An investigation of management succession planning in black-owned family business in selected areas in South Africa

by

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ABSTRACT

The objective of this study is to investigate management succession in black-owned family businesses in South Africa. The study was conducted in two Provinces, namely Limpopo and the North-West. In the Limpopo province, the study was conducted in the Vhembe District. The Vhembe district is consists of four municipalities, i.e. Thulamela, Mutale, Musina and Makhado. In the North-West province, the study was conducted in the Bojanala District. The Bojanala district has three municipalities, namely Phokeng, Marikana and Tlhabane.

Family businesses are one of the driving forces behind economic growth in the developed and developing countries. Their general lack of longevity is a cause for concern. Their lack of longevity has mostly been attributed to poor succession management processes which hinder the transfer of the family businesses from one generation to the next generation. It is because of this concern that the research was undertaken in order to provide possible suggestions that the family businesses can adopt and implement in order to ensure a successful transfer of the family business to the next generation family members.

The research was conducted by means of a literature and empirical study. The purpose of the literature study was to attain in-dept knowledge of family businesses and management succession. The literature study formed the basis of understanding family businesses and the unique challenges facing such businesses.

The literature review has focused on issues such as: the definition of a family business, unique characteristics of family businesses, the advantages and disadvantages of family businesses, challenges to the continuity of family businesses, the definition of succession and succession planning, the importance of management succession, the nature of the succession process, the selection of a successor, mentoring and preparing a successor as well as the complete transfer of management to the successor.

The empirical study indicated that successful management succession in family businesses is hindered by a lack of or poor management succession planning, estate and retirement planning, the selection of the successor, the prevention and management of conflict as well as the establishment of family forums which enable effective communication within the family business.

Therefore, an investigation of management succession in black-owned family businesses was undertaken due to their lack of longevity as presented in findings from the empirical study.

Practical recommendations were suggested to support the family and the business to effectively manage the management succession process in the family businesses.

DEDICATION

I dedicate this project to my mother Masindi Tanzwani, my wife Patience Matidza Tanzwani and my angels Adivhaho Edzani and Bono Tanzwani.

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THE NATURE AND SCOPE OF THIS STUDY

1.1 INTRODUCTION

Family businesses are part of our economic life, provide jobs, lasting legacies and make a substantial contribution towards the global economy (Maas, Van der Merwe & Venter, 2005: 5; Balshaw, 2003: 15). Venter and Boshoff (2007: 42) assert that small and medium-sized family businesses are recognised as the source of creating jobs and economic wealth, globally. They are also becoming the dominant form of enterprise in developed and developing countries around the world. Gersick, Davis, Hampton and Lansberg (1997: 2) indicate that 40% of the Fortune 500 companies are family-owned or controlled businesses.

Poza (2004: 3) acknowledges that 80% or more of all registered businesses in the United States of America are family-owned and family controlled businesses. Kets de Vries (1996: 3) states that in Europe, family businesses percentage ranges from 52% in the Netherlands to more than 80% in Germany and Austria. Poza (2004: 3) postulates that family businesses are thus the primary engine of economic growth and vitality not only in the United States, but also in free economies all over the world.

Van der Merwe (1998: 3) acknowledges that for the past three hundred years in South Africa, family business has made a positive contribution towards the economy. Maas *et al.* (2005: 6) argue that the economic recession and lack of employment forced many people to start their own businesses or, on completion of secondary or tertiary training, enter an existing family business. Thabetha (2005: 4) contends that South Africa family businesses absorb between 50 and 60% of the labour force and contribute 30% to the Gross Domestic Product (GDP).

Family businesses are vital in the South African economy due to their significant contribution towards the creation of employment, eradication of poverty and creation of wealth. Venter, Boshoff and Maas (2003a: 1) assert that family businesses are considered to be the primary contributors to the business economy and offer vital opportunities for further economic growth.

Van Buuren (2007: 2) states that in South Africa, the estimations are that more than 80% of all businesses have family ownership involvement and more than 60% of all listed companies on the JSE had family involvement at least during its start-up phase. Van Buuren (2007: 2) claims that a large proportion of family businesses in South Africa are small to medium-sized enterprises, with nearly 50% employing less than 20 people per business.

Maas and Diederichs (2007: 3); Maas *et al.* (2005: 10) and Venter, Boshoff and Maas, 2003b: 2) concurs that family businesses are primarily contributors to the economy. Lansberg (1999: 13) postulates that their general lack of longevity is a cause for concern. Maas *et al.* (2005: 8) acknowledge that the vast majority of start-up ventures fail within the first five years. They further estimate that only 30 % of family businesses are transferred to the second generation and only 10 % are transferred successfully to the third generation.

Voeller, Frairburn and Thompson (2002: 11) and Marshall, Sorenson, Brigham, Wieling, Reifman and Wampler (2006: 353-354) indicate that succession planning is a process that every family business has to deal with sooner or later. Voeller *et al.* (2002: 12) and Sharma (1997: 16-19) acknowledge that succession planning is a process that includes strategic, financial and estate planning, and the preparation of successors within the context of family values, ethics and beliefs as well as within the context of a business needs.

Voeller *et al.* (2002: 7-8) state that around 43% of people who own and operate closely-held business that comprises 80% of North America economy are to retire within the next five years.

Family business within the Limpopo and the North-West provinces are not exempted from these crises; they will all sooner or later encounter the challenge of grooming, coaching and mentoring future leaders within their families to take over the family businesses at a later stage.

Maas *et al.* (2005: 6) maintain that the involvement of family within family businesses adds a unique dimension to the business. Family business is considered successful when it is able to sustain itself with healthy finance, harmonious family relationships and the creation of wealth from generation to generation.

1.2 PROBLEM STATEMENT

Carlock and Ward (2001: 3) postulate that a family business is an important instrument which creates jobs that address unemployment and provide sustainable growth for the economy of any country. Carlock and Ward (2001: 3), furthermore, assert that sustaining a family business proves to be a difficult task. Due to successions from generation to generation, Kets de Vries (1996: 5) indicates that the average lifespan of a family business is 24 years, provided that there was a successful start-up.

Venter *et al.* (2003a: 2) concur that the inability to manage the complex and highly emotional process of ownership and management succession of the business from one generation to the next has been identified as the main reason for the failure of family businesses. Venter *et al.* (2003a: 2-3) assert that family businesses need to manage succession properly, with emphasis placed on planning and understanding of the factors that influence succession planning.

Daba (2007: 4) and Netsianda (2008: 3) assert that there has been very little scientific research conducted on black-owned family businesses in South Africa. It is thus very necessary to conduct more research on such family businesses.

This study focuses on management succession of black-owned family businesses in South Africa. The ultimate objective of the study is to offer managerial recommendations and effective strategies that can assist the owners of black-owned family businesses to successfully address and implement succession.

1.3 OBJECTIVES OF THIS STUDY

1.3.1 Primary objective

The primary objective of the study is to assess management succession in black-owned family businesses in South Africa and to make recommendations on how these businesses can ensure the successful transfer of the business to the next generation.

The study will also address the importance of understanding business succession within a family business and will link as well, the factors encountered within succession planning and mentoring processes to the effectiveness of the transition and performance of the business.

1.3.2 Secondary objectives

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

- To define family businesses.
- To understand and obtain insight into the dynamics of family businesses and management succession in family businesses by means of a literature review.
- To gain insight into black-owned family businesses in South Africa.
- To analyse and assess management succession in the black-owned family businesses in the Vhembe and Bojanala districts.
- To present recommendations to ensure successful management succession in black-owned family businesses in the Vhembe and Bojanala districts.

1.4 SCOPE OF THE STUDY

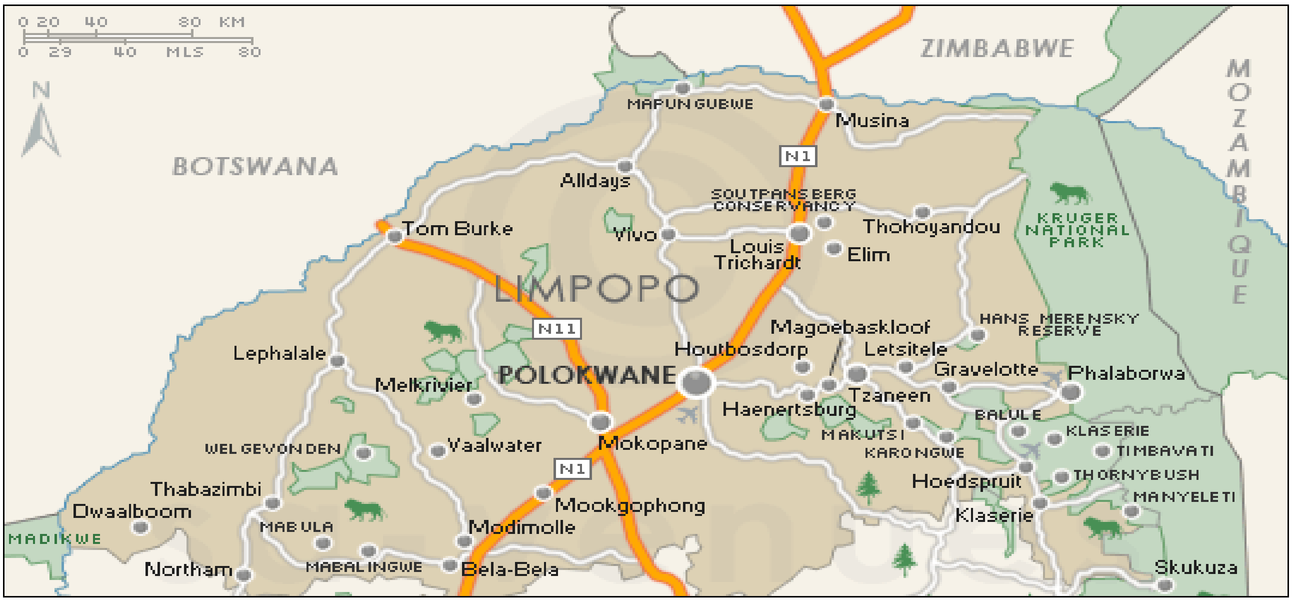
1.4.1 The field of study

The field of this study is entrepreneurship with the focus on management succession in black-owned family businesses.

1.4.2 Geographical demarcation

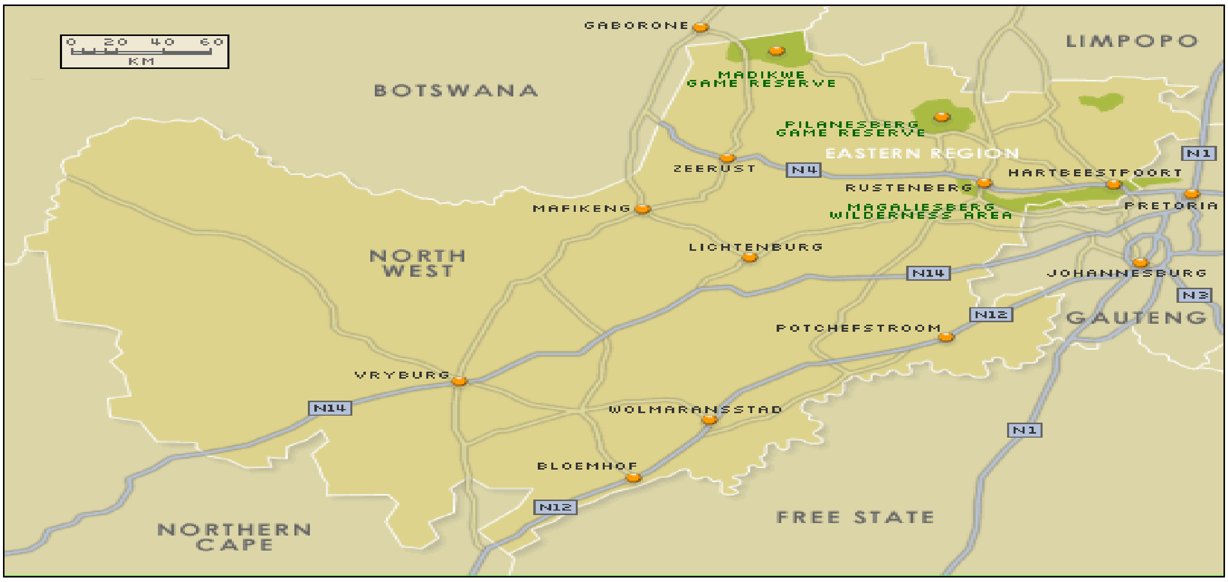
The study will be conducted in the Limpopo and North-West provinces. In the Limpopo province, the study was conducted in the Vhembe district. The Vhembe district is formed by four municipalities, i.e. Thulamela, Mutale, Musina and Makhado (see figure 1.1). In the North-West province, the study was conducted in the Bojanala district. The study was conducted in the following districts in Bojanala: Phokeng, Marikana and Tlhabane (see figure 1.2).

Figure 1.1: Limpopo Province (Vhembe District)



Source: www.sa-venues.com/mapslimpopo-regional.htm

Figure 1.2: North West Province (Bojanala District)



Source: www.sa-venues.com/mapslimpopo-regional.htm

1.5 RESEARCH METHODOLOGY

Leedy and Ormrad (2001: 8) argue that research originates with a problem and ends with a solution to such a problem. De Vos, Strydom, Fouche and Delport (2002: 78) state that conclusion resolves the research problem.

Daba (2001: 5-7) and Netsianda (2008: 5-6) maintain that research is a process in which scientific methods are used to expand knowledge in a particular field of study. They further state that research generates new knowledge that can in turn, be applied to resolve problems, improve quality of life and provide a better understanding of the problem.

The research process often includes quantitative or qualitative methods or a combination of the two. Qualitative research involves large representative samples and structured data collection methods whereas quantitative research requires that the data collected can be expressed in numbers (Struwig & Stead, 2001: 3-4).

This research, pertaining to the specific objectives, will be conducted in two phases, i.e. a literature review followed by a quantitative empirical study.

1.5.1 Literature review

The literature review was conducted within family businesses and succession planning. This was done in order to provide a competent theoretical understanding of the topic, understand the latest theoretical developed models and debates in the area of research and to acquaint one with the problem and results obtained by previous researchers.

Netsianda (2008:6) asserts that the insight into family businesses as a form of enterprise is still limited and has largely been ignored as a study field even though family businesses are a prevalent phenomena in the economies of most countries. Interest is now growing in the identification and understanding of the facets of business that support the superior performance of family firms.

Venter, Kruger and Herbst (2007: 1) argue that there is however, no generally accepted theory defining the family-firm concept as scientific work on such theory has just commenced.

The purpose of this study is to review the different theories underlying family businesses and their succession management. The study was undertaken in order to gain more theoretical understanding of management succession as well as the factors that contribute positively and negatively towards successful succession planning. Challenges encountered in successful management succession, as well as the results and recommendations from previous research work were recognised.

1.5.2 Empirical study

1.5.2.1 Questionnaire used in this study

De Vos, Strydom, Fouche and Delport (2005: 85) state that all research, whether qualitative or quantitative, are based on some underlying assumptions about what constitutes valid research and which research methods are appropriate. In this research a quantitative approach will be used.

A questionnaire developed by Venter & van der Merwe (2003) was utilised to conduct the research. Venter (2003) identifies 16 latent constructs related to management succession based on a comprehensive literature study. These constructs can be used to measure perceptions of family members concerning the management succession process. The following constructs were identified by Venter (2003): **Family harmony, relationship between owner-manager and successor, outside interests of the owner-manager, willingness to hand over the business, mutual acceptance of roles, management succession planning, willingness to take over, trust in the successor's abilities and intentions, preparation level of successor, outside advice and governance, personal needs alignment, rewards from the business, agreement to continue the business, estate planning, strategic planning** and p**erceived success of the succession process**.

The questionnaire used in this study assessed the latent constructs with 104 statements on the basis of a 7- point Likert type scale ranging from *Strongly disagree (1) to Strongly agree (7)*. Respondents were required to indicate the degree to which they agreed or disagreed with each statement (Huysamen, 1994: 125).

Respondents were required to complete the questionnaire provided to them with interviews undertaken for those who could not read nor write through the use of standard interviewtechniques. Struwig and Stead (2001: 87) state that personal interviews provide good response rates as the interviewer is able to persuade individuals to take part in the research and normally, the data obtained tend to be accurate.

The results of the questionnaires will be analyses and interpreted and documented with a view of providing recommendations in such a way that it leads to the achieving of the objectives of the study.

1.5.2.2 Study population

The targeted population of this study was small and medium-sized family business in the Vhembe district in Limpopo and the Bojanala district in the North-West province. Since there is no comprehensive database in South Africa for family business in general and black-owned family business in particular, a convenience sampling by means of a snowball technique was used. Page and Meyer (2000: 100) postulate that this technique assists with the identification of family businesses that could participate in the study and to also ensure that there are enough responses gathered in order to use more appropriate statistical analysis techniques to analyse data.

In order to generate a preliminary list of family businesses, physical visits to the Limpopo and the North-West provinces were undertaken, visiting small businesses, medium-sized businesses as well as well-known business people to participate with the research in the Vhembe and Bojanala districts.

1.5.2.3 Gathering of data

De Vos *et al*. (2005 : 80) state that a quantitative approach is defined as an inquiry into a social or human problem, based on testing a theory composed of variables, measurement with members analysed in order to determine whether the theory holds the truth based on the latter.

Neuman (1997: 251-263) and Du Plooy (1995: 109-124) state that questionnaires must be delivered personally to be completed followed by telephone calls and structured interviews.

A major challenge encountered through the process of data collection was to persuade the retired owners, senior generation owner-managers active in the business, successors and potential successors to complete the questionnaires.

Rubin and Babbie (2001: 153) contend that questionnaires must be neat, clear and easy to follow. Neuman (2003: 284) indicates that each question should be numbered accordingly. Each questionnaire was sent with a covering letter that guaranteed the confidentiality of the responses. The confidentiality was guaranteed within all family members. This was done to ensure that members of the family business should not feel trapped or targeted through their response in future as their highest level of honesty was required.

1.5.2.4 Statistical analysis

Swart (2005: 25) concurs that data interpretation is vital as it provides relevance to the researcher’s findings and its proper interpretation. Du Plooy (1995: 143) states that the interpretation refers to the drawing of inferences from the collected facts and implies a search for the broader meaning of the findings.

The data collected were statistically analysed using Statistica (Statsoft, 2010) and SPSS (SPSS, 2010). The reliability of the questionnaire was assessed by calculating Cronbach alpha coefficients. Thereafter, the constructs measuring succession planning were assessed by means of descriptive statistics.

1.6 LIMITATIONS OF THE STUDY

The study is undertaken with the purpose of enhancing the body of knowledge on management succession in black-owned family businesses.

Findings in this study cannot be generalised to the entire country of South Africa due to the use of a convenience sampling technique and the area covered. The sample can thus not be considered to be representative of all black-owned family businesses in South Africa; hence the empirical research was limited to selected districts in the Limpopo and North West provinces. The study conducted was limited to small and medium-sized black-owned family businesses.

1.7 LAYOUT OF THE STUDY

The study will be divided into the following chapters:

Chapter 2 covers the literature study on family businesses including the definition of family businesses, characteristics discussion and uniqueness of family businesses, the advantages and disadvantages of family businesses and challenges to the continuity of family businesses.

Chapter 3 presents a literature review on management succession of family businesses, including the defining of succession, factors underlying the importance of succession, the nature of the succession process, succession planning, selection of the successor, mentoring and preparing of a successor and the transfer of management to the younger generation family members.

Chapter 4 involves a discussion of the construction of the questionnaire used in this study, the study population, the gathering of data and the presentation and discussion of the empirical study findings.

Chapter 5 entails the conclusions based on the empirical study, recommendations, a discussion of the achievement of objectives and suggestions for future research.

CHAPTER 2

LITERAURE REVIEW ON FAMILY BUSINESSES

2.1 INTRODUCTION

Family businesses are said to be the originating form of any business activity (Klein, Astrachan & Smyrnios, 2005: 16), while dominating the landscape of most major economics in the world (Klein *et al*., 2005: 4; IFERA, 2003: 44; Klein & Smyrnios *et al.,* 2002: 21- 53). Two thirds of all businesses worldwide are said to be family-owned and or managed (Gersick *et al.*, 1997: 12-14).

Astrachan *et al*. (2003: 15-18) state that in Germany, 60% to 90% of all forms of businesses can be classified as family businesses. The live-span of family business is however; often relatively short, as only a limited number survive the transition to the second generation, and hardly one-third even into the third (Beckhard & Dyer, 1983: 5, Neubauer *et al.,* 1998: 7-11).

Maas *et al.* (2005: 5) contend that family businesses make a substantial contribution towards the global economy. It is estimated that 70% to 90% of businesses in the United States of America and Western Europe can be classified as the family businesses. More than 50% of the total workforces in these regions are employed by the family businesses. In addition, family businesses are responsible for 40% to 60% of the gross domestic product in these regions.

Basu (2004: 598) and Ibrahim, Soufani and Lam (2001: 245) declare that the contribution of family businesses is increasingly recognized as a potential driver of economic growth and wealth creation in the world.

In Europe, according to research done by the International Family Enterprise Research Academy (IFERA) (2003: 235), family businesses are the majority of all businesses in France, Germany, the Netherlands, Portugal, Belgium, United Kingdom, Spain, Sweden, Finland, Greece, Cyprus and Italy.

Kenyon-Rouvinez and Ward (2005: 1) state that family businesses are the most prevalent and pervasive forms of business throughout history. Chua, Chrisman and Sharma (1999: 19-23) maintain that family businesses are ever-present within the global economy as over 60 % of all businesses are classified as family business and arguably dominate the economic landscape.

Carrigan and Buckley (2008: 1) indicate that family business research takes the position that family firms possess certain unique characteristics related to their governance, ownership, management and vision.

Venter *et al.* (2007: 42) states that family businesses are amongst the small and medium–sized enterprises that are known for creating jobs and economic wealth globally and are becoming the dominant form of enterprise in developed and developing countries around the world.

Maas *et al.* (2005: 10) state that the importance of family businesses in all ethnic groups is increasingly recognized in South Africa – not only in terms of their supportive role to promote economic growth and development, but also because of the important contribution they make towards the society stability of South Africa, hence reducing poverty and illiteracy.

Kenyon *et al.* (2005: 1- 4) indicate that 50 to 90% of the Gross Domestic Product in all free market economies is represented by family-owned businesses. In Holland, small family businesses represent 75% of all companies in the country where-as in the United States, small family firms generate 65% of employment. In India, it was discovered that sixteen family groups made up to 65% of all private sector assets and fifteen family groups in Chile represent more than 50% of the market value on the Santiago stock exchange.

Maas *et al.* (2005: 12) assert that the family business can only be at the heart of socio-economic growth if they operate within a healthy competitive environment. Van der Merwe (1998: 3) states that family businesses have been making a positive contribution towards the South African economy for the last 300 years.

Ackerman (2001: 325) estimates that 80% of business in South Africa could be classified as family businesses and that these businesses comprise 60% of the companies listed on the Johannesburg Security Exchange. It is clear that family businesses play a critically important role in economic growth and wealth creation in the world.

Poza (2007: 5-14) contends that the unique advantage and characteristics shared by the family members in the family business, place them in competitive advantage over non-family businesses. Poza (2007: 5-14), Daba (2007: 19-20) and Friedman (1998: 17-21) add that family members have shared vision about the business, history, sense of identity, trust, commitment, and care for and are loyal to each other and their businesses.

Bork (1993:23-24) and Morris, Williams, Allen and Avilla (1997:387), furthermore state that family members are more committed to each other's welfare and future. Many scholars such as Venter and Boshoff (2006: 19) and Sharma (1997: 64) are of the opinion that family ties and strong working relationships are vital to the longevity of a family business.

2.2 DEFINITION OF A FAMILY BUSINESS

Ibrahim and Ellis (2004:5) state that family business, in the sphere of small to medium-sized enterprises, is defined in terms of the following criteria:

- At least 51% of the business should belong to a single family ;
- At least two family members should be involved in the management and running of the business, and
- The transfer of management and ownership to the next generation in the family should be envisaged.

Chrisman, Chua and Sharma (2005: 188) contend that family businesses are governed and or managed with the intention of shaping and pursuing the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the families.

Chrisman, Steir & Chua (2008: 556) suggest that one way of defining the family business is theoretically by its essence, i.e. the family's influence over the business (Klein *et al.,* 2005: 16) and more specifically the strategic direction of the business (Chrisman *et al*., 2005: 23) the intention of the family to keep control (Litz, 1995: 71) or transfer the business to the next generation family members (Ibrahim & Ellis, 2004: 5); family behavior (Chua *et al.,* 1999: 19) and unique, inseparable, synergistic resources and capabilities arising from family involvement and interactions (Ibrahim & Ellis, 2004: 7).

For the purpose of this study, the definition of Ibrahim and Ellis (2004:5) together with Maas *et al.* (2005: 6) has been adopted.

2.3 UNIQUENESS OF FAMILY BUSINESSES

Maas *et al.* (2005: 8) state that family businesses are unique in the sense that family interests should be aligned with the interests of the business. A non-family business is run solely on a business basis, but where family members work together, disputes in the business usually have a ripple effect on family relations, and vice versa.

Ibrahim and Ellis (2004: 44) contend that the overriding characteristics of most family business is a unique atmosphere that creates a "sense of belonging" and enhanced common purpose amongst the entire workforce (Leach, Ball & Duncan, 2002: 5). Family business needs to be accountable to the family (Carlock & Ward, 2001: 146). It is vital that family business owners acquire sound understanding of the business and family concept (Carlock & Ward, 2001: 146).

Gersick *et al.* (1997: 2-24) state that family businesses share common knowledge with vital, unique characteristics of the corporate world, and have many traits that are not present in the corporate arena. Within the family business, the focus is internal, encouraging trust, loyalty, nurturing, security, financial stability and family harmony.

Family businesses are distinguished by the following characteristics:

- **Shared values:** family member's share the same beliefs and values as employees, and focus on the continuity of the family business to the next generation (Morris *et al.*, 1997: 387).

- **Employees:** the continuous presence of the family members within the family business encourages employee's loyalty and hard work (Bork, 1993: 23-24; Carrigan & Buckley, 2008: 2-4; Daba, 2007: 24; Poza, 2007: 5; Friedman, 1998: 22-23).

- **Unique source of information:** family businesses have competitive advantage derived from the interaction between the family, management and owners (Bork, 1993: 23-24; Carrigan & Buckley, 2008: 2-4; Daba, 2007: 24; Poza, 2007: 5; Friedman, 1998: 22-23).

- **Longevity:** assurance of continuity from generation to generation and the extent to which succession planning assumes a key and strategic role in the life of the business, makes family businesses unique (Bork, 1993: 23-24; Carrigan & Buckley, 2008: 2-4; Daba, 2007: 24; Poza, 2007: 5; Friedman, 1998: 22-23).

- **Shared vision:** clear sense of purpose and value that enables the family to know and understand where the family and business is heading (strategic direction) and what it stands for (values) and assurance of it having a clear identity and that it internalises its mission to succeed (Netsianda, 2008: 15; Ward, 1987: 56-57).

- **Communication:** Open and clear communication policies that allow and encourage its members to discuss openly, discuss their feelings, aspirations, dreams and the needs of each family member within the family business (Bork, 1993: 23-24; Carrigan & Buckley, 2008: 2-4; Daba, 2007: 24; Poza, 2007: 5; Friedman, 1998: 22-23).

- **Sense of belonging:** encouragement of personal growth and development on the part of family members to grow within the family business to ensure that they feel part of the family business within the business life cycle, understand changes and make necessary contributions (Bork, 1993: 23-24; Carrigan & Buckley, 2008: 2- 4).

- **Trust:** high level of trust between family members and non-family members which is vital for family businesses to succeed (Bork, 1993: 23-24; Carrigan & Buckley, 2008: 2- 4).

- **Family member involvement:** clearly defined roles and responsibilities for each family member within the business, recognition, defined, respected and understood for the family business to run profitably (Carrigan & Buckley, 2008: 2- 4).

- **Accountability:** each family member is held accountable for his/her responsibilities and actions within the family business with fair evaluation for reward and promotions without prejudice (Bork, 1993: 23- 24; Carrigan & Buckley, 2008: 2- 4).

- **Mutual respect:** evidenced by trust between and amongst family members, built within family members through keeping their words from generation to generation (Bork, 1993: 23- 24; Carrigan & Buckley, 2008: 2-4).

- **Consultation:** involvement of external consultants to ensure harmonious succession, compensation and entry criteria and which assist leaders to make informed and emotional decisions (Bork, 1993: 23-24; Carrigan & Buckley, 2008: 2- 4; Netsianda, 2008: 15).

- **Decision making as competitive advantage:** family businesses have competitive advantages in the decision making processes. Quick decisions are easily taken on the matters that are concerning the marketing of products, complains, changes, technologies, innovations, competitions and family relations. (Bork, 1993: 23- 24; Carrigan & Buckley, 2008: 2- 4).

2.4 ADVANTAGES AND DISADVANTAGES OF FAMILY BUSINESSES

The involvement of family members within a family business working together within the same environment is perceived as a way of creating harmoniously, ever lasting happiness within family members and employees (Leach & Bogod, 1999: 5). This has its advantages and of course, disadvantages.

Gersick *et al.* (1997: 3) indicate that every challenge/attribute or characteristic of the family business can be a source of both advantage and disadvantage to the family owner, members and non family members working within the family business.

2.4.1 **Advantages of family businesses**

Chrisman, Steier and Chua (2006: 721) assert that family-controlled businesses need to follow the same sound business principles as any other non-family business, however, family business have less constraints when following such principles as they have the option to either fully engage or disengage. The advantages of family businesses are as follow:

- **Strong commitment:** Building a lasting family business means you are more likely to put more extra hours and effort needed to make it a success. Leach *et al.* (1999: 5) are of the opinion that an entrepreneur who starts his or her own business usually becomes every passionate about it.

  The business is considered as the entrepreneur's own creation; as he has built it up and nurtured it for life, which increases commitment and dedication from other family members. As and when the business survives and brings good financial rewards and stability to the family, family member become passionate about the business and offer their dedication, undivided involvement and unending commitment to the family business (Leach *et al.,* 2002: 6).

- **Good communication:** Good communication does more than keep families and businesses going (Astrachan & McMillan, 2003: 54). It is the essence of relationships. Cohen (1992: 21, 22) notes that good communication creates trust amongst the family members. Openness and inclusion create trust, and family trust creates family harmony (Aronoff, Astrachan & Ward, 2002: 299; Leach *et al*., 1999: 68). Maas *et al.* (2005: 119) argue that effective communication provides the basis for sound family relationships as well as conflict resolution.

- **Common values and beliefs:** An entrepreneur and his/her family are likely to share the same ethos and beliefs on how things should be done. This gives an extra sense of purpose and pride – which result in a family business gaining a competitive edge (Morris *et al.*, 1997: 387).

  Ciuffo (2004: 4-5), Upton (2001: 7) and Gersick *et al*. (1997: 3-4) are of the opinion that values are the core foundation of any organisation as they guide and direct decision making, inspire top performance and give members an extra sense of purpose and pride as well as increasing the chances of a family businesses survival.

- **Shared values and vision:** Beliefs and vision; the family is held together by 'glue', and in a family business the glue is their deeply entrenched values and beliefs (Ibrahim & Ellis, 2004: 6).

  Family businesses have a competitive advantage of being able to create a shared vision and values for the family and business that leads to personal and business success as they are likely to share the same vision, belief and values (Poza, 2007: 6; Upton, 2001: 12; Gersick *et al.*, 1997: 195-223; Voeller *et al.,* 2002: 33).

  Cummings and Worley (2005: 580) indicate that shared values and visions are the centre of family business as they represent the integrating point for aligning the business, shareholders and family systems (Morris *et al.,* 1997: 387). Shared values and beliefs enable family members within a family business to have a clear identity, sense of belonging and a strong sense of mission to succeed (Ibrahim & Ellis, 2004: 5). It is essential to ensure that the founder's vision, mission and values are communicated to the next generation.

- **Common goals and strong sense of mission:** Ibrahim & Ellis (2004: 6) maintain that family members are normally dedicated to the success of the family business. Family members acknowledge that the family business will provide financial assistance for the present generation to the next and encourage the family members to think long term for the growth, stability and success for the family business.

- **Family name (Goodwill) :** Upton (2001: 15-16); Carrigan and Buckley (2008: 2-4) and Aronoff and Ward (1995: 122-125) contend that another competitive advantage of a family business is of using and protecting the family name, family businesses are able to capitalise on the family name because having the family name on the business is tremendous source of pride. It is considered to be trustworthy to have a family name on business by customers because they believe that their owners have the responsibility of protecting the family's name (goodwill) and future economic benefits.

  Longenecker, Moore and Petty (1994: 140) mention that customers tend to appreciate family businesses due to the fact that family businesses offer high quality, lower prices, better service, have high ethical standards, are more willing to work toward customer satisfaction at all times.

  Ibrahim & Ellis (2004: 6) concur that the success of many family businesses is built in the confidence that customers have in a family name and in the owner.

- **Family spirit:** Ibrahim & Ellis (2004: 6) postulate that the biological bond that ties family members together plays a vital part in the success of the family business and also helps to overcome challenges in the family business and promote family unity in difficult times. Sharing the spirit of building for the future generation encourages the long-term thinking needed for growth and success.

- **Marketing relationship:** Family businesses have a competitive advantage of engaging in better relationship in marketing management (Lavin, 2003: 327; Moore, 2006: 422; Upton, 2001: 15), which focuses on building a long-term and satisfying relationship with key stakeholders based on trust in order to retain long-term preference and business.

- **Customer services:** Upton (2001: 17-18) contends that family businesses have a competitive advantage over non-family businesses as the former are able to provide excellent customer service. They further state that family businesses are perceived as being customer driven, family focus, quality conscious as well as caring for the community.

- **Flexibility:** Leach *et al.* (2002: 6) acknowledge that flexibility in time, work and money creates a great competitive advantage for family businesses.

  Aronoff and Ward (1995: 334) and Ibrahim and Ellis (1994: 6) argue that family businesses are less hierarchical and bureaucratic than professionally managed businesses, thus more flexibility allows the family business to respond quickly and effectively to a changing environment.

- **Economic benefits:** Upton (2001: 20-21) and Poza (2007: 14) state that family businesses are more profitable and create more shareholder value than non-family firms. Family businesses have a longer-term managerial orientation; focus on the core-business that built the company, re-invest earnings and a consistency in values that might not exist in other businesses.

- **Competency:** Kets de Vries (1996: 18) contends that skills and knowledge and ability to do the work within a family business lead to competitive advantage for the family business. Leach *et al*. (2002: 6) and Kets de Vries (1996: 23) argue that family businesses have specific ways of conducting business in their specific line of work that competitors have or do not have. Kets de Vries (1996: 18) contends that family businesses protect their conducting of their businesses than in non-family businesses environment.

- **Loyalty and nepotism:** A strong personal bond means that an entrepreneur and his family members are likely to stick together in hard times and show the determination needed for business success. Upton (2001: 22-25) indicates that although there is a belief that nepotism and infighting will corrupt leadership in a family business, nepotism has its own advantages as well. It has been realised that family employees are more loyal and dependable than non-family employees.

Relatives are likely to feel a stronger sense of responsibility to the business and their jobs and they usually fit into the company culture better than non-relatives. Family members are likely to stick together in hard times and make financial sacrifices for the sake of the business by also accepting lower pay and defer wages during a cash flow crisis.

- **Long-range thinking:** (Leach & Bogob,1999: 9; Leach *et al.,* 2002: 6; Netsianda, 2008: 15) state that due to the fact that family members behave as stewards of the business and the business's capital needs for the benefits of the next generation, they tend to take a long-term view regarding investments.

  Profits made are usually re-invested for the next generation and the survival of the family business. Strategies are easily implemented over a period of time as there is little change within family business management and leadership.

- **Decision-making:** Leach *et al.* (2002 :6) concur that the decision making process is usually limited to one person within the family business; this is where a no or yes answer is generally used rather than following the process of completing forms and following up with other seniors in the business as it happens within non-family businesses.

- **Decrease costs:** Family members may be more willing to make financial sacrifices for the sake of the business. For example, accepting lower pay than they would get elsewhere to help the business in the longer term, or deferring wages during a cash flow crisis, (Leach & Bogob, 1999: 9-12).

According to Poza (2004: 16), family businesses have certain resources that they can use to their advantage to create competitive advantages such as:

- Direct access to the market due to overlapping of responsibilities of the owners and managers, along with the generally small size of the business,

- Higher corporate productivity due to a concentrated ownership structure.

- Higher return on investment due to excellent customer focus and market niches.
- The will to protect the goodwill of the family trading name and its reputation normally leads to quality product or services which results in a higher return on investment.
- The nature of family-own businesses management interaction, family unity and commitment support such as the availability of the capital, lower administrative costs, competency training and development, (Poza, 2004: 16).

For the family business to fully utilise and capitalize on these advantages, it needs to ensure high quality interactions between the family and the business, which in turn could also cause disadvantages within the family business if not undertaken correctly.

2.4.1 Disadvantages of family businesses

Family businesses have disadvantages of which some develop due to the interaction of family employees between family life and business. Conflicts between family and business can turn-out to be a blessing or burden, depending on how the conflict is managed.

Leach & Bogob (1999: 11) state that the weaknesses that family businesses encountered are not unique**.** Disadvantages or pitfalls for a family business are:

- **Blind loyalty and nepotism:** Blind loyalty occurs when there is employment and appointments of staff that can lead to nepotism (Miller, Le Breton & Scholnick, 2008: 57; Allio & Allio, 2005: 8). Miller *et al.* (2008: 57-58) maintain that it is a major risk to the family business when loyalty starts to overpower rationality. Aronoff *et al.* (2002: 5) and Aronoff and Ward (1995: 7) state that nepotism occurs when a family member is appointed or promoted due to his relationship or connection to the family.

Competency as well as qualifications and performance of non-family members are often ignored / undermined in order to employ or promote a less competent or qualified family member or in order to integrate an offspring into the family business (Allio & Allio, 2005: 8; Ibrahim & Ellis, 2004: 10; Aronoff, Astrachan & Ward, 1996: 7). Kets de Vries (1996: 23) point out that nepotism entails dominance of family reasons over business logic and can include an unfair reward system.

- **The risk of ownership:** Non-active shareholders can become angry and demand to see the financial statements of the family business in an effort to receive their "fair" share of the income. Due to the involvement of siblings, in-laws, change in policies and management of the family business, family unity and commitment to the business can weaken.

  Ineffective and undisciplined family members who occupy management positions within a family business can force the business into bankruptcy (Ibrahim & Ellis, 2004: 7-15).

- **Rigidity:** In the family businesses it is very easy to "do the same thing, in the same way, for too long". Change can involve overturning philosophies and upsetting practices established by the family members (Leach & Bogod, 1999: 12).

- **Impulsiveness:** Allio and Allio (2005: 9) contend that the family business uses the quickest response when taking the decision such as to make the decision as a board or to go through the motions of calculating "Return on Investment", "Net Present Value" as well as determining "Internal Rate of Return" of a project.

  Ibrahim and Ellis (2004: 9) point out that the formal process of articulating strategy, market testing, constructing alternative future scenario's and generating essential data is required when developing a strategy and the involvement of key managers and their buy-in in advance of the implementation of the strategy (Ibrahim & Ellis, 2004: 9).

- **Inability of shareholders to cash out of the family business:** Most private companies lack the financial ability to fund the redemption of stock from one major shareholder (family owned business). It is also difficult to obtain a loan from the bank as it will mean the death of the business should the repayment agreement not be honoured. Minority shareholders wanting to cash out either cannot do it or must follow certain family business policy, which normally discusses the conditions and timing of a stock redemption (Leach & Bogod, 1999: 9-13).

- **Family conflict:** Conflict occurring between the interests of the family and those of the business as a whole, usually develops into an emotional issue unheard of in non-family business (Aronoff *et al.*, 2002: 5).

  Kets de Vries (1996: 15) postulates that infighting normally becomes highly complex in family businesses that have survived from one generation to the next.

- **Lack of diversity within employment:** Family businesses tend to adopt and recommend inward (family members) rather than outwards (non-family members) ideas an approach can deprive the family business of competent professionals and restrict new blood that could revitalise the business (Ibrahim & Ellis, 2004: 9). Competent non-family members bring diversification to the strategy of the family business which contributes directly to the return on investment.

- **Sibling rivalry:** Longenecker *et al.* (1994: 146-147) and Upton (2001: 29-30) contend that sibling rivalry has been identified as a problem in the smooth operations of most family businesses. Inter-sibling comparisons, mode of justice and parental role in conflict resolution are some of the factors that affect the quality of sibling relationships which affect the family business negatively.

  Longenecker *et al.* (1994: 146-147) and Upton (2001: 29-30) further state that parent must not rush-in in each time siblings start fighting as this robs children of the understanding required for conflict management.

- **Negative goodwill/bad perception of the family name:** Depending on the goodwill of the business, customers develop the perception that family businesses are sentimental and conflict-ridden, resource-starved, subject to conservatism and cronyism and therefore, slow-growing and often short-lived (Ibrahim & Ellis, 2004: 9).

- **Tactics over strategy:** Allio and Allio (2005: 10) and Ward (2004: 7) state that family business owners tend to "follow through", which leads to poor planning and lack of recognition and development of long term strategy as the owner is swamped by in the day- to - day operation of the business.

- **Where will control rest:** Upton (2001:11) illustrates that one of the challenges encountered in family businesses is uncertainty over future control when the originator retires or dies.

  Active family members usually take control of the family business; however, the not so active family members also need their shares of the family business, let alone the minority shareholders (Upton, 2001:11-12).

  This often leads to attorneys summoned for the purposes of recapitalising the business into preferred voting stock and non-voting common stock, or a voting trust put in place for the key shareholders, or simply the clear majority of the stock will rest with active siblings.

- **Boundary problems:** Poza (2007: 11) and Voeller *et al.* (2002: 18-19) contend that family businesses are composed of the family, ownership and management sub-systems.

  Voeller *et al.* (2002: 18-19) contend that each sub-system has its own short term and long term goals and operating principles to achieve the overall company goals and objectives.

  Poza (2007: 11) and Voeller *et al.* (2002: 18-19) contend that the family business becomes more vulnerable and suffer the consequences of this blurred boundaries, this occurs when there is no direction or clarify as to whether the decision taken are based on family issues or business decisions which lead to incongruent policies and untenable decisions.

- **Family interest vs. shareholder's values:** It is believed that a family business will sacrifice the shareholder's value and principles to protect the family's interest (Ibrahim & Ellis, 2004: 9).

- **Role confusion:** There is usually a role confusion which leads to stress within a family business as a result of tasks overlapping without clear definition of each family member's responsibility (Ibrahim & Ellis: 2004: 7).

  Kets de Vries (1996: 23) and Koenig (2000: 31) state that roles and responsibilities of family members involved in the business are often unclear as well as not clearly defined.

- **Lack of planning:** Upton (2001: 3) argues that most of the family businesses lack a written family business plan, short term and long term strategies, succession planning, financial and estate planning.

  It is concluded that the lack of the adequate planning within family businesses contribute to their high rate of failure which hinders transfer to the next generation (Astrachan & Aronoff, 1998: 82).

- **The subtle messages of buy/sell agreement:** Upton (2001: 23) states that family businesses fail to put agreements in place which makes it easier for shareholders to exit ownership of the business. Family businesses also suffer when a major family member who is a shareholder gets divorced as it warrants the ex-spouse an ownership stake of the family business, hence be to the ultimate detriment.

- **Poor communication:** River (2005: 99) points out that business owner meet challenges head-on, but family communication challenges are avoided like the plaque. Gersick *et al.* (1997: 85-86) contend that there is no doubt that communication is the most essential element for success in any family business. Ibrahim and Ellis (2004: 164) further indicate that poor communication is a common problem in family businesses and according to Friedman (1998: 33), the absence of adequate channels of communication is a common source of family conflict.

  Gersick *et al.* (1997: 86) argue that family members whose communication is based on honesty, openness and consistency will be able to manage conflict more productively than the one that is low on those dimensions.

Maas *et al.* (2005: 119) are of the opinion that sound relationships and conflict resolution are possible if there is effective communication.

Ward (2004**:** 115) and Voeller *et al.* (2002: 39) argue that the use of family forums, annual family meetings in which members can talk with one another openly can help in dealing with miscommunication and more serious conflict. However, Astrachan and McMillan (2003: 2) indicate that good communication does not eliminate conflict but it contributes towards effective business management and conflict that is not destructive.

- **Lack of vision:** Poor strategy in relation to the vision which the company follows and lack of clarity as to what family members will do within the family businesses lead to conflicts within a family business. The continuity of the family business cannot be sustained without a clear vision of the future role of the business (Ward, 2004: 20-24; Voeller *et al.*, 2002: 30-31; Lansberg, 1999: 96).

2.5. CHALLENGES FACING FAMILY BUSINESSESS

Family businesses, like any other non-family businesses face challenges during its their existence. Challenges encountered vary in terms of the size of the business, location of the business, economic climate, technology change as well as governing regulations.

Gersick *et al.* (1997: 1) argue that maintaining a healthy family business is perhaps the toughest management job on earth. It is envisaged that from commencement of any family business, approximately 30% survive to the next generation, 12% make it to the third generation and approximately 3% make it to the fourth generation and beyond (Ward, 1987: 1; Morris *et al.,* 1997: 68; Wang, Watkins, Harris & Spicer, 2004: 59; Poza, 2007: 1- 2; Venter & Boshoff, 2007: 42).

Ward (2004: 10-12) and Upton (2001: 38-39) indicate that family businesses encounter challenges due to the change in the competitive environment in the business world. Family businesses must be managed with accountability, professionally, be innovative, be creative and focused while reviewing their short tern as well as long term strategies for survival.

Ward (2004: 23- 74); Brockhaus (2001: 19- 23); Koenig (2000: 37) and Rawls (1999: 57) concur that in order to control costs associated with employee's high rate of employment costs that comes with new generations, change in technologies and environment, each family business must draft policies and procedure that governed its remuneration so that each new generation will adopt fair and open processes of remuneration.

Ward (2004: 32- 35); Venter (2003: 2- 3); Lansberg and Astrachan (1994: 41); Goldeberg and Wooldridge (1993: 63-70); Morris *et al.* (1997: 390) and Netsianda (2008: 25) argue that failure to address the challenges encountered within management succession of a family business and their lack of a long term strategy which hinders their growth can be attributed to some of the following factors:

- Selection of unqualified or incapable successors within management lacks or weak next-generation leadership.
- Founders or owner-managers of the business who are reluctant to plan for the succession process.
- Founders or owner-managers who are reluctant to let go of the business due to uncertainty regarding the future selected successor's ability, willingness and desire to take control, experience emotional struggle to pass ownership and control to the successors.
- Low quality relationship between the successor and founder.
- Family relationships have an influence on succession as they can either facilitate or hinder succession planning and training. However, families that are supportive and work well together are more likely to transfer the business to the next generation.
- Maturity business life cycles and increasing competition.

- Limited capital to fund both family needs and business growth needs.
- Conflicts among sibling successors.
- Disparate family goals, values and needs.

2.6 SUMMARY

Family businesses are recognized today as an important and distinct organisation in the world economy. Family businesses are operating in every country and may be the oldest form of business organisation; however, their unique benefits have been identified and studied only within the last decade. The definition of family business emphasises their concern for the long-term over several generations; their strong commitment to quality and its relation to their own family name, and their humanity in the workplace where the care and concern for employees is often likened to that of an extended family.

It is well understood that 80% of all companies in South Africa are owned and managed by small groups of individuals who are members of the same family groups. The importance of family businesses in creating jobs and economic wealth is recognized globally. Family businesses are perceived as assisting with bringing nations, culture and religion together within the global world while eradicating poverty and illiteracy.

Family businesses are exposed to wonderful challenges and opportunities through the involvement of the family and business within a family business. Depending on how challenges and opportunities are handled, the success of the family business is determined.

Family businesses are deemed to encounter challenges in the manner in which family members are to communicate effectively, resolve conflict, make effective decisions, treat family members and non-family member employees equally and be able to draw a line between a business and family.

Emotional intelligence of the family members within a family business, where decisions are undertaken with maturity and trust, assist the family business to be able to manage and resolve conflict. Family busines can survive to the next generation or die at an initial stage due to family members being unable to resolve and communicate conflicts and opportunities with maturity and emotional intelligence.

It is not surprising that the major concern in most family businesses remain the question of their longevity. Therefore, the manner in which succession is planned remains of critical importance to the continuity of the family businesses. Family members must at times plan the succession of management in the family business; this will assist in making sure that transfer of the family business from one generation to the next is undertaken with minimal conflicts in the family as and when the time permits.

Therefore, it is critical to incorporate a literature review on management succession on family business, which is undertaken in the following chapter. Discussions on management succession of family businesses, the definition of succession, importance of management succession, the succession process and the selection, preparation of a successor, succession planning and management transfer are the topics to be discussed.

CHAPTER 3

LITERATURE REVIEW OF MANAGEMENT SUCCESSION

3.1 INTRODUCTION

Family businesses make an important contribution to the economic growth and wealth creation in the world (Basu, 2004: 13; Ibrahim *et al*., 2001: 245). Maas *et al.* (2005: 50- 51) assert that due to the important role the family business sector play in the South African economy, their survival is of the utmost important.

It is however, noted with the sadness that few of the family business proceed to the second generation, and fewer make it to the third generation (Bareither 2003: 21; Venter, 2003: 70; Ibrahim & Ellis, 2004: 223). Succession is a critical point in the history of a family business, and continuity from one generation to the next depends largely on succession planning, (Maas *et al.*, 2005: 51).

Maas *et al.* (2005: 51) state that an enhanced understanding of the nature and pitfall of succession could assist in identifying or formulating appropriate strategies to approach succession planning accordingly. The formulation of strategies will enhance the family business's prospect of survival, continuity and success.

As family businesses are a primary contributor to the economic and social well-being of all capitalist societies, their general lack of longevity is a cause for concern. It has been estimated that, internationally, only 30% of the family business survive to the second generation, while fewer than 14% make it beyond the third generation (Engine of growth, 2000: 25; Fleming, 1997: 46; Leach, 1994: 147).

In South Africa, only one third in four family businesses survive into the second generation, while only one in ten make it to the third generation (Engine of growth, 2000: 25; Hugo, 1996: 8). There is no doubt that the economic and social cost of this high failure rate impact negatively on economic growth in South Africa.

Neubauer and Lank (1998: 60) indicate that one of the most significant factors determining the continuity prospect of the family business from one generation to the next is whether the succession process is properly planned. Aronoff and Ward (1995: 21) concur that many entrepreneur dislike formal succession planning.

Maas *et al.* (2005: 54) and Ibrahim and Ellis (2004: 223) concur that formal succession planning enhance the probability that the smooth transfer from one generation to the next can be achieved in best interest of the family as well as the business, the easier and more successful the transition, the better the chances of survival and the long-term profitability. Venter (2003: 5) states that well-considered and planned succession maximise the chance of finding a competent successor which result in smooth transition of leadership between the generations.

Ibrahim *et al*. (2001: 256) contend that succession should not be seen as an event that occur as a result of the sudden death of the founder, instead, effective succession is the result of proper planning and is an intricate process requiring a sequence of steps that should be initiated early in the potential successor's life to prepare him or her for the leadership.

Ward (2004: 3) estimates that approximately half of all the family businesses fail to make it to the next generation owing to inefficient succession. It is therefore critical to review succession planning with the view to establish and assist the family businesses with the factors that need to be considered.

3.2 DEFINITION OF SUCCESSION

Sharma, Chrisma, Pablo & Chua (2003: 25) state that "Succession planning is the deliberate and formal process that facilitates the transfer of management control from one family member to another" Due to the complex and emotional fraught processes of succession and the unique characteristics of different family businesses, it is unlikely that a single model of family business succession planning can be applied to all family businesses.

Van der Merwe and Ellis (2007: 37) state that succession is a process during which a business is transferred from one generation to the next which involves planning, selection and preparation of the next generation of the owners or managers and the transition of the management or ownership responsibility.

Aronoff and Ward (1992: 4) concur that succession is a life long process that encompasses everything aimed at ensuring the continuity of the business through the generations, succession planning process include all the actions, events, and organisational mechanism by which leadership of the business, and ownership is transferred.

Sauereisen (2007: 34) and Nawrocki, Jaffe, & Goad (2005: 39) argue that succession is not a once off event, but a process that require planning in a way that prevent unpleasant surprise and involve a series of strategies implemented over time.

Maas *et al.* (2005: 54), Ibrahim and Ellis (2004: 225), Venter (2003: 81), Neubauer and Lank (1998: 134) illustrate that succession refer to a series of identifiable steps that take place over time, with the expectation of ensuring the readiness of the successor to take over the difficult task of leadership when required.

Ciuffo (2004: 37- 38) notes that each family businesses encounter pitfalls within the succession planning as the successor identified might not be the suitable successor for long term survival of the family business.

Sharma *et al.* (2001: 21) contend that for the family business to have a smooth succession, there must be a leader who is willing and able to hand over the leadership role to the successor, and a successor who is willing and able to take over the role through following a designed family business mechanism for such transition to take place. It is vital that both the successor and the leader be willing to enter into such succession process, the successor must also be in good position to take the business forward to the next generation, failure by the successor to do so, will result in the death of the family business.

Van der Merwe and Ellis (2007: 37) maintain that there must be engagement and cooperation of the family, non-family members and management team in the family business in order to ensure that the succession planning is executed successfully.

Maas *et al.* (2005: 52) state that succession is the replacement of the leader of the family business by the successor who must be the member of the same family. They also stated that succession does not stop when the successor assumed leadership of the family business, the ongoing health of business, quality of life, and family dynamics are critical to the success of the succession process

Maas *et al.* (2005: 51) conclude that succession is the process during which the business (family) is transferred from one generation to the next, while it can also be defined as transfer of management control from one family member to another, or the passing of the leadership baton from the founder/owner to a successor, who would be either a family member or a non-family member. Proper succession plan enhance the survival of the family business.

3.3 THE IMPORTANCE OF SUCCESSION IN THE FAMILY BUSINESSES

The contribution of the family business is increasingly recognised as a potential driver of the economic growth and wealth creation in the world (Basu, 2004:13; Ibrahim *et al*., 2001: 245). Maas *et al.* (2005: 10) contend that the importance of the family business in all ethnic groups is increasingly recognised in South Africa – not only in terms of their supportive role to promote economic growth and development, but also because of the important contribution they make towards the society stability of South Africa.

Aronoff and Ward (1992: 4) state that succession is a life long process that encompasses everything aimed at ensuring the continuity of the business through the generations, succession planning process include all the actions, events, and organisational mechanism by which the leadership of the business, and ownership is transferred.

Leach (1994: 160) and Hume (1999: 28) concur that the family business who develop a formal written succession plan and incorporate step by step approach relating to all practical and psychological aspect of the transition process, benefit more during the succession period. Lansberg (1999: 132) maintains that failure to develop a succession plan jeopardise the continuity of the family business.

3.4 FACTORS THAT INFLUENCE SUCCESSION

Maas *et al.* (2005: 53-74) state that there are variables that contribute negatively or positively to the succession process. They also stated that the overlapping between variables, family and business influences succession process. Sharma *et al.* (2001: 19) concur that two interactive dimension are of concern pertaining to success in management succession of family businesses: (1) satisfaction within family manner pertaining to the way in which succession is handled, (2) effectiveness dealing with how succession affect the subsequent performance of the family business after the successor taking the reigns.

Sharma *et al.* (2001: 9) illustrate that success of the succession process directly impact on the relationship among the family members due to the fact that dissatisfied family members on the succession process could cause interminable conflict that can make succession ineffective.

The following organisational related factors influence succession:

3.4.1 Size of the business

Timmons (1999: 33) states that the survival rate of small business improve as the size of the business increases. It is perceived that the owner-manager of the small business have few resources or less time to devote to activities such as planning, perceiving them to be subordinates to primarily duties.

Kurakto, Foss and van Alst (1994: 61) argue that succession plan are generally not developed in the smaller family businesses, due to the fact that owners are always involved with day to day operation of their businesses and or do not have confidence in their offspring as their successor. However, Stempler (1988: 114) argue that the challenge encountered in the family business transfer of the power from one generation to the next have no relationship to business size.

3.4.2 Management succession planning

Succession planning entails making preparation to ensure harmony within the family and the continuity of the business through the next generation. Venter and Boshoff (2007: 4); Sharma *et al.* (2001: 26) and Morris and Nel (1996: 71) state that succession planning is a critical factor that determine the continuity of the family business.

Sharma *et al.* (2001: 75) and Astrachan and Aronoff (1998: 72) suggest that family meetings, active board of directors and strategic planning enhance the longevity of the family business because succession planning by itself does not appear to increase the family business survival rate.

3.4.3 Strategic planning

Astrachan and Aronoff (1998: 182) and Neubauer and Lank (1998: 13) maintain that taking the long term strategic perspective contribute directly to the success of the family business. Family businesses have the high rate of failure due to the lack of strategic planning which affect their survival from one generation to the next (Venter & Boshoff, 2007: 4).

Sharma *et al.* (2001: 26) indicate that failure to develop the succession plan within the family business lead to the power struggle and the authority within the family members in the event that the owner manager die or retire. These will ultimately lead to the death of the family business.

Sharma *et al.* (2001: 33) state that small-businesses operate close to their customers, who give them a competitive advantage of knowing what their customer require at what time, hence it is critical for the family business to formulate a strategy to provide what customer require at all times which increase their chances of survival.

3.4.4 Organizational culture

Venter and Boshoff (2007: 44); Sharma *et al.* (2001: 28) and Morris and Nel (1996:71) concur that organisational growth and change in the family business environment may influence the succession process, it is also stated that organisational culture indicate as to whether succession within the family business is an evolution or a revolution purely because where a change within the family business is determined not to be a threat to the *status quo,* but as an opportunity to learn, resistance to succession becomes minimal.

3.4.5 Stability of organizational growth

Sharma (1997: 49) postulate that environment change, the industry change as well as the technological change influence negatively and or positively to the succession process within the family business. Ward (1997: 324) argues that as the business mature and their adventure of growth shrinks, declining business energy and resources resulted in the downward cycles which discourage new entrance from family members and non-family members.

3.4.6 The goals of the business

Sharma (1997: 49) indicated that the family businesses have goals and objectives which play an important role within their succession process. Sharma (1997: 52) concur that the goals and objectives of the family business may exert an influence on the succession process; however, the details of this relationship are not clear. Sharma (1997: 324), furthermore, indicated that family members who display the will of commitment and dedication to the family business goal and growth are preferred during succession planning processes.

3.4.7 Estate planning

Maas *et al.* (2005: 69) and Venter and Boshoff (2005: 68) indicate that poor estate and retirement planning lead to serious obstacles for the successful succession process as the older generation need to feel financially secured before transferring control and ownership of the family businesses to the new generation. Venter *et al.* (2007: 6) further state that estate and retirement planning as well as wealth management from the older generation are critical to ensure smooth success of succession planning.

3.4.8 The rewards from the business

Stavrou (1995: 173) argues that offspring are either pulled closer or pushed away from the family business due to the compensation in relation to what the family businesses offer for each services rendered, however, should offspring realise that the family business is offering high level of enjoyment, personal satisfaction and financial security, it will become attractive to them to become the potential successor within the family business.

3.4.9 Mutual acceptance of roles responsibilities

Sharma (1997: 61) states that mutual acceptance of individual roles refer to the extent to which family members accept their relative level of involvement and control within the family business.

Venter and Boshoff (2007: 44) and Sharma *et al.* (2001: 28) state that one of the basic tasks associated with succession planning is the training of family members to understand the rights and responsibilities that come with the role they may assume in the future.

3.4.10 Propensity of an incumbent to step aside

Sharma *et al.* (2001: 22) concur that family businesses suffer the consequences of owner-manager's reluctance to "let go" of their family business. The owner-manager might not feel comfortable with the new successor and or still has passion to carry on with the business, hence this lead to family frustration and lack of direction.

Owner-manager of the family business might also not trust the immediate successor that his own creation will receive enough care and responsibility to be transferred from one generation to the next. Sharma (1997: 237) states that a positive relationship emerges between management succession planning and the propensity of the incumbent to step aside.

3.4.11 Propensity of the successor to take over the business

Sharma *et al.* (2001: 24-25) indicate that the willingness of the successor to take over the family business in the future, lead to the smooth handling of the succession process and improves the quality of the succession process. However, the lack of interest from the successor to take over the family business at a later stage is commonly cited as a cause of poor implementation of succession processes, it is viewed that a reluctant unwilling successor will not be fully committed and may not co-operate in the leadership transition which frustrates the owner-manager and the family members.

3.4.12 Agreement to continue the business

Sharma *et al.* (2001: 27- 28) contend that where there is infighting within family members, and family members not willing to accept one member to take over the business and or retain the family business, disruption in the succession process is immense, which lead to unsatisfactory transition between owner-manager and successor.

3.4.13 Preparation level of heirs

Morris and Nel (1996: 70); Sharma (1997: 35); Stavrou (1995: 169); Aronoff and Ward (1992: 19) and Chrisman, Chau and Sharma (1998: 20) contend that the successor's competency in terms of formal level of education and training, extensive use of external network, managerial capabilities, knowledge of business operation, requisite business skills are also the determinant of successful transition.

3.4.14 Relationships among family and business members

Morris and Nel (1996: 70-71) and Bork (1993: 40-41) contend that there must be proper communication, trust, commitment to the family business as well as loyalty, further more, sibling rivalry and conflict must be addressed accordingly to ensure smooth transition in the family business.

3.5 SUCCESSION PLANNING

Sharma (1997: 239) states that the succession planning in general and management succession planning in particular strongly influences the continuity of the family business from one generation to the next. Sharma, Chau and Chrisman (2000: 25) illustrate that "Succession planning is the deliberate and formal process that facilitate the transfer of management control from one family member to another"

Due to the complex and emotional fraught processes of succession and the unique characteristics of different family businesses, it is unlikely that a single model of family business succession planning can be applied to all the family businesses. Lack of succession planning is the main reason for higher failure of the family business. The reluctance of the founder to hand over the business may be attributed to many factors.

The founder's strong sense of attachment to the family business, fear of retirement and death, and lack of other interests are amongst these factors (Sharma *et al.,* 2001: 22).

Bork (1993: 45) argues that during the transfer process, the owner-manager plays four successive roles, sole operator, king, supervisor and consultant where as the successor has to play three successive roles, assistant, manager and leader. The last of these roles can only assumed by the two players when there has been full successful transfer of know how, responsibility, leadership and authority.

Sharma (1997: 33- 37) indicates that owner-managers in the family business sometimes lack the knowledge of ensuring proper manageable succession plan process within the family business.

Wang *et al*. (2004: 60) are of the opinion that the goal and objective of successful succession planning are to equally distribute assets of the family businesses from the older generation to the younger generation, as well as passing the control of the business in a way that will ensure the effectiveness of the business leadership and to maintain and promote family harmony with the healthy financials for the next generation.

Ibrahim *et al*. (2001: 256) contend that succession should not be seen as an event that occurs as the result of the sudden death of the founder, instead, effective succession is the result of proper planning and is an intricate processes requiring sequence of steps that should be initiated early in the potential successor's life to prepare him or her for the leadership.

According to Wang *et al*. (2004: 62-65), there are five levels to a family business succession plan which are the following:

- Determining the owner-manager's long-term goals and objectives for the family business that cater for the "what", 'when" and "how" his goals are to be accomplished.

- Determination of the financial needs of the owner-manager and his or her spouse and developing a viable plan that ensures their financial security.

- It is important for the owner-manager to know the true going-concern value of his business by having it valued to know its current worth so that he can make informed decision about his personal goals and finances prior his retirement.
- Determination of the successor, who will manage the business as well as developing the management team.
- Determination of who will own the business and how to transfer owner’s interest in the business to the “new” owner.
- Minimize transfer taxes and prepare an appropriate tax plan for the family business.

Nawrocki *et al.* (2005: 38) state that: “A lot of the owners of the family-owned businesses get caught short on time”. You can’t just hand the keys over” and further suggested the following guidelines on succession planning:

- It is never too early to start planning for transition.
- The next generation should know early about the plan.
- The concerns of the business must come before the desires of the family as it is something to be earned not to be deserved.
- Hold family members to the same standards as outsiders.
- Consider a bridge manager if the next generation is not ready.
- Treating children equally does not necessarily mean treating them fairly.
- Never give a business half to an active child and half to a non-active child.

Maas *et al.* (2005: 52) and Kets de Vries (1996: 264) identify that families within the family businesses that plan succession process properly and implement it while the owner-manager is still involved reap the benefits of being more profitable after succession than those that fail to develop succession plan accordingly.

According to Netsianda (2008: 38-40), key steps in effective succession planning are as follow:

- **Revisiting the business mission**

Family business must preserve its mission from time to time even during transition process, where the business is transferred from generation to the next. In order for the family to achieve these, it is imperative that the new generation must at all times re-visit the mission of the business to educate and align the business processes and new principles to the mission of the business (Upton, 2001: 15-17).

If the family member do not involve in re-visiting the mission of the family business, it is very likely that the business will loose its mission which will have a long term negative effect to the next generation to inherit. Survival of the business can be based on its mission as the owner-manager understands the commencement of such business within such environment.

- **Conducting business valuation**

Upton (2001: 11-14) illustrates that prior to embarking on major decisions by the family business owner, it is imperative to understand the financial position of their business. Family members turn to overstate the financial position of the business based on their investments. It is critical to always undertake the financial valuation of the business in order to understand the financial position of the family business.

- **Seeking advisory help**

Brockhaus (2001: 167) states that experience gained outside of the family business helps the successor to develop an identity and prepare for a wider range of problems solving skills required when the organisation is confronted with challenges.

Family businesses need to develop an effective advisory team of professionals with competency towards the family business. Succession planning involves several disciplines and family business member that may lack the objectivity to make informed decision about future leadership (Brockhaus, 2004: 167).

Bork, Jaffe, Lane, Dashew and Heisler (1996: 172-174) recommend the use of professional advisors who will help in the assessment of the following dimensions of the business:

- The pool of potential heirs and relationship to the business, what they want from it and what they can offer.
- The business needs and strategy for the future.
- The desires and wishes of current business owner and leaders
- The various options that should be pursued, including modes of bequeathing the business and possible sale to an outside party.
- Involving family members in the process

Voeller *et al.* (2002: 39) contend that each family business must ensure that the family members are involved in the succession planning process, the involvement of the family members in the succession planning processes ensures that each member support the initiative for the future benefit of the business. Family business can develop a council to be responsible for policies, processes, procedures, strategic directions which the business is to take and the management of the family business. If other family members are left behind, the succession plan might not be a success.

- **Establishing a plan for preparing successors**

Bork (1993:119) asserts that for the succession plan to have a smooth transition; the successor must be selected in before the owner-manager leaves the business so that he can be trained and development. Wang *et al.* (2004: 61) concur that since successors are seen as an important stakeholder group in the succession planning, the absence of the successor who are managerially and physically capable of taking over ownership can hinder succession to take place.

They contend that the senior generation family member must understand the differences between parenting and mentoring so that a blend of well-timed parenting and mentoring is found that will lead to effective succession.

3.6 SELECTING OR CHOOSING A SUCCESSOR

Maas *et al.* (2005: 64) state that prior to the appointment of the successor in the family business, leadership requirements of the successor should be based on the skills needed for the particular managerial role.

Maas *et al.* (2005: 51) postulate that a well-considered succession process maximizes the chance of finding a competent successor and ensure a smooth transition of leadership between the generations. Voeller *et al.* (2002: 90) acknowledge that identifying and selecting a successor is the complicated task for any business leader.

Nawrocki *et al.* (2005: 35) indicate that the most challenging task to deal with when selecting the successor is encountered when the owner-manager of the family business has active and non-active children in the family business.

Kussman (1998: 4) states that selecting a successor requires the family to understand the variables associated with the succession planning process such us the understanding of the nature of the business, life-cycle stages, and qualifications of family members, expectations, competency and capabilities of senior members.

This assist the family members to understand the responsibility associated with succession process and are able to individually judge when a member has the merit to succeed or not, by understanding the succession process, conflict within family members will be reduced and transition will be a success.

The successor must process certain qualities in order to be considered and successfully manage the family business Such qualities have been identified by Morris & Nel (1996:71); Voeller *et al.* (2002: 76) and Hess (2006: 79) as the following: successor must have the love and interest in the family business, competency, and be able to do the work, educational qualifications, in-house training and knowledge of the business, possess good relationship with the founder as well as other family members, integrity, self-confidence as well as the will to take calculated business risks.

Gersick *et al.* (1997: 78-79) and Ward (1987: 63) state that in order to select a successful successor, the following three methods should be followed/applied: primogeniture, adoption (selecting an interim leader) and competency (selecting the "best" candidate).

- **Primogeniture**

Gersick *et al.* (1997: 78-79) indicated that primogeniture originated from the system of ownership and cultivation of land at a time when the fortunes of the family depend on living off land and the physical nature of the work considered unsuitable for female.

Gersick *et al.* (1997: 78-80) also state that gender bias towards male as suitable business leaders means that business founders traditionally looked to their sons as successor candidates automatically, hence overlooking potential female candidates.

This method relies upon ascriptive criteria that of sex and birth order not on the transfer based on qualification and competency demonstrated by the family members. Although primogeniture is still in existence in agricultural family businesses, its popularity is being reduced due to pressure and modern business practices.

- **Adoption or selecting an interim leader**

Ward (2004: 29) postulates that the temporarily selection of a non-family as a suitable successor can be an excellent solution if the family offspring are too young to assume responsibility.

Hess (2006: 96) argues that the successor must be a person of high standards, highest integrity and earned the trust and respect of the family and must ensure that sight is never lost in whatever position he serves, he must serve at the will of the people and place great emphasis on making sure the owner-managers are well informed.

- **Competency or selection of the "best" candidate**

The successor of the family business is selected based on merit, being his competency, ability to do work, qualifications, skills and competency. The successors are encouraged to be willing and able to commence with the responsibility irrespective of their gender. These processes allow for the family members to select the best suitable candidate for the succession irrespective of the gender, hence comfort will be drawn as the family will select the reliable responsible successor.

Gersick *et al.* (1997: 78) contend that this process can lead to unhealthy competition amongst the family members and siblings which can make selection process a difficult task for the family.

3.7 MENTORING AND PREPARATION OF A SUCCESSOR

Maas *et al.* (2005: 67-68) illustrate that the preparation level of the successor refers to the extent to which the successor is able to acquire business skills, managerial capabilities, knowledge of the business operations as well as the attitudinal predisposition to handle the running of the business.

Bork *et al*. (1996: 163) indicate that many people are of view that the succession processes take place when the business owner-manager is ready to retire.

Bork *et al.* (1996: 163) further state that succession commence when the potential future successors are still children, succession occur as and when parents (owner-manager) teach their children important attitude about people, work, money, competence, work ethic, respect as well as commitment.

Maas *et al.* (2005: 67- 68) and Wang *et al.* (2004: 61- 62) contend that the mentoring of the successor is the most vital part of the succession process due to the fact that it reduce transition failure when one generation succeed the next. They further stated that the successor must acquire managerial capabilities, external business experience, internal experience, mentoring, knowledge of the company operations, an appropriate level of education as well as building of appropriate networks.

Wang *et al.* (2004: 62) state that the successor and the owner-manager must share special relationship full of trust, respect and understanding one another as this ensures effective succession process. When the owner-manager has the latter towards his successor, he naturally will reduced his involvement within the family business as a sign of delegating more responsibility and growing involvement in decision making of the successor in the business.

Maas *et al.* (2005: 68) state that the owner-manager must give the successor responsibility and room for error to develop; these will assist the successor to prove his/her worthy in leading the family business.

3.8 TRANSFER OF MANAGEMENT

Maas *et al.* (2005: 61) contend that an analysis of the leadership abilities of the next generation should be conducted in an attempt to identify potential successor for transfer purposes. They further stated that once the successor has been identified, it is vital to ensure that he possesses the necessary business skills, natural aptitudes as well as his personal characteristics which match the business requirements.

Swart (2005: 4) concurs that succession is driven by a biological clock as the age of the senior leaders of the business and their designated successors determine the timing of succession. He further stated that the actual transfer of control to the successor from the owner-manager take place when the founder retires.

Maas *et al.* (2005: 61- 62) state that once the successor has been identified who possesses business skills required by the business, it will be critical to consider the nature of training and experience required so that the successor can be shaped into well-prepared new owner and manager. Bork *et al.* (1996: 175) indicate that successor will probably take two years in order to fully master the complexities of the position and gain the control associated with the leadership role within the family business.

Maas *et al.* (2005: 62) contend that it is critical to establish the commitment of the owner-manager to the succession process, his by-in ensure smooth transition of the succession process and vice versa.

Handler (1998: 149-152) contends that successful transitions must be done timely in order to be successful, he also contents that the succession process must not include the founder's participation in daily activities. Maas *et al.* (2005: 62-74) declare that the successful transfer of management can be achieved if the following pre-conditions for the owner-manager have been satisfied:

- The founder's retirement should be timely,
- The founder's retirement should be unequivocal,
- The founder should be publicly committed to an orderly succession plan and
- The founder should have articulated and supervised the formulation of business principles regarding management accountability, policies, objectives and strategies.

If the owner-manager is happy that his life after the family business will be well catered for, he will ensure the smooth transfer of management, unlike if the owner-manager is not well prepared and happy with his life after the family business. Therefore it is of utmost importance to ensure that the owner-manager is happy prior to the transfer management.

3.9 SUMMARY

The literature review clearly indicated that success and survival of the family business is impacted directly by succession process. Each business must clearly define its strategies to succession process as and when the owner-manager is still alive, and willing to provide input as well as assisting with identifying of the successor who possesses the necessary skills and competency required to manage the family business. It has been detailed that the family business longevity is of concern as only 30 % of the family business survive to the second generation and less than 14% make it to the third generation, all the failure is mostly attributed to poor or failure to implement smooth successful succession process.

The literature review also indicated that:

- Family businesses play an essential role in the wealth creation in all economies around the world,
- Succession planning is an essential component for the survival of the family business beyond the first generation, although it is given little thought,
- The succession process is a long and complex issue with a dependency on the ability to recognise and select a successor with critical successor attributes, failure to do so will result in the family business not being able to be transferred to the next generation,
- One of the key components of selecting a successor is the knowledge and being able to identify the successor attributes that are important and valuable to the survival of the family business, not only concentrating on the gender of the successor,
- The owner-manager must be comfortable with the succession process prior commencement to ensure that the transition is completed smoothly.

This chapter has discussed management succession of the family business where-by topics such as definitions of succession, succession process and succession planning, factors that effect succession planning, succession planning, choosing or selecting successor, mentoring and preparation of a successor and finally the transfer of management were covered.

It is unavoidable that each family business must introduce succession planning process while there is still time, this process if implemented accordingly and timely, lead to health transfer of the family business from one generation to the next, where by it has been well documented that financial health of the family business would have improved.

Surely, each owner-manager will one day love to leave a healthy financial family business to his/she offspring, therefore succession planning process must take precedence for survival of the family business.

CHAPTER 4

RESULTS AND DISCUSSION OF THE EMPIRICAL STUDY

4.1 INTRODUCTION

The empirical research was undertaken by means of a field study using a structured questionnaire as the main component. The objective was to present and discuss the findings of the empirical study.

The focus will be on the discussion of the questionnaire used to gather data in this study, together with the discussion of the results of the demographical information regarding the respondents and the participating family businesses.

Analysis of data was performed by the Statistical Consultation Services of the North-West University (Potchefstroom campus). In this study, frequency distributions would be portrayed with the aid of tables. The mean will be employed as measure of central tendency and the standard deviation to indicate the dispersion of data.

Internal consistency has been calculated by means of the Cronbach alpha coefficient, where as effect sizes as discussed by Ellis and Steyn (2003: 2) would be put to use in order to indicate differences of practical significance in management succession.

4.2 QUESTIONNAIRE USED IN THIS STUDY

Family businesses where provided with structured questionnaire to collect data of the empirical research, the questionnaire used was developed by Venter & van der Merwe (2003). Refer to Appendix A. Management succession in family businesses formed the basis of the original design of the questionnaire.

Welman and Kruger (1999: 67) contend that a non-experimental research with no planned intervention requires examination of the relationships between variables.

Relevant unit of analysis of this study was retired and active senior generation, owner-managers and their respective successors in family businesses.

The target population in this study was largely black-owned family businesses in the Vhembe district in the Limpopo province and Bojanala district in the North-West province in South Africa. The Vhembe district is formed by four municipalities, i.e. Thulamela, Mutale, Musina and Makhado whereas the Bojanala district is formed by three municipalities, i.e. Phokeng, Marikana and Tlhabane.

4.2.1 Questionnaire sections

The questionnaire used in this study is divided into the following two sections:

4.2.1.1 Section A

Section A provides insight information pertaining to the retired and retiring senior generation owner-managers, their successors and designated successors. The following latent constructs were identified by Venter (2003): **Family harmony**, **Relationship between owner-manager and successor**, **Outside interests of the owner-manager**, **Willingness to hand over the business**, **Mutual acceptance of roles**, **Management succession planning**, **Willingness to take over**, **Trust in the successor's abilities and intentions**, **Preparation level of successor**, **Outside advice and governance**, **Personal need alignment**, **Rewards from the business**, **Agreement to continue the business**, **Estate planning**, **Strategic planning** and **Perceived success of the succession process**.

The construct **Perceived success of the succession process**, will be considered as the dependent variable in this study. The rest of the constructs will be considered as the independent variables in this study.

This section comprised of 104 statements/ items assessing the 16 above-mentioned latent constructs measuring management succession in family businesses.

4.2.1.2 Section B

Section B ensures that information pertaining to the biographical information on the retired and retiring senior generation owner-manager family members, their successors and designated successors concerning aspects such as gender, race and age is gathered.

This section was designed with the purpose that information on the structure of the family business such as the type of industry, the legal status of the family business and the number of family and non-family permanent or full-time employees is gathered. Refer to Appendix A for the questionnaire.

4.2.2 Basis of the design of the questionnaire

The questionnaire used in this study was designed on the basis of a 7-point Likert scale ranging from *strongly disagree* (1) to *strongly agree* (7). Respondents were required to indicate the degree to which they agreed or disagreed with each statement (Huysamen, 1994: 125).

According to Welman and Kruger (1999: 155), the Likert scale is currently the most popular type of scale and it is easier to compile compared to any other attitudinal scale. In the questionnaire used in this study, the format used was similar to the following: 1 = Strongly disagree; 2 = Disagree; 3 = Slightly disagree; 4 = Neutral; 5 = Slightly agree; 6 = Agree; 7 = Strongly agree. To answer the question, the respondent had to select a number that best describes how he or she experienced the item.

Dichotomous questions that required Yes/ No answers and checklist-type of questions that required respondents to put a cross (X) next to the corresponding choice were also used in the questionnaire.

4.3 GATHERING OF THE DATA

4.3.1 Study population and sample

Wisniewski (2002: 100) asserts that a study population of research is defined as the entire set of data that is of interest where as a sample is regarded as a representative part of the population. The target population in this study was small and medium-sized black-owned family businesses in the Vhembe district and Bojanala district.

A non-probability sampling method was utilised in the study due to a lack of a comprehensive database in South Africa for the family businesses and black-owned family businesses, as a results I have used the convenience sampling by means of a snowball technique to identify the family businesses that participated in this study.

In order to generate a preliminary list of family businesses, well-known business people were contacted in various municipalities in the Vhembe district and Bojanala district. This was also supported by a physical visit to all small medium-sized family businesses found operating in the latter districts. It is vital to note that these samples of black-owned family businesses cannot be treated as fully representative of the study population of the Vhembe and Bojanala district; it was the only option left to identify the family businesses of the target study population.

4.3.2 Data collection

The techniques to distribute and complete the questionnaires were achieved through personal delivery of questionnaires, followed up by telephone calls, telephone interviews, or structured interviews (Neuman, 1997: 251–263; Du Plooy, 1995: 109–124).

Each questionnaire was sent with a covering letter that guaranteed the confidentiality of their responses, as well as a return-envelop for placing the questionnaire on completion. All questionnaires where personally collected at the agreed specified date.

In order to achieve the empirical study, questionnaires where physically delivered/ distributed to small and medium-sized family businesses in the Vhembe and Bojanala districts.

A total number of 31 small and medium-sized family businesses where targeted in the Limpopo and the North-West province. Of the 31 small and medium-sized family businesses targeted, 21 small and medium-sized family businesses where in the Limpopo province (Vhembe district) and a further 10 small and medium-sized family businesses where in the North-West province (Bojanala district).

A total number of 117 usable questionnaires where returned from the two provinces of which the small and medium-sized family businesses in the Limpopo province (Vhembe district) returned 79 usable questionnaires and the North-West province (Bojanala district) returned 38 usable questionnaires.

The 117 usable questionnaires represented a total number of 84 questionnaires completed by the black-owned family businesses members, 18 questionnaires completed by the Asian family businesses members, seven questionnaires completed by the White family businesses members and eight questionnaires completed by the Coloured family businesses members.

Gathering of the information in order to successfully complete the empirical study has been a challenge as it was difficult to convince all the retired and retiring senior generation family members, their successors and designated successors to complete the questionnaire with honesty. Accessing family businesses within two provinces had its toll on travelling as well as poor technology for communication.

4.3.3 Data analysis

The data collected were statistically analysed, using Statistica (Statsoft, 2008) and SPSS (SPSS, 2009). The reliability of the questionnaire was analysed by calculating Cronbach alpha coefficients.

The results of the evaluation of the owner-managers and successors regarding the constructs measuring management succession, was presented and discussed. For each of the constructs, the arithmetic mean, standard deviation and Cronbach alpha coefficients were determined.

4.4 RESPONSES TO THE SURVEY

A total number of 31 small and medium-sized family businesses in the Limpopo and North-West provinces participated in this study and returned 117 usable questionnaires. All the questionnaires delivered for the study to the family businesses in the Vhembe and Bojanala district were return before the cut-off date.

All questionnaires where completed neatly and user friendly which makes the assessment of the questionnaires achievable.

4.5 RESULTS OF THE BIOGRAPHICAL INFORMATION

Biographical information of respondents regarding age, gender and racial group as presented in section B of the questionnaire (refer to Appendix A), is indicated below in by means of tables.

4.5.1 Gender of respondents

In this question the split between male and female senior generation family members and their successors is determined as indicated in the following figures (Table 4.1 and 4.2).

The gender of the respondents is presented in Table 4.1.

Table 4.1: Gender of the family members

Gender	Number	Percentage (%)
Male	82	70.09
Female	35	29.91
Total	117	100

Table 4.1 above indicate the gender distributions of family member's ration of male with (82) 70 % and (35) 30 % female. Therefore the gender distributions indicate a male dominance.

4.5.2 Full-time family employees

In Table 4.2 the results relating to number of family members employed in the family business are presented.

Table 4.2: Number of family members employed in the family business

Number of family employees	Number	Percentage (%)
One family employee	10	8.55
Two family employees	43	36.75
Three to four family employees	39	33.33
Five or more family employees	25	21.37
Total	117	100.0

Table 4.2 illustrates the number of family members employed in the family business as per their categories. The distribution indicated that 8.55% of family businesses have only one family member employed in the family business.

This unfortunately makes family businesses in this category failing to be considered as family businesses as per the definition of family businesses in this study. A total of

36.75% of the family business each have two family members employed, 33.33% of the family businesses each have three to four family members employed, whereas only 21.37% of the family businesses have five or more family members employed in the family business.

These should be considered together with the number of employees working in the family businesses, taking into account the nature of family businesses (small and medium-sized family businesses). These types of businesses do not necessary employee a large number of employees; hence they are being operated by family members.

4.5.3 Distribution of racial group

The race of the participating family members is presented in Table 4.3.

Table 4.3: Race distribution of the respondents

Race	Number	Percentage (%)
White	7	5.98
Black	84	71.79
Asian	18	15.38
Coloured	8	6.84
Total	117	100.0

Table 4.3 illustrated the race of employees in the small and medium-sized family businesses who participated in this study. Respondents were requested to indicate their racial group. Most of the respondents that participated in the study were black (71.79%), white respondents comprise 5.98 %, Asians 15.38 % and Coloureds 6.84%.

4.5.4 Generation of family members involved in the business

The generation of family members currently managing the family businesses is presented in Table 4.4.

Table 4.4: Generation of family members managing the family business

Generation	Number	Percentage (%)
1st generation	6	19.35
2nd generation	25	80.65
Total	31	100.00

The purpose of this question was to determine the family generational level of the respondents. It was found that 6 (19.35%) family businesses were 1st generation family businesses. A total of 25 (80.65%) of the family business respondents were 2nd generation family businesses. This is encouraging as it indicates that 80.65% of the family businesses in the Vhembe district and Bojanala district have been successfully transferred from 1st generation to the 2nd generation.

4.6 STRUCTURE OF THE PARTICIPATING FAMILY BUSINESS

Data pertaining to Section B of the questionnaire relates to the structural information of the participating family businesses. Aspects such as the full-time employees (permanent employees) in the family business were examined.

Table 4.5: Permanent employees in the family business

Legal status of business	Number	Percentage (%)
Micro (1-5)	7	22.58
Very small (6-10)	8	25.81
Small (11-50)	16	51.61
Total	31	100.00

It was found that 7 (22.58%) of the family businesses that participated in this study were operated as micro family businesses, 8 (25.81%) as a very small and 16 (51.61%) operated under the category of small family businesses.

4.7 RESULTS OF THE CONSTRUCTS MEASURING MANAGEMENT SUCCESSION

The average responses to each of the 16 constructs measuring management succession are shown in Table 1. Based on a 7-point livery scale (1 = Strongly disagree; 7 = Strongly agree), relatively high numbers represent agreement with the statement and relatively low numbers represent disagreement with the statement. Thus, a lower number representing disagreement with the statement suggests that the statement is perceived to be untrue. Likewise, a low number representing agreement with the statement suggests that the statement is perceived to be true.

4.7.1 Evaluation of the constructs by the respondents

The 16 constructs were analysed in accordance with the evaluation of the participating senior generation family members and the successors. The results of the evaluation are presented in Table 4.6.

Table 4.6: Arithmetic mean of the evaluation of the constructs by respondents

Construct	Mean	Std. Dev.
Trust in the successor's abilities and intentions	6.074	0.790
Agreement to continue the business	6.196	0.537
Relationship between owner-manager and successor	6.219	0.792
Willingness to take over the business	6.114	0.592
Rewards from the business	5.873	0.600
Personal need alignment	6.085	0.594
Outside interests by owner-manager	5.151	0.988
Family harmony	6.244	0.839
Mutual acceptance of roles	6.095	0.760
Perceived success of the succession process	6.268	0.605
Willingness to hand over the business	4.903	0.897
Estate (ownership) planning	5.998	0.741
Strategic planning	6.006	0.926
Management succession planning	5.977	0.935
Outside advice and governance	5.844	1.259
Preparation level of successor	5.902	0.946

For the purpose of this study, the arithmetic mean of all the constructs (including the dependent and independent variables) were ranked in ascending order and subsequently divided into three portions, i.e. the constructs which were evaluated the lowest, on average and the highest ranked constructs. Notice that the standard deviation across all 16 constructs is fairly high ranging from 0.537 to 6.268.

4.7.2 Constructs which were evaluated the lowest

The arithmetic means of the four lowest constructs are indicated in Table 4.7.

Table 4.7: Arithmetic mean of the four lowest constructs of the response

Construct	Mean	Std. Dev.
Willingness to handover	4.903	0.897
Rewards from the business	5.873	0.600
Outside advice and governance	5.844	1.259
Preparation level of successor	5.902	0.946

The four constructs, **willingness to handover** ($\bar{x}$=4.903), **rewards from the business** ($\bar{x}$=5.873, **outside advice and governance** ($\bar{x}$=5.84) and **preparation level of successor** ($\bar{x}$=5.90), it is noted that willingness to handover the family businesses to the successor obtained the lowest average score, indicating a relatively slightly low willingness to go of the family businesses.

4.7.3 Constructs which were evaluated as average

The arithmetic means of the nine average constructs are indicated in Table 4.8.

The nine constructs, **personal need alignment** ($\bar{x}$=6.085), **harmony** ($\bar{x}$=6.244), **mutual acceptance** ($\bar{x}$=6.095), **perceived success of the succession process** ($\bar{x}$=6.268), **estate (ownership)planning** ($\bar{x}$=5.998), **succession planning** ($\bar{x}$=5.98), **agreement** ($\bar{x}$=6.196), **strategic planning** ($\bar{x}$=6.006), **relationship** ($\bar{x}$=6.219), **outside interests** ($\bar{x}$=5.151), **trust ability** ($\bar{x}$=6.074), **willingness to take over** ($\bar{x}$=6.114),

Table 4.8: Arithmetic mean of the nine averages constructs of the response

Construct	Mean	Std. Dev.
Willingness to take over the business	6.114	0.592
Rewards from the business	5.873	0.600
Personal need alignment	6.085	0.594
Outside interests by owner-manager	5.151	0.988
Family harmony	6.244	0.839
Mutual acceptance of roles	6.095	0.760
Perceived success of the succession process	6.268	0.605
Willingness to hand over the business	4.903	0.897
Estate (ownership) planning	5.998	0.741

4.7.4 Constructs which were evaluated the highest

The arithmetic means of the three highest constructs are indicated in Table 4.9 below.

Table 4.9: Arithmetic mean of the three high constructs of the response

Construct	Mean	Std. Dev.
Family harmony	6.244	0.839
Perceived success of the succession process	6.268	0.605
Agreement to continue the business	6.196	0.537

The constructs, **family harmony in the family business** ($\bar{x}$ = 6.24), **perceived success of the succession process** ($\bar{x}$ =6.27) and **agreement to continue the business** ($\bar{x}$ =6.20) has the average score. This indicates a relatively strong agreement with the statement.

4.8 SUMMARY

The empirical research was conducted by means of a field study in which the questionnaire was used as the main component. The field study was conducted in the Vhembe district and Bojanala district. The purpose of the literature (chapter 2 and chapter 3 accordingly) was to gather insight on the management succession in the black-owned family businesses in Vhembe and Bojanala district. The management succession theory was aligned with the constructs developed by Venter & van der Merwe (2003) during the design of the questionnaire used in this study. All the 16 constructs were applicable to the senior generation family members and successors in the family business. Data collected from the questionnaire were processed using Statistica and SPSS.

Chapter 4 presented and analysed the empirical results of this study. This chapter comprised of the structuring of the questionnaire, gathering of the data, results and discussions, reliability of the research instrument, analysis of the constructs and an effect size analysis.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

Chapter five comprises conclusions and recommendations based on the findings of an investigation of management succession in black-owned family businesses in the Limpopo and North-West provinces.

The conclusions and recommendations were based on the evaluation of the literature study in chapter 2 and chapter 3 and the empirical study in chapter 4 conducted in the Vhembe and Bojanala districts.

The chapter will conclude with a critical evaluation of the achievement of the objectives of this study and suggestions and recommendations for future research.

5.2 CONCLUSIONS ON THE EMPIRICAL STUDY

The empirical study included 31 black-owned family businesses in the Vhembe district in the Limpopo province and Bojanala district in the North-West province in South Africa.

The conclusions of the study will be based on the literature review presented in Chapter 2 and 3 and the results of the empirical study presented in chapter 4. The conclusion will focus on the identified determinates influencing management succession as investigated in the empirical study in chapter 4.

5.2.1 Response to the family business survey

A total of 31 family businesses that were identified through a convenience sampling using a snowball technique participated in this study. The 31 family businesses that participated in this study were comprised of 21 family businesses from the Vhembe district and 10 from the Bojanala district.

5.2.2 Demographic and biographic information of the respondents

A total of 117 participants took part in this specific study and all the 117 were active family members (although some of them were retired) in the participating family businesses. The Vhembe district had 79 participants and the Bojanala district had 38 participants.

The gender split between male and female respondent indicated 70% male and 30% female. It is clear from this study that males are still dominant as owner-managers, successors and possible successors who participated in the study.

5.2.3 Structure of the family business

The data pertaining to Section B of the questionnaire (Appendix A) was analysed to determine the structural information of the family businesses. The structure of the family business such as number of permanent employees and the size of the family business were examined.

All the businesses that participated in this study can be classified as either micro or small businesses according to the classifications proposed by the Small Business act. The majority of the family businesses that participated in this study are still operated as sole proprietorships. These results indicate that most of the participating black-owned family businesses in the Vhembe district and Bojanala district do not use other legal forms of business that could put the businesses on a faster growth path or in a more tax friendly environment.

5.2.4 Assessment of the constructs measuring management succession

The 16 constructs measuring the management succession process in black-owned family businesses were evaluated in accordance with the evaluation of the participating owner-managers and successors. Based on these analyses, the constructs are rank and discussed from the lowest to the highest calculated arithmetic mean value below.

The four constructs, **family harmony in the family business** ($\bar{x}$ = 6.24), **perceived success of the succession process** ($\bar{x}$ =6.27) and **agreement to continue the business** ($\bar{x}$ =6.20) obtained the highest average score and can thus be regarded as the strengths of the participating family businesses.

The nine constructs, **personal need alignment** ($\bar{x}$ =6.085), **harmony** ($\bar{x}$ =6.244), **mutual acceptance** ($\bar{x}$ =6.095), **perceived success of the succession process** ($\bar{x}$ =6.268), **estate (ownership)planning** ($\bar{x}$ =5.998), **succession planning** ($\bar{x}$ =5.98), **agreement** ($\bar{x}$ =6.196), **strategic planning** ($\bar{x}$ =6.006), **relationship** ($\bar{x}$ =6.219), **outside interests** ($\bar{x}$ =5.151), **trust ability** ($\bar{x}$ =6.074), **willingness to take over** ($\bar{x}$ =6.114) obtain the higher constructs.

The respondents perceived these nine constructs also as relative strengths (very high averages) concerning the management succession process in their respective businesses.

5.3 RECOMMENDATIONS

The primary objective of this study is to investigate management succession in black-owned family business in the Limpopo and North-West provinces and to make recommendations that could enhance the successful succession management process in black-owned family businesses.

The study has found that family members get so involved in the daily running of the business that they fail to plan the succession management processes. This often results in family businesses failing to be transferred successfully from one generation to the next generation.

5.3.1 Practical recommendations to family businesses

Based on the literature and empirical study, the analysis of the empirical study and the conclusions, practical management recommendations made are listed below.

The recommendations are not according to a specific ranking. The importance will depend on the requirements and nature of the family business as determined by management.

Succession planning

Management succession is an ongoing process, therefore it is recommended that succession planning must commence as soon as possible in the family businesses.

Family members, customers, suppliers and non family member's employees should be clearly informed on the decision made for the suitable successor. Furthermore, the proposed successor must develop the necessary skills, experience and ability to do the work effectively that he/ she can be able to manage the family business in the future.

Family businesses must, furthermore, develop a process map indicating the commencement of training for succession and the handing over process to the successor.

An estate plan together with assets distribution must be drawn in writing to ensure smooth transfer of the family business to the next generation.

Selection and preparation of the successor

It is recommended that the selection criteria of the successor in the family business must not be based on the birthrights and gender of a person, but on competency and ability to do the work displayed (suitability) by the possible successor.

It is vital that the senior family members spend more time in training and developing of the successor as well as preparing for the transfer of ownership and management succession.

It is also important that during the process of selecting the successor in the family businesses, women must be valued and acknowledged as an important resource in family businesses.

It is further recommended that coaching and mentorship of the younger generation receive a high priority so that more responsibilities can be delegated from the senior generation to the younger generation prior the succession process.

Management of the family and business interaction

Each family business must adhere to the principle of parallel focus on the interests of the family and the business, as it is the most enduring strategy for successful family businesses. The family and the business are equally important and should receive mutual respect and care from all the family members. Family members have to earn a voice in business governance by showing and developing qualifications and skills that convey the right to be heard.

Families and the business systems should create a positive environment whereby the family thrives and the business performs.

In conclusion, it is recommended that the families should balance family life and family business to ensure success on both the family and the family business.

Outside interests of the owner-manager

It is recommended that ageing owner-managers should be encouraged to earnestly think what they would do once they have stepped down. The current owner must seek the ability to find meaning in life after giving up the challenge, influence, status, identity, control and daily structure associated with running a business.

Senior generation owner-managers should, therefore, also begin to look for interests outside of the family business and create quality life to enjoy after handing over of the family business to the successor.

Outside advice and governance

The study indicated less reliance on the outside advice and corporate governance, therefore, establishing corporate governance bodies, as well as rules and regulations to ensure effective corporate governance requires urgent attention in most participating black-owned family businesses.

It is thus vital that black-owned family businesses seek outside advice to assist them during succession process or the successful management of the business after the final transfer of management.

Rewards from the business

It is recommended that performance measures and compensation of the younger generation family members or successors must receive a high priority in order to keep the younger generation into the family businesses.

The performance of family members should be objectively evaluated on a regular basis and followed by honest feedback and rewards where possible. The goal of a good compensation plan should be to keep every family member and non family member involved in the family business to work at his or her best and for what is best.

Estate planning

Black-owned family businesses are strongly recommended to obtain the assistance and guidance of an estate planner prior the commencement of succession management processes.

The estate planner must assist the family in areas such as the ownership succession transfer from the senior generation to the younger generation and the fair estate planning.

Conflict management

It is recommended that the family business must focus on the prevention and management of conflict among all family and non family members. Family businesses must therefore establish and maintain effective communication forums. It is recommended that family businesses must develop proper communication channels where conflicts will be handled and managed professionally.

Establishing family forums and meetings

It is recommended that family businesses commence urgently with the setting up and maintenance of family forums. The values, ideals and sense of purpose nurtured by the family are a potentially vast resource for the family business. Family forum meetings can be used as an important mechanism to improve communication among all family and non family members and to identify and resolve differences among all family and non family members.

The development of family forums will offer a variety of important benefits, including strategic planning for the future of the family business, building a stronger family bond improve family participation and communications and the discussion and implementation of the succession management process.

Improvement of communication skills

No family is perfect and each family can easily slip into poor communication. It is recommended that family members must be encouraged to attend life skills programs and effective communication courses offered from outside the family business. This will increase their level of self awareness which in turn will improve their level of communication and reduce conflict in the family business.

5.3.2 General recommendations to assist and support family businesses in the Vhembe and Bojanala district.

Improve the basic entrepreneurial skills

It is recommended that family businesses ensure that younger generation family members attend and acquire basic entrepreneurial skills in order to improve the family business. The entrepreneurial skills can be acquired by attending external courses, obtaining entrepreneurial certificates from Universities and Colleges.

Research on family business

It has been proven that many family businesses fail during start up, however, of the family businesses that participated in this study, 83.87% of the family businesses have been transferred to the 2nd generation, therefore more research and development on family businesses in South Africa must be encouraged to ensure that all family business have skills and competency to progress and be transferred to the next generation.

5.4 CRITICAL EVALUATION OF THE STUDY

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

5.4.1 Primary objective

The primary objective of the study is to assess management succession in black-owned family businesses in the Vhembe district in Limpopo and Bojanala district in the North-West province in South Africa and to make recommendations on how these businesses can ensure the successful transfer of the business to the next generation.

The study also address the importance of understanding business succession within a family business and link factors encountered within succession planning and mentoring processes to the effectiveness of the transition and performance of the business.

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

5.4.2 Secondary objectives

As indicated in Section 1.4, the secondary objectives had to be met to be able to achieve the primary objectives. The following secondary objectives had to be met:

- To define family businesses.
- To understand and obtain insight into the dynamics of family businesses and management succession in family businesses by means of a literature review.
- To gain insight into black-owned family businesses in South Africa.
- To analyse and assess management succession in black-owned family businesses in the Mutale and Bojanala districts.
- To present recommendations to ensure successful management succession in black-owned family businesses in the Vembe and Bojanala districts.

The first objective, to define family businesses, was achieved by defining family businesses in section 2.2 in chapter 2 of this study.

The second secondary objective, to obtain insight into the dynamics of family businesses by means of a literature review, was achieved by means of the literature study as presented in chapter 2. The third objective, to obtain insight into the dynamics of management succession and black-owned family business was achieved by means of the literature study in chapter 3.

The fourth objective, to assess management succession in black-owned family businesses in the Vhembe District, was achieved by means of a detailed empirical research followed by a presentation thereof in chapter four, as well as conclusions made in chapter five.

The last secondary objective, to suggest practical recommendations to ensure successful management succession in black-owned family businesses in the Vhembe and Bojanala district was achieved by presenting recommendations in Section 5.3 of this study.

The conclusion can be made that all of the secondary objectives were achieved. Based on the realising of the secondary objectives, as well as the recommendation put forward in Section 5.3, it can be concluded that the primary objective of this study was achieved.

5.5 RECOMMENDATIONS FOR FURTHER RESEARCH

Family businesses have contributed significantly to the economy of South Africa; hence very little literature is available in South Africa concerning family businesses.

Currently, most black-owned family businesses fail to be transferred to the 3rd generation due to poor management succession process. Therefore, scientific research on the management succession in black-owned family business in South Africa should be encouraged to ensure that family businesses survive from generation to next generation while positively contributing to the economy. Due to lack of black-owned family businesses research on management succession, it is critical that more studies must be conducted in order to cover the gap and provide directions to masses in family businesses.

It is imperative to conduct more empirical research on the family businesses in South Africa in order to ensure that succession management in black-owned family businesses receive almost priority so that family businesses can survive and be transferred from generation to next generation.

5.6 SUMMARY

Chapter five encompasses the conclusions based on the empirical study as well as the practical recommendations to the black-owned family businesses in the Vhembe and Bojanala districts. It also covers the general recommendations, the achievement of the primary and secondary objectives and suggestions for future research.

The empirical study provided conclusion that the most neglected aspects in the black-owned family businesses hindering successful management succession process in the Vhembe and Bojanala district are poor or lack of: management succession planning, estate and retirement planning, the selection of the successor, the prevention and management of conflict and the establishment of family forums to enable effective communication within the family businesses.

Practical recommendations recommended will provide guidelines to the black-owned family businesses, to ensure that they can effectively manage their management succession process and can be transferred from generation to the next generation.

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APPENDIX A

MANAGEMENT SUCCESSION QUESTIONNAIRE

POTENTIAL OR DESIGNATED SUCCESSOR
(ACTIVE IN THE FAMILY BUSINESS)

Family Businesses

Ensure your Future

Developed and compiled by:

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1 September 2008

Dear Respondent

RESEARCH PROJECT: MANAGEMENT SUCCESSION IN FAMILY BUSINESSES

The North-West University in Potchefstroom is currently researching the management succession process in family businesses. Entrepreneurship, and particularly the family business phenomenon are relatively ill-defined concepts in South Africa. There is also an apparent lack of adequate support for such family businesses. The family business is a primary contributor to the economic and social well being of all capitalist societies and its lack of longevity is a cause for concern. One of the main reasons posed for this problem is that the required skill to manage the process of management succession from one generation to the next is often lacking.

The purpose of this research project is to identify the factors that influence the success of the management succession process of family businesses and to propose managerial approaches and strategies that will assist family business owners to successfully accomplish the management succession process.

Should there be more than one successor in your family business, we request that each successor completes a questionnaire independently. Additional questionnaires are provided for this purpose, alternatively please feel free to photocopy the relevant questionnaire. Should you feel that you do not fall into either of the categories stated above, please contact the undersigned immediately and a replacement questionnaire will be forwarded to you.

Please complete the questionnaire that applies to your particular position independently and without consultation among family members. Please place the completed questionnaire in the envelope and give it to the co-ordinator of this research project. **The questionnaire should take only 15 minutes to complete**.

Even though no confidential information is required, your responses will be treated with the strictest confidentiality. Names of individuals will not appear in the research report. Only aggregate data and summary statistics will be reported. Each questionnaire has an ID number so that we can verify the receipt of the returned questionnaire. Should you so require, a copy of the findings will be forwarded to you.

Thank you in anticipation for your willingness to contribute to the success of this important research project.

Yours faithfully

MASHAKA TANZWANI

	A

QUESTIONNAIRE: POTENTIAL OR DESIGNATED SUCCESSOR

A FAMILY BUSINESS is one that has the potential or has been passed on for the next generation of family member(s) to manage and control.

SECTION A: FACTORS INFLUENCING SUCCESSION

A number of factors influencing the succession process in family businesses are listed below. Using the following scale please indicate to what extent you agree or disagree with the statements by circling the appropriate number in each row: 1 = Strongly disagree; 2 = Disagree; 3 = Somewhat/slightly disagree; 4 = Neither agree nor disagree (neutral); 5 = Somewhat/slightly agree; 6 = Agree; 7 = Strongly agree

		Strongly disagree			Neutral			Strongly agree	For office use
1	Our family members emotionally bond with each other	1	2	3	4	5	6	7	B
2	Our family members trust each other	1	2	3	4	5	6	7	C
3	Our family members respect each other	1	2	3	4	5	6	7	D
4	Our family members communicate openly with each other	1	2	3	4	5	6	7	E
5	Our family members care about each other's welfare	1	2	3	4	5	6	7	F
6	Our family members appreciate each other	1	2	3	4	5	6	7	G
7	The retiring owner-manager and I respect each other	1	2	3	4	5	6	7	H
8	The retiring owner-manager and I have a trusting relationship	1	2	3	4	5	6	7	I
9	The retiring owner-manager can be counted on to do what is best for the family business	1	2	3	4	5	6	7	J
10	The retiring owner-manager and I have a mutually supportive relationship	1	2	3	4	5	6	7	K
11	I prefer to cooperate with the retiring owner-manager rather than compete with him/her	1	2	3	4	5	6	7	L
12	The retiring owner-manager and I freely share our business-related opinions with each other	1	2	3	4	5	6	7	M
13	The retiring owner-manager and I are willing to share information with each other	1	2	3	4	5	6	7	N
14	The retiring owner-manager is looking forward to the pursuit of activities outside the family business after his/her retirement	1	2	3	4	5	6	7	O
15	The retiring owner-manager has a new challenge or group of interests that will keep him/her busy after retirement from the family business	1	2	3	4	5	6	7	P
16	The retiring owner-manager is involved in hobbies/cultural activities/watching or playing sports	1	2	3	4	5	6	7	Q
17	The retiring owner-manager is **NOT** completely immersed in the challenges of his/her family business	1	2	3	4	5	6	7	R
18	The retiring owner-manager is heavily involved in activities outside the context of the family business	1	2	3	4	5	6	7	S
19	The retiring owner-manager is happy to let go of the leadership of the family business	1	2	3	4	5	6	7	T
20	The retiring owner-manager feels that his/her involvement in the family business is **NOT** essential for its survival	1	2	3	4	5	6	7	U
21	The retiring owner-manager does **NOT** have to be persuaded to hand over the leadership of the family business	1	2	3	4	5	6	7	V
22	The retiring owner-manager will willingly hand over the leadership of the family business	1	2	3	4	5	6	7	W
23	The retiring owner-manager is willing to share full financial information with others involved in the family business	1	2	3	4	5	6	7	X
24	Family members accept their roles and positions in the business	1	2	3	4	5	6	7	Y
25	Family members understand their specific responsibilities in the business	1	2	3	4	5	6	7	Z
26	Family members in the business freely express their opinions about the business	1	2	3	4	5	6	7	AA
27	Family members work as a team with other family members involved in the business	1	2	3	4	5	6	7	AB
28	Family members acknowledge each other's achievements in the business	1	2	3	4	5	6	7	AC

		Strongly disagree			Neutral			Strongly agree	For office use
29	Family members encourage each other to produce their best efforts in the business	1	2	3	4	5	6	7	AD
30	Conflict between family members involved in the business is effectively resolved	1	2	3	4	5	6	7	AE
31	Explicit succession criteria have been developed for identifying the best successor(s)	1	2	3	4	5	6	7	AF
32	Explicit efforts have been made to train me for my future role in the family business	1	2	3	4	5	6	7	AG
33	Explicit attention has been given to familiarise me with the employees of the family business prior to succession	1	2	3	4	5	6	7	AH
34	Explicit attention has been given to familiarise me with the family business prior to succession	1	2	3	4	5	6	7	AI
35	The decision about who the successor(s) will be, has been clearly communicated to key stakeholders	1	2	3	4	5	6	7	AJ
36	A proper process has been followed to identify a suitable successor(s) for the family business	1	2	3	4	5	6	7	AK
37	The succession process has been discussed with key stakeholders	1	2	3	4	5	6	7	AL
38	There is a written succession plan in place	1	2	3	4	5	6	7	AM
39	I have a strong desire to take over the family business	1	2	3	4	5	6	7	AN
40	I am happy to work in the family business	1	2	3	4	5	6	7	AO
41	I have a choice whether to work in the family business or not	1	2	3	4	5	6	7	AP
42	I prefer to work in the family business even though I have other career options to choose from	1	2	3	4	5	6	7	AQ
43	I am looking forward to managing the family business	1	2	3	4	5	6	7	AR
44	I am willing to put in a great deal of effort beyond that normally expected in order to help the family business be successful	1	2	3	4	5	6	7	AS
45	I am proud to tell others that I am part of the family business	1	2	3	4	5	6	7	AT
46	I have a great deal of confidence in my ability to manage the family business	1	2	3	4	5	6	7	AU
47	The retiring owner-manager trusts me to use my own judgement in making business decisions	1	2	3	4	5	6	7	AV
48	The retiring owner-manager knows I have the ability to deliver good business results	1	2	3	4	5	6	7	AW
49	The retiring owner-manager believes I have the best interests of the family business at heart	1	2	3	4	5	6	7	AX
50	The retiring owner-manager has a great deal of confidence in my integrity	1	2	3	4	5	6	7	AY
51	The retiring owner-manager can rely on me to complete assigned tasks	1	2	3	4	5	6	7	AZ
52	The retiring owner-manager trusts that I know the family business	1	2	3	4	5	6	7	BA
53	The retiring owner-manager has a great deal of trust in my ability to manage the family business	1	2	3	4	5	6	7	BB
54	I have relevant business experience other than that obtained in our family business that has prepared me to take over the family business	1	2	3	4	5	6	7	BC
55	I have worked at lower levels within the family business, which has prepared me to take over the family business	1	2	3	4	5	6	7	BD
56	I have been exposed to different activities within the family business that have prepared me to take over the family business	1	2	3	4	5	6	7	BE
57	I have received personal tutoring in specific skills or knowledge areas, which has prepared me to take over the family business	1	2	3	4	5	6	7	BF
58	I have been mentored by someone other than my father/mother that has prepared me to take over the family business	1	2	3	4	5	6	7	BG
59	I have a personal advice network that has prepared me to take over the family business	1	2	3	4	5	6	7	BH
60	I have an academic qualification(s) that has/have prepared me to take over the family business	1	2	3	4	5	6	7	BI
61	I have regularly attended business-related courses/seminars that have prepared me to take over the family business	1	2	3	4	5	6	7	BJ
62	The family business has a formal board of directors	1	2	3	4	5	6	7	BK
63	The family business has a written business plan	1	2	3	4	5	6	7	BL
64	The family business has a formal structure where family and business issues can be discussed	1	2	3	4	5	6	7	BM

		Strongly disagree			Neutral			Strongly agree	For office use
65	The family business has a formal document that describes the relationship between the family and the business	1	2	3	4	5	6	7	BN
66	The family typically involves outsiders (consultants, solicitors, accountants, bank managers etc.) in the most important decisions related to our family business	1	2	3	4	5	6	7	BO
67	I find it exciting to work in the family business	1	2	3	4	5	6	7	BP
68	I find it rewarding to work in the family business	1	2	3	4	5	6	7	BQ
69	Opportunities offered in the family business are more challenging than anywhere else	1	2	3	4	5	6	7	BR
70	I am able to satisfy my personal development goals within the family business	1	2	3	4	5	6	7	BS
71	My career needs and interests are closely aligned with opportunities within the family business	1	2	3	4	5	6	7	BT
72	I am able to influence the strategic direction of the family business	1	2	3	4	5	6	7	BU
73	The long-term financial gains available to me from the continuation of our business as a family business are much higher than they would be if the business were sold	1	2	3	4	5	6	7	BV
74	The long-term **non-financial** gains available to me from the continuation of our business as a family business are much higher than they would be if the business were sold	1	2	3	4	5	6	7	BW
75	The family business is financially secure	1	2	3	4	5	6	7	BX
76	The family business offers me job security	1	2	3	4	5	6	7	BY
77	The family business has potential for future expansion	1	2	3	4	5	6	7	BZ
78	The family values the business and its future survival	1	2	3	4	5	6	7	CA
79	A major objective of the family business is to pass it on to the next generation	1	2	3	4	5	6	7	CB
80	The retiring owner-manager is deeply committed to continuing the family business	1	2	3	4	5	6	7	CC
81	I am deeply committed to continuing the family business	1	2	3	4	5	6	7	CD
82	All family members actively involved in the family business are deeply committed to its continuation	1	2	3	4	5	6	7	CE
83	The retiring owner-manager wants his/her children to be involved in the family business	1	2	3	4	5	6	7	CF
84	The retiring owner-manager will be very disappointed if none of the next generation of family members join the family business	1	2	3	4	5	6	7	CG
85	There will be sufficient capital to run the family business effectively after the owner-manager's retirement	1	2	3	4	5	6	7	CH
86	The retiring owner-manager has a current will that accurately reflects his/her wishes regarding the disposition of the family business	1	2	3	4	5	6	7	CI
87	The retiring owner-manager will be financially secure after retiring from the family business	1	2	3	4	5	6	7	CJ
88	Explicit decisions have been made about how family assets and ownership are to be distributed among members of the next generation, once the owner-manager has retired from the family business	1	2	3	4	5	6	7	CK
89	The retiring owner-manager has done estate planning in addition to his/her basic will	1	2	3	4	5	6	7	CL
90	A periodical analysis takes place regarding the role of the family and the business in the family business	1	2	3	4	5	6	7	CM
91	There is a proper understanding among family members of what the family business strategy will be after leadership is transferred to the potential successor(s)	1	2	3	4	5	6	7	CN
92	Family members often discuss family and business goals	1	2	3	4	5	6	7	CO
93	The family often discusses the future role and involvement of the family in the business after succession	1	2	3	4	5	6	7	CP
94	I expect that the family business will perform as well or better after the management/leadership of the business is handed over to me	1	2	3	4	5	6	7	CQ
95	I expect that the family business will be sustainable after the management/leadership of the business is handed over to me	1	2	3	4	5	6	7	CR
96	I expect that the relationships among family members will be positive after the management/leadership of the business is handed over to me	1	2	3	4	5	6	7	CS

		Strongly disagree			Neutral			Strongly agree	For office use
97	I expect that the relationships with stakeholders (networks, suppliers, etc.) will be positive after the management/leadership of the business is handed over to me	1	2	3	4	5	6	7	CT
98	I expect that all family members involved in the family business will be satisfied with the succession process	1	2	3	4	5	6	7	CU
99	I expect to be satisfied with the succession process	1	2	3	4	5	6	7	CV
100	I expect that the family will support the family business after the management/leadership of the business is handed over to me	1	2	3	4	5	6	7	CW
101	I expect the retiring owner-manager to be satisfied with the succession process	1	2	3	4	5	6	7	CX
102	I expect the business to be financially secure after the management/leadership of the business is handed over to me	1	2	3	4	5	6	7	CY
103	I expect to improve/increase the revenues and profits of the family business after the management/leadership of the business is handed over to me	1	2	3	4	5	6	7	CZ
104	I expect the employees of the family business to be committed to the business after the management/leadership of the business is handed over to me	1	2	3	4	5	6	7	DA

SECTION B: BIOGRAPHICAL INFORMATION

1.1 Has the leadership/management of the family business been passed onto a family member in the past few years? — Yes 1 / No 2 — DB

1.2 If **YES**, please indicate the year in which such leadership/management was passed onto the current owner-manager. — DC

____

2 If **NO**, please indicate whether it is anticipated that the leadership/management of the family business will be handed over to a family member in future. — Yes 1 / No 2 — DD

3 Please indicate the number of full-time employees employed in the family business (inlcuding family members). — DE

____

4 Please indicate the activities (within a branch of industry) of the family business (e.g. manufacturing of leather products, grocery store, hairdresser, farming) — DF

____

5 Indicate your current position in the family business: — DG

5.1	Retiring owner-manager of the family business (will soon retire from active management of the family business)	1
5.2	Retired owner-manager (have already retired from the management of the family business)	2
5.3	Successor (have already taken over the management of the family business from a family member)	3
5.4	Designated successor (will soon succeed the family member who now manages the family business)	4
5.5	Potential successor (could possibly be a successor to the family member currently managing the business)	5
5.6	Other family member (please indicate) ______________________	6

6 Indicate which generation (1st, 2nd, 3rd, etc.) that you represent in the family business. ____________ — DH

7 How many family members work full-time in the family business (including in-laws)? — DI

7.1	One	1
7.2	Two	2
7.3	Three – Four	3
7.4	Five or more	4

8 What percentage of business shares is controlled by your family? — DJ

8.1	Less than 50%	1
8.2	50%	2
8.3	More than 50%	3

9 Please indicate the gender of the following family members:

9.1	Retiring owner-manager	DK
	• Male	1
	• Female	2
9.2	Potential successor (yourself)	DL
	• Male	1
	• Female	2

10 Please indicate the ethnic background of your family

		DM
10.1	White	1
10.2	Black	2
10.3	Asian	3
10.4	Coloured	4

11 Please indicate the form of ownership of your family business

		DN
11.1	Sole proprietorship	1
11.2	Partnership	2
11.3	Close corporation	3
11.4	Private company	4
11.5	Business trust	5
11.6	Other (please specify) ____________________	6

12 How long do you anticipate it will be before the current owner-manager retires?

		DO
12.1	Within the next two years	1
12.2	Within the next five years	2
12.3	Within the next ten years	3
12.4	More than ten years	4

13 What age do you expect the retiring owner-manager to be at the time of the anticipated succession? ________ DP

14 What age do you expect the potential successor (yourself) to be at the time of the anticipated succession? ________ DQ

15 Since when has your business been operating as a family business? ________ DR

Comments or suggestions on the management succession process:

____

____

____

If you would like a copy of the research findings, please provide your name and postal address.

____

____

____

THANK YOU FOR YOUR TIME AND COOPERATION.