from lack of interest beyond the business. Owners are known to work many hours and thus lose interest in other activities, such as travelling and hobbies. Outside exposure broadens their view and enhances tolerance to change.

A certain amount of post-transition letdown is inevitable (Lea, 1991:143). But it's less traumatic when the owner has:

- Tested the successor's abilities by delegating increasing amounts of responsibility and authority over the years (Lea, 1991:143). By delegating, the owner learns to exchange executive power for a more subtle influence within the business.
- A willingness to surrender control, as this may be the key issue for the entire succession planning process (Voeller *et al.*, 2002:88).
- Established long-term personal financial security (Fowler, 2002:104).
- Interests or hobbies that can structure his time and provide meaning and satisfaction if he / she is not involved in the business (Voeller *et al.*, 2002:29).

3.3.6 Selection criteria

Due to the dual relationship between the family and the business in family businesses, the line between the family and the business is blurred. Therefore, choosing a successor is often fraud with emotion and tension (Ibrahim & Ellis, 1994:223) and can be one of the most difficult decisions a family business owner has to make (Voeller *et al.*, 2002:90).

Tension over succession is usually carried over to the social function and disrupts other relationships in the family. The situation is further complicated when several family members emerge as potential heirs (Ibrahim & Ellis, 1994:223). Research suggests that daughters are overlooked as possible successors (Ibrahim & Ellis, 1994:229). Today's family businesses cannot afford to overlook talented daughters or wives (Buchholz *et al.*, 2000:65; Ibrahim & Ellis, 1994:229).

Complications in selecting a successor can be avoided by developing clear criteria for succession as many years in advance as possible (Voeller *et al.*, 2002:79). These generic criteria must be updated as circumstances or the marketplace change. Having generic criteria reduces the potential for conflict, especially where there are several candidates for a single position, as it establishes a sense of fairness and increase stakeholder confidence in management. The criteria must amount to a list of minimum qualifications for the job.

Some criteria for succession might include (Voeller *et al.*, 2002:79):

- The expectation that the candidate possesses a minimum amount of education or experience within the industry.
- That the candidate has relevant prior work experience outside the business.
- That the candidate has worked inside the business in positions of increasing responsibility.

3.3.6.1 Methods for selection of a successor

Families have several methods for selection of a successor at their disposal. They may create a fixed rule, such as that the oldest child will be the CEO (Dyer, 1986:88; Ibrahim & Ellis, 1994:230; Voeller *et al.*, 2002:90; Ward, 1987:62).

Succession in family businesses in many countries has followed the Japanese primogeniture approach: this places the eldest son both at the helm of the family and in the position of the uncontested successor upon his father's death (Ibrahim & Ellis, 1994:230; Voeller *et al.*, 2002:90).

According to Voeller *et al.* (2002:90) the primogeniture approach was also responsible for the loss of fortunes of half of Europe's titled families and more than a few monarchs who could have used another dip in the gene pool.

In another approach, family offspring select their leader by allowing him / her to surface naturally during various group assignments (Aronoff & Ward, 1992:13, 25; Ibrahim & Ellis, 1994:229; Ward, 1987:63). This is a consensus-type approach, in which case all decisions are made by the family council upon succession. The advantage of this approach is that the family feels it has chosen the best person for the job yet has also granted everyone a chance (Ward, 1987:63).

Jaffe (1991:234) supports the above method. However, he stated that one must separate potential from actual achievement. A person may be excellent at a particular job but not have the breach too become an owner / manager. Unhealthy competition may also develop among siblings, and family members may bog down in the difficulties of making a decision (Ward, 1987:63). Therefore, the choice involves an element of intuitive judgement and risk (Jaffe, 1991:234).

For some family businesses, selecting a successor who is not a member of the family is an excellent, albeit temporary solution (Aronoff & Ward, 1992:26; Emens & Wolper, 2000:31; Ward, 1987:63). This works especially well in situations where the offspring are clearly too young to assume responsibility. A non-family successor provides a buffer between generations that may be as much as thirty years apart.

Buffer management gives time for family members to mature (Ward, 1987:64). It also allows an entrepreneurial leader to vent his / her natural dissatisfaction with any successor on an outsider rather than on his own offspring (Ward, 1987:64). Jaffe (1991:234) stated that the risk is equally high with a family member as an outsider. Once the selection is made, it involves a real transfer of control that makes it almost irrevocable. Therefore, the testing and training process is critical.

Voeller *et al.* (2002:90) supported the above methods by stating that the pool to choose from, gives the owner five basic choices, namely:

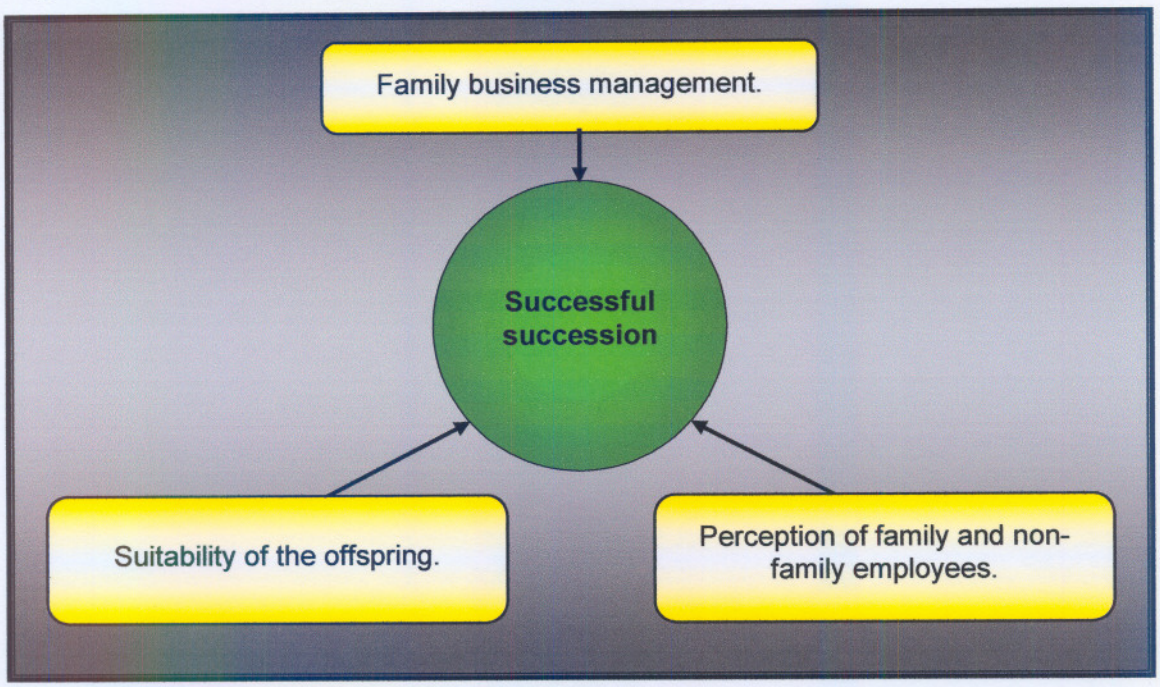
- Pick one or more children or other family members.
- Select a key, non-family manager.
- Create a top management team and hope that a leader will emerge.
- Recruit someone from the outside.
- Appoint interim management for a limited tenure to develop young offspring and select a permanent successor.

Some cultures tend to follow a different approach, which calls on the family to divide the assets equally among male descendants so that each son / daughter may manage his own part (Ibrahim & Ellis, 1994:229). However, this method entails breaking up the family business.

3.3.6.2 The troika of successful succession

Ibrahim and Ellis (1994:230, 231) believe that successfully selecting a successor is contingent upon three dimensions: family business management, offspring suitability and perception of the family and non-family employees as shown in Figure 3.2.

Figure 3.2: The troika of successful succession



Source: Ibrahim and Ellis (1994:231)

Each of these dimensions, as depicted by Ibrahim and Ellis (1994:231), are subsequently discussed below:

- **Family business management**: This dimension includes assessment of the necessary skills required to manage the family business effectively, including the capacity to provide leadership to the entire organisation, the ability to work independently and to manage and resolve conflict.

- **Suitability of the offspring**: This dimension includes an assessment of the offspring and include:
  - Experience, skills and training.
  - Seniority in the family business.
  - Career plans and willingness to accept the leadership role.
- **Perception of the family and non-family employees**: This dimension includes how employees perceive the potential successor in terms of his / her ability to provide leadership and guidance to the family business. It also includes his / her style of management, perceived fairness and overall suitability.

3.3.7 Suitability of the prospective successors

Having the owner plan to disengage from the business is necessary, but by itself it is not sufficient to ensure a successful transition. The other ingredient is a competent replacement (Dyer, 1986:126). The development of capable successor managers is a critical factor in family business succession (Rawls, 1999:179).

Rawls (1999:180) recommends that one starts by determining what kind of leadership (entrepreneurial or managerial) the business needs for the years ahead and then define what specific qualities and skills the leader will require. Voeller *et al.* (2002:79) support this first step and stated that the core set of skills are similar across various industries.

3.3.7.1 Skills and characteristics

According to Rawls (1999:180) these core skills include customer focus, commitment to quality, team orientation, adaptability to change, attention to detail, entrepreneurial interests, effective communication techniques, willingness to delegate, leadership ability and organisational ability.

In addition to the above basic skills, the following characteristics are also important (Emens & Wolper, 2000:40; Rawls, 1999:180):

- Assuming responsibility.
- Taking appropriate risks.
- Exhibiting high energy and motivation.
- Maintaining optimism.
- Being sensitive to others.
- Commitment to the business and the family.

Shanker (2000:34) and Voeller *et al.* (2002:79) stated that for many of these skills, three development suggestions seem apparent, namely:

- A variety of outside life experience.
- Some work time with the *hourly* people in the business.
- A valued mentor to provide feedback on these requirements.

The successor must be able to work independently and provide leadership for the entire organisation (Ibrahim & Ellis, 1994:227). He / she must be able to understand and respect the needs, motives, career stages and skills of family and non-family employees. The successor must be able to channel the rivalry and conflict between family members in a productive way and gain the support of family and non-family employees. And last but not least, the prospective successor must believe in his / her ability to successfully manage the family business.

3.3.7.2 Successor management development plan

As a young manager, the successor should be involved in a management development program from the outset of his / her career (Bork, 1993:114; Rawls, 1999:188). Assuming there is reasonable management aptitude; success depends upon the quality of the management orientation and training program (Rawls, 1999:188). The implementation of a well thought-out management training and support program is in most cases critical to the succession process (Rawls, 1999:188).

A successor management development program should include at least the following steps (Rawls, 1999:188, 189):

- Define the candidate's skills, behaviourally and specifically.
- Determine candidate's interests.
- Identify appropriate sub-management entry level.
- Observe and assess performance.
- Evaluate improvements and generally define optimum target management role.
- Design successor manager developmental learning curriculum for target manager role.
- Monitor performance and refine target management role as circumstances dictate.
- Provide accountability, feedback, coaching and training, e.g. training courses and seminars.
- Reward development.
- Reset goals for continued improvement and development.

Thus, when a succession program is designed well in advance of the owner's retirement, there is time to train a successor in the needed skills (Bork, 1993:115).

3.3.7.3 Mentoring of the successor

Bork (1993:115), Buchholz *et al.* (2000:210) and Ward (1987:61) are all in agreement of the idea of a mentor. Bork (1993:115) stated that the ideal mentor is someone in the same business field as the potential successor and ten to 15 years older. A seasoned non-family manager has resources and experience that can be invaluable to share with a neophyte family member coming into the business. He may also be the most objective person to mentor the successor (Buchholz *et al.*, 2000:212; Ward, 1987:61).

The mentor must show the successor the proper ways to conduct business within and outside the business, handle social responsibility and deal with sticky matters such as office politics and morale (Buchholz *et al.*, 2000:212; Ward, 1987:61). The mentor thus shares experience (Bork, 1993:115). The mentor should also evaluate the successor's performance and offer ways to improve (Buchholz *et al.*, 2000:212).

Buchholz *et al.* (2000:50) advised that, because today's world is so much faster-paced and global, one may find it useful to have two mentors, one within the business and one from another business. This will start and enhance a networking relationship (Kreitner & Kinicki, 2001:89).

Kets de Vries (1996:265) stated that the succession process can be helped if a mentoring relationship develops between the owner and the successor. Instead of being envious of the younger generation, the owner-manager can take vicarious pleasure in seeing the younger man / woman does things on his / her own.

3.3.8 Considerations by the successor

The potential successor should enter the family business in response to a specific, formal offer to fill a job that is needed (Aronoff & Ward, 1992:11). Once a job offer has been made, the decision to enter the business should be regarded as an important personal choice for the successor. He / she should not feel pressured or compelled (Aronoff & Ward, 1992:11; Lea, 1991:55; Leach & Bogod, 1999:199). Without freedom to choose, the potential successor is less likely to make a strong commitment to the family business (Aronoff & Ward, 1992:11).

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

Questions a young person must consider in making the decision include the following (Aronoff *et al.*, 2002:508):

- "Do you really want to join the family business? Would you enjoy it?".
- "Are you prepared to join it? Do you have the education? Experience from another business?".
- "Can you work with your parents or other relatives in the business?".
- "Are you interested in the business's products and / or services?".
- "If you were eventually to take over the business, would you have the energy and commitment required?".

The most important issue is for the young person to really know what he / she wants to do (Aronoff *et al.*, 2002:510).

3.3.9 Transfer of management

Lansberg (1999:7) stated that succession is driven by a biological clock. The ages of the senior leaders of the business and of their designated successors determine the timing of succession. While every family must make its own determination of the *right time*, families that announce sooner than later receive several benefits (Ward, 1987:64). Thus, early announcement often re-assures employees who are not members of the family. Once the successor is known, they are no longer uncertain about the destiny of the business and who will run it (Ward, 1987:64).

Neubauer and Lank (1998:150) stated that the intentions of the owner for the new successor need to be communicated to all stakeholders. Voeller *et al.* (2002:95) support Neubauer and Lank (1998:150) by stating that once the new leader has been chosen, everybody must be told. There might be some disappointment, but is better to make the choice known and handle the dissenters now, rather than later.

Voeller *et al.* (2002:97) go further and state that:

- A plan must be created for the transition period, detailing how and when management transition will take place.
- The plan must be communicated to all stakeholders.
- A timetable must be set for the implementation of the management transition.
- The retirement date of the owner must be publicly announced.

3.3.10 Expected outcome of management succession

Well diversified and high degrees of success are necessary to provide both the motivation and the momentum to achieve success (Rawls, 1999:172). Aronoff and Ward (1992:3) stated that for most entrepreneurs, planning for the continuity of the enterprise is the ultimate management challenge. The owner must safeguard the long-term health of the business.

A great succession is one hardly anybody notices and good succession planning also enhances the value of the business (Aronoff & Ward, 1992:3). Succession success is actualised through high achievement in a broad base of success factors (Rawls, 1999:172).

Success factors of succession include the following:

- That the family business will perform equally well after succession.
- That the employees of the family business will support the successor once the leadership has been transferred to him / her.
- That it will be possible to maintain the existing contracts and client base after succession.
- That family relationship will remain good.
- That all family members will support the successor once the leadership has been transferred to him / her.

Bork (1993:132) proposed that a succession plan includes benchmarks to measure the success of the succession and will keep the succession process on target.

3.4 OWNERSHIP SUCCESSION IN FAMILY BUSINESSES

Cohn (1992:24) defined ownership succession as the process of deciding, communicating and implementing a plan to transfer ownership, i.e. transfer shares or assets of the family business, to the next generation. Ownership succession focuses on *whom*, thus family members, non-family key employees or a third party buyer (Cohn, 1992:24). Ownership succession further focuses on *when* and *how* the transfer will occur.

Maas *et al.* (2005:80) stated that "ownership succession is a lifelong process in which the family arranges, manages and secures its assets and liabilities". According to Maas *et al.* (2005:80), the outcomes of the ownership succession plan are the transition, protection and development of the business, and other assets, to the benefit of the family without prejudicing any of the inactive family members.

Aronoff *et al.* (2002:3) stated that the most critical family business issues are long-term strategic orientation, careful estate-tax planning and concern for leadership and ownership succession planning. Ownership succession can be orderly, taking place in stages over time or it can be quick, sudden and decisive, or it can be conflicted and ugly, leaving scars that never heal (Jaffe, 1991:212). Planning one's exit from the family business, and sticking to the plan, is much more an emotional issue than it is one of money (Aronoff *et al.*, 1997:18).

There are several financial and business consequences for owners who deny the need for estate, tax and succession planning or who put it off (Jaffe, 1991:221). When legal rules about succession and estates are ignored, decisions about a family's future are made by probate court. Tax laws often force owners to choose between keeping control and saving money to pass on to family (Jaffe, 1991:221). If owners wait too long to give up control, they may lose the talent of a potential successor (especially a son or a daughter) who gets impatient (Jaffe, 1991:221).

3.4.1 Estate planning

Fishkind and Kautz (2002:3) defined estate planning as the process by which a person's asset base is assessed as well as the needs of the loved ones, and, with the assistance of a qualified estate planner, implement a plan for the purpose of passing on the wealth. Thus, estate planning refers to the ownership (asset) transitioning process (File & Prince, 1996:172) and estate plans assist a family business to make the transition from one generation to the next (Aronoff & Ward, 2001:24).

Sturgill (1998:60) stated that the critical importance of estate planning in the succession process is well documented in family business literature. File and Prince (1996:172) stated that estate planning is a crucial element in understanding family businesses due to the fact that most family business owners hold their principal assets within the business. For a family business, estate planning includes continuity, personal financial security, equitable treatment of the next generation and tax savings (Aronoff *et al.*, 2002:184).

Thus, the goal of the estate plan is to pass wealth to one's loved ones in a manner that encourages harmony, personal growth and independence in the most tax-efficient manner (Fishkind & Kautz, 2002:3). The estate plan should be tailored to suit the unique needs of the specific family and should be carried out by capable fiduciaries.

Aronoff and Ward (2001:24) suggested that one of the major problems for business owners with estate planning is that they feel they have less and less control over their own destiny. Not planning often makes this feeling even worse (Jaffe, 1991:223). Completed, known estate plans are a pre-condition for sibling team success (Aronoff *et al.*, 1997:47).

Many business owners develop estate plans or plans for transfer of business ownership with their lawyers and accountants alone. The plans are perfectly designed to minimise taxes, but don't resolve or even recognise any of the personal aspects of the transaction (Jaffe, 1991:230). Tax considerations are important, but what is a hundred thousand rand of extra tax for the purpose of good feeling and ability to realise individual goals within the family (Jaffe, 1991:230).

In estate planning, the estate planner needs to meet with everyone to become familiar with personal goals and needs. The plan needs to arise from personal relationships and out of a shared consensus about what is fair (Jaffe, 1991:230).

3.4.2 Estate taxes

In early generation family businesses, a key shareholder's death may give rise to overwhelming estate tax demands (Visscher *et al.*, 1995:4). Often the estate has to be liquidated to pay estate taxes, or an unforeseen disaster can leave owners without the means, or ability, to complete their embryonic buy-out plan (Jaffe, 1991:222). This often serious liquidity problems experienced by families faced with inheritance taxes, are usually shifted to the family business, as the family rarely has sufficient personal funds to cover taxes entirely (Neubauer & Lank, 1998:193).

This implies that the business has to make financial provisions for such an event if this sudden drain on the resources occurs.

Potential cash needs may include (Shanker, 2000:48):

- Ongoing business capital needs.
- The family's support needs.
- Taxes to be paid.
- Capital to buy out other shareholders.
- Capital to provide equivalent value from the estate to those heirs not receiving equivalent shares.

The gross estate includes the value of all property in which a descendant had an interest at the time of death. Therefore, the gross estate includes business interests, real estate, securities, bank accounts, personal property as well as property interests which pass directly to a beneficiary without becoming part of the estate (Cohn, 1992:231). This includes life insurance proceeds, retirement plan accounts, jointly owned property and any property over which the descendant had a general power of appointment. Property is included in the gross estate at its fair market value at the date of death and fair market value is defined as the price at which a property would change hands between a willing buyer and a willing seller (Cohn, 1992:231).

According to communication with Mr. L.P. Swart (2005), the following very basic estate tax implications are currently valid in South Africa:

- If the deceased is married, he / she can defer payment of taxes when deceased, by letting the spouse inherit everything.
- The first R 1.5 million of the estate is exempted from tax.

- Estate tax (very basic explanation) is calculated as:

20 PERCENT OF: (ASSETS – LIABILITIES – R 1.5 MILLION)

Swart (2005) further suggested that a family business should have more than one legal status, e.g. a private company with a trust keeping the shares in the private company. Jaffe (1991:227) supports the principle of a trust as it allows families to maintain a single fortune with many heirs.

The essence of a trust is that ownership is held in common, but many people share the benefits from the trust (Jaffe, 1991:227; Swart, 2005). The trust keeps the shares of the family business intact, and the trustee makes the decision for all beneficiaries. One heir can have control over the family trust, even though one or more generations of heirs can benefit from it. While the wealth of a family can be distributed to everyone via trusts and buy-out agreements, the business itself should be managed and controlled by one, or at most, a few relatives.

Without adequate estate planning, often involving the obtaining of appropriate insurances and the structuring of trusts, lifetime gifts of shares and buy-sell agreements, the tax structure can force surviving family members to sell some or all of the business assets in order to meet their tax obligations (Jaffe, 1991:227). Even though there is a provision for deferred payments, estate taxes can still represent a significant drain.

Particularly because of the tax burden, stresses on a family during estate settlements can be significant, especially if estate planning has not provided for adequate financial cushioning against all estate taxes, appropriate valuation of the business or arranged for sources of financing for the purchase of the business by the heirs (File & Prince, 1996:173). Due to the complexity of this area, and the rapidity of changes in the law, family business owners and their professional advisors must allocate time and resources in the efforts to preserve family business assets for the next generation (File & Prince, 1996:173).

The legal issues surrounding estate taxes and estate planning don't form part of this study. However, care must be taken with the various tax forms in South Africa and the implication of these taxes, e.g. capital gains tax. Thus, fundamental estate tax planning rotates around one central tenet: to thoughtfully provide for loved ones in a tax-efficient manner (Fishkind & Kautz, 2002:54). Jaffe (1991:227) stated that through dilution and loss of vitality and focus, family fortunes tends to dissipate in three generations.

3.4.3 Proprietary interest

What ownership means differs widely among families (Frankenberg, 1999:35). Sometimes, it means cashing a generous cheque at the end of each fiscal year; sometimes ownership means pitching in during busy seasons, or during a crisis; sometimes it means lending expertise to the business on particular projects. Frankenberg (1999:35) stated that the healthiest family businesses take ownership seriously and transmit shares only to those family members who have the maturity and capability to continually educate themselves about the business and its industry.

Shareholders in the family business have rights and responsibilities as in any partnership or corporation. Unfortunately, rights in family businesses are more dependant on relationships and clear understandings than corporate charters, laws or government regulations (Carlock & Ward, 2001:137). Shareholders in public companies have well defined rights because stock markets, government agencies and courts set minimum standards and enforce regulations related to shareholder meetings, disclosure of financial information, boards of directors, voting rights and other structural issues (Carlock & Ward, 2001:137; Lansberg, 1999:27).

In a privately controlled family business it is often impractical to depend on outside intervention for enforcing ownership rights. A family that manages its affairs based on strict interpretation of legal requirements or the threat of legal action, loses its natural competitive advantage of trust (Carlock & Ward, 2001:137). Ownership control in privately held family businesses, and in publicly traded companies that are controlled by families, is usually in the hands of a relatively small group of shareholders, most of whom are closely related (Lansberg, 1999:27). The influence of the owners in these companies is direct and pervasive (Lansberg, 1999:27).

Businesses are created to generate economic value for their owners. Family shareholders, like all investors, are concerned about the financial returns on their investment (Carlock & Ward, 2001:137). One of the challenges that investors in privately held businesses face is the lack of information about the prospects of their investments. Shareholders in public companies have the daily market pricing and professional analysts' reports to give them some indication of their investment's potential.

Family businesses need to begin this process of disclosure by discussing the business' financial policies and expectations. At least once a year, management and the board should review with the owners the business' goals and policies related to dividends, growth rate, leverage and operating

risk and profitability (Carlock & Ward, 2001:137). This regular disclosure and explanation can diffuse many family conflicts.

According to Lansberg (1999:288) and Aronoff *et al.* (2002:189) a shareholders' agreement is essential for preserving shareholder unity. The agreement, signed by all family shareholders, is the key to family control of the business (Lansberg, 1999:288; Thornton, 1998:25). It must spell out the rules for transfer of shares, the rules on voting of shares and the place of trusts in the overall ownership structure. No matter how well members of the extended family get along, it is safe to assume that in later generations at least a few of the siblings or cousin partners will want to sell their shares to obtain cash (Lansberg, 1999:288).

By providing a mechanism for sale of shares within the family, it helps to ensure that the business will remain in family hands and discourages the sale of shares to potentially disruptive outsiders (Aronoff *et al.* 2002:189). By spelling out in advance the terms of any sale of shares within the family, it also prevents disputes from dividing the family and shaking the foundations of the business (Lansberg, 1999:288).

Especially in cases of multiple family ownership (i.e. generally in the third generation and beyond), family business tensions are often caused by too many participants with differing backgrounds, objectives and viewpoints (Leach & Bogod, 1999:229). If two partners bequeath their shares to their respective families, there are likely to be five or six shareholders in the second generation and twelve to fifteen in the third (Leach & Bogod, 1999:51). An effective way to limit the number of owners is to establish a share purchase agreement (Lansberg, 1999:288; Leach & Bogod, 1999:229).

3.4.4 Passing down the family business

The will and testament of the deceased will have a major impact on the lives of the surviving loved ones (Fishkind & Kautz, 2002:7). As a cornerstone of the estate plan, the last will and testament will help guide the distribution of wealth that took the deceased a lifetime to accumulate (Fishkind & Kautz, 2002:7).

Disputes and grudges over inheritance provide a plentiful supply of family conflict and this is especially so when a business is involved (Leach & Bogod, 1999:233). All too often when reviewing the last will and testament, the heirs can only shake their heads in disbelief when advised that their

spouse or parent's last will and testament was 30 years old, and did not, in any way, shape, or form, or reflect their wishes (Fishkind & Kautz, 2002:7).

A problem in allocating family inheritance and making decisions about ownership and control of the family business is the confusion between fairness and equality (Jaffe, 1991:229). Social rules dictate that wealth should, in the absence of powerful reasons to the contrary, be passed on to the next generation under arrangements that can broadly be described as fair (Leach & Bogod, 1999:233). As a result, many parents develop the family rule that everything is given to children equally.

Equality for all can end up being unfair to some, even demoralising and dangerous to the business as well (Jaffe, 1991:229; Voeller *et al.*, 2002:99). The owner must realise that fairness doesn't necessarily mean equality (Emens & Wolper, 2000:44; Jaffe, 1991:229; Leach & Bogod, 1999:233).

Some of the children will be better able to manage the family business than others; the eldest child may not be the best business person; and some of the children may already be working in the business, while others may have absolutely no interest in it (Leach & Bogod, 1999:233). The person who inherits control of the business deserves the fruits of his / her success (Jaffe, 1991:229).

Effective management of a family business demands that the CEO has control over business decisions and have the ability to retain the profits of the business for future development (Jaffe, 1991:229). As a general principle, countless problems can be avoided if family members who don't intend to be active in the business are not left shares in it (Bork, 1993:129; Leach & Bogod, 1999:233). The interests of inactive members are opposing to those of active family members.

Simply stated, inactive owners usually want cash (Bork, 1993:129; Leach & Bogod, 1999:233). To avoid conflicts between active and inactive members, it is better for the inactive members to be willed assets other than corporate shares (Bork, 1993:129).

One can go a long way in reducing the scope of this sort of turmoil by thinking through the potential problems in advance and sharing the thinking with the heirs (Leach & Bogod, 1999:233). The heirs are more likely to accept perceived inequalities if they understand what the owner is trying to achieve.

Often siblings have a very incomplete understanding of one another's needs or resources. Once each sibling understands the other's perspective, there's hope for a resolution (Jaffe, 1991:230). The owner may well have to depart from the principle of equality and bequeath shares in the business to selected heirs and may have to treat heirs who are active in the business differently from those who are not (Leach & Bogod, 1999:234).

It is rarely possible to satisfy everyone, but if the issues can be discussed and the difficulties and objectives explained, the bitterness that can result from misunderstandings can be avoided. Leach and Bogod (1999:234) is of the opinion that conflict of interests between active and inactive shareholders can be mitigated by constructive estate planning options, based on a clear appreciation of the distinction between ownership and control of the family business in the next generation.

3.4.5 Retirement planning

Typically, family businesses have no mandatory retirement age, at least not one that applies to the executives of the family (Lansberg, 1999:249). For the senior generation, the freedom to set the pace of their departure is one of the benefits of owning a business. It allows them to customise the process of their retirement in such a way that is consistent with their health and individual preferences. Lansberg (1999:250) stated that when managed responsibly, this flexibility allows business owners to surrender their leadership with more dignity and even, for those who are most adaptable, to retain a constructive role in the business.

For a person who has spent a lifetime building and running a business, it can be very hard to let go when it's time to turn the business over to somebody else (Lansberg, 1999:250; Lea, 1991:143). Maybe the former owner is also terrorised by uncertainty about the successors' abilities to run the business over the long haul, to keep it profitable and to keep the retirement plan funded (Lea, 1991:143). With retirement, a certain amount of post-transition stress is inevitable.

However, it is less traumatic when the senior generation has tested the successors' abilities and know that the financing side of retirement is in place (Lea, 1991:143). To retire, one will need the ability to find meaning in life after giving up the challenge, influence, status, identity, control and daily structure of running one's own business (Voeller *et al.*, 2002:28).

Voeller *et al.* (2002:30) further stated that once the vision for the future is developed, the planning can begin to ensure that the financial security to live the dream is in place. According to Neubauer and Lank (1998:152), the senior generation cannot be clear about the phasing-out process until he / she has decided what to do after giving up the day-to-day control of the family business and until the estate planning is complete.

3.4.5.1 Financial security of the owner

Very simply, if the senior generation doesn't know where he / she wants to go, he / she is not likely to get there (Voeller *et al.*, 2002:28). A realistic and compelling vision of life beyond business is the foundation for the retirement planning process (Voeller *et al.*, 2002:28). In order to put together a sound plan for retirement, the senior generation needs to know what needs to be financed and how it will be financed (Voeller *et al.*, 2002:28). Most retirees have not developed enough financial independence to sever their financial ties with the business (Aronoff & Ward, 1993:36). Many make the mistake of simply staying on the payroll (Aronoff & Ward, 1993:36).

Ideally, a retiring owner has planned and accumulated enough resources during his active life to sustain an independent retirement (Aronoff & Ward, 1992:10; Aronoff & Ward, 1993:35). As he / she hands over responsibility and authority to the next generation, pay can be scaled down accordingly. In this ideal mode, the business owner is paid what he / she is worth right up to the last minute. According to Aronoff and Ward (1993:36), this usually doesn't happen.

Thus, the owner needs to have financial security for himself / herself and his / her partner (Carlock & Ward, 2001:220). Without it, it would be unintelligent to give up the salary and fringe benefits that go with ownership (Neubauer & Lank, 1998:152). Thus, the starting point for discussing the estate plan is the current owners' needs. The first calculation includes the financial resources that the senior generation believes it *needs* to ensure an appropriate lifestyle and economic security (Carlock & Ward, 2001:139). It is important to remember that, unless a business has accumulated significant liquid assets, the ability to fund the *needs* calculation is based on the business's future performance.

In general, the retiring generation seeks to ensure a very comfortable and generous standard of living through the retirement years. Very often, however, there is rarely a fully funded retirement plan or other investments to provide for such a secure retirement (Carlock & Ward, 2001:220). Consequently, retirees either continue to draw their salary or arrange to receive a consulting fee from the business (Carlock & Ward, 2001:221).

Aronoff and Ward (1997:32) stated that personal financial risk can be reduced if the senior generation continuously build comfortable nest eggs outside the business. Those who have outside financial resources are most likely to take a long-term perspective and not just try to maximise the last five or ten years of their career (Aronoff & Ward, 1997:33).

The math is simple: the years left to correct missteps are minimal. Owners must realistically assess the risk of permanent disability, hospitalisation, death or other calamities and have appropriate contingency plans (Cohn, 1992:75). Most people tend to believe that they can beat the odds or that statistical information applies only *to the other guy* (Cohn, 1992:75).

3.4.5.2 When must the owner let go?

However, there is an easy way an owner can let go: by transferring ownership in stages, over time, so that ultimately the next generation owns up to 49% of the business (Cohn, 1992:68). If the ultimate ownership to be transferred is 49%, then there is no real commitment or risk as long as the current owner retains that controlling 51% (Cohn, 1992:68). The current owner can *practice* letting go through sabbaticals and retirement rehearsals (Cohn, 1992:68).

Sabbaticals are commonly used in academic environments and first began at Harvard in 1880 (Cohn, 1992:68). A formal sabbatical is a period of leisure, for personal or professional development, with a job guaranteed at the end. Retirement rehearsals, including phased retirement and part-time involvement, provide a way to take some of the stress out of a life-cycle change (Cohn, 1992:68).

Clarity about the timing is important precisely because it encourages the seniors to be accountable and decreases the likelihood that they will, whether consciously or not, sabotage the process (Lansberg, 1999:270). The development of a schedule can help ensure that the business will continue to benefit from the input of the senior generation beyond their time as leaders of the business.

Some families work out consulting contracts with the retired senior generation in order to keep a formal connection with them (Lansberg, 1999:271). Some retain them as board or committee members (Lansberg, 1999:271). But, as stated by Lansberg (1999:271), in all such arrangements, the role given to departing senior generation members should have real substance. If it doesn't, they are likely to resent being forced to prolong their connection with the family business and may distance themselves psychologically from it.

Lea (1991:160) stated the following three reasons why it's important to let go when the appointed time comes:

- By that point in the transition process the next generation of family owners and managers should be at the peak of readiness to take over.
- Most businesses can't tolerate two generations trying to sit in the boss's chair at the same time.
- The contract (if one exists) between the senior owner and the successor must be honoured.

Thus, through foresight and careful retirement planning, the business and the next family generation can be brought to an optimal point for hand-over. Letting go (retirement) is a planned, rational act that often drags a lot of irrational baggage along behind it (Lea, 1991:163). But sometimes it's easier for the senior owner, and potentially more beneficial for the business, if letting go involves changing a relationship to the business instead of dropping out altogether (Lea, 1991:163).

3.4.6 Liquidity of the family business

According to Libby *et al.* (2001:488) the word liquid, as in the context of how liquid a business is, means the ability of a business to meet its current maturing debts. Emens and Wolper (2000:46) defined liquidity as the term used for an investment or asset that can quickly be turned into cash. This definition is supported by Aronoff and Ward (2002:25).

For all its advantages, family business ownership does have some downsides. The most obvious, according to Aronoff and Ward (2002:12), is the limitation on the liquidity of the owner's shares. The owner can't call his stockbroker with an order to sell like one can with shares in publicly traded companies (Aronoff & Ward, 2002:12; Carlock & Ward, 2001:135).

Visscher *et al.* (1995:4) stated that the demise of many family businesses was caused by capital or liquidity problems, preventing them from surviving strategic or ownership transitions. The business may lack capital to grow and compete or to meet a new generation of shareholders' demand for current income. The ownership group needs to give thought to liquidity, that is, how business assets can be converted to cash to fulfil the desires of the individual owners who want to redeem their shares and how profits will be used (Aronoff & Ward, 2002:28).

Neubauer and Lank (1998:197) stated that there are two reasons why shareholders may need liquidity, namely:

- An immediate (large) liquidity need is caused by a shareholder's unexpected personal need for cash or a shareholder parting from the family business altogether, e.g. disability, death, divorce, insolvency, matrimonial property, retirement or sell out.
- A structural liquidity need arises when family shareholders feel that more liquidity and financial flexibility should be given to the owners.

Whichever is the case, it is important for the family to have an efficient and easy way to administer a program to redeem, redistribute and transfer family shares (Carlock & Ward, 2001:135).

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

- Through internally generated cash flows.
- Through additional capital injections by current shareholders.
- Through loans from insiders and / or third parties.
- By selling parts of the business that don't belong to the core activities of the business.

The crux of the matter is that it is not easy to satisfy the immediate and structural liquidity needs of shareholders as their main assets, shares in the family business, are not easily disposed of, and doing so will affect other family members (Aronoff & Ward, 2002:12; Carlock & Ward, 2001:135; Neubauer & Lank, 1998:199). The liquidity needs of the business and the liquidity needs of the shareholders must both be addressed by the corporate governance system of the family business (Aronoff *et al.*, 2002:302; Neubauer & Lank (1998:205). The family governance process should provide for a transparent liquidity procedure with fair independent appraisals.

If the family business or its investments limit the amount of liquidity that can be provided at any one time, then these limits should be explained to the family (Aronoff *et al.*, 2002:302). Long-range business financial health must not be sacrificed to attain liquidity for shareholders (Shanker, 2000:101). The key is to have a predictable liquidity process informing the family when and how they can obtain needed cash from their shareholdings.

3.5 CORPORATE GOVERNANCE IN FAMILY BUSINESSES

Neubauer and Lank (1998:60) defined corporate governance as "a system of structures and processes to direct and control corporations and to account for them". Governance processes are defined as the act of directing the making and administering of policy to serve as a precedent over the performance of functions in a family-run business (Pickard, 1999:128, 129).

Lansberg (1999:280) supported the above by stating that corporate governance usually refers to the ways in which a business organises itself to do business within a legal framework of the society in which it operates and its own bylaws.

3.5.1 The importance of thoughtful and effective corporate governance

Aronoff and Ward (1996:3) stated that the history of family business is full of ruinous examples of what can happen in the absence of effective corporate governance. Effective corporate governance requires accountability between shareholders and the business, as well as setting family policies that can prevent the arbitrary decisions (Aronoff & Ward, 1996:3).

Such policies govern family members' participation in the business, liquidity of the shareholders, information and education of the family members, responsible stewardship of shareholders' assets, family succession and other contentious matters. According to Aronoff and Ward (1996:3) smooth-running family businesses should embrace policies that provide for orderly decision-making on difficult issues. Through the corporate governance process, family members define fairness relative to necessary sacrifices, as well as distribution of benefits.

3.5.2 Governance structure for family businesses

In the context of public corporations, the governance concept is largely defined by the fiduciary responsibility of the board of directors to represent the interests of shareholders in overseeing the strategic direction and policies of the business, as well as the decisions and performance of management (Lansberg, 1999:280).

This implies that companies have a moral and ethical responsibility to fulfil the needs of a multiplicity of stakeholders, including their employees and the communities where they do business. Many leaders of family businesses think of governance almost exclusively in these terms, ignoring the needs of both the family and the shareholders for separate forums in which to voice their concerns (Lansberg, 1999:281).

However, corporate governance structures in family businesses must be designed to safeguard the long-term interests of family shareholders by ensuring the growth and continuity of the business and promoting the family's harmony and welfare (Lansberg, 1999:281). This implies that both the business and the family are in need of governance. Effective governance is the fundamental responsibility of ownership (Carlock & Ward, 2001:134, 140).

By looking at the family and business systems in relation to corporate governance, Aronoff and Ward (1996:9) recommended that the principle of parallel focus on the interests of family and business has proven the best and most enduring strategy for successful family businesses. Carlock and Ward (2001:140) supported this thinking and stated that family business governance requires parallel family and business thinking to support the development of planning, decision-making and problem-solving structures to support for both the family and business systems.

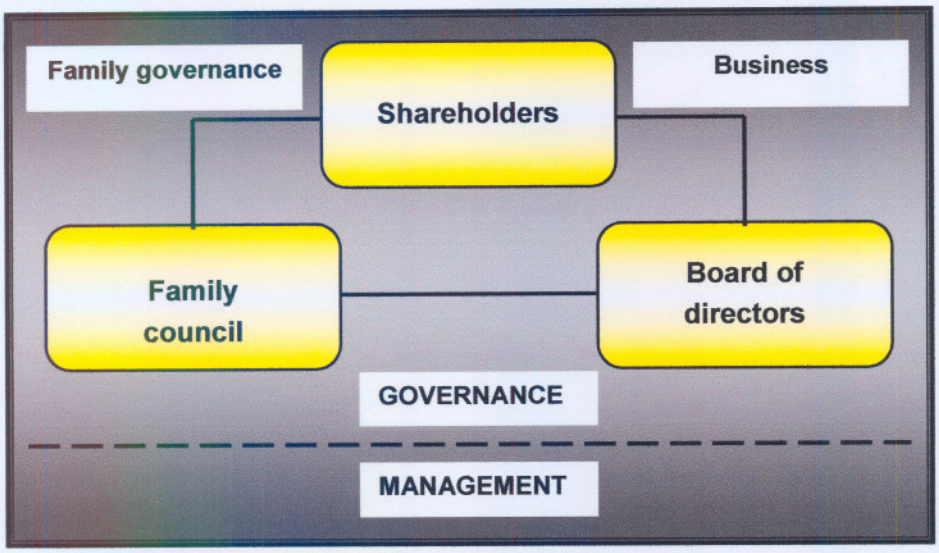
The distinct corporate governance needs of the family are best served by family meetings or a family council and business corporate governance needs are best served by an active board, preferably one with a majority of qualified independent directors (Aronoff & Ward, 1996:9; Carlock & Ward, 2001:140). Most businesses have a board of directors (or supervisory boards) that oversee management actions, allocate capital and participate in the strategy process. Family councils are the family board. They provide a governance structure to support consensus decisions, coordinate family actions and provide leadership.

Sharing decisions and plans related to family agreements, ownership agreements, management succession and business strategy ensure that the family and business policies and plans are complementary. The family and board of directors are forums for that sharing (Carlock & Ward, 2001:141). Ownership education programs and board or family meetings can be therapeutic for families caught up in the everyday stresses of managing and governing a business. These processes provide a structure and an objective framework for communication on sensitive topics, which builds family trust (Carlock & Ward, 2001:146).

Sharing information and coordinate action between the family council and board of directors is often required because of the overlap in the family and business systems. These groups may simply offer council to each other, or, on difficult decisions, they may both be asked to participate in the decision-making process (Carlock & Ward, 2001:140).

The interrelationship between the three pillars of family business governance, namely the board of directors, the shareholders' assembly and the family council, are depicted in Figure 3.3.

Figure 3.3: Governance structure for a family business



Source: Lansberg (1999:280)

Neubauer and Lank (1998:ix) stated that for the family-owned business, good corporate governance makes all the difference. Moreover, they are more likely to develop the important formal policies addressing critical family business issues such as redemption, family employment and dividends. Very few business-owning families avail themselves of the benefits of effective governance; very few have effective boards and regular family meetings (Lansberg, 1999:281; Neubauer & Lank, 1998:ix). Thus, good governance means establishing two distinct and separate points of focus, one on the family and one on the business.

3.5.3 Governance changes as the family business evolves

The functions of good family business governance stay pretty much the same as the family and the business grow (Aronoff & Ward, 1996:46). What changes is the form these governance processes take. An entrepreneur and his / her family don't need to form a family council. However, three generations later, by the time the business has grown to a portfolio of companies and the family has expanded the several third-generation and a dozen or more fourth-generation members, effective governance requires a more formal framework to meet more complex needs.

Table 3.2 includes an overview of the evolutionary changes of family business governance structures.

Table 3.2: Evolution of family business governance structures

STAGE	FAMILY BUSINESS	COORDINATING PROCESS OR MECHANISM	BOARD ORGANISATION
Stage 1: Owner / manager or entrepreneurial stage.	• Informal family meeting among family.	• Fireside chats or joint meetings.	• Ideally, outside board. • Advisory council.
Stage 2: Sibling partner stage.	• Family meetings between family members and spouses. • Sometimes family council and / or task forces to handle projects.	• Fireside chats. • Joint meetings or governing committee.	• Board, composed of majority of outside directors and selected family members.
Stage 3: Cousin / collaborative stage.	• Family. • Family assembly. • Share-owners sub-committees. • Family council.	• Governing committee.	• Board. • Subsidiary boards. • Junior boards (as developmental tool).

Source: Aronoff and Ward (1996:46)

The major purpose of the evolution of the governance process is to ensure that there are smooth decision-making, cohesiveness, effective conflict resolution and freedom from political warfare (Aronoff & Ward, 1996:53). Or as Neubauer and Lank (1998:229) said, trust is good, control is better.

3.6 CHAPTER SUMMARY

The main purpose of this chapter was to discuss the details captured through the literature study leading to empirical research findings. The topics covered tested the literature discussed in the research proposal and further literature research findings undertaken in this study. Topics discussed include compensation in the family business, disciplinary procedures, management and ownership succession of family businesses and corporate governance in family businesses.

The standards for compensation should be clear and tied closely to measurable objectives and based on both organisational and individual goals, it must be adopted, recorded, communicated and followed. The only way to be really sure one has a compensation plan is for it to be in writing. Factors to be considered to determine fair compensation include business size in terms of sales and revenues, number of employees, cost of living, number of people supervised, hours worked, educational requirements, experience, contacts, performance and degree of specialisation.

Succession planning should not happen overnight, it's a continuing process which should start long before the owner plans to retire. Plans should be seriously under way by the time the business leader is in his / her fifties and the children are probably in their mid- to late twenties. Putting the succession plan in writing will help to ensure that difficult issues are confronted head on and that everyone in the business knows where they stand. The plan should include criteria for selecting the next generation of management, details of how successors will be prepared for their roles and contingency arrangements to cater for unforeseen events. The succession plan and the successor should be widely anticipated by all involved in the business and there should be no surprises.

A well-considered and planned succession will maximise the chances of finding a competent successor and will ensure a smooth leadership transition between generations. Smooth transition in a family business requires that a successor be chosen long before the founder leaves. Thus, in order to safeguard the continuity and vitality of the business, founders / owners should regard planning for succession, and making sure that it takes place as smoothly and efficiently as possible. A number of people play different roles in the succession process. These individuals include family and non-family members and their input during the process is important to be effective.

Ownership succession is a lifelong process, in which the family arranges, manages and secures its assets and liabilities. The outcomes of the ownership succession plan are the transition, protection and development of the business and other assets to the benefit of the family without prejudicing any of the inactive family members.

One of the most critical family business issues are long-term strategic orientation, careful estate-tax planning and concern for leadership and ownership succession planning. Ownership succession can be orderly, taking place in stages over time or it can be quick, sudden and decisive, or it can be conflicted and ugly, leaving scars that never heal. Planning a person's exit from the family business, and sticking to the plan, is much more an emotional issue than it is one of money.

Though governance is an abstract concept, the goals of good family business governance are necessary foundation stones in sustaining a healthy family and a healthy business. The focus of family governance should be to find consensus on matters where owners' wishes matter most, as well as to provide family members with a shared sense of identity and mission that transcends their individual interests in the business.

By looking at the family and business systems in relation to corporate governance, it is stated by the literature that the principle of parallel focus on the interests of family and business has proven the best and most enduring strategy for successful family businesses. Thus, family business governance requires parallel family and business thinking to support the development of planning, decision-making and problem-solving structures to support for both the family and business systems.

The distinct corporate governance needs of the family are best served by family meetings or a family council and business corporate governance needs are best served by an active board, preferably one with a majority of qualified independent directors. Most businesses have a board of directors (or supervisory boards) that oversee management actions, allocate capital and participate in the strategy process. Family councils are the family board. They provide a governance structure to support consensus decisions, coordinate family actions and provide leadership.

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

CHAPTER 4: EMPIRICAL STUDY ON FAMILY BUSINESSES

The intent of this chapter is to summarise the results of the empirical research, based on the replies to the questionnaires that were distributed. The empirical research was done by means of a field study using a structured questionnaire as the main component. The chapter opens with information regarding the sampling frame. The chapter further includes the demographic data of the respondents as well as the structure of the family businesses researched.

The analysis of Section A, B and C of the questionnaires is presented by using statistical analysis methods. The data in Section D and E of the questionnaire will be presented using frequency distribution. A frequency distribution can take the form of a figure (e.g. a histogram or a frequency polygon) or a table.

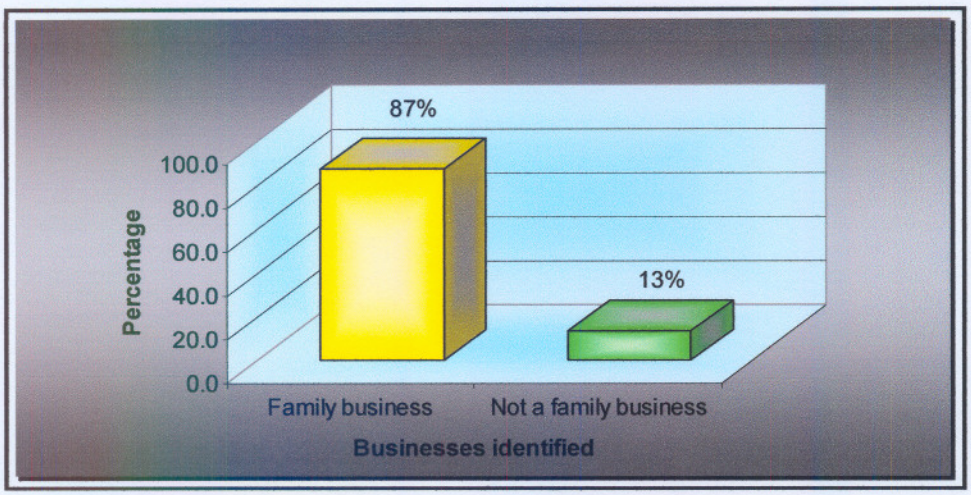
4.1 SAMPLING FRAME

The sampling frame entails the number of businesses identified, the responses to the family business survey and the response rate to the questionnaires.

4.1.1 Family businesses identified

Figure 4.1 gives a graphical presentation of the distribution of the businesses identified.

Figure 4.1: Businesses identified



A total of 129 businesses were identified in the Sedibeng District and the Metsimaholo Municipality. This was done by means of the snowball sampling method as described in Section 1.7.2.1. The majority, namely 112, of the businesses identified, was family businesses.

4.1.2 Random selection of the specified number of family businesses

Due to time constraints, it was decided to contact only 54 of the identified family businesses. This number was not scientifically determined. It was merely based on the personal timetable for the research project as discussed in Section 1.6.3.4.

As the number of family businesses to be contacted was determined, a way to randomly select the specified number of family businesses from the list was needed. There are many ways to go about this, but most important, whatever technique is used, the selecting must be random. Thus, one family business must not be given preference to another family business for any reason.

An easy and fast way used for the random selection of these family businesses, was by using Microsoft Excel. The steps made for the random selection were as follow:

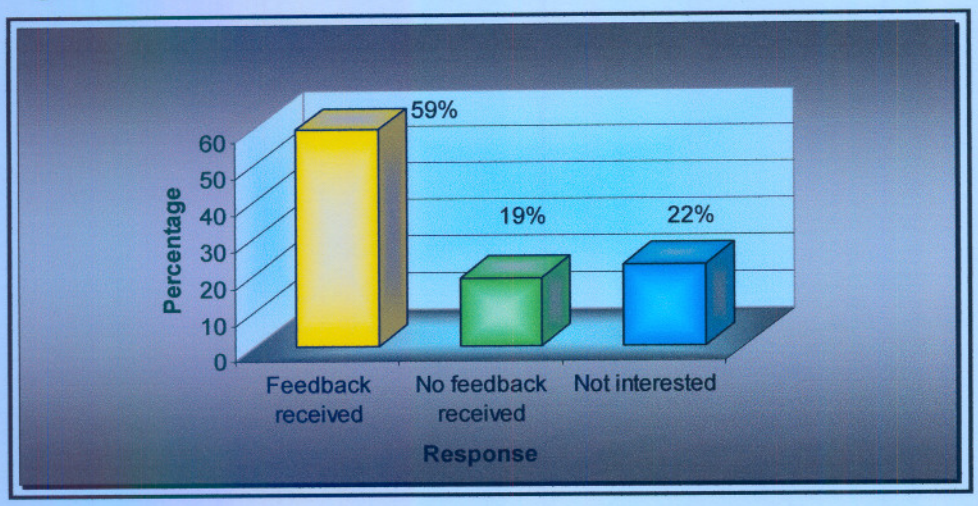
- The list of the family businesses was copied into a single column.
- A second column, with the cells next to where the names of the family businesses were copied, was filled with Excel's *randomise* function.
- Both the columns were sorted by the *randomise* column.
- As the entire list was randomly sorted, the first 54 names were picked from this random list.

Thus, the first 54 family businesses on this randomly selected list were contacted to participate in the survey.

4.1.3 Responses to the family business survey

Figure 4.2 on the following page gives a graphical presentation of the responses of the family businesses to the survey.

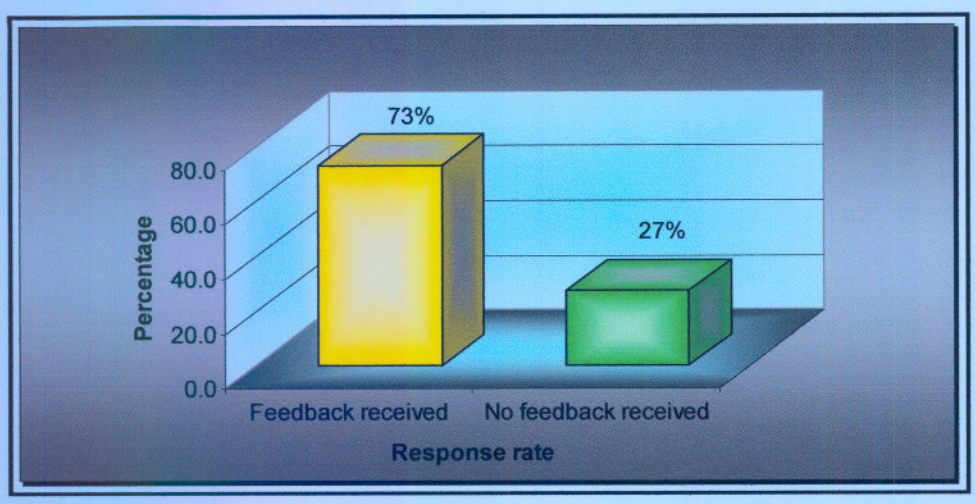
Figure 4.2: Responses to the family business survey



The majority of the family businesses did participate in this study and almost one quarter indicated that they were not interested. The main reason for not being interested was a lack of time to complete the questionnaires. However, some family businesses said no without even enquiring what this study entails.

Most of the 42 (59%) family businesses that indicated that they are willing to participate in the study did return the questionnaires. The response rate is graphically indicated in Figure 4.3.

Figure 4.3: Response rate



The number of family businesses that did complete and returned questionnaires was 32. Thus, the response rate was 73%. The reasons mentioned by the 28 family businesses that didn't complete

questionnaires, were twofold, either they didn't complete it in time or they decided that they are not interested anymore.

4.2 DEMOGRAPHIC INFORMATION OF THE RESPONDENTS

The data, as depicted in Section D of the questionnaire, relates to the demographic information of the respondents. This information is indicated below in table or histograms, with a clear distinction between the active and inactive family members.

Active family members are family members who are permanently employed by the family business. Inactive family members refer to family members not in the service of the business and could include spouses, children, in-laws, brothers and sisters. They are often part of the family of the executive manager or play an important role in the lives of family-member employees, for example in-laws. These family members form an integral part of the family dynamics that play themselves out within and around the business.

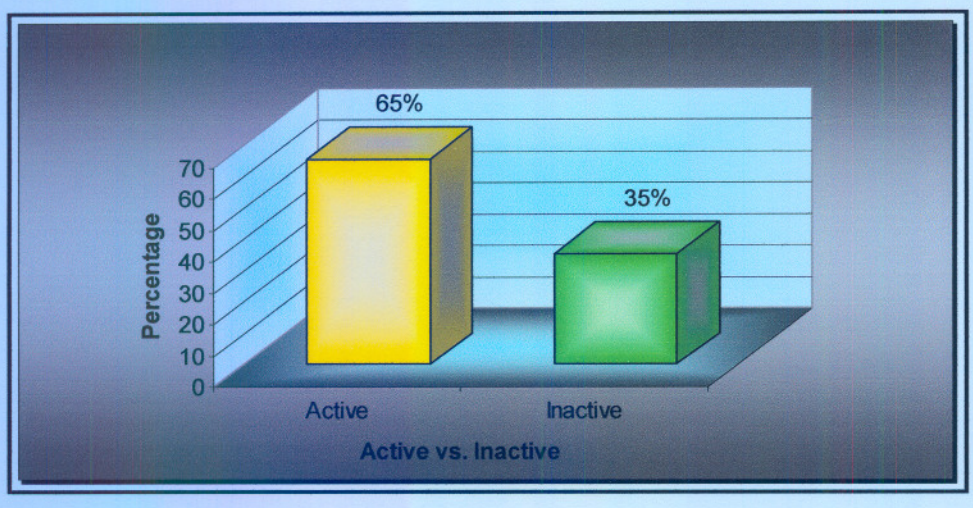
The demographic information of the various interest groups consists of various dimensions. The results of the analysis of the questionnaires can be influenced by various demographical factors, such as age, gender, marital status, relationship to the family, highest academic qualification and the percentage of shares owned in the business.

4.2.1 Active and inactive family members

The purpose of this question was to determine the involvement of the family members in the family business. The split between the active and the inactive family members is indicated in the histogram in Figure 4.4 on the following page.

A total of 163 family members completed the questionnaires. As indicated in the histogram below, approximately two thirds (106) of the respondents are actively involved in the family businesses.

Figure 4.4: Split between the active and inactive family members



4.2.2 Age groups of the respondents

The purpose of this question was to determine the distribution of the age groups of the respondents. The respondents were requested to indicate their relating age group in one of the five pre-determined age groups. The age group gives an indication of experience, knowledge about the business, self-development and the proneness to risk of the respondents. Estimates of the time period before retiring can also be made.

The age groups of the respondents is summarised in Table 4.1.

Table 4.1: Age groups of the respondents

AGE GROUP	ACTIVE		INACTIVE		TOTAL	
	Number	%	Number	%	Number	%
≤ 29	16	15%	25	44%	41	25%
30 – 39	30	28%	16	28%	46	28%
40 – 49	25	24%	9	16%	34	21%
50 – 59	26	25%	5	9%	31	19%
60 +	9	8%	2	4%	11	7%
Total	**106**	**100%**	**57**	100%	**163**	**100%**

Only 26% of the respondents, active and inactive, are 50 years of age or older. However, in this age group, 33% of the respondents are actively involved in the business. More than 50% of the active and inactive family members are younger than 40 years of age.

There is a very even distribution of the number of respondents for the active family members, in the age groups 30-39, 40-49 and 50-59.

4.2.3 Gender of the respondents

With this question, the split between male and female members, either actively or inactively involved in the family business, were determined.

The gender of the respondents, according to active and inactive family members, as well as the total number of respondents, is indicated in Table 4.2.

Table 4.2: Gender of the respondents

GENDER	ACTIVE		INACTIVE		TOTAL	
	Number	%	Number	%	Number	%
Male	63	59%	15	26%	78	48%
Female	43	41%	42	74%	85	52%
Total	**106**	**100%**	**57**	**100%**	**163**	**100%**

The gender distribution of the total active and inactive respondents, are almost equal, with 78 (48%) of the respondents being male and 85 (52%) being female.

For the active family male respondents are substantially more than the female respondents. However, looking at the inactive family members, the majority of the inactive family members is female (52 females versus 15 males).

4.2.4 Marital status of the respondents

The marital status of the respondents was requested on the questionnaire. Marital status has an influence on the management of the overlap between the family and the business systems.

Table 4.3 on the following page, indicates the marital status of the respondents.

Table 4.3: Marital status of the respondents

MARITAL STATUS	ACTIVE		INACTIVE		TOTAL	
	Number	%	Number	%	Number	%
Single	13	12%	16	28%	29	18%
Married	87	82%	40	70%	127	78%
Divorced	5	5%	1	2%	6	4%
Widow(er)	1	1%	0	0%	1	1%
Total	**106**	**100%**	**57**	**100%**	**163**	**100%**

The majority of the respondents, active or inactive, are married, and entails 78% of the total respondents. The number of active and inactive, married respondents is almost the same. The divorced and widow(ed) respondents only entails five percent of the total respondents. The number of single inactive respondents is almost double the number of the active, single respondents.

4.2.5 Highest academic qualification of the respondents

The purpose of this question was to determine the highest academic qualification of the active and inactive family members. The level of qualification has an impact on the type of family business that is operated. Academic qualification can influence performance, knowledge and skills of a person.

The highest academic qualification of the respondents are summarised in Table 4.4.

Table 4.4: Highest academic qualification of the respondents

HIGHEST ACADEMIC QUALIFICATION	ACTIVE		INACTIVE		TOTAL	
	Number	%	Number	%	Number	%
Lower than matric	9	8%	8	14%	17	10%
Matric	38	36%	17	30%	55	34%
Certificate	13	12%	1	2%	14	9%
Diploma	22	21%	16	28%	38	23%
University degree	17	16%	8	14%	25	15%
Post graduate degree	7	7%	7	12%	14	9%
Total	**106**	**100%**	**57**	**100%**	**163**	**100%**

Matric or lower than matric, is the highest academic qualification of 44% of the active respondents. The category *matric*, has the highest number of respondents for both the active and inactive family members.

Only a total of nine percent of the respondents has a post graduate degree, with an equal split of this qualification between the active and inactive family members. The number of active and inactive family members with an university degree or a higher qualification is almost equal.

4.2.6 Percentage of shares owned by the respondents

The purpose of this question was to determine the percentage of shares owned by the active and inactive family members. The importance of this question lies in the fact that the number of shares owned by a family member, active or inactive, can have an impact on the respondent's attitude towards the family business, e.g. issues such as commitment and loyalty.

Table 4.5 indicates the percentage of shares owned by the active, inactive and total number of respondents.

Table 4.5: Percentage of shares owned by the respondents

PERCENTAGE SHARES OWNED	ACTIVE		INACTIVE		TOTAL	
	Number	%	Number	%	Number	%
0 %	41	39%	56	98%	97	60%
1 % - 49 %	31	29%	0	0%	31	19%
50 %	24	23%	1	2%	25	15%
51 % - 99 %	1	1%	0	0%	1	1%
100%	9	8%	0	0%	9	6%
Total	**106**	**100%**	**57**	**100%**	**163**	**100%**

Three fifths (60%) of the active and inactive family members doesn't own any shares. The majority of share ownership lies with the active family members. Of the 40% family members that owns shares; only one percent is inactive family members. Nine (8%) active family members own 100% of the share of their family businesses.

4.2.7 Relationship of the respondents to the owner

The purpose of this question was to determine the relationship of the family members, active or inactive, to the owner as the basis. For the purpose of this study, owner refers to the founder of the family business, or the most senior family executive of the family business.

The importance of this question lies with the distinction between the family and the business systems. The closer the family ties, the more difficult the owner might find it to put the business first in decision-making.

The relationship of the respondents to the owner is summarised in Table 4.6.

Table 4.6: Relationship of the respondents to the owner

RELATIONSHIP TO THE OWNER	ACTIVE		INACTIVE		TOTAL	
	Number	%	Number	%	Number	%
Owner	27	25%	1	2%	28	17%
Spouse	25	24%	10	18%	35	21%
Brother	5	5%	0	0%	5	3%
Sister	0	0%	0	0%	0	0%
1st Son	16	15%	4	7%	20	12%
2nd Son	7	7%	1	2%	8	5%
3rd Son	2	2%	0	0%	2	1%
1st Daughter	6	6%	11	19%	17	10%
2nd Daughter	4	4%	2	4%	6	4%
3rd Daughter	1	1%	1	2%	2	1%
In-law	10	9%	21	37%	31	19%
Other	3	3%	6	11%	9	6%
Total	**106**	**100%**	**57**	**100%**	**163**	**100%**

Active involvement of direct family, i.e. parents, including their sons and daughters, entails 89% of the respondents. In none of the family businesses researched, are sisters of the owners involved - not even in an inactive capacity.

There are 24% of sons actively involved versus 11% daughters that are actively involved. Analysing the inactive percentages, there are nine percent of sons inactively involved and 26% of daughters. The majority of family members actively involved, namely 49%, is the owner himself / herself, with their spouses.

In analysing the number of spouses relative to the owners, it is clear that this portion was not completed correctly. There are 28 owners, but a total of 35 spouses.

4.3 STRUCTURE OF THE FAMILY BUSINESSES

The data, as depicted in Section E of the questionnaire, relates to the structural information of the various family businesses. The structure of the family businesses such as location, size, industry sector and annual turnover was collected so that the data for the following sections can be sorted based on these demographics, as well as to form an overall view of the companies that participated in the research. A total of 32 family businesses participated in the research.

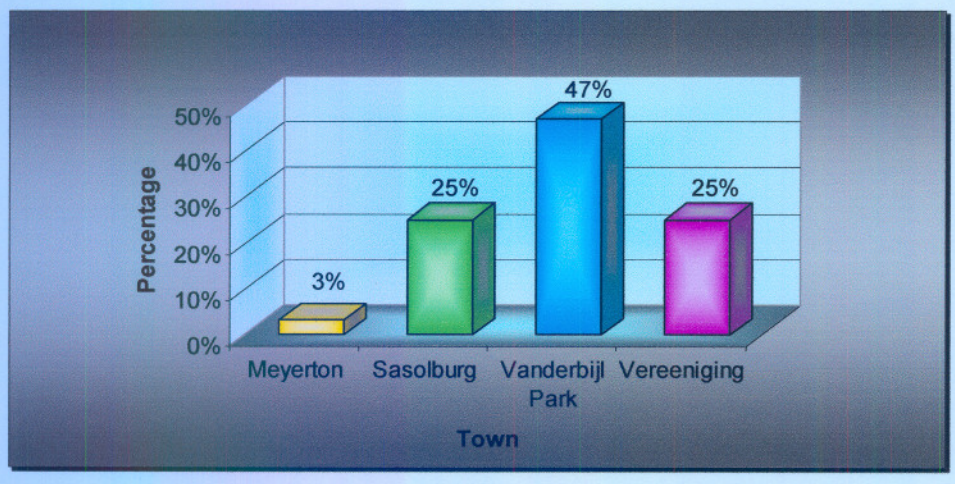
From this 32 businesses, 26 are owned by various generation family members, four are owned by brothers (who started the business) and four of the businesses are owned by a husband and wife, with the children to young to be involved in the business. Thus, the family businesses are divided into three groups, *generations*, *siblings* and a *husband and wife* group.

4.3.1 Location of the family businesses

The purpose of this question was to determine the geographical distribution of the family businesses that participated in the study.

The towns the family businesses are located in are indicated in Figure 4.5.

Figure 4.5: Towns the family businesses are located in



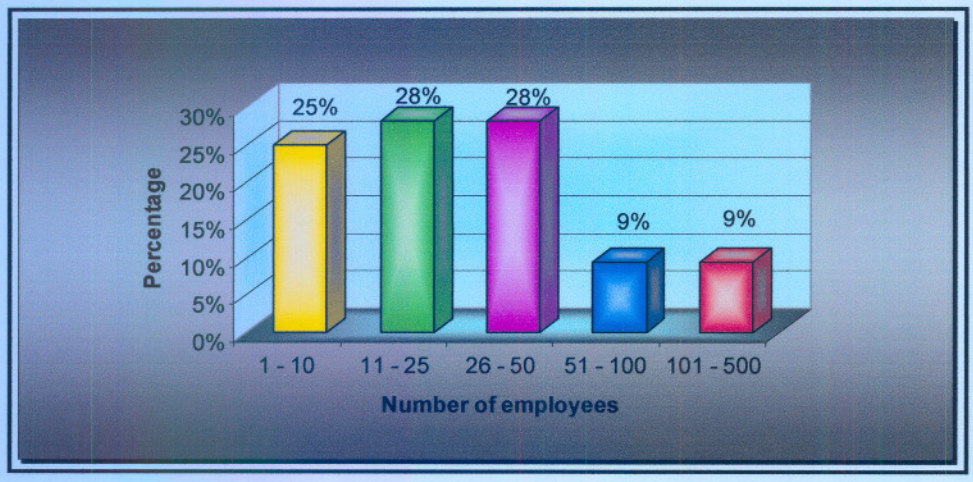
The majority of the businesses in the study are located in Vanderbijl Park. The number in Sasolburg and Vereeniging are even (eight each) with the lowest number in Meyerton.

4.3.2 Family business size

According to SA (2003), the size of a family business is determined by the total number of fulltime employees and the total annual turnover of the business. The owner of each family business was requested to indicate the number of permanent employees employed in the family business, as well as the annual turnover of the business. The purpose of these two questions was to determine the size of the family business.

The number of permanent employees employed in the family businesses is indicated in Figure 4.6.

Figure 4.6: Number of permanent employees employed in the family businesses

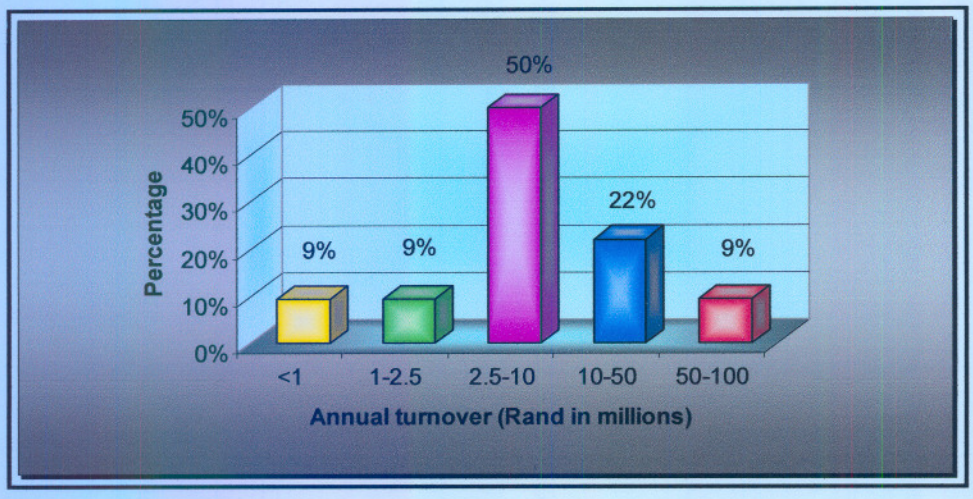


The majority of the family business have between one and 50 employees. The distribution between one to ten, 11 to 25 and 26 to 50 are almost even for each category. Only 18% (a total of six) of the family businesses have 51 or more employees.

The annual turnover of the family businesses is indicated in Figure 4.7 on the following page.

Based on the categories chosen, the annual turnover forms almost a normal distribution curve. Half of the family businesses have an annual turnover of between R 2.5 million and R 10 million. The category R 10 million to R 50 million entails a further quarter and the balance is almost evenly distributed between the other categories.

Figure 4.7: Annual turnover of the family businesses



The categorisation of Micro, Small and Medium enterprises, as defined by the National Small Business Act (Act No. 26 of 2003: National Small Business Amendment Act, 2003), is indicated in Table B.1, in Appendix B.

Based on Table B.1, and combining the number of permanent employees with the average annual turnover of the businesses, it can be concluded that the 93% of the family businesses in the study can be categorised as small, very small or micro businesses. The balance of nine percent is medium to large size businesses.

4.3.3 Industries in which the family businesses operate

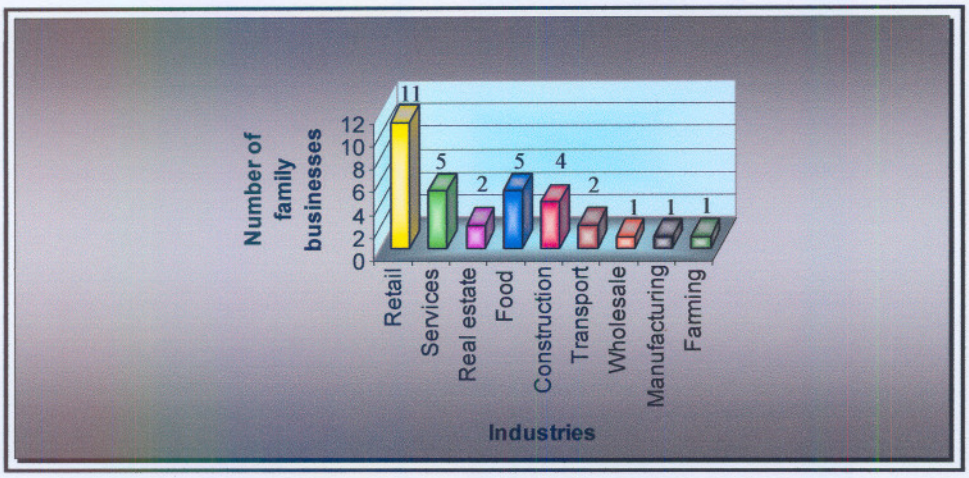
The purpose of this question was to determine what products and services are traded within the various family businesses. The 32 family businesses do business in nine different industries.

The distribution of the family businesses, in relation to the various industries in which they operate, is indicated in Figure 4.8 on the following page.

The industry with the highest number of family businesses is the retail industry, namely 11, thus nearly one third of the family businesses. The two second highest industries are services and food, with five family businesses in each industry respectively.

The construction industry encompasses four of the family businesses and real estate and transport two each. The three lowest industries, with one family business each, are wholesale, manufacturing and farming.

Figure 4.8: Industries in which the family businesses operate



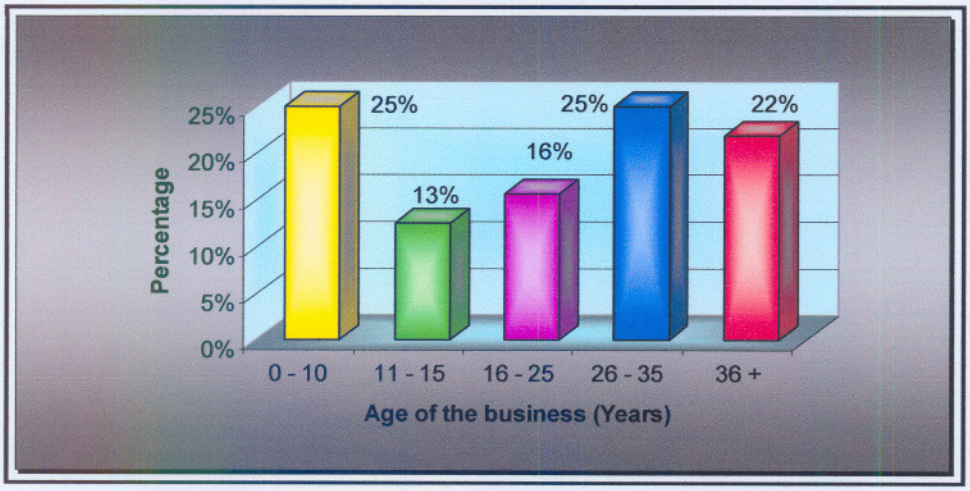
Percentages are not given in the evaluation of the industry as the possibility exists that a business can trade in more than one industry. The total number of industries, as indicated on the questionnaires, is only 32 industries. However, during the face-to-face interviews with the owners of the family businesses, some of the owners indicated that they are involved in more than one industry.

4.3.4 Age category of the family businesses

The purpose of these two questions was to determine the age of the family business and in what generation the family business is.

The age categories of the family businesses, in years, are indicated in Figure 4.9.

Figure 4.9: Age categories of the family businesses

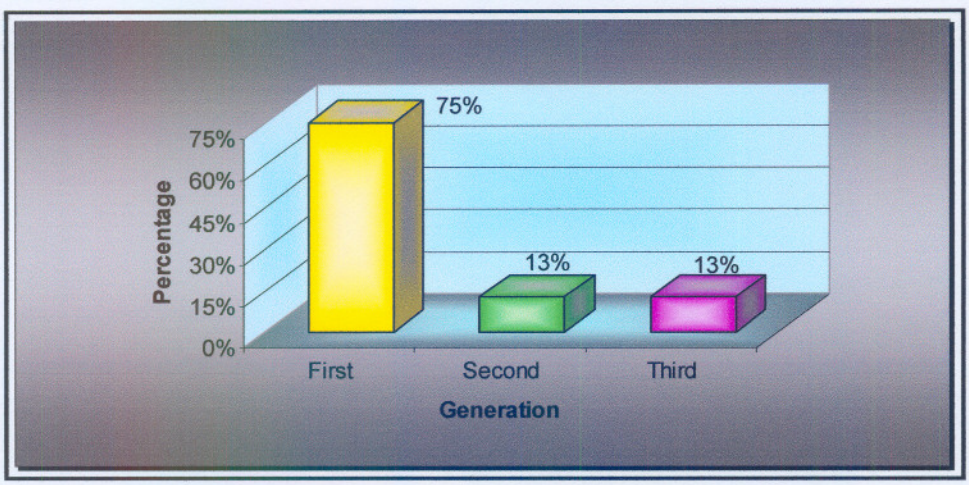


The total age of the family businesses studied is 755 years. This gives an arithmetic mean age of 23.6 years per family business. One quarter of the family businesses are ten years or less in business. Almost half of the family businesses in the study are 26 years or more in business.

4.3.5 Generations of the family businesses

The distribution of the family businesses according to generation is indicated in Figure 4.10.

Figure 4.10: Distribution of the family businesses according to generation



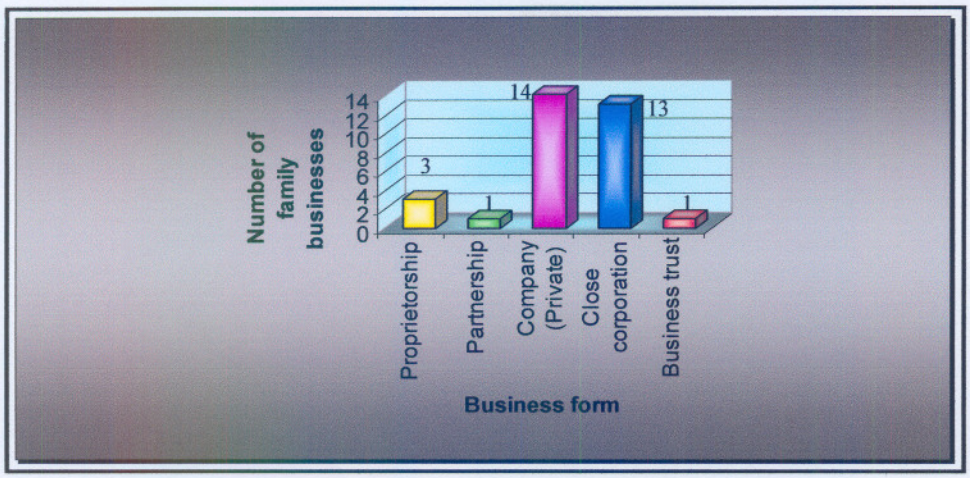
Three quarters (24) of the family businesses researched are in the first generation. Each of the second and third generation encompasses four (13 %) family businesses each.

4.3.6 Business forms of the family businesses

The business forms of the family businesses are indicated in Figure 4.11 on the following page.

The lowest number of family businesses is in a partnership and a business trust. Each of them only has one family business. The second lowest business form is a proprietorship with only three (nine percent) family businesses. The most prevalent business form was a private company with a total of 14 (44 %) family businesses. However, it only wins with a short head as close corporations encompass 13 (41 %) of the family businesses.

Figure 4.11: Business forms of the family businesses



Percentages are not given in the evaluation of the business form as the possibility exists that a business can have more than one business form. The total number of business forms, as indicated on the questionnaires, is only 32. However, during the face-to-face interviews with the owners of the family businesses, some of the owners indicated that the family business has more than one legal status.

4.4 ANALYSES OF THE FACTORS AND SUB-FACTORS RELEVANT TO THE UNIQUE CHALLENGES FACING FAMILY BUSINESSES

The existing questionnaire used in this study (Van der Merwe, 2004), measured 12 factors and 41 sub-factors. These twelve factors are:

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

All twelve the factors are applicable to the active family members in the family business. However, only four of these factors are applicable to the inactive family members, namely factors two, five, eleven and twelve.

The data, as obtained from the completed questionnaires, were statistically analysed with Statsoft, Inc (2004). As discussed in Section 1.7.4, the arithmetic mean, the standard deviation, the reliability of the research instrument (Cronbach alpha coefficient) and the effect sizes, were calculated.

The discussion of the analyses of the factors and sub-factors are according to the following order:

- Ranking of the arithmetic mean.
- Analyses of the arithmetic mean for the factors and sub-factors as evaluated by all the family members.
- Analyses of the arithmetic mean for the factors and sub-factors as evaluated by the active family members.
- Analyses of the arithmetic mean for the relevant factors and sub-factors as evaluated by the inactive family members.
- The standard deviation measure.
- Conformity between the literature study and the questionnaire.
- Comparative results between the active and inactive family members.
- Reliability of the research instrument.
- Effect sizes.
- Effect of the number of respondents versus the number of families on the mean.

4.4.1 Ranking of the arithmetic mean

In the absence of a method to compare the relative importance of the mean as calculated, the following non-scientific method is proposed.

The arithmetic mean of all the factors and sub-factors were ranked in ascending order. The 50^{th} percentile value (5.1780) is assumed to be the arithmetic mean for comparison purposes. Subsequently, the entire mean data set was divided into three equal portions. The relevance of this subdivision, as well as the ranking, is indicated in Table 4.7 on the following page.

Table 4.7: Ranking of the arithmetic mean

RANKING	VALUE *FROM*	VALUE *TO*
LOW	3.8880	4.9572
AVERAGE	4.9870	5.4395
HIGH	5.440	5.9870

Thus, if an arithmetic mean lies between 3.8880 and 4.9572, it is assumed to be evaluated low for the purpose of the study. An average ranking is achieved if the arithmetic mean lies between 4.9870 and 5.4395. A high ranking is achieved for an arithmetic mean between 5.440 and 5.9870.

The arithmetic mean, as discussed in Section 1.7.4.2, indicates the degree of agreement or harmony. The higher the arithmetic mean, the higher the agreement with the statement / question. If the arithmetic mean is high, that specific factor / sub-factor can be seen as a strength. However, if the arithmetic mean is low, the factor / sub-factor can be seen as a deficiency in the family business. The *total* arithmetic mean represents the arithmetic mean for the combination of all the factors and sub-factors.

For the remainder of this report, *mean* implies the *arithmetic mean*.

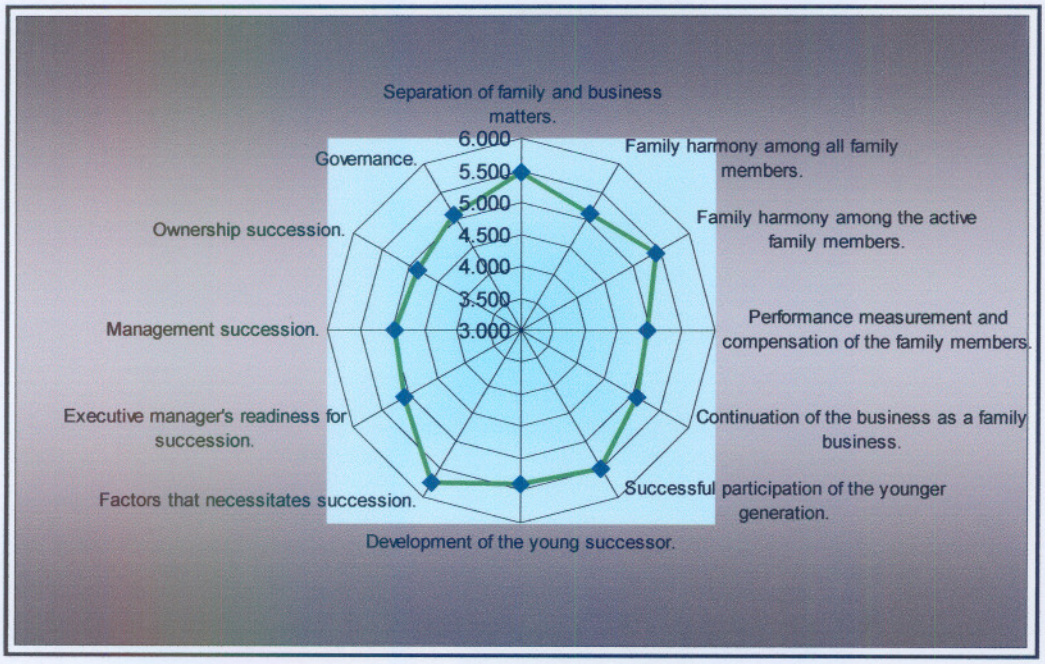
4.4.2 Analyses of the arithmetic mean for the factors and sub-factors as evaluated by all the family members

The purpose of the mean analyses is to determine the relative importance of the factors and sub-factors as evaluated by all the family members (active and inactive).

The results of the mean for all 12 main factors, as evaluated by all the family members, are graphically depicted in Figure 4.12 on the following page.

For details of the mean for all the factors and sub-factors, as evaluated by all the family members, refer to Table C.1 in Appendix C.

Figure 4.12: Results of the evaluation by all the family members



The discussion of the results of the evaluation of all the family members is done by ranking the 12 factors from the lowest to the highest mean. The 12 factors are then divided in three groups, thus the lowest four factors, the average four factors and the four factors which were evaluated the highest.

The total mean of all the factors and sub-factors, as evaluated by all the family members, is 5.063. Based on the ranking of the mean as in Section 4.4.2, this implies that all the family members experience the factors and sub-factors in their businesses, as average.

4.4.2.1 Factors which were evaluated the lowest

The four factors, which were evaluated the lowest, are subsequently discussed from the lowest to the highest mean value.

The mean of the four lowest factors, with their sub-factors, as evaluated by all the family members, are indicated in Table 4.8 on the following page.

Table 4.8: The mean of the four lowest factors, with their sub-factors, as evaluated by all the family members

	FACTOR AND SUB-FACTORS	n	MEAN
4.	**Performance measurement and compensation of the family members.**	**106**	**4.948**
4.1	Clear roles and responsibilities in the family business.	106	5.505
4.2	Performance measurement of the family members.	106	4.775
4.3	Disciplinary procedures for the family members.	106	4.514
4.4	Compensation policy for the family members.	106	4.999
10.	**Management succession.**	**86**	**4.957**
10.1	Management succession planning.	86	4.477
10.2	Selection criteria of the successor.	86	4.992
10.3	Suitability of the prospective successor(s).	86	5.507
10.4	Transfer of management to the younger generation.	86	4.101
10.5	The success / stability of the family business after succession.	86	5.709
11.	**Ownership succession.**	**163**	**4.836**
11.1	Estate planning in the family business.	106	4.799
11.2	Estate tax of the family business.	106	4.327
11.3	Proprietary interest in the family business.	163	4.648
11.4	Equality and fairness of the will of the senior generation.	163	5.187
11.5	Retirement planning of the senior generation.	106	5.014
11.6	Liquidity of the family business.	106	5.268
12.	**Corporate governance of the family business.**	**163**	**4.752**

Corporate governance of the family business (Factor 12: 4.752) was evaluated as the lowest of the 12 factors for all the family members.

Ownership succession (Factor 11: 4.836) was also evaluated very low. The sub-factors *Estate tax* (4.327), *Proprietary interests* (4.648) and *Estate planning* (4.799) are all very low. However, *Retirement planning* (5.014), *Equality and fairness of the will* (5.187) and *Liquidity of the family business* (5.286) were evaluated high.

Performance measurement and compensation of the family members (Factor 4: 4.9481) is also one of the lowest four factors as evaluated by all the family members. The lowest sub-factor is the *Disciplinary procedures for the family members* (4.514), with *Performance measurement* (4.775) and the *Compensation policy* (4.999) of the family members also on the low side. *Clear roles and responsibilities* rated fairly high with a score of 5.505.

Management succession (Factor 10: 4.957) is the last factor that falls in the lower third of the 12 factors. Three of the five sub-factors were rated fairly low, namely T*ransfer of management to the younger generation* (4.101), *Management succession planning* (4.477) and *Selection criteria of the*

successor (4.992). Both the sub-factors *Suitability of the prospective successor* (5.507) and *Expected outcome of management succession* (5.709) rated higher than the factor itself.

Based on the ranking of the arithmetic mean as in Section 4.4.2, all four these factors can be ranked as low. Six of the sub-factors can be ranked as average (4.9870 ≤ mean ≤ 5.4395) and the remaining eight sub-factors can all be ranked as low (3.8880 ≤ mean ≤ 4.9572).

4.4.2.2 Factors which were evaluated as average

The mean of the four average factors, with their sub-factors, as evaluated by all the family members, are indicated in Table 4.9.

Table 4.9: The mean of the four average factors, with their sub-factors, as evaluated by all the family members

	FACTOR AND SUB-FACTORS	n	MEAN
2.	**Family harmony among all family members.**	**163**	**5.103**
2.1	Degree of family harmony among all family members.	163	5.859
2.2	Degree of communication among all family members.	163	5.313
2.3	Establishing and maintaining communication forums.	163	4.437
2.4	Degree of conflict among all family members.	163	5.127
2.5	Prevention and management of conflict among all family members.	163	4.778
5.	**Continuation of the business as a family business.**	**163**	**5.096**
5.1	A clear future vision for the family business.	163	4.771
5.2	Acknowledgement of individual needs and dreams of all family members.	163	4.520
5.3	Commitment of the senior generation towards the continuity of the family business.	163	5.867
5.4	Commitment of the younger generation towards the family business.	163	5.225
7.	**Development of the young successor.**	**86**	**5.396**
7.1	Competence of the successor.	86	5.500
7.2	Formal training and development of the successor.	86	5.178
7.3	Mentorship of the successor.	86	5.248
7.4	Participatory management by the successor.	86	5.529
7.5	Realising the full potential of the successor.	86	5.526
9.	**Executive manager's readiness for succession.**	**86**	**5.058**

The four factors in this category were evaluated as average. These factors are **Executive manager's readiness for succession** (Factor 9: 5.058), **Continuation of the business as a family business** (Factor 5: 5.096), **Family harmony between all family members** (Factor 2: 5.103) and **Development of the young successor** (Factor 7: 5.396). The first three of the four were evaluated very close to each other.

The sub-factors *A clear future vision for the family business* (4.771) and *Acknowledgement of individual needs and dreams of all family members* (4.520) were both evaluated very low. The other sub-factors fall within the average.

4.4.2.3 Factors which were evaluated as high

The mean of the four high factors, with their sub-factors, as evaluated by all the family members, are indicated in Table 4.10.

Table 4.10: The mean of the four high factors, with their sub-factors, as evaluated by all the family members

	FACTOR AND SUB-FACTORS	n	MEAN
1.	**Separation of family and business matters.**	**106**	**5.463**
3.	**Family harmony among the active family members.**	**106**	**5.404**
3.1	Relationships among the active, younger generation family members.	106	5.375
3.2	Relationships among the active senior and younger generation.	106	5.700
3.3	Communication among the active family members in the family business.	106	5.602
3.4	Establishing and maintaining communication forums.	106	5.169
3.5	Degree of conflict among the active family members.	106	5.490
3.6	Prevention and management of conflict among the active family members.	106	5.088
6.	**Successful participation of the younger generation.**	**86**	**5.492**
6.1	The younger generation has good business sense.	86	5.619
6.2	The younger generation can add value to the family business.	86	5.544
6.3	Voluntary and happy participation by the younger generation.	86	5.667
6.4	Credibility of the younger generation in the family business.	86	5.574
6.5	Building and maintaining of a network by the younger generation.	86	5.109
6.6	Degree of self-empowerment by the younger generation.	86	5.440
8.	**Factors that necessitate succession.**	**86**	**5.733**

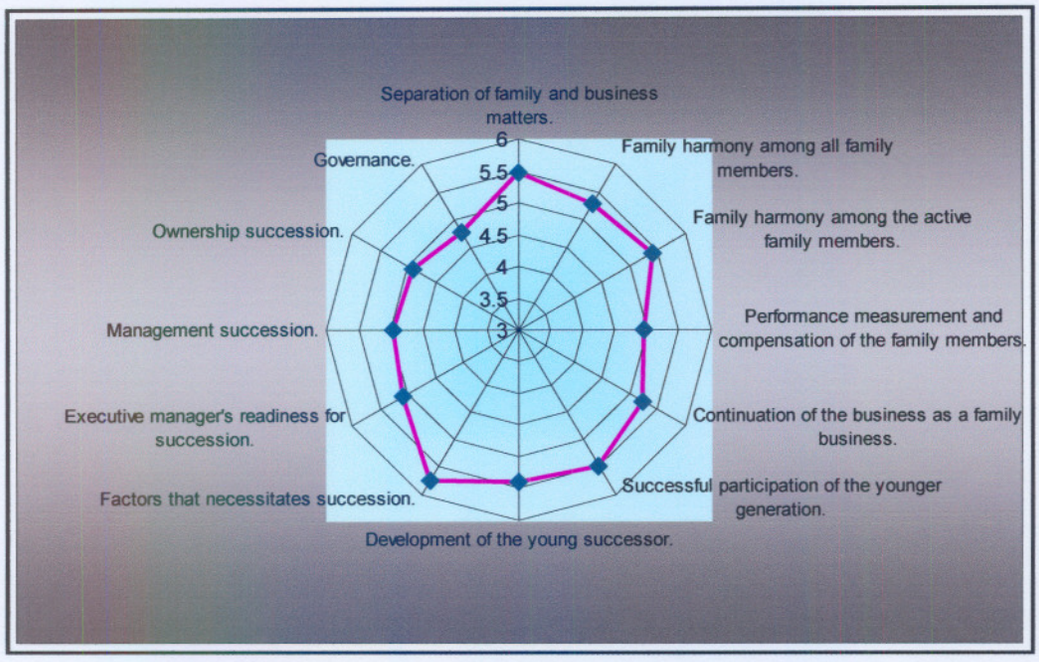
The last group of factors are those which were evaluated as the top four factors. Thus, **Family harmony among the active family members** (Factor 3: 5.4040), **Separation of family and business matters** (Factor 1: 5.4629), **Successful participation of the younger generation** (Factor 6: 5.4910) and **Factors that necessitate succession** (Factor 8: 5.7326) all scored very high.

All the sub-factors in this group were evaluated high.

4.4.3 Analyses of the arithmetic mean for the factors and sub-factors as evaluated by the active family members

The results of the mean for all 12 main factors, as evaluated by the active family members, are graphically depicted in Figure 4.13.

Figure 4.13: Results of the evaluation by the active family members



For details of the mean for all the factors and sub-factors, as evaluated by the active family members, refer to Table C.2 in Appendix C.

The discussion of the results of the evaluation of the active family members is done by ranking the 12 factors from the lowest to the highest mean. The 12 factors are then divided in three groups, thus the lowest four factors, the average four factors and the four factors which were evaluated the highest.

The total mean of all the factors and sub-factors, as evaluated by all the family members, is 5.237. Based on the ranking of the mean as in Section 4.4.2, this implies that all the family members experience the factors and sub-factors in their businesses, as average.

The factors **Corporate governance** (Factor 12: 4.752), **Ownership succession** (Factor 11: 4.915), **Performance measurement and compensation of the family members** (Factor 4: 4.948) and **Management succession** (Factor 10: 4.957) were all four evaluated very low.

The four factors **Executive manager's readiness for succession** (Factor 9: 5.058), **Continuation of the business as a family business** (Factor 5: 5.255), **Family harmony among all family members** (Factor 2: 5.284) and **Development of the young successor** (Factor 7: 5.396) were all evaluated as average.

The last group of factors are those which were evaluated as the top four factors. Thus, **Family harmony among the active family members** (Factor 3: 5.404), **Separation of family and business matters** (Factor 1: 5.463), **Successful participation of the younger generation** (Factor 6: 5.492) and **Factors that necessitate succession** (Factor 8: 5.733) all scored very high.

There a fairly homologous comparison between the evaluation of the 12 factors in this section and the 12 factors in Section 4.4.3 due to the fact that eight of the 12 factors are evaluated by only the active family members.

4.4.4 Analyses of the arithmetic mean for the factors and sub-factors as evaluated by the inactive family members

The total mean of all the factors and sub-factors as evaluated by only the inactive family members is 4.749 and the results of these main factors are graphically depicted in Figure 4.14 on the following page.

Figure 4.14: Results of the evaluation by the inactive family members

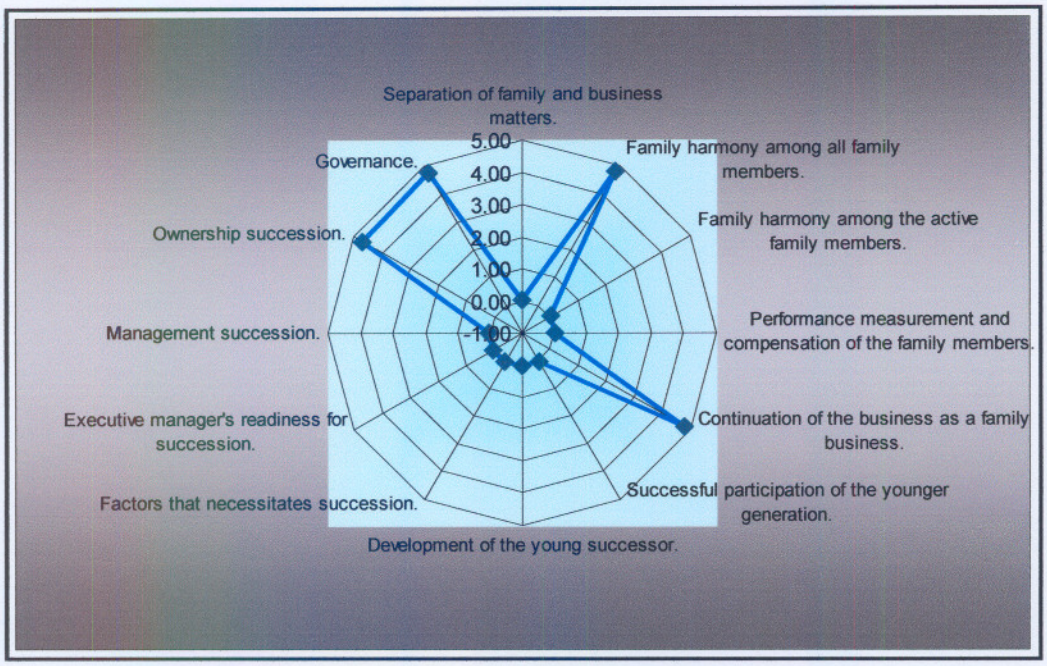


Table 4.11 gives the mean of the factors and sub-factors as evaluated by the inactive family members.

Table 4.11: The mean of the factors, with their sub-factors, as evaluated by the inactive family members

	FACTOR AND SUB-FACTORS	n	MEAN
2.	**Family harmony among all family members.**	**58**	**4.774**
2.1	Degree of family harmony among all family members.	58	5.626
2.2	Degree of communication among all family members.	58	5.031
2.3	Establishing and maintaining communication forums.	58	3.888
2.4	Degree of conflict among all family members.	58	4.927
2.5	Prevention and management of conflict among all family members.	58	4.400
5.	**Continuation of the business as a family business.**	**58**	**4.807**
5.1	A clear future vision for the family business.	58	4.336
5.2	Acknowledgement of individual needs and dreams of all family members.	58	4.315
5.3	Commitment of the senior generation towards the continuity of the family business.	58	5.677
5.4	Commitment of the younger generation towards the family business.	58	4.901
11.	**Ownership succession.**	**58**	**4.692**
11.3	Proprietary interest in the family business.	58	4.598
11.4	Equality and fairness of the will of the senior generation.	58	4.786
12.	**Corporate governance of the family business.**	**58**	**4.721**
Total		58	4.749

As mentioned in Section 4.4, only four factors are relevant to the inactive family members.

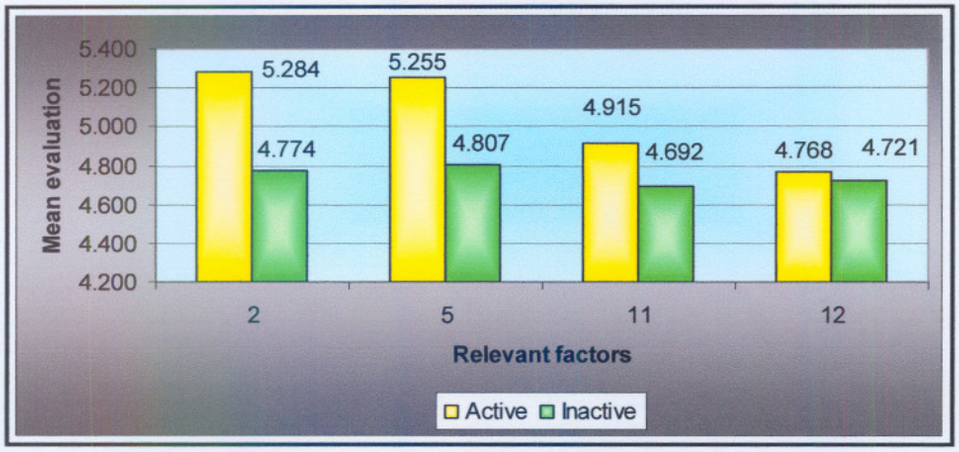
The factors **Corporate governance** (Factor 12: 4.271) was also evaluated as the lowest factor by the inactive family members. In fact, this factor was evaluated very low by the inactive family members. **Ownership succession** (Factor 11: 4.692) was evaluated as the second lowest factor by the inactive family members (and by the active family members).

Family harmony among all family members (Factor 2: 4.774) and the **Continuation of the business as a family business** (Factor 5: 4.807) were evaluated as the two highest factors by the inactive family members.

4.4.5 Comparative results between the active and inactive family members

Factors two, five, eleven and twelve were evaluated by both the active and inactive family members. The comparative results of the evaluation of these four factors between the active and the inactive family members are indicated in Figure 4.15.

Figure 4.15: Comparative results between the active and inactive family members



- It is evident from Figure 4.15 that there are major gaps in the perspectives of the active and the inactive family members with regard to **Family harmony among all family members** (Factor 2) and the **Continuation of the business as a family business** (Factor 5).

Although there is a slight difference in the evaluation of **Ownership succession** (Factor 11), **Corporate governance** (Factor 12) was evaluated at almost the same mean for both the active and the inactive family members.

4.4.6 Standard deviation

The standard deviation is used to indicate the deviation of the individual responses, to a specific question, to the arithmetic mean. Thus, the standard deviation allows for a comparison of the consistency of the responses to each question. A standard deviation of one or less indicates a high level of agreement, and a standard deviation greater than one, indicates a low level of agreement to the evaluation of the respondents.

The standard deviation values for all the factors and sub-factors, as evaluated by all the family members, the active family members and the inactive family members respectively, are indicated in Table 4.12 on the following page.

The *total* standard deviation for all the family members (0.971), only the active family members (0.855), and the inactive family members (1.092) are all very close to each other, with an average value of 0.973. This average standard deviation indicates that there was a high level of agreement between the respondents in general.

Factors that necessitate succession (Factor 8: 0.750), had the lowest standard deviation of all the factors and sub-factors. This indicates a high level of agreement in the responses between the active family members. In analysing only the active family members, *Estate tax of the family business* (Sub-factor 11.2: 1.511), had the highest standard deviation value of all the factors and sub-factors. This high value indicates a low level of agreement in the responses of the active family members to this question.

The highest standard deviation measured was for *A clear future vision for the family business* (Sub-factor 5.1: 1.582). This sub-factor therefore indicated the lowest level of agreement for all the factors and sub-factors.

However, the inactive family members had a low level of agreement in the standard deviation of all the relevant factors and sub-factors. Not one of the standard deviation values exceeded a value of one. The three lowest level of agreements for the inactive family members were *Prevention and management of conflict among all family members* (Sub-factor 2.5: 1.506), *A clear future vision for the family business* (Sub-factor 5.1: 1.582) and *Acknowledgement of individual needs and dreams of all family members* (Sub-factor 5.2: 1.511).

Table 4.12: Standard deviation values

	FACTOR AND SUB-FACTORS	STANDARD DEVIATION		
		ALL	ACT.	INACT.
1.	**Separation of family and business matters.**	**0.976**	**0.976**	
2.	**Family harmony among all family members.**	**1.082**	**1.008**	**1.141**
2.1	Degree of family harmony among all family members.	1.121	0.959	1.343
2.2	Degree of communication among all family members.	1.252	1.211	1.285
2.3	Establishing and maintaining communication forums.	1.377	1.300	1.353
2.4	Degree of conflict among all family members.	1.140	1.088	1.212
2.5	Prevention and management of conflict among all family members.	1.444	1.371	1.506
3.	**Family harmony among the active family members.**	**1.028**	**1.028**	
3.1	Relationships among the active, younger generation family members.	1.088	1.088	
3.2	Relationships among the active senior and younger generation.	0.990	0.990	
3.3	Communication among the active family members in the family business.	1.034	1.034	
3.4	Establishing and maintaining communication forums.	1.426	1.426	
3.5	Degree of conflict among the active family members.	1.210	1.210	
3.6	Prevention and management of conflict among the active family members.	1.324	1.324	
4.	**Performance measurement and compensation of the family members.**	**1.166**	**1.166**	
4.1	Clear roles and responsibilities in the family business.	1.105	1.105	
4.2	Performance measurement of the family members.	1.434	1.434	
4.3	Disciplinary procedures for the family members.	1.501	1.501	
4.4	Compensation policy for the family members.	1.255	1.255	
5.	**Continuation of the business as a family business.**	**1.041**	**0.911**	**1.197**
5.1	A clear future vision for the family business.	1.443	1.308	1.582
5.2	Acknowledgement of individual needs and dreams of all family members.	1.329	1.210	1.511
5.3	Commitment of the senior generation towards the continuity of the family business.	0.974	0.828	1.179
5.4	Commitment of the younger generation towards the family business.	1.326	1.194	1.494
6.	**Successful participation of the younger generation.**	**0.900**	**0.900**	
6.1	The younger generation has good business sense.	1.001	1.001	
6.2	The younger generation can add value to the family business.	0.929	0.929	
6.3	Voluntary and happy participation by the younger generation.	0.899	0.899	
6.4	Credibility of the younger generation in the family business.	1.025	1.025	
6.5	Building and maintaining of a network by the younger generation.	1.182	1.182	
6.6	Degree of self-empowerment by the younger generation.	0.955	0.955	
7.	**Development of the young successor.**	**0.908**	**0.908**	
7.1	Competence of the successor.	1.018	1.018	
7.2	Formal training and development of the successor.	1.052	1.052	
7.3	Mentorship of the successor.	1.004	1.004	
7.4	Participatory management by the successor.	1.146	1.146	
7.5	Realising the full potential of the successor.	0.952	0.952	
8.	**Factors that necessitate succession.**	**0.750**	**0.750**	
9.	**Executive manager's readiness for succession.**	**1.011**	**1.011**	
10.	**Management succession.**	**1.054**	**1.054**	
10.1	Management succession planning.	1.462	1.462	
10.2	Selection criteria of the successor.	1.277	1.277	
10.3	Suitability of the prospective successor(s).	1.075	1.075	
10.4	Transfer of management to the younger generation.	1.400	1.400	
10.5	The success / stability of the family business after succession.	0.924	0.924	
11.	**Ownership succession.**	**1.150**	**1.065**	**1.289**
11.1	Estate planning in the family business.	1.280	1.280	
11.2	Estate tax of the family business.	1.511	1.511	
11.3	Proprietary interest in the family business.	1.404	1.388	1.444
11.4	Equality and fairness of the will of the senior generation.	1.238	1.108	1.365
11.5	Retirement planning of the senior generation.	1.258	1.258	
11.6	Liquidity of the family business.	1.116	1.116	
12.	**Corporate governance of the family business.**	**1.341**	**1.367**	**1.306**
Total		0.971	0.855	1.092

4.5 CONFORMITY BETWEEN THE LITERATURE STUDY AND THE QUESTIONNAIRE

The major purpose of the literature study in chapters two and three was to determine the unique challenges facing family businesses. The questionnaire used, as developed by Van der Merwe (2004), also took these unique challenges into consideration.

Refer to Table 4.13 on the following page for cross references from the literature study to the questionnaire.

A number of the questions are addressed more than once, in some cases entire sections refer to questions. But, the literature study in chapter two and three addressed all the questions in the questionnaire at least once.

Table 4.13: Cross reference from the literature study to the questionnaire

UNIQUE CHALLENGES	REFERENCES IN THE LITERATURE STUDY	
	Section nr.	Author
Family, business and ownership systems.	• 2.3.1 • 2.3.3 • 3.1	• Leach and Bogod (1999:29) • Carlock and Ward (2001:7) • Spector (2003:9)
Family harmony. (Including family culture, values and trust.)	• 2.4.1.1 • 2.5 • 2.5.3	• Neubauer and Lank (1998:72) • Jaffe (1991:47) • Shanker (2000:13)
Relationships in family businesses.	• 2.5.4 • 2.5.4 • 3.3.3.5	• Carlock and Ward (2001:73) • Lea (1991:11) • Ibrahim and Ellis (1994:227)
Communication in family businesses.	• 2.4.2.3 • 2.5.5 • 2.5.5	• Bork *et al.* (1996:149) • Astrachan and McMillan (2003:21) • Leach and Bogod (1999:40)
Conflict in family businesses.	• 2.4.2.1 • 2.5 • 2.5.6	• Kets de Vries (1996:15) • Jaffe (1991:47) • Ward (1987:49)
Compensation in family businesses.	• 2.4.2.4 • 3.2 • 3.2	• Ibrahim and Ellis (1994:7) • Bork *et al.* (1996:75) • Spector (2001:7)
Disciplinary procedures.	• 3.1 • 3.2.5 • 3.2.5	• Spector (2003:9) • Buchholz *et al.* (2000:278) • Ibrahim and Ellis (1994:113)
Management succession.	• 3.3 • 3.3.2 • 3.3.8	• Kets de Vries (1996:65) • Thornton (1998:33) • Voeller *et al.* (2002:48)
Ownership succession.	• 3.4 • 3.4.4 • 3.4.5.1	• Aronoff *et al.* (1997:3) • Leach and Bogod (1999:233) • Voeller *et al.* (2002:30)
Corporate governance of family businesses.	• 3.5.1 • 3.5.2 • 3.5.2	• Aronoff and Ward (1996:3) • Lansberg (1999:281) • Neubauer and Lank (1998:ix)

4.6 RELIABIABILITY OF THE RESEARCH INSTRUMENT

In this study, as discussed in Section 1.7.4.4, the Cronbach alpha coefficient is used to assess the internal consistency of data.

4.6.1 Calculation and discussion of the Cronbach alpha coefficient

The Cronbach alpha coefficient was calculated for all the sub-factors and the factors without sub-factors. The Cronbach alpha coefficient was not calculated for factors with sub-factors. The reason for this is that each sub-factor consists of a number of questions. Thus, questions in a sub-factor can be deleted to obtain a better Cronbach alpha coefficient, and not an entire sub-factor.

Table 4.14 on the following page, shows a summary of the 45 factors and sub-factors with the relevant calculated Cronbach alpha coefficient for each factor and sub-factor.

Cronbach alpha coefficients, with values exceeding 0.7000, were recorded in respect of 41 of the 45 factors and sub-factors.

Even though sub-factors 2.4 (*Degree of conflict among all family members*: 0.6695), 7.3 (*Mentorship of the successor*: 0.5491)), 11.3 (*Proprietary interest in the family business*: 0.6728) and Factor 8 (**Factors that necessitate succession**: 0.6716) recorded Cronbach alpha coefficients lower than 0.6, no variables were deleted in an attempt to improve these coefficients. The reason for this is that the constructs that they were measuring were regarded as important components of the research.

Table 4.14: Factors with the relevant calculated Cronbach alpha coefficient

	FACTOR AND SUB-FACTORS	CRONBACH ALPHA COEFFICIENT
1.	**Separation of family and business matters.**	**0.77681**
2.	**Family harmony among all family members.**	
2.1	Degree of family harmony among all family members.	0.92697
2.2	Degree of communication among all family members.	0.89337
2.3	Establishing and maintaining communication forums.	0.86572
2.4	Degree of conflict among all family members.	0.66952
2.5	Prevention and management of conflict among all family members.	0.89028
3.	**Family harmony among the active family members.**	
3.1	Relationships among the active, younger generation family members.	0.91343
3.2	Relationships among the active senior and younger generation.	0.91939
3.3	Communication among the active family members in the family business.	0.85151
3.4	Establishing and maintaining communication forums.	0.90380
3.5	Degree of conflict among the active family members.	0.91360
3.6	Prevention and management of conflict among the active family members.	0.90021
4.	**Performance measurement and compensation of the family members.**	
4.1	Clear roles and responsibilities in the family business.	0.83929
4.2	Performance measurement of the family members.	0.89538
4.3	Disciplinary procedures for the family members.	0.88381
4.4	Compensation policy for the family members.	0.88504
5.	**Continuation of the business as a family business.**	
5.1	A clear future vision for the family business.	0.83367
5.2	Acknowledgement of individual needs and dreams of all family members.	0.77438
5.3	Commitment of the senior generation towards the continuity of the family business.	0.72347
5.4	Commitment of the younger generation towards the family business.	0.78992
6.	**Successful participation of the younger generation.**	
6.1	The younger generation has good business sense.	0.88989
6.2	The younger generation can add value to the family business.	0.78455
6.3	Voluntary and happy participation by the younger generation.	0.84590
6.4	Credibility of the younger generation in the family business.	0.90059
6.5	Building and maintaining of a network by the younger generation.	0.76537
6.6	Degree of self-empowerment by the younger generation.	0.77144
7.	**Development of the young successor.**	
7.1	Competence of the successor.	0.83997
7.2	Formal training and development of the successor.	0.80958
7.3	Mentorship of the successor.	0.54913
7.4	Participatory management by the successor.	0.88105
7.5	Realising the full potential of the successor.	0.82816
8.	**Factors that necessitate succession.**	**0.67161**
9.	**Executive manager's readiness for succession.**	**0.81768**
10.	**Management succession.**	
10.1	Management succession planning.	0.85087
10.2	Selection criteria of the successor.	0.74033
10.3	Suitability of the prospective successor(s).	0.89026
10.4	Transfer of management to the younger generation.	0.86363
10.5	The success / stability of the family business after succession.	0.85598
11.	**Ownership succession.**	
11.1	Estate planning in the family business.	0.90632
11.2	Estate tax of the family business.	0.89480
11.3	Proprietary interest in the family business.	0.67284
11.4	Equality and fairness of the will of the senior generation.	0.89734
11.5	Retirement planning of the senior generation.	0.90317
11.6	Liquidity of the family business.	0.77266
12.	**Corporate governance of the family business.**	**0.77370**

4.6.2 Manipulation of the Cronbach alpha coefficient

This section serves as an example of how the Cronbach alpha coefficient changes if some of the variables are deleted in an attempt to improve the Cronbach alpha coefficient.

4.6.2.1 Example one of the manipulation of the Cronbach alpha coefficient

Sub-factor 7.3, *Mentorship of the successor* had the lowest Cronbach alpha coefficient and is used in this example.

The effect on the Cronbach alpha coefficient if a variable is deleted is indicated in Table 4.15.

Table 4.15: Example one of the Cronbach alpha coefficient if a variable is deleted

QUESTION Nr.	DESCRIPTION	ORIGINAL CRONBACH ALPHA COEFFICIENT: 0.5906
		CRONBACH ALPHA COEFFICENT IF DELETED
C3	The senior generation family members are actively monitoring the younger generation family member.	0.4036
C25	The senior generation family members include the younger generation family members in key meetings with suppliers, customers and advisors.	0.4477
C89	The younger generation family member has a non-family member (outside or inside the family business) as mentor.	0.5253

If variable (question) C3 is deleted, the Cronbach alpha coefficient changes from an original value of 0.5906 to 0.4036. Likewise, if variables C25 and C89 are deleted, the Cronbach alpha coefficient changes to 0.4477 and 0.5253 respectively. Thus, in this example the Cronbach alpha coefficient changed for the worse and it is therefore recommended to not delete a variable in sub-factor 7.3.

4.6.2.2 Example two of the manipulation of the Cronbach alpha coefficient

Factor 8, **Factors that necessitate succession** had a Cronbach alpha coefficient of just below 0.7.

The effect on the Cronbach alpha coefficient if a variable is deleted is indicated in Table 4.16.

Table 4.16: Example two of the Cronbach alpha coefficient if a variable is deleted

QUESTION Nr.	DESCRIPTION	ORIGINAL CRONBACH ALPHA COEFFICIENT: 0.6716
		CRONBACH ALPHA COEFFICENT IF DELETED
C8	The senior generation executive management of the family business is currently not experiencing any physical or psychological problems.	0.6434
C14	There has been no deterioration in the performance of the family business (finances, market share, contracts, quality) during the past number of years.	0.7053
C55	The senior generation executive management definitely kept up with modern business methods.	0.5704
C58	The senior generation executive management listens to new innovative ideas to improve the family business.	0.6575
C62	The performance of the family business is due to the leadership of the senior generation executive manager.	0.6155
C76	The senior generation executive management adapts to change easily.	0.5630

If variable (question) C8, C55, C58, C62 or C76 is deleted, the Cronbach alpha coefficient changes to a lower value. The change to a lower value is perceived as being negative as a higher Cronbach alpha coefficient indicates better internal consistency between the variables. However, if C14 is deleted, the Cronbach alpha coefficient increases from 0.6716 to 0.7053.

In this example, the Cronbach alpha coefficient changed for the better and it can thus be an option to delete this specific variable if it was a requirement that the Cronbach alpha coefficient had to be above 0.7. However, as stated by Nunnally (1978:295), a value of 0.5 is still acceptable. Therefore, this variable remains as part of the questionnaire for this study.

4.7 EFFECT SIZE ANALYSES

For the purpose of this study, two different effect size analysis must be performed, namely the analysis of variance test (ANOVA test) and the dependent t-test. Statistical significance tests are used to show that the results (e.g. difference between the mean values) are significant (Ellis & Steyn, 2003:1). The *p*-value is a criterion of this, giving the probability that the obtained value could be obtained under the assumption that the null hypothesis (e.g. no difference between the population means) is true.

A small *p*-value (e.g. smaller than 0.05) is considered as sufficient evidence that the result is statistically significant. Statistically significance doesn't necessarily imply that the result is important in practice as these tests have a tendency to yield small *p*-values as the sizes of the data set increases.

Cohen (1988:20-27) gives the following guidelines for the interpretation of the effect sizes:

- Small effect for $d = 0.2$.
- Medium effect for $d = 0.5$, thus a possibility exists in practice.
- Large effect for $d = 0.8$, thus a large possibility exists in practice.

4.7.1 Analysis of variance test

The purpose of the analysis of variance test is to compare the evaluation of three ore more data sets with each other. For the purpose of this study, the mean of three groups of family businesses are compared with each other. The three groups of family businesses are:

- **Group 1**: *Generations*. This group entails family businesses that are already in business for more than one generation. In this group are 26 family businesses.
- **Group 2**: *Siblings*. This group entails family businesses that don't have a younger generation actively involved in the business. In this group are four family businesses.
- **Group 3**: *Father and mother*. This group entails family businesses that are managed by the father and mother of the family. There are also four family businesses in this group.

The *p*-values for all the factors and sub-factors were determined, based on the distinction between the three groups of family businesses as explained above.

As stated in Section 1.7.4.5, only a *d*-value less than or equal to 0.05 has significant effect in practice. Only Factor 2: **Family harmony between all family members** had a value less than 0.05. Thus, the only factor that has a statistically significant effect in practice, is Factor 2.

The calculation of the *d*-value for Factor 2 is indicated in Table 4.17.

Table 4.17: Analysis of variance and the calculation of the effect size for Factor 2

TEST	$MEAN_1$	$MEAN_2$	$MEAN_3$	MEAN STANDARD ERROR	EFFECT SIZE *d*
ANOVA	5.1310	6.1425	4.9160	0.440	1.8448

The *d*-value for Factor 2: **Family harmony between all family members** is 1.8448. (For the purpose of the calculation, the largest difference between the mean values is used.) Thus, the comparison here is between group two and group three. As this value is greater than 0.8, it indicates that the effect is practically significant.

4.7.2 Dependent t-test

The purpose of the dependent t-test is to compare the evaluation of two data sets with each other. For the purpose of this study, the dependent t-test was conducted between the evaluation of the active and the inactive family members.

The *p*-values for all the factors and sub-factors, where both the active and inactive family members were involved, were determined. As stated in Section 1.7.4.5, a small *p*-value is considered as sufficient evidence that the results are statistically significant. The dependent t-test determines the practical significance of the data.

The calculations of the *d*-values for the dependent t-tests, for all the factors where both active and inactive family members were involved, are indicated in Table 4.18 on the following page.

Table 4.18: T-test for dependent samples (active and inactive family members)

Nr.	VARIABLE DESCRIPTION	ACTIVE / INACTIVE	MEAN	STD. DEV	$\lvert\overline{x}_1 - \overline{x}_2\rvert$	STD. DEV. DIFF.	p =	d =
2	**Family harmony between all famly members.**	Active	5.3327	0.5759	0.3547	0.946109	0.0674	0.4
		Inactive	4.9780	0.9538				
2.1	Degree of family harmony between all family members.	Active	6.0544	0.6178	0.3054	0.960018	0.1172	0.3
		Inactive	5.7489	1.1270				
2.2	Degree of communication between all family members.	Active	5.5853	0.7816	0.3679	1.207052	0.1327	0.3
		Inactive	5.2174	1.0273				
2.3	Establishing and maintaining communication forums.	Active	4.6814	0.7913	0.6179	0.979702	0.0036	0.6
		Inactive	4.0636	1.1538				
2.4	Degree of conflict between all family members.	Active	5.2349	0.7469	0.0721	1.014952	0.7202	0.1
		Inactive	5.1628	1.0684				
2.5	Prevention and management of conflict between all family members.	Active	5.1072	0.7772	0.4102	1.327472	0.1277	0.3
		Inactive	4.6971	1.2214				
5	**Continuation of the business as a family business.**	Active	5.2285	0.6184	0.2326	1.016619	0.2544	0.2
		Inactive	4.9959	0.9866				
5.1	A clear future vision for the family business.	Active	5.0057	0.7027	0.4521	1.206739	0.0676	0.4
		Inactive	4.5535	1.3026				
5.2	Acknowledgement of individual needs and dreams of all family members.	Active	4.6835	0.8048	0.1838	1.200338	0.4422	0.2
		Inactive	4.4997	1.2103				
5.3	Commitment of the senior generation towards the continuity of the family business.	Active	5.9349	0.6896	0.1278	1.083554	0.5529	0.1
		Inactive	5.8071	0.9084				
5.4	Commitment of the younger generation towards the family business.	Active	5.2898	0.9919	0.1666	1.352935	0.5359	0.1
		Inactive	5.1232	1.1878				
11.3	Proprietary interest in the family business.	Active	4.6687	1.0485	0.1163	1.254455	0.6405	0.1
		Inactive	4.7850	1.2545				
11.4	Equality and fairness of the will of the senior generation.	Active	5.3766	0.8588	0.5359	0.977726	0.0098	0.5
		Inactive	4.8406	1.0500				
12	**Corporate governance of the family business.**	Active	4.8449	0.8812	0.1056	1.188991	0.6546	0.1
		Inactive	4.9505	1.1646				

In Table 4.18 the factors and sub-factors with a p-values less than or equal to 0.05 are indicated in red.

The d-value for Sub-factor 2.3: *Establishing and maintaining communication forums* is 0.6. As this value is greater than 0.5, but les than 0.5, it indicates that the effect has a medium to large effect and that there is a possibility that it exists in practice (i.e. practically significant).

The d-value for Sub-factor 11.4: *equality and fairness of the will of the senior generation* is 0.5. As this value is equal to 0.5, it indicates that the effect has a medium effect and that there is a possibility that it exists in practice.

4.8 EFFECT OF THE NUMBER OF RESPONDENTS VERSUS THE NUMBER OF FAMILIES ON THE MEAN VALUES

The arithmetic mean values, as calculated in the previous sections, were based on the total number of respondents, namely 163 in total. Thus, each respondent contributed a weight of one to the arithmetic mean value calculated. However, the question arouses as how the arithmetic mean values will change, if each family business represents a weight of *one*.

This was determined by using the following method:

- The arithmetic mean for every factor and sub-factor, as evaluated by each family member, was calculated.
- The overall arithmetic mean for each factor and sub-factor were subsequently calculated, by dividing the sum of the arithmetic mean values by the number of family businesses (i.e. n = 32).
- Thus, the observed unit is a family business and not a respondent.

The comparison of the arithmetic mean values with n_1 = 163 (number of the respondents) and n_2 = 32 (number of family businesses), is indicated in Table 4.19 on the following page.

As discussed in the previous sections, the arithmetic values are evaluated in comparison with each other. Based on the same principle, the arithmetic mean values are relative close to each other and the basis of the previous calculations are thus acceptable.

Table 4.19: Comparison of the arithmetic mean values between n_1 and n_2

	FACTOR AND SUB-FACTORS	n_1	$MEAN_1$	n_2	$MEAN_2$
1.	**Separation of family and business matters.**	**105**	**5.463**	**32**	**5.531**
2.	**Family harmony among all family members.**	**163**	**5.103**	**32**	**5.237**
2.1	Degree of family harmony among all family members.	163	5.859	32	5.958
2.2	Degree of communication among all family members.	163	5.313	32	5.463
2.3	Establishing and maintaining communication forums.	163	4.437	32	4.583
2.4	Degree of conflict among all family members.	163	5.127	32	5.214
2.5	Prevention and management of conflict among all family members.	163	4.778	32	4.969
3.	**Family harmony among the active family members.**	**105**	**5.404**	**32**	**5.486**
3.1	Relationships among the active, younger generation family members.	105	5.375	32	5.399
3.2	Relationships among the active senior and younger generation.	105	5.700	32	5.775
3.3	Communication among the active family members in the family business.	105	5.602	32	5.718
3.4	Establishing and maintaining communication forums.	105	5.169	32	5.216
3.5	Degree of conflict among the active family members.	105	5.490	32	5.539
3.6	Prevention and management of conflict among the active family members.	105	5.088	32	5.268
4.	**Performance measurement and compensation of the family members.**	**105**	**4.948**	**32**	**5.134**
4.1	Clear roles and responsibilities in the family business.	105	5.505	32	5.613
4.2	Performance measurement of the family members.	105	4.775	32	4.971
4.3	Disciplinary procedures for the family members.	105	4.514	32	4.766
4.4	Compensation policy for the family members.	105	4.999	32	5.186
5.	**Continuation of the business as a family business.**	**163**	**5.096**	**32**	**5.231**
5.1	A clear future vision for the family business.	163	4.771	32	4.975
5.2	Acknowledgement of individual needs and dreams of all family members.	163	4.520	32	4.724
5.3	Commitment of the senior generation towards the continuity of the family business.	163	5.867	32	5.908
5.4	Commitment of the younger generation towards the family business.	163	5.225	32	5.317
6.	**Successful participation of the younger generation.**	**86**	**5.492**	**25**	**5.580**
6.1	The younger generation has good business sense.	86	5.619	25	5.704
6.2	The younger generation can add value to the family business.	86	5.544	25	5.606
6.3	Voluntary and happy participation by the younger generation.	86	5.667	25	5.701
6.4	Credibility of the younger generation in the family business.	86	5.574	25	5.677
6.5	Building and maintaining of a network by the younger generation.	86	5.109	25	5.269
6.6	Degree of self-empowerment by the younger generation.	86	5.440	25	5.523
7.	**Development of the young successor.**	**86**	**5.396**	**25**	**5.471**
7.1	Competence of the successor.	86	5.500	25	5.573
7.2	Formal training and development of the successor.	86	5.178	25	5.268
7.3	Mentorship of the successor.	86	5.248	25	5.317
7.4	Participatory management by the successor.	86	5.529	25	5.609
7.5	Realising the full potential of the successor.	86	5.526	25	5.587
8.	**Factors that necessitate succession.**	**86**	**5.733**	**25**	**5.763**
9.	**Executive manager's readiness for succession.**	**86**	**5.058**	**25**	**5.164**
10.	**Management succession.**	**86**	**4.957**	**25**	**5.061**
10.1	Management succession planning.	86	4.477	25	4.610
10.2	Selection criteria of the successor.	86	4.992	25	5.131
10.3	Suitability of the prospective successor(s).	86	5.507	25	5.566
10.4	Transfer of management to the younger generation.	86	4.101	25	4.274
10.5	The success / stability of the family business after succession.	86	5.709	25	5.726
11.	**Ownership succession.**	**163**	**4.836**	**32**	**4.972**
11.1	Estate planning in the family business.	105	4.799	32	4.914
11.2	Estate tax of the family business.	105	4.327	32	4.431
11.3	Proprietary interest in the family business.	163	4.648	32	4.799
11.4	Equality and fairness of the will of the senior generation.	163	5.187	32	5.299
11.5	Retirement planning of the senior generation.	105	5.014	32	5.154
11.6	Liquidity of the family business.	105	5.268	32	5.361
12.	**Corporate governance of the family business.**	**163**	**4.752**	**32**	**4.895**
Total		163	5.063	32	5.205

4.9 CHAPTER SUMMARY

In this chapter the empirical results of the study were presented. These presentations included the sampling frame, the demographic details of the respondents, the structure of the family businesses, the 12 factors relevant to the unique challenges facing family businesses, conformity between the literature study and the questionnaire, reliability of the questionnaire and the effect of the number of respondents versus the number of families, on the mean values.

The results of the evaluation of Section A to D were dealt with in a more analytical form, using detailed statistical techniques to derive an average value from all the respondents as well as the standard deviation around the average. Although the statistical results were tabulated, the 12 factors were also summarised by means of a radar chart to present the results in a graphical form. A distinction was made between the evaluation of all the family members (i.e. active and inactive family members), only the active family members, and the inactive family members. Thus, the influence of specific factors on the continued succession of the family businesses was empirically assessed.

The results of Section D and E of the questionnaire were presented in tabular form using frequency distributions as well in graphical form using pie and spider charts and histograms, and entail the sampling frame, the demographic information of the respondents as well as the structure of the family businesses.

The conformity between the literature study and the questionnaire were determined by verifying that the literature study addressed all the issues of the questionnaire. The reliability of the questionnaire was determined by means of the Cronbach alpha coefficient, as it is used to assess the internal consistency of data. High Cronbach alpha coefficient values were recorded in respect of 41 of the 45 factors and sub-factors. Although the other four values were below 0.7, they were still above 0.5, which can be considered acceptable in basic exploratory research such as this study.

For the purpose of this study, two different effect size analysis were performed, namely the analysis of variance test (ANOVA test) and the dependent t-test.

The purpose of the analysis of variance test is to compare the evaluation of three ore more data sets with each other. For the purpose of this study, the mean of three groups of family businesses, namely generations, siblings and father and mother, were compared with each other. The only factor that had a *d*-value greater than 0.8 was Factor 2: **Family harmony between all family members**. This implies that effect is practically significant.

The purpose of the dependent t-test is to compare the evaluation of two data sets with each other. For the purpose of this study, the dependent t-test was conducted between the evaluation of the active and the inactive family members. Two sub-factors had a *d*-value greater or equal to five but less than 0.8 (Sub-factor 11.4: *Equality and fairness of the will of the senior generation* is 0.5 and Sub-factor 11.4: *equality and fairness of the will of the senior generation* is 0.5). Both these values indicate that the effect has a medium effect and that there is a possibility that it is of practical significance.

The arithmetic mean values, as calculated in the previous sections, were based on the total number of respondents, namely 163 in total. Thus, each respondent contributed a weight of one to the arithmetic mean value calculated. However, the question arouses as how the arithmetic mean values will change, if each family business represents a weight of *one*. Arithmetic means were calculated for the respondents and for the families and the results compared very well with each other.

The following chapter entails conclusions and recommendations, as based on the literature study from chapters two and three, as well as the empirical study conducted in chapter four. Topics for further studies are also proposed and it is also evaluated whether the primary and secondary objectives were met.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In this final chapter, recommendations and conclusions were drawn up based on the literature study from chapters two and three, as well as the empirical study conducted in chapter four. The questionnaire results were utilised to compare the relation of the unique challenges facing family businesses in theory and in practice. Conclusions were drawn on the sampling frame, the demographic information of the respondents, and the structure of the family businesses, the 12 factors as evaluated by the questionnaire, the statistical analyses and the unique challenges facing family businesses.

From this, a list of recommendations was suggested on how to overcome the most neglected challenges facing family businesses. A critical evaluation was done to evaluate the realisation of the primary and secondary objectives of this study, and finally, recommendations were made for future research.

5.2 CONCLUSIONS AND RECOMMENDATIONS ON THE EMPIRICAL STUDY

An empirical field study was undertaken using the family businesses as determined by means of the snowball sampling method as described in Section 1.7.2.3. These family businesses were used as they form part of the Sedibeng District and the Metsimaholo Municipality. The Sedibeng District and the Metsimaholo Municipality were chosen as it forms part of Gauteng, with Gauteng consisting of the largest concentration of industries in South Africa.

Thus, the Sedibeng District and the Metsimaholo Municipality can be seen as representative of businesses in South Africa. There are also various industries in the Sedibeng District and the Metsimaholo Municipality, namely, retail, construction, services, transport and manufacturing which broadened the sample base.

Using the knowledge gained from the literature study, the empirical study involved the obtaining of information of family business by means of a questionnaire. The intent of the questionnaire was to determine the demographic information of the respondents, the structure of the family businesses, as well as to empirically test the independent and dependent variables against each other in practise, and to analyse the evaluations made by the respondents.

5.2.1 The sampling frame

A total of 129 businesses were identified in the Sedibeng District and the Metsimaholo Municipality. The majority, namely 112, of the businesses identified, was family businesses. Thus, 87% of the identified businesses in the study area are family businesses. If the assumption, "that this convenience sampling method, namely snowball sampling, can be seen as a random sample", as made in Section 1.7.2.3 is valid, then the theory stated by Ackerman (2001:325) that approximately 80% of businesses in South Africa could be classified as family businesses, are congruent with the finding in the study. (In the United States of America the percentage of family businesses is between 70% and 90%.)

An overall response rate of 73% for the returning of the questionnaires was achieved. Neuman (1997:247) indicated response rates for self-administered questionnaires as close to 100%, face-to-face interviews about 90% and telephone interviews as 80%. Thus, in comparison with the literature, the response rate was satisfactorily. However, in practice, a 73% response rate is good.

Based on the interaction with the respondents, the reasons for the low response rate (relative to the literature) can be summarised as follow:

- A questionnaire had to be completed by every family member in the family business, i.e. active and inactive family members. For this study, it implied an average of 5.1 questionnaires per family business.
- A questionnaire took an active family member approximately 45 minutes to complete and an inactive family member approximately ten minutes. As participation was voluntary, the long completion time had a definite, negative effect.
- In most instances, it was not possible to speak directly with the owner. Canvassing to participate in the study, and to complete the questionnaires in time, had to be done through a secretary.

5.2.2 Demographic information of the respondents

A total of 163 family members participated in the study, with 106 being actively involved in the operations and / or management of the family businesses. Thus, the involvement of the family members in the family businesses is very high. The split in gender between the total number of family members is almost equal, with 48% respondents being male and 52% being female.

However, the number of inactive females is almost double the number of inactive males. There is a definite *pull* towards males being actively involved in the family business. This is supported by the large number of sons (24%) actively involved in the business, relative to the daughters (11%), as from Section 4.2.7.

Based on relationships, the chances for family harmony is very good as the majority of direct family members (parents with their children entails 89%) is actively involved in the family business.

According to the literature study, the closer the family relationships, the better the chances that children, as they enter the family business, bring with them the same or similar values as their parents. If there is basic agreement about underlying values, then it is possible for a family to create a shared vision for itself and of the business's future and that these values can be pursued harmoniously.

The above can explain one of the disadvantages of family businesses, namely family infighting (Section 2.4.2.1). In-laws, nephews and nieces can cause family and inter-generational fighting as a result of the differences in values between generations / families. This family infighting can lead to undesirable behaviour, poor performance, goal conflict and, ultimately, the bereavement of the family business.

Matric or lower than matric, is the highest academic qualification of 44% of the active respondents. From this it concluded that the success of the family lies in shop floor level training, and not in academic qualifications. Mentorship and external resources, e.g. a financial advisor, can play a major role to fill the gap due to a lack of formal education.

Although family businesses have no mandatory retirement age (Section 3.4.5), owners of family businesses older than fifty years of age, could theoretically be ready to pass down the business to a successor. The number of active respondents, 50 years and older, entails 33% (Table 4.1) of the active family members and 25% of the active respondents are owners (Table 4.6). Two percent of the inactive family members are also owners (Table 4.6).

Thus, due to the high age of the owners, and 28% of the active family members in the age group 30-39, transfer of ownership to a successor is due. However, management succession planning and transfer of ownership were rated low (refer to Section 4.4.4) by all the family members. The predicament is that the time left for succession planning is very limited.

Section 4.2.6 indicated that the majority of the active and inactive family members (60%), doesn't own shares, and only one percent of the inactive family members, own shares. It is strikingly that only one percent of shares are owned by inactive family members. *Proprietary interest in the family business* (Sub-factor 11.3) was evaluated very low by both the active (4.676) and the inactive family members (4.598). It can be concluded that the general trend in the family businesses in the study, is not to let inactive family members share in the wealth of the family business.

The importance of shares lies in the fact that the number of shares owned can have an impact on the respondent's attitude towards the family business. Ownership means stewardship, protecting and nurturing the family business and preserving it for the benefit of the next generation of family members and employees, customers and the community. As such, ownership can be a vehicle for adding purpose to one's life; for being a better parent, spouse, brother or sister, son or daughter or cousin. Ownership entails living the family values and building the family culture and business.

5.2.3 Structure of the family businesses

The data on the structure of the family businesses was analysed to determine some form of frequency distribution in terms of the location of the family business, the size, annual turnover, industries the family businesses operate in, the age of the family businesses, the business form and the current generation of the family business.

Based on the comments in Section 4.3 of the study, the following relevant conclusions are made.

Three percent of the family businesses are in Meyerton, 25% in Sasolburg and Meyerton respectively, with the majority of 47% in Vanderbijl Park. This uneven distribution is not a concern as the target population was family businesses in the Sedibeng District and the Metsimaholo Municipality. These areas were assumed a representative sample of South Africa and the intent of the study was never to distinguish between family businesses within the study area.

It is evident that the majority of the businesses is in the first generation (75%) (Section 4.3.5), and that 47% of the businesses is older than 26 years (Section 4.3.4). Based on the arithmetic mean of the age of the businesses (23.6 years), as well as the observation stated above, it can be concluded that the planning of management succession should have commenced a long time ago.

Thus, the majority of the businesses studied are already in, or will very soon be, at the most critical point of their businesses, namely the handover to the next generation. As Kets de Vries (1996:5) puts the average lifespan of a family business, after successful start-up, at 24 years, the current owners should seriously start looking at ownership succession.

5.2.4 Conclusion on the 12 factors evaluated by the questionnaire

The 12 factors, with the related sub-factors, as evaluated by the questionnaire, were analysed in Section 4.4. Based on these analyses, the following conclusions are made.

5.2.4.1 Overall evaluation

The total mean value gives an indication of the general family health in the family businesses. The overall evaluation by all the family members was 5.063. In the absence of norms, the average arithmetic mean of the study is assumed to be equal to the 50^{th} percentile (as determined in Section 4.4.2). Thus, the arithmetic mean for the study is 5.1780.

In can be concluded that, as the total evaluation of all the family members were just below the average for the study, the family businesses perform just below the average. However, based on the results of the of the comparison between the active and inactive family members, there is a major difference between the evaluation of **Family harmony among all family members** (Factor 2) and **Continuation of the business as a family business** (Factor 5).

5.2.4.2 Factor 1: Separation of family and business matters

The business and family matters are sufficiently separated as the mean evaluation for this factor is high (5.463). It is thus families that mean family, and families that mean business. This balanced approach to addressing the family and business systems, is the foundation for healthy family business relationships and for the creation of a family business legacy.

Although the separation of family and business matters was evaluated high, care must be taken to ensure that this balanced approach is always maintained.

5.2.4.3 Factor 2: Family harmony among all family members

This factor was evaluated by the active and inactive family members and focused on relationships and conflict among all the family members. This factor was evaluated as 5.285 and 4.774 by the active and inactive family members respectively.

The sub-factors, *Establishing and maintaining communication forums* and *Prevention and management of conflict between family members* were evaluated low and need to be addressed urgently. However, even though these two sub-factors were evaluated low, the active and inactive family members are of the opinion that the harmony among the family members is average. Even though the family harmony is evaluated as average, the low sub-factors above can lead to serious relationship differences and accompanied conflict.

The gap in the evaluation between the active and inactive family members needs to be addressed very urgently. As the inactive family members feel barred from the family business, this can be a breeding-ground for distrust and misunderstandings.

5.2.4.4 Factor 3: Family harmony among the active family members

This factor investigates the relationships between the active family members. This factor was ranked high, with a mean of 5.404. The most important concerns of the active family members are similar to **Family harmony among all the family members** (Factor 2), namely *Establishing and maintaining communication forums* and *Prevention and management of conflict between family members*.

Family members are reminded that conflict can serve as a mechanism for strengthening relationships and incorporating new ideas into business practices, that is, if it's properly harnessed. Therefore, don't avoid conflict: address it before it turns into something sour. Negotiation, i.e. simply *talking it* out, is one of the most satisfying ways of settling family business disputes. Good communication and transparency will assist in preventing conflict. Maas *et al.* (2005:119) stated that effective communication forms the basis of harmony in the family and the resolution of conflict.

5.2.4.5 Factor 4: Performance measurement and compensation of the family members

Performance measurement and compensation of the family members were evaluated as low by the active family members. The sub-factors *Performance measurement of the family members* (4.775) and *Compensation policy for the family members* (4.999) were also evaluated very low. As the evaluation is very low, it can be concluded that the relevant policies are non-existent and / or unilateral.

Once a formal procedure for performance measure in place, it will automatically enhance the clearing of roles and responsibilities. This will also assist the owner in setting compensation levels and raises.

5.2.4.6 Factor 5: Continuation of the business as a family business

This factor was evaluated by the active family members as average (5.255) and by the inactive family members as low (4.807). Therefore, the continuation of the business, as a family business, lies closer to the heart of the active family members than the inactive family members.

The willingness of the senior, as well as the younger generation, to continue with the family business is known. The reason for this is that the inactive family members are involved with the commitment by their spouses. However, the acknowledgement of the needs and dreams of all the family members were rated low.

5.2.4.7 Factor 6: Successful participation of the younger generation

Based on the evaluation of the active family members, it can be concluded that the active family members are in agreement that the younger generation is in a position to successfully participate in the family business.

According to the active family members, the younger generation has good business sense, can add value to the family business, has credibility in the business, is building and maintaining a network and has a high degree of self-empowerment. The younger generation is also evaluated as to happily and voluntary participate in the family business.

5.2.4.8 Factor 7: Development of the young successor

The development of the successor was, relative to the entire study, ranked as average (5.396). This is a feather in the cap for the owners on their management style. Two of the sub-factors stand out as needing attention, namely *Formal training and development of the successor* (5.178) and *Mentorship of the successor* (5.248).

5.2.4.9 Factor 8: Factors that necessitate succession

The factors that necessitate succession were ranked high (5.733). From this ranking it can be concluded that the active family members have faith and trust in the senior generation executive manager. It can further be concluded that the senior generation executive manager still adds value to the family business, is not experiencing any physical or psychological problems, and has kept up with modern technology.

Thus, the conclusion is that the performance of the operations of the family business is due to the leadership of the senior generation executive manager.

5.2.4.10 Factor 9: Executive manager's readiness for succession

This factor was ranked as average, thus, the family members are of the opinion that the senior generation executive manager are more or less ready for management succession.

The following can be concluded as the reasons why the senior generation executive manager is not perceived as being fully ready for management succession:

- The fact that the senior generation family members are still actively involved in the family business.
- The active family members are unsure if the senior generation executive manager will be financially secure after retirement.

- The senior generation executive manager doesn't have passionate hobbies outside the family business.
- The senior generation executive manager is not involved in activities outside the context of the family business.

5.2.4.11 Factor 10: Management succession

According to the literature, a smooth transition in a family business requires that a successor be chosen long before the owner leaves. Management succession was evaluated low and taking the age of the family businesses in the study into account (i.e. average of 23.6 years as in Section 4.3.5); it is a cause for concern.

Except for the *Suitability of the prospective successor* (5.507) and *The success / stability of the family business after succession* (5.709), the other sub-factors, *Management succession planning* (4.477), *Selection criteria of the successor* (4.992) and *Transfer of management to the younger generation* (4.101), are very low.

It can therefore be concluded that the following is not in place:

- A plan detailing how and when management transition will take place.
- Communication to all stakeholders regarding succession planning.
- A timetable for the implementation of the management transition.
- Announcement (publicly) of the retirement date of the owner.

It is clear from the literature that succession planning can take up to five years to get in place, thus, succession planning is a very critical issue to address.

5.2.4.12 Factor 11: Ownership succession

Ownership succession was evaluated low by the active family members (4.915) and even lower by the inactive family members (4.692).

The families are specifically concerned about:

- *Estate planning in the family business* (4.799).
- *Estate tax of the family business* (4.327).
- *Proprietary interest in the family business* (4.648).
- *Retirement planning of the family business* (5.014).

It can thus be concluded that these aspects don't feature very high on the day-to-day priority list of the family businesses in the study. It seems that they are to busy too run the business from day to day. The more dynamically the ownership succession process is managed, the greater the continued profitability of the business.

5.2.4.13 Factor 12: Corporate governance of the family business

Corporate governance of family businesses was ranked almost equally low by the active and inactive family members. The evaluated mean by the active and inactive family members were 4.768 and 4.721 respectively.

From the evaluation it can be concluded that corporate governance of the family businesses in the study is a concern. Although it is generally accepted that in a South African context, formal governing bodies are not commonly found in smaller family businesses, such governing bodies can definitely enhance harmony and planning. Such governance processes can take the shape of a formal board of directors or advisors, a formal structure for discussing business issues, a written business plan and a formal document describing the relationship between the business and the family, e.g. a family creed or charter.

Thus, corporate governance structures and processes can be utilised to monitor succession and to ensure that the numerous challenges facing a family business are adequately addressed. With governance structures fair procedures and rules of conduct should be developed to ensure that the emotion-based family system succumbs to a professionally orientated family business approach. This will further ensure that potential conflict between family values and the goals of the business are appropriately addressed.

Corporate governance in the family business should address two components, namely governance within the family and governance of the business. These governance processes can either be formal, e.g. a board of directors or a family council, or informal, e.g. occasional, irregular meetings and / or family dinners.

5.2.5 Conformity between the literature study and the questionnaire

The major purpose of the literature study in chapters two and three was to determine the unique challenges facing family businesses. The questionnaire used, as developed by Van der Merwe (2004), also took these unique challenges into consideration.

Based on the analysis as in Section 4.5, it can be concluded that the literature study and the questionnaire conform. All the challenges derived from in the literature study, are covered in the questionnaire and vice versa.

5.3 CONCLUSIONS ON THE CRONBACH ALPHA COEFFICIENT

To determine the internal consistency between the questions within a factor and a sub-factor, the Cronbach alpha coefficients were calculated.

The literature indicates that a Cronbach alpha coefficient of 0.7 is acceptable, and those above 0.8 as good. As the majority of the Cronbach alpha coefficients exceeds 0.7 (only four are below 0.7), it can be concluded that there are definitely internal consistency between the questions within the factor and sub-factors.

5.4 CONCLUSIONS ON EFFECT SIZE ANALYSIS

The purpose of the effect size analysis was twofold. Firstly, evaluation of the different family groups (i.e. generations, siblings and father and mother) was compared with each other by means of the analysis of variance test (ANOVA test), and, secondly, to compare the evaluation of the active and inactive family members, by means of the dependant t-test, with each other. The purpose of these comparisons was to determine if there was any practical significance, with large enough difference to have an effect in practice.

The effect size for **Family harmony between all family members** (Factor 2), as based on the analysis of variance test, was calculated as $d = 1.8448$. It can thus be concluded that the effect is practically significant, since it is the result of a difference having a large effect. The differences between the evaluations of the three family groups are in general too small to have an effect in practice.

Based on the results of the dependant t-test analyses, it can be concluded that there was not a significant difference between the results of the active and inactive family members (only two out of 14 had a value of 0.5 and 0.6 respectively). The statistical significance for both the sub-factors was of *medium* significance, thus, the results will only have a medium effect in practice. The effect was also, in both cases, not large enough to be generalised to the research population.

5.5 RECOMMENDATIONS

To remain in business, family businesses need to anticipate, recognise, understand and work pro-actively on issues, learn from other family businesses and find their own, unique solutions. The issues that impede families in business are wide ranging. The issues arising in a family business cannot be viewed in isolation. One needs to take into account all the unique challenges having an impact on the family and the business. Families need to distil, understand and address the complex, inter-related family and business issues that are often lost in the clutter of family emotions and day-to-day operational tasks.

As the primary objective of this study is to evaluate the unique challenges facing family businesses and to provide recommendations on how to overcome these unique challenges, recommendations will be listed below to assist family businesses in conquering their unique challenges. Note that the recommendations are not according to a specific ranking. The importance will depend on the gap in the specific family business as determined by management.

5.5.1 High-level recommendations

Based on the literature and empirical study, the analysis of the empirical study and the conclusions, the following high-level recommendations are made:

- **Improve the education system**. Introduce primary and secondary schools that will produce matriculates with entrepreneurial skills and proficient language and mathematical skills. The fact that family businesses entail 80% of the registered businesses in South Africa, as well as the unique challenges facing these businesses, must be formally stated. Ways to recognise, understand and work pro-actively on these unique challenges must be addressed by the education system. The fact that matric or lower than matric, is the highest academic qualification of 44% of the active respondents, supports the recommendation that entrepreneurial skills must be introduced in primary and secondary schools. It is also recommended that universities must provide the engineering, technical, scientific and managerial skills that will enable South Africa to compete effectively in globalising markets. The existing SETA system must be streamlined and more must be done to encourage businesses to provide excellent education, training and monitoring to employees.
- **The importance of Black Economic Empowerment (BEE)**. It is recommended that the importance of BEE is make known to owners / managers of family businesses as compliance with the broad-based BEE Act is not just good law, it is good business. This can be done via workshops, the Chamber of Commerce and chat shows on television. The broad-based BEE Act is aiming to establish a legislative framework for the promotion of BEE. Businesses that exclude them could face difficulties in dealing with the public sector, government and other state-owned enterprises. While there is no denying that empowerment policies have a vital role to play in sustained development of the new South Africa, family businesses face a tough challenge without adequate resources or even a formal BEE charter. Enough is not done to understand, support and capacitate family businesses in achieving the empowerment goals set by government. While family businesses might drive the economy, the *corporates* drive the legislation, and until the unique needs of family businesses are factored into legislative decision-making, empowerment in this sector will continue to be an almost insurmountable challenge. Thus, BEE is becoming a necessity for business survival. In a very competitive market space, BEE and family businesses are forced to work in partnership with each other to compete for business in the larger corporate of government environments or contracts, to sustain growth and gain market share.

- **Diagnostic tool**. As the health (handling of the unique challenges) of the family system is critical to succession, it is recommended that the diagnostic tool, *Family business diagnostic questionnaire (Farmpro 3.1)*, as used in this study, is refined. Further development must be undertaken to produce two questionnaires, a short, quick *test* and a comprehensive, more detailed *test*. These diagnostic tools can serve as an indicator of the functioning of a family, not only at home, but also in its business.
- ***South African Institute for Family Businesses***. The recommendation is made that a formal governing body, e.g. a *South African Institute for Family Businesses* is established. The purpose of this governing body must be to unite consultants, business men and academics to guide and control family businesses on a structured and responsible basis.
- **Research on family businesses**. It is recommended that research on family businesses in South Africa must be encouraged. Due to a lack of abundant recent research, a gap regarding information, knowledge and the unique characteristics of family businesses exists. Research on family businesses can bridge this gap and establish guidelines to assist family businesses in surviving through the generations.
- **Information sessions must be conducted**. Although families businesses entail approximately 80% of the registered businesses in South Africa, this is not common knowledge. Information sessions, to advocate the importance of family businesses, can be conducted by the Chamber of Commerce. Issues to be discussed can include the uniqueness of family businesses, the interaction between the three systems (family, business and ownership), the reasons for, and prevention of, conflict, succession planning and ownership planning.
- **Increase family business visibility**. The published media can be a relative cheap way to increase family business visibility. Publish case studies of successful family businesses, family business names, contact details and core competencies and encourage the use of family businesses by elaborating on their advantages.
- **Remove family business' entry / succession barriers**. Encouraged entrepreneurship by introducing relaxed labour legislation, simplification of tax systems, simplification of tenders and financial assistance.

5.5.2 Management recommendations

Based on the literature and empirical study, the analysis of the empirical study and the conclusions, the following management recommendations are made:

- **Family forums**. The establishment and maintenance of family forums need urgent attention. The values, ideals and sense of purpose nurtured by the family are a potentially vast resource for the family business. At the same time, business ownership is an unparalleled opportunity for the business family to grow, develop, and manifest its values and dreams in society. Family forums enable the business owner to make the most of each of these opportunities. Family forums, in fact, are one of the two most important resources in ensuring family business continuity. (The other is an active outside board.) Family forums offer a variety of important benefits, including building a stronger family and a stronger business, planning for the future of the business and the family, planning family participation, opening up the succession process and preserving family tradition and history. Issues to be discussed during these forums include the improvement of communication between all the family members, prevention and management of conflict, performance measurement, compensation policy, disciplinary procedures, management succession, ownership succession and the individual needs and dreams of the family members. It is recommended that the continuity of the business as a family business is addressed at the family forums. However, care must be taken that the big picture is seen, and not only the needs and dreams of one or two dominant family members.
- **Corporate governance**. It is recommended that the family business owners / managers ensure good corporate governance. As the family expands and matures, the power of individual leaders to hold it together is not always sufficient. The family and the business are so entangled that emotions are unavoidable. The family may then seek other avenues for decision-making, guidance and leadership. Consequently, large family businesses are then advised to appoint outside board members. Small and medium family businesses are not large enough to attract outside board members, thus, family councils, review councils, or advisory councils are recommended. The distinct governance needs of the family are best served by family meetings or a family council (or similar family organisation). Business governance needs are best served by an active board, preferably one with a majority of qualified independent directors.
- **Focus of corporate governance**. Corporate governance includes systems, structures and policies to direct, control and account for the business, as well as securing its economic viability and legitimacy. How a family business is governed will have a major impact on the family's own health and ability to survive, but also on the success and longevity of its business and how it is governed. It is recommended that the corporate governance focus on setting a family policy

governing family behaviour, actions and decisions. Articulate the family vision, mission and the motivating values in the policies. It is further recommended that a family ownership policy is set to guide the business culture, goals and capital allocation, and rights and responsibilities of shareholders. Corporate governance should promote family education and information. And most importantly, family governance must include a family constitution (or charter). The family constitution should specify the purposes of the business, its vision and mission, its makeup, meeting frequency and governance. Policies outlining procedures for compensation, disciplinary procedures, decision-making and conflict resolution should also be established.

- **Ownership succession**. It is recommended that, in order to manage ownership succession successfully, that all parties enter into the process with open and honest communication, regarding emotionally charged issues such as death and inheritance. A full understanding of legislation regarding taxation needs to be acquired. As estate taxes, proprietary interests, fairness and equality of a will are emotional issues and very complex, it is recommended that the services of a professional team are utilised to assist in the ownership succession process. The senior generation executive manager must delegate more and more responsibility to the younger generation and accepts the fact that eventually a new generation of managers will take over. The senior generation executive manager must get emotionally unattached to the family business, have trust in the proposed successor fully and must finds interests beyond the family business. The younger generation must be included in all aspects of the business, e.g. the formulation of corporate mission, vision and strategy. The gradual transfer of power to the younger generation must also be a focus area. It is further recommended that the successor should be involved in a management development program, as the implementation of a well thought out management training and support program, is in most cases, critical to the succession process. The succession process can be enhanced by a mentoring relationship (Kets de Vries, 1996:265). The successor can, with the assistance of the owner, identify two mentors, one within the family business and another one from outside the family business.
- **Talented daughters or wives must not be overlooked as a potential successor of the family business**. Research has suggested that a father-daughter relationship tends to be relatively conflict-free and complementary compared with the father-son relationship, which is more of a rivalry. The recommendation is made that women must be valued and acknowledged as important resources of a family business as women's contributions in family businesses can be both critical and substantial.

- **Succession planning needs to be addressed urgently**. It is recommended that succession planning must commence as soon as possible. A decision must be made on a suitable successor. It must be ensured that the proposed successor develops necessary skills, experience and confidence to lead the business. Clearly designate the proposed successor to the rest of the family, as well as to employees and outside suppliers, clients, bankers and others. Actively work to gain their support for the proposed successor. Mentor the successor and consider someone else in the business as an additional or sole mentor. Set a timetable for retirement or a deadline to shift power, put it into writing and stick to it. Develop an estate plan for assets to be divided and transfer ownership to the next generation appropriately. And, the owner must find a new role for himself in the business and simultaneously develop interests outside the business.
- **Family harmony between all the family members must be enhanced**. Attention must urgently be given to the relationships between the family members. Special attention must be given to the inactive family members. Systems need to be put in place where the entire family, active and inactive, can participate and discuss important issues that involve the family and the business. Family forums can be utilised with great success to enhance family harmony. Communication must be open and frequent. Family members must be invited to family council meetings and family retreats. If the inactive family members are qualified, ask them to sit in on the board of directors. Make them part of the key ownership decisions, such as major strategic decisions, succession decisions and major financial decisions. Seek a balance of power. Adopt a *we're all in it together* attitude instead of thinking of it as different branches of a family. Promote, support and champion inactive siblings just as well as the active ones. Involve, as far as possible, all family members in drafting policies to be ratified by the ownership, such as policies governing family members' employment or participation in the family business. This involvement can be something as simple as to inform them what it entails and on the way forward.
- **Formalising policies**. It is recommended that family businesses formalise policies addressing performance measurement, disciplinary procedures and compensation for family members. Involve all the active and inactive family members in the process. This will ensure buy-in and the establishment of agreed upon basis to work from. Compensation must be based on fair market value and the compensation plan must demonstrate a distinct connection between pay and performance. A special group to resolve compensation issues must be established. By having these procedures in place, all family members entering the business in future will know what is expected from them and what they can expect from the business.

- **Improvement of communication skills**. Even when communication works well, there is always room for improvement. No family is perfect and all slip into poor communication modes from time to time. Families are most vulnerable to communication mishaps during times of stress, but the scars of bad communication can be avoided. The best place to begin communication is with each individual. When each individual improves his / her own communication skills, the changes made will tend to influence the other family members / employees as well. Making the effort to improve a person's own ability to communicate takes courage. Hard work is needed to overcome a person's own fear of expressing legitimate anger or of risking another person's emotional response when difficult issues are raised. Learn to let others talk more. Thus, family members must attend courses to improve their communication and conflict management and prevention skills. These skills can be ploughed back into the family business.
- **Equality and fairness of the will**. The owner must realise that fairness doesn't necessarily mean equality. It is recommended that the testator focus on the issues that need to be addressed before drafting the last will and testament. The following questions address the most important issues: Who are the primary beneficiaries, and, if they were to pre-decease the testator, who would be the secondary beneficiaries? Should trusts be created under the will of the testator for either estate tax purposes or protective measures? Has a detailed asset analysis been prepared that shows the ownership of each asset? Has an estate tax liability analysis been projected for the testator? If the testator is married, have either the testator or the spouse been married before? Are there children from other marriages or relationships? Are there any obligations owed pursuant to a divorce decree to children or spouse from previous marriages? Has the testator given enough consideration to the nominations of fiduciaries, namely executors, trustees and guardians? Have the beneficiary designations been integrated with the estate plan? Is the disposition of a family-owned business part of the last will and testament of the testator? Is it determined which beneficiaries should pay the estate taxes? Lastly, it is recommended that the next step should be to assemble a team of advisors so that they can all work together to finalise the last will and testament and thus the ownership succession.
- **Proprietary issues**. Shareholders in family business have rights and responsibilities as in any partnership or corporation. Unfortunately, rights in privately held business are more dependent on relationships and clear understandings than corporate charters, laws or government regulations. A family that manages its affairs based on strict interpretation of legal requirements loses its natural competitive advantage of trust. It is therefore recommended that an ownership agreement, addressing the ownership of shares, the dividend policy, redemption of shares to provide liquidity for shareholders and transfer of shares between family members.

- **Estate taxes**: It is recommended that investments are diversified. The wealth that a person earned from the family business should be segregated into a variety of asset categories as to allow for flexibility in what the testator bequeath to his / her heirs and to maximise the leverage opportunities of investments, real estate and secured operating and shareholder loans protected from personal wealth. It is recommended that it is explored whether maximum tax is being paid on the growth of the personal wealth, if the heirs will pay the minimum possible taxes on their inheritance and if the personal assets are segregated into a variety of asset categories. In order to ensure that the above are adequately addressed, it is recommended to consult with a tax advisor regarding strategies for minimising the taxes on the wealth a person is taking form the business and the wealth that will be transferred to the heirs. Also, consult with a lawyer / financial advisor regarding the legal structures that can be created to support tax minimisation strategies, and with an accountant and / or financial planner regarding a strategy that both grows personal wealth and provides flexibility in how wealth are dispersed to the heirs.

5.6 CRITICAL EVALUATION OF THE STUDY

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

5.6.1 Primary objective

The primary objective of this study is to evaluate the unique challenges facing family businesses and to provide recommendations on how to overcome these unique challenges.

This primary objective was achieved by realising the secondary objectives (as motivated below) and the recommendations suggested in Section 5.5 above. The recommendations made address high level issues, as well as management issues. The management recommendations made include recommendations, directly or indirectly, for all the factors and sub-factors with the mean evaluated lower than five.

5.6.2 Secondary objectives

As stated in Section 1.4, in order to meet the primary objective, the following secondary objectives were formulated:

- To determine what a family business is.
- To identify the unique challenges facing a family business by means of a literature study.
- To empirically evaluate the unique challenges facing family businesses by means of an existing questionnaire (Van der Merwe, 2004) and to analyse the evaluation.
- To determining the conformity between the literature study and the questionnaire.
- To determine the reliability of the existing questionnaire.
- To determine the practical significance for the differences in the arithmetic mean.

The first secondary objective was achieved through the detailed literature study as presented in chapter two. All the sections in chapter two entail informative information regarding a family business.

The second secondary objective, namely to identify the unique challenges facing a family business by means of a literature study, was also achieved. This achievement was made possible by the literature study as conducted in chapters two and three of this study. References are made numerous times in those two chapters to the unique challenges.

Table 5.1 on the following page, indicates several references.

Table 5.1: References from chapters two and three to highlight the unique challenges facing family businesses

UNIQUE CHALLENGE FACING FAMILY BUSINESSES	SECTION NUMBERS
Family, business and ownership systems.	• 2.3.1; 2.3; 2.4.2.2; 2.5.6.1; • 3.3.3.3; 3.5.2; 3.6;
Family harmony.	• 2.3.4; 2.5; 2.5.5.1; 2.5.6; • 3.1; 3.3.2; 3.3.3.3; 3.4.1; 3,5,2;
Relationships in family businesses.	• 2.3.2; 2.3.3; 2.3.4; 2.5; 2.5.4; 2.5.5; 2.5.6; • 3.2.4; 3.3.3; 3.3.3.5; 3.3.4; 3.4.1; 3.4.3;
Communication in family businesses.	• 2.4.2.3; 2.5.3; 2.5.5.3; 2.5.5.4; 2.5.6.1; • 3.1; 3.3.4; 3.5.2;
Conflict in family businesses.	• 2.3.4; 2.4.2; 2.5.3; 2.5.4; 2.5.5; 2.5.6; • 3.2.1; 3.2.4; 3.3.6; 3.4.3; 3.4.4; 3.5.3;
Compensation in family businesses.	• 2.4.1.7; 2.4.2.4; 2.5.6.1; 2.5.6.3; • 3.2.1; 3.2.2; 3.2.3; 3.2.4; 3.2.5; 3.3.3;
Disciplinary procedures.	• 2.3.4; • 3.1; 3.2.5; 3.6;
Management succession.	• 2.5.5.2; 2.5.6.1; • 3.1; 3.3; 3.3.2.2; 3.3.10; 3.4; 3.5.2;
Ownership succession.	• 2.5.5.2; 2.6; • 3.1; 3.4; 3.4; 3.6;
Corporate governance of family businesses.	• 2.6; • 3.1; 3.5; 3.5.1; 3.5.2; 3.6;

The third secondary objective was to empirically evaluate the unique challenges facing family businesses by means of an existing questionnaire and to analyse the evaluation. This was achieved through the detailed empirical research and presentation thereof in chapter four, as well as the conclusions drawn from this data as presented in chapter five. The literature study in chapters two and three supports all the questions asked and it was concluded in theory that all these independent factors lead to the dependent variable.

The fourth objective was to determining the conformity between the literature study and the questionnaire. This fourth secondary objective was also achieved as motivated and concluded in Section 5.2.5.

The fifth secondary objective was to determine the reliability of the existing questionnaire. This objective was also achieved and it was determined that the existing questionnaire is reliable. The motivation for the statement that this objective was achieved, is: theory was discussed in Section 1.7.4.4, evaluation and manipulation by means of an empirical study was conducted in Section 4.6, and conclusions were drawn in Section 5.4.

The sixth secondary objective was to determine the practical significance for the differences in the arithmetic mean. This final secondary objective was achieved by the discussion of the theory in Section 1.7.4.5, the evaluation and manipulation by means of an empirical study as conducted in Section 4.7, and conclusions made in Section 5.4.

5.7 RECOMMENDATIONS FOR FURTHER RESEARCH

As an exploratory study, this report presents several opportunities for future research. All of these opportunities stem from only one aspect in a family business, namely to overcome the unique challenges facing a family business to ensure / enhance succession.

Based on the outcome of this study, the following limitations and recommendations are put forward for consideration in future research on family businesses:

- Since South Africa's first democratic election in 1994, Black Economic Empowerment (BEE) has been one of the foremost issues on the government's agenda. The government recognised that the majority of South Africans have for decades been deprived of all influence in society. BEE has a key role to play in the transformation process aimed at re-balancing the society after the years of *apartheid*. The opportunities and threats of BEE on family businesses, and specifically small and medium sized family businesses, can be an important field of study.
- Using snowball sampling (convenience sampling), due to the lack of a proper database on family businesses in South Africa, was a limitation of this study. Future research should aim to develop a comprehensive database from which probability samples can be drawn.
- The literature regarding women in family businesses is extremely sparse and very little of it is empirical (Rowe & Hong, 2000). A conclusion was made that there was a definite pull towards male family members being actively involved in the family businesses studied. Future research could be conducted to determine the role of women (either active or inactive) in family businesses.

- Exploration of the quality of the parent-child relationship as an important indicator of understanding how the succession process will evolve, could be another avenue of research.
- Future research could focus on the type of advice and assistance small and medium-sized family businesses require assisting them in successfully addressing the unique challenges facing family businesses.
- Given the low percentage of family businesses that survive into future generations, another area for study is the succession experience of families that resulted in the closure and / or failure of family businesses. The reasons behind the failure of family businesses to perpetuate them may be useful to family business owners.
- An alternative study would be to focus on non-family businesses. Few empirical studies have compared and contrasted experiences of family and non-family business owners with regard to the challenges they face.

5.8 CONCLUSION

Family businesses pervade economies the world over and comprise one third of the Fortune 500 companies, generating nearly half of the gross domestic product of the United States of America and 78% of all new jobs created. In South Africa, family businesses have been making a positive contribution towards the South African economy for the last 300 years, with approximately 80% of businesses classified as family businesses.

Family businesses are not only fundamental to creating sustainable jobs, but also to provide individuals and their families with dignity, freedom and unparalleled opportunities to incrementally create wealth. Having greater control over their lives, they become self-sustaining and independent of handouts in a welfare state for their survival.

Notwithstanding this, the future of family businesses is not as rosy as one would expect. In fact, family businesses are extremely fragile, less than 30% of family businesses last into the second generation, and of these, only about ten percent make it to the third generation. Essentially, in order to achieve continuity and success, the size of the business doesn't matter. What does matter is the ability of the owner (and the family members) to anticipate, recognise, understand and work on issues pro-actively, learn from other family businesses and to find one's own unique solutions.

The literature study highlighted the unique challenges facing family businesses and the empirical study revealed the weak areas. From these key factors, recommendations were made on how to correct these shortfalls.

Business decisions are to be objective and intellectually based, not subjective and emotionally ruled. One element that is necessary for attaining and maintaining psychological and social well-being is for a family-run business to be time competent, to function in the here-and-now and yet effectively intertwine the family's and the family-run business' past with vision and goals for its future. It must be determined which family relationship dynamics are and are not interchangeable.

The success and survival of family businesses in the Sedibeng District and the Metsimaholo Municipality may depend on the professionals they choose to advise them on the unique challenges facing family businesses. This study is a major step forward for family businesses as it is authoritative and adds value to the body of knowledge in family business research.

A comprehensive literature study was conducted to give a broad background to the nature of a family business and the unique challenges facing family businesses. The empirical study was conducted by means of a scientific measuring instrument (a questionnaire) and conformity between the literature study and the measuring instrument was confirmed. Relevant statistical analyses of the data were performed and appropriate conclusions were drawn and recommendations made.

Thus, based on the knowledge gained during this study, the necessary expertise to assist family business owners in the country, and specifically the Sedibeng District and the Metsimaholo Municipality, was acquired.

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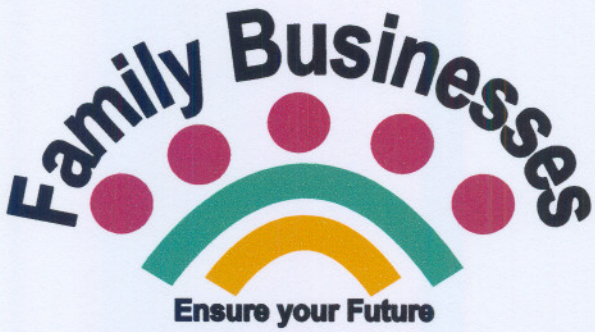
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FAMILY BUSINESS DIAGNOSTIC QUESTIONNAIRE

(Fampro 3.1)

FAMILY MEMBERS EMPLOYED BY THE FAMILY BUSINESS

(ACTIVE FAMILY MEMBERS)



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FAMILY BUSINESS DIAGNOSTIC QUESTIONNAIRE

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

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

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

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

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

GENERAL INSTRUCTIONS

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

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

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

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A1	All family members are kept informed about business matters.	1	2	3	4	5	6 X	7

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

Please complete the different sections of the questionnaire as follows:

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

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

TERMINOLOGY

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

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

SECTION A

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

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

		Strongly disagree	Disagree	Slightly disagree	Neutral view	Slightly agree	Agree	Strongly agree
A1	All family members are kept informed about business matters.	1	2	3	4	5	6	7
A2	The communication between family members is constructive.	1	2	3	4	5	6	7
A3	When conflict arises between family members it is dealt with quickly/ immediately.	1	2	3	4	5	6	7
A4	The inactive family members have opportunities to share their expectations of the family business with other family members.	1	2	3	4	5	6	7
A5	The wills of the senior generation family members provide for the unique needs of each heir.	1	2	3	4	5	6	7
A6	Family members trust each other.	1	2	3	4	5	6	7
A7	A forum exists where differences of opinion between family members can be discussed and resolved openly.	1	2	3	4	5	6	7
A8	The younger generation family members have a strong desire to take over the family business in the future.	1	2	3	4	5	6	7
A9	A policy which clearly stating who may own equity (ownership capital, shares, members' interest) in the family business, exists.	1	2	3	4	5	6	7
A10	There is rarely conflict between family members.	1	2	3	4	5	6	7
A11	The family has established the necessary policies and procedures (financial reporting, labour relations, conservation of the environment) to ensure sound governance.	1	2	3	4	5	6	7
A12	The senior generation family members are committed to the continuation of the business as a family business in the future.	1	2	3	4	5	6	7
A13	The senior generation family members have fair wills for the active as well as the inactive family members of the younger generation.	1	2	3	4	5	6	7
A14	Family members get along well.	1	2	3	4	5	6	7
A15	All family members know what is planned for the family business.	1	2	3	4	5	6	7
A16	There is good communication	1	2	3	4	5	6	7

	between family members.							
A17	The senior generation family members have communicated to the family their intentions to keep or sell the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A18	The wills of the senior generation family members are fair towards the younger generation family members that are active in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A19	The younger generation family members are committed to the continuation of the business as a family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A20	Family members meet regularly to discuss matters of mutual interest.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A21	The family has procedures in place to pro-actively avoid conflict.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A22	The family established corporate governance bodies (advisory board, family forum) to ensure corporate governance.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A23	Family members support each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A24	The inactive family members know what the active family members' plans with the family business are.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A25	All family members are familiar with the future vision of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A26	Differences of opinion between family members rarely lead to serious conflict.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A27	Family members communicate openly with each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A28	The family creates opportunities to discuss the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A29	Differences of opinion between family members are discussed openly.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A30	The senior generation family members never threaten to stop the family business in the future.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A31	The family creates opportunities for individual family members to share their dreams, fears and needs with each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A32	The wills of the senior generation family members meet the requirements of equality and fairness.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A33	Family members respect each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A34	Family members understand each other's views.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A35	Inactive family members rarely interfere in operational business matters.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A36	The family hold family meetings to discuss family and business matters.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
A37	Family members are close.	**1**	**2**	**3**	**4**	**5**	**6**	**7**

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

SECTION B

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

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

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

	members have determined their expected current and future lifestyle expenditures.							
B16	There are no serious differences of opinions between family members in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B17	There is mutual trust between the younger generation family members in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B18	Family members in the business air their views about the family business openly.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B19	The estate plan addresses future claims against the estate (e.g. previous marriages, minor children).	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B20	Sufficient capital will be available to successfully manage the family business after the retirement of the senior generation family members.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B21	The senior and younger generation family members in the family business trust each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B22	The younger generation family members cooperate as a team in the workplace.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B23	The work performance of family members in the family business is regularly compared with their critical performance areas.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B24	The senior generation family members have signed wills which were reviewed and updated during the past two years.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B25	The family members in the family business have policies and procedures in place to pro-actively handles conflict.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B26	Sufficient provision was made so that the senior generation family members will be financially secure after retirement.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B27	The estate plan addresses the implications of the current and the heir's future form of enterprise.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B28	The younger generation family members in the family business support each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B29	There is open communication between family members in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B30	The work performance of family members in the family business is regularly compared with previously determined objectives.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B31	Family members in the family business meet to discuss business matters.	**1**	**2**	**3**	**4**	**5**	**6**	**7**

B32	Clear ground rules exist for disciplinary action against family members.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B33	The senior and younger generation family members in the family business cooperate well as a team.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B34	Family members in the family business know what is expected of them in the work situation.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B35	The senior generation family members will not be financially dependent on the family business after retirement.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B36	The senior generation family members have written estate plans that meet the unique needs of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B37	The family is informed about and is prepared for the impact of capital gains tax on the family business when senior generation family members pass away.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B38	Family members in the business create opportunities to discuss the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B39	The younger generation family members rarely argue at work.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B40	The financial retirement needs of the senior generation family members should not put the family business under financial strain.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B41	There is a direct link between the amount of responsibility and compensation in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B42	The senior and younger generation family members in the family business respect each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B43	It is rarely necessary for the senior generation family members to intervene in order to resolve conflict between the younger generation family members in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B44	Family members in the family business know who to report to.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B45	A clear policy exists regarding actions to be taken should a family member in the family business under perform.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B46	The family business has a clear bonus and profit-sharing policy in place.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B47	The family business is managed on a basis of "business first".	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B48	Family members in the family business respect each other's opinions.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B49	Differences of opinion between family members in the family business are	**1**	**2**	**3**	**4**	**5**	**6**	**7**

	discussed openly.							
B50	The estate plan provides in case of disability of the senior generation family members.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B51	The retirement programme of the family business is adequately funded.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B52	The liquidity of the estate when senior generation family members pass away was determined.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B53	The family knows what to do if a family member has to be disciplined.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B54	Formal job descriptions for family members exist in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B55	Family skeletons and secrets don't have an impact on the success of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B56	The estate tax to be paid by the family business when senior generation family members pass away was determined.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B57	The family business has a financial system in place that ensures the financial independence of its retirees.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B58	The compensation to individual family members is reasonable compared to the salaries of other family members.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B59	Provision was made in the estate plan for threats such as divorce, matrimonial property system and insolvency.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B60	The senior and younger generation family members in the family business support each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B61	There is rarely serious conflict between family members in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B62	The younger generation family members recognise each other's successes in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B63	The family business is characterised by little conflict between family members.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B64	Family members are compensated according to their contribution to the business and not according to age or gender.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B65	The family is informed about and is prepared for the financial impact that estate tax may have on the family business when senior generation family members pass away.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B66	Certain family members in the family business are not favoured at the expense of other employees (either family or non-family members).	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B67	The communication between family members in the family business is	**1**	**2**	**3**	**4**	**5**	**6**	**7**

	constructive.							
B68	Conflict between family members in the family business is resolved effectively.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B69	A clear policy exists regarding actions to be taken if a family member in the family business habitually acts in an irresponsible way.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B70	The estate plan meets the requirements to minimise estate tax.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B71	The existing capital available to the senior generation family members will generate the income and cash flow to meet their expenditure requirements for the remainder of their lifetimes.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B72	The younger generation family members appreciate each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B73	There is a direct link between work performance and compensation.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B74	Family members involved in the family business get regular feedback on their work performance.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B75	Family members in the family business meet to discuss matters of mutual interest.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B76	The family business has a transparent compensation policy.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B77	The senior and younger generation family members in the family business appreciate each other.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B78	The family doesn't make emotional business decisions in favour of the family, but at the expense of the sustainability of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B79	The senior generation family members have done estate planning in addition to their own basic wills.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B80	Differences of opinion between family members in the work situation rarely lead to serious conflict.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B81	Every family member knows for which area of the family business he or she is responsible.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
B82	The senior and younger generation family members recognise each other's successes in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**

SECTION C

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

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

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

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

	knows what the required skills, experience and knowledge are to be successful in his/her particular job.							
C33	The younger generation family member has acquired relevant outside experience that better equips him/her to make a success of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C34	The younger generation family member is able to realise his/her full potential in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C35	The younger generation family member is a businessman to the core.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C36	It is expected that all family members will support the successor(s) once the leadership has been transferred to him/her.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C37	The family business provides opportunities for the younger generation family member to fulfil his/her personal and career goals.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C38	The younger generation family member has the ability to influence the strategic direction of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C39	The career requirements and interests of the younger generation family member are suited to the opportunities within the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C40	The senior generation executive manager will be financially secure after his/her retirement.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C41	The younger generation family member is eager to learn and is receptive.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C42	The younger generation family member's interests and career requirements are suited to the opportunities offered by the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C43	The senior generation executive manager talks with other business men who are also in the process of transferring management of their family business to the younger family members.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C44	The prospective successor(s) believe(s) in his/her ability to successfully manage the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C45	The younger generation family member's entry into the business did not put financial pressure on the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C46	The family business functions well when senior generation family members are away for long periods of time.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C47	The prospective successor(s) possess(es) the knowledge and experience needed to ensure the success of the family business after	**1**	**2**	**3**	**4**	**5**	**6**	**7**

	succession.							
C48	The younger generation family member has an advice network to better equip himself/herself for the challenges of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C49	The senior generation executive manager will be willing to relinquish control of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C50	The family has a plan in place to ensure smooth management succession.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C51	The younger generation family member finds it exciting to work in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C52	It is expected that family relationships will remain good after succession.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C53	The younger generation family member has sufficient training to do his/her work well.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C54	The senior generation family members have faith in the ability of the younger generation family member to run the family business independently.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C65	The younger generation family member has built up an active network of fellow business men and other experts to support him/her.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C55	The senior generation executive management definitely kept up with modern business methods.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C56	The younger generation family member prefers to work in the family business (although he/she has other career options available).	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C57	We established a formal mechanism (committee, work team) to lead the management succession process.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C58	The senior generation executive management listens to new innovative ideas to improve the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C59	There is an active attempt to prepare the younger generation family member to manage the family business in the future.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C60	The senior generation executive manager has passionate interests outside the family business to fill his/her time after retirement (hobbies, sport, and other interests).	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C61	The senior generation family members encourage the younger generation family member to participate in making important decisions.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C62	The performance of the family business is due to the leadership of the senior generation executive manager.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C63	There is a good fit between the skills and knowledge of the prospective	**1**	**2**	**3**	**4**	**5**	**6**	**7**

	successor(s) and what is needed for the family business to succeed.							
C64	The family has developed criteria to evaluate the work performance of the new executive manager (after succession).	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C65	The younger generation family member has built up an active network of fellow business men and other experts to support him/her.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C66	The family has selected (a) successor(s) to take over the management of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C67	The younger generation family member is actively busy to qualify himself/herself.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C68	The younger generation family member has, over time, acquired credibility in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C69	The family knows which criteria must be satisfied by the prospective successor(s) to ensure the success of the family business after succession.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C70	The younger generation family member has acquired enough experience (at all levels) in the family business to be successful.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C71	The business explored new income streams after the younger generation family member's entry into the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C72	The family business offers the younger generation family member good job security.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C73	The younger generation family member has a good sense of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C74	The senior generation executive manager is involved in activities outside the context of the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C75	The younger generation family member avails himself of opportunities to grow and develop.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C76	The senior generation executive management adapts to change easily.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C77	The senior generation family members encourage the younger generation family member to air his/her views whenever he/she doesn't agree with a decision.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C78	The younger generation family member is consulted when decisions are made that affect him/her in the family business.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C79	The family knows when and how management transition will take place.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C80	Plans exist for management succession	**1**	**2**	**3**	**4**	**5**	**6**	**7**

	in the event of the untimely death of the senior generation executive manager.							
C81	The younger generation family member has sufficient knowledge and experience to do his/her work well.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C82	The younger generation family member has a choice to work in the family business or not.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C83	A policy exists to actively unlock the younger generation family member's leadership potential.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C84	It is expected that the employees of the family business will support the successor(s) once the leadership has been transferred to him/her.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C85	There is a personal and leadership development plan in place to train and develop the younger generation family member.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C86	The choice of successor(s) was communicated to key interest groups.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C87	The senior generation executive manager feels that the younger family members are capable of managing the family business after his/her retirement.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C88	The senior generation family members can count on the younger generation family member to complete tasks successfully.	**1**	**2**	**3**	**4**	**5**	**6**	**7**
C89	The younger generation family member has a non-family member (outside or inside the family business) as mentor.	**1**	**2**	**3**	**4**	**5**	**6**	**7**

SECTION D

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

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

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

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

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

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

P4	**What is your relationship to the family? (Owner/senior generation executive as the basis)**						
	Owner	Spouse	Brother	Sister	1st son	2nd son	3rd son
	1st daughter	2nd daughter	3rd daughter	In-law	Other: Specify:		

P5	**State your highest academic qualification. Mark the applicable block with a cross (X).**	
	Lower than matric	
	Matric	
	Certificate	
	Diploma (Technical College or Technicon)	
	University degree	
	Post Graduate degree	

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

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

SECTION E

This section should be completed by the **senior generation executive manager/owner** of the family business.
Mark the applicable block with a cross (X). **Complete the applicable information.**

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

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

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

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

E5	***What is the legal status of the business?***			
	Proprietorship	Partnership	Company (private)	Company (public)
	Close Corporation	Co-operative	Business Trust	Franchise
	Other or combination (specify):			

THANK YOU FOR YOUR TIME.

APPENDIX B: CATEGORISATION OF MICRO, SMALL AND MEDIUM ENTERPRISES

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

INDUSTRY	CATEGORISATION	TOTAL NUMBER OF FULLTIME EMPLOYEES	TOTAL ANNUAL TURNOVER (in million)
RETAIL AND MOTOR TRADE AND REPAIR SERVICES	Medium	200	R 39.0
	Small	50	R 19.0
	Very small	20	R 4.0
	Micro	5	R 0.2
FINANCE AND BUSINESS SERVICES (SERVICES AND REAL ESTATE)	Medium	200	R 26.0
	Small	50	R 13.0
	Very small	20	R 3.0
	Micro	5	R 0.2
CATERING, ACCOMMODATION AND OTHER TRADE (FOOD)	Medium	200	R 13.0
	Small	50	R 6.0
	Very small	20	R 5.1
	Micro	5	R 0.2
CONSTRUCTION	Medium	200	R 26.0
	Small	50	R 6.0
	Very small	20	R 3.0
	Micro	5	R 0.2
TRANSPORT	Medium	200	R 26.0
	Small	50	R 13.0
	Very small	20	R 3.0
	Micro	5	R 0.2
WHOLESALE, COMMERCIAL AGENTS AND ALLIED SERVICES	Medium	200	R 64.0
	Small	50	R 32.0
	Very small	20	R 6.0
	Micro	5	R 0.2
MANUFACTURING	Medium	200	R 51.0
	Small	50	R 13.0
	Very small	20	R 5.0
	Micro	5	R 0.2
AGRICULTURE	Medium	100	R 5.0
	Small	50	R 3.0
	Very small	10	R 0.5
	Micro	5	R 0.2

Source: SA (2003)

APPENDIX C: DETAILS OF THE ARITHMETIC MEAN FOR ALL THE FACTORS AND SUB-FACTORS

The results of the arithmetic mean for the following evaluations are tabled in Appendix C:

- **Table C.1**: Results of the evaluation by all the family members.
- **Table C.2**: Results of the evaluation by the active family members.

Table C.1: Results of the evaluation by all the family members

	FACTOR AND SUB-FACTORS	n	MEAN
1.	**Separation of family and business matters.**	**106**	**5.463**
2.	**Family harmony among all family members.**	**163**	**5.103**
2.1	Degree of family harmony among all family members.	163	5.859
2.2	Degree of communication among all family members.	163	5.313
2.3	Establishing and maintaining communication forums.	163	4.437
2.4	Degree of conflict among all family members.	163	5.127
2.5	Prevention and management of conflict among all family members.	163	4.778
3.	**Family harmony among the active family members.**	**106**	**5.404**
3.1	Relationships among the active, younger generation family members.	106	5.375
3.2	Relationships among the active senior and younger generation.	106	5.700
3.3	Communication among the active family members in the family business.	106	5.602
3.4	Establishing and maintaining communication forums.	106	5.169
3.5	Degree of conflict among the active family members.	106	5.490
3.6	Prevention and management of conflict among the active family members.	106	5.088
4.	**Performance measurement and compensation of the family members.**	**106**	**4.948**
4.1	Clear roles and responsibilities in the family business.	106	5.505
4.2	Performance measurement of the family members.	106	4.775
4.3	Disciplinary procedures for the family members.	106	4.514
4.4	Compensation policy for the family members.	106	4.999
5.	**Continuation of the business as a family business.**	**163**	**5.096**
5.1	A clear future vision for the family business.	163	4.771
5.2	Acknowledgement of individual needs and dreams of all family members.	163	4.520
5.3	Commitment of the senior generation towards the continuity of the family business.	163	5.867
5.4	Commitment of the younger generation towards the family business.	163	5.225
6.	**Successful participation of the younger generation.**	**86**	**5.492**
6.1	The younger generation has good business sense.	86	5.619
6.2	The younger generation can add value to the family business.	86	5.544
6.3	Voluntary and happy participation by the younger generation.	86	5.667
6.4	Credibility of the younger generation in the family business.	86	5.574
6.5	Building and maintaining of a network by the younger generation.	86	5.109
6.6	Degree of self-empowerment by the younger generation.	86	5.440
7.	**Development of the young successor.**	**86**	**5.396**
7.1	Competence of the successor.	86	5.500
7.2	Formal training and development of the successor.	86	5.178
7.3	Mentorship of the successor.	86	5.248
7.4	Participatory management by the successor.	86	5.529
7.5	Realising the full potential of the successor.	86	5.526
8.	**Factors that necessitate succession.**	**86**	**5.733**
9.	**Executive manager's readiness for succession.**	**86**	**5.058**
10.	**Management succession.**	**86**	**4.957**
10.1	Management succession planning.	86	4.477
10.2	Selection criteria of the successor.	86	4.992
10.3	Suitability of the prospective successor(s).	86	5.507
10.4	Transfer of management to the younger generation.	86	4.101
10.5	The success / stability of the family business after succession.	86	5.709
11.	**Ownership succession.**	**163**	**4.836**
11.1	Estate planning in the family business.	106	4.799
11.2	Estate tax of the family business.	106	4.327
11.3	Proprietary interest in the family business.	163	4.648
11.4	Equality and fairness of the will of the senior generation.	163	5.187
11.5	Retirement planning of the senior generation.	106	5.014
11.6	Liquidity of the family business.	106	5.268
12.	**Corporate governance of the family business.**	**163**	**4.752**
Total		163	5.063

Table C.2: Results of the evaluation by the active family members

	FACTOR AND SUB-FACTORS	n	MEAN
1.	**Separation of family and business matters.**	**105**	**5.463**
2.	**Family harmony among all family members.**	**105**	**5.284**
2.1	Degree of family harmony among all family members.	105	5.987
2.2	Degree of communication among all family members.	105	5.469
2.3	Establishing and maintaining communication forums.	105	4.740
2.4	Degree of conflict among all family members.	105	5.238
2.5	Prevention and management of conflict among all family members.	105	4.987
3.	**Family harmony among the active family members.**	**105**	**5.404**
3.1	Relationships among the active, younger generation family members.	105	5.375
3.2	Relationships among the active senior and younger generation.	105	5.700
3.3	Communication among the active family members in the family business.	105	5.602
3.4	Establishing and maintaining communication forums.	105	5.169
3.5	Degree of conflict among the active family members.	105	5.490
3.6	Prevention and management of conflict among the active family members.	105	5.088
4.	**Performance measurement and compensation of the family members.**	**105**	**4.948**
4.1	Clear roles and responsibilities in the family business.	105	5.505
4.2	Performance measurement of the family members.	105	4.775
4.3	Disciplinary procedures for the family members.	105	4.514
4.4	Compensation policy for the family members.	105	4.999
5.	**Continuation of the business as a family business.**	**105**	**5.255**
5.1	A clear future vision for the family business.	105	5.012
5.2	Acknowledgement of individual needs and dreams of all family members.	105	4.633
5.3	Commitment of the senior generation towards the continuity of the family business.	105	5.971
5.4	Commitment of the younger generation towards the family business.	105	5.405
6.	**Successful participation of the younger generation.**	**86**	**5.492**
6.1	The younger generation has good business sense.	86	5.619
6.2	The younger generation can add value to the family business.	86	5.544
6.3	Voluntary and happy participation by the younger generation.	86	5.667
6.4	Credibility of the younger generation in the family business.	86	5.574
6.5	Building and maintaining of a network by the younger generation.	86	5.109
6.6	Degree of self-empowerment by the younger generation.	86	5.440
7.	**Development of the young successor.**	**86**	**5.396**
7.1	Competence of the successor.	86	5.500
7.2	Formal training and development of the successor.	86	5.178
7.3	Mentorship of the successor.	86	5.248
7.4	Participatory management by the successor.	86	5.529
7.5	Realising the full potential of the successor.	86	5.526
8.	**Factors that necessitate succession.**	**86**	**5.733**
9.	**Executive manager's readiness for succession.**	**86**	**5.058**
10.	**Management succession.**	**86**	**4.957**
10.1	Management succession planning.	86	4.477
10.2	Selection criteria of the successor.	86	4.992
10.3	Suitability of the prospective successor(s).	86	5.507
10.4	Transfer of management to the younger generation.	86	4.101
10.5	The success / stability of the family business after succession.	86	5.709
11.	**Ownership succession.**	**105**	**4.915**
11.1	Estate planning in the family business.	105	4.799
11.2	Estate tax of the family business.	105	4.327
11.3	Proprietary interest in the family business.	105	4.676
11.4	Equality and fairness of the will of the senior generation.	105	5.408
11.5	Retirement planning of the senior generation.	105	5.014
11.6	Liquidity of the family business.	105	5.268
12.	**Corporate governance of the family business.**	**105**	**4.768**
Total		105	5.237