1: INTRODUCTION

1.1 Background

The main objective of the study was to assess if the determinants of success for medium sized businesses identified in the literature held true for medium sized family-run businesses in South Africa. The study further determined whether there were additional and perhaps hidden factors that contribute to the success of these businesses. Such factors, which may not be prominent in the literature - and perhaps not fully understood or researched in any depth - have been examined based on the perceptions of individuals in the study sample selected. These factors included aspects such as ethnic and cultural behaviour, trust and communication. The researcher did this by examining external and internal determinants relevant to the development and future sustainability of the family business in South Africa. The **external determinants** of success are not external to the organisation (as would be imagined when looking at the external environment), but **external to the family as a unit.** These include succession planning, corporate governance, strategic planning and broad-based black economic empowerment. The **internal determinants** of success may include underlying factors such as trust and communication that are pertinent and internal to the family as a unit.

In the United States of America, family firms make up more than two-thirds of all companies, at least 50% of the workforce and approximately 40% of the gross domestic product (GDP). They account for up to 78% of all new jobs created from 1976 to 1990 (Friedman, 1998). Literature in the United Kingdom shows that only 24% of family businesses survive to the second generation and less than 14% survive beyond the third generation (Leach, 1991). Statistics from the USA illustrate that only 30% of family businesses survive into the second generation, and only 10% into the third generation (Galiano & Vinturella, 1995).

Family-owned companies make up about 84% of South Africa’s businesses, comprise 70% of all businesses internationally, 35% of Fortune 500 companies and 50% of South Africa’s GDP and labour force (Balshaw, 2004). According to the Department of Trade and Industry (DTI), South Africa has an estimated population of 46 million people and an unemployment rate of approximately 35% (DTI, 2004). Against this context, the survivability of family businesses in South Africa is significant as they continue to stimulate growth and employment for many South African citizens.

As the family business grows and the senior generation matures, it is likely that all knowledge, experience and operational control will reside in one or two family members. The demands of globalisation and the need to be competitive, even in local markets, has impacted significantly on the path family businesses may need to take, as well as the array of skills it requires to enhance the growth and success of the family business (Balshaw, 2004b).

1.2 Definitions

Here the researcher will define ‘organisational success’ and ‘family businesses’ for the purpose of the research.

1. Organisational Success

According to Robbins (1987), most researchers and practitioners agree that a necessary condition for an organisation’s success is its survival. Survival is thus the ultimate test and definition of success. Survival, for the purpose of this research, is determined by two indicators:

- A history of at least five years

- Liquidity through a favourable interest ratio to cover ongoing financial expenses

2. Family Business

According to Friedman (1998), a family business is a company owned, controlled and operated by members of one or several families and can include siblings, children, grandchildren, cousins, aunts and uncles. It is this definition of family business that the researcher will employ throughout the research.

3. Medium Sized Business

The Department of Trade and Industry (2005) defines medium sized businesses as organisations that have an annual turnover of between R6 and R100 million. It is this definition of medium sized business that the researcher will employ throughout the research.

1.3 Research problem

It could be accurately stated that family businesses are a significant feature of our economy, and provide stability and resilience in the changing landscape of our society. Information sourced from the DTI in 2004 produced results that inform the understanding of family business in South Africa employed throughout the research. The model results reflect a total of 1,42 million active businesses in South Africa, of which 84 % are family businesses, resulting in huge employment for South Africans as a whole. Yet, their strength – the family – can also be the reason for their fragility (Balshaw, 2003; Jaffe, 2004). Despite the fact that family business owners work hard to retain their companies in the family, family businesses are often viewed as entities that fail. The general prediction for family businesses is that the first generation establishes the business, the second builds, and the third destroys (Balshaw, 2004a; Jaffe, 2004).

Because of continuing prevalence of downsizing and retrenchments, it is likely that more family businesses will be formed. This will also result in more businesses failing according to the current statistics. Because of their importance to the economy, both in terms of job and wealth creation, it is vital that they succeed (Bennett, 1999). An understanding by family business leaders and all stakeholders of what the determinants of success are for medium sized family run businesses in South Africa will assist to guide families and enhance the success of both the family and the business with positive benefits for the South African economy.

Less than one-third of family businesses survive through each generation. Of those that survive, half are sold off to non-family members. If the success of an organisation is based ultimately on its survivability (Robbins, 1987), then it is evident from the literature that ‘family dynamics’ and family business issues that affect survivability are not well understood. What determines success in family run businesses in South Africa is therefore not clear (Gersick, Davis, Hampton, & Lansberg 1997; Balshaw 2003). There appear to be significant factors determining the success of the family firm. Some family businesses succeed and, given the propensity for failure, it would be useful to understand why. The research aims to contribute to this larger goal.

The following broad topic areas are prevalent in the literature. Due to their significance in the literature they were tested in the research:

- Succession Planning
- Strategic Planning
- Corporate Governance
- Broad-Based Black Economic Empowerment

The research analysed each of the above areas as well as sought perceptions of what members of family businesses regarded as determinants to their success. Based on input from the interviewees, the researcher assessed the validity of each variable as a determinant of success for family-run businesses in South Africa.

1.4 Assumptions and Delimitations

This study explored the perceptions of both chief executives and successors of family businesses with respect to the identification of success factors for family-run businesses in South Africa, and their importance to the survival of the business.

- A non-probability method of sample selection was used. This is not representative of the entire family business population.

- The sample consisted of 20 family-run businesses comprising 25 people with which the researcher was familiar, clustered into five cultural groups.

- The research was confined to family-run businesses as opposed to family owned businesses.

- The research was limited to businesses which had a current annual turnover of between R6 and R100 million (that is, medium sized businesses) for the 2004 fiscal year.

- The research design took the form of an in-depth open ended questionnaire.

- Success was determined by a favourable liquidity ratio and the fact that the organisation had been in existence for 5 years or more with the annual turnover mentioned above.

2: LITERATURE REVIEW

2.1 Introduction

This chapter outlines the literature used to derive the propositions against which the research was conducted. Conceptual models of family firms were examined together with a vast amount of literature on family-run businesses. The study was based on two models described in the literature, namely the two-system model developed by Tagiuri and Davis at Harvard, and the three-system model expanded upon by Lansberg, Gersick & Associates (1997). The literature review examines aspects of succession planning, corporate governance, strategic planning and broad based black economic empowerment, describing these factors as they relate to family-run businesses.

2.2 Conceptual Models of Family Firms

Due to the fact that family-run businesses go through predictable life cycles and stages of development it is useful to understand the impact of the complexity of the family, the business and its ownership on these lifecycle phases. The scholarly work of family business systems begins with authored articles in the 1960s and 1970s (Calder, 1961; Donnelley, 1964; Levinson, 1971; Barry, 1975; Danco, 1975; Barnes & Hershon, 1976). These authors focused on typical problems that appeared to hamper the success of family firms. Factors that they analysed included nepotism, generational and succession rivalry, and unprofessional management. The underlying conceptual model (that these authors base their arguments on) holds that family businesses are made up of two overlapping sub-systems: the family and the business (Beckhard & Dyer, 1983; Lansberg, 1983). Each of these two systems has norms, membership rules, value structures and organisational structures. Problems arise because the same individuals have to fulfill obligations in both subsystems; for example, as parents and as professional managers. In addition, the business itself has to operate according to sound business practices and principles while at the same time meeting family needs for employment, identity and income. The key challenge in all family enterprises was to find strategies that satisfied both sub-systems (Kepner, 1983; Hollander & Elman, 1988; Benson, Crego & Drucker, 1990; Whiteside & Brown, 1991).

Researchers and scholars use this two-system model as a basis of complex organisational behaviour, strategy, competitiveness and family dynamics analysis. Consultants find it useful in the clarification of the sources of individual behaviour and decisions (Gersick et al, 1997).

Tangier & Davis (1982) elaborated on the two-system model with their work at Harvard in the early 1980s. They argued that a more accurate and detailed portrayal of the full range of family firms would need to include a distinction between two sub-systems, namely ownership and management, within the family business model. For example, some individuals are owners but are not involved in the day-to-day operation of the business, while others are managers but do not own or control shares.

Gersick, Davis, Hampton & Lansberg (1997) expanded the two-system model to a three-circle model. The three-circle model provides a holistic view and describes the family business system in the form of three independent, but overlapping, sub-systems: business, ownership and family. The three-circle model of family business is a useful way to understand the source of interpersonal conflicts, role dilemmas, priorities and boundaries in family firms. The identification of different roles and sub-systems assists in the analysis of the complex interactions within a family business that may impact on the ultimate success of the firm.

2.3 Three-Dimensional Development Model (Gersick et al, 1997)

It is important to see how the whole family business changes as individuals move across boundaries inside the system. The business, ownership and family circles can create a snapshot of any family business system at a particular time, which can be a very valuable first step in understanding the organisation. However, according to Gersick et al, "many important dilemmas that occur within family businesses are caused over time. They involve changes in the organisation, in the family, and in the distribution of ownership". (1997: 15)

The evolution and development of the three circles over time results in the Three-Dimensional Development Model of family business as developed by Gersick et al (1997). For each of the three sub-systems – ownership, family and business – a separate dimension is included. Every family business has progressed to some point on the family development axis.

2.3.1 The Ownership Development Dimensions

The first dimension of the Three-Dimensional Model involves the description of the development of ownership over time. John Ward (1987; 1991) developed the ownership dimensions in which it is acknowledged that the different forms of family ownership result in essential differences in every aspect of the family business. However, the core issues of ownership development were captured in three types of organisation: Controlling Owner companies, Sibling Partnerships and Cousin Consortium Companies (Ward 1987; 1991).

At any given time, most family-run businesses can be seen as being in one of these three stages. There is also a fundamental developmental dynamic according to which they move through the generational sequence from Controlling Owners to Sibling Partnerships and then Cousin Consortiums. For this reason the Ownership Developmental Dimension is the first of the three in the model of family business (Ward 1987; 1991).

The composition and allocation of ownership can have profound effects on businesses and family decisions, as well as on the many aspects of operations and strategy. Even minor structural changes in ownership, whether due to the ageing of family members or due to strategic decisions, could have deep effects on the family business for generations. These different patterns of ownership, which advance over time, make up the Ownership Developmental Dimensions of the Three-Dimensional Development Model (Ward 1987; 1991).

- Controlling Ownership

Family businesses are predominantly founded as Controlling Owner companies, in which ownership is controlled by one owner or, less typically, a married couple, and where the children may choose to enter the business at a later stage.

- Sibling Partnerships

Sibling partnerships are characterised by two or more siblings, who may or may not be active in the business, sharing ownership control. There may be additional owners, either from the parents' generation or among the successors' children, but they will not typically exercise significant ownership influence in the Sibling Partnership. If the parent does not retain an active role and ownership control passes to the successor group, then the firm is a hybrid of the two stages: Controlling Owner and Sibling Partnership. The more seriously the parent's position is taken with regard to authority, the more the company will function as a Controlling Owner firm (Ward 1987; 1991).

- Cousin Consortium

In this model, many cousins from different successor branches exercise ownership control but no single branch has enough voting shares to control decisions. Cousin ownership groups in small families with only a limited number of shareholders elicit some of the characteristics of Sibling Partnerships. The classic business family at this stage includes at least 10 or more owners. According to Gersick et al (1997), it usually takes at least three generations for a company to reach the Cousin Consortium stage. Cousin Consortiums tend to be larger and more complex businesses than the other two ownership types.

These structures have a profound effect on the future success of the family business and the harmonious and fraternal multigenerational family relationships which can determine the success of the organisation.

2.3.2 The Family Development Dimension

The second dimension of the Three-Dimensional Model that may impact on the success of the business involves the development of the family over time. We are all aware of how families continuously change, thus it is clear why a developmental approach to understanding family businesses is necessary. Many of the key issues that business families face – the entry of a new generation, the passing of authority from parents to children, the relationships between siblings and cousins, the effects of marriage and retirement - can be described only over time (Lansberg et al, 1997). The division of business families into developmental sub-groups is useful in categorising the enormous variety of business-owning families. Although there is variability within stages and overlap between them, families within a stage have much in common. It is evident in the Ownership Developmental Dimension that the moment of transition from one stage to another is recognisable and meaningful in a family's developmental history (Levinson, 1971).

After taking into account the life histories of hundreds of family-run businesses of all sizes and types in respect of these developmental theories, Gersick et al (1997) found that business families could be suitably divided into four stages, according to the ages of the members in the business. These stages are known as Young Business Family, Entering the Business, Working Together and Passing the Baton.

The family developmental axis includes four sequential stages as mentioned above. It differs from the other two axes (ownership and business) in this model in that it is driven by the biological aging of family members and is thus more of a one-way street than the others. As business families become more complex, we find that more than one family life cycle is relevant at the same time. Within business families that are beyond the controlling ownership stage there may be families that are in two, three or even all four of the family stages. The interplay of different family groups, all dealing with their own developmental issues, creates some of the most interesting dynamics in family businesses and is one of the areas where the Three-Dimensional Model can be the most helpful (Levinson, 1971).

- Young Business Family

According to Gersick et al (1997:63), “in the stage of the Young Business families, the parental generation is usually under forty years old and if there are children, they are under eighteen. This stage can cover a long period for the family, from early adult years of young entrepreneurs or successors through the teen years of their children”. Many of the phases in traditional family development theories are included in this stage, such as courtship, marriage, settling down, birth of the first child, birth of other children and the children’s early school years (Gersick et al, 1997).

- Entering the Business

The Entering the Business stage involves the owner-manager (and sometimes spouse or sibling) typically being between 35 and 55 years of age. The family developmental decisions in this stage will include creating entry criteria and career paths for the young adult generation who need to decide whether or not to join the firm; working on midlife transition issues as a couple or as siblings; and defining a role as the middle of three adult generations - between elderly surviving parents and children who are getting ready to form families of their own (Gersick et al, 1997).

- Working Together

The stage of Working Together applies when two or more generations are fully involved in the family business together. The senior generation, typically aged between 50 and 65 years, is peaking in its authority. If the business is profitable, the owner-manager can use the income for expansion and new ventures and to fund a comfortable lifestyle to which adults aspire at this age. The members of the junior generation are in their twenties to forties. They have made the decision, at least initially, as to whether their work lives will include or exclude the business (Gersick et al, 1997).

- Passing the Baton

The stage begins when the senior generation reaches late adulthood, generally at about 60 years, and lasts until their death. A significant amount of the most important issues are directly linked to the change in ownership and management control in the business. In many families, there will be at least two generations of successors; in a few families there may be as many as four. In almost all cases there will be a variety of intact families – some close and enduring relationships and some disconnections (Gersick et al, 1997).

The interplay of different family groups, all dealing with their own developmental issues could certainly lead to the success or failure of the family run business.

2.3.3 The Business Developmental Dimensions

The last dimension of the Three-Dimensional Model revolves around the development of the family business over time. The description of this dimension includes thoughts from a number of business lifecycle theorists (Greiner, 1972; Kimberly, 1979; Kimberly Miles & Associates, 1980; Churchill & Lewis, 1983; Flamholtz, 1986). The maturity of the business enterprise was overlooked in most publications about family firms. However, there are important variations in the growth, product maturity, capitalisation and indebtedness, non-family manager development, and internationalisation, which arise from the Business Development stage of the business (Gersick et al, 1997).

Most models of business lifecycles generally include fine distinctions between the stages and are defined by specific changes in the organisation's structure and operations. This level of differentiation is too specific for the purposes of this Three-Dimensional Model. A three-stage progression captures the essential differentiation of business stages (Greiner, 1972; Flamholtz, 1986).

The third dimension of the model describes the different stages of business development.

- Start-Up

The Start-up stage is all about the establishment of the company and the early years when survivability is a concern, whether for the business as a whole or for new business units as they are created in complex family conglomerates. There is always a start-up period with unique characteristics. In their first few years, businesses are different in important ways from the way they will be at any other points in their life cycles (Greiner, 1972; Flamholtz, 1986; Gersick et al, 1997).

In its earliest stage, a business is rarely much more than an idea or a project that its creator is testing to see if it is viable. The owner-manager is at the centre of the project and invests a great deal of time and energy, and often most of his/her resources. Organisational structures are minimal and informal, while procedures are usually created as they become necessary and are often modified. Most communication is to, or through, the owner. In most cases the company is focused on one product or service (Greiner, 1972; Flamholtz, 1986; Gersick et al, 1997).

- Expansion and Formalisation

After weathering the uncertain years of the start-up, the Expansion and Formalisation stage will see the development of the business into any one of a broad spectrum of company models/types. This stage applies to all family companies from the point when they establish themselves in the market and their operations are stabilised to produce an initial predictable routine, to the period where the business experiences expansion and increasing organisational complexity, and then enters a phase when growth and organisational change slow down dramatically (Greiner, 1972; Flamholtz, 1986; Gersick et al, 1997).

The transition from start-up to expansion/formalisation may hardly be discernable, or it may be abruptly marked by the opening of a new facility, the hiring of professional management or the introduction of a new product (Kimberley, 1979; Gersick et al, 1997).

This stage may last for only a few years or it may continue for many years – even beyond a generation. It is the period during which families try to shape the growth curve and the emerging structures of the business to serve the needs of the evolving ownership group and the developing family (Gersick et al, 1997).

- Maturity

Maturity is the final stage. Maturity in relation to the markets becomes apparent when healthy margins start to thin, when competitors multiply, when the flagship product is no longer distinguishable from others on the market, or when sales plateau or drop (Greiner, 1972; Flamholtz, 1986; Gersick et al, 1997).

The mature family business offers many unparalleled rewards to its owner-manager family. It has survived, grown and found a place for itself in its industry and in its community. At this stage some portion of the company will typically begin a recycle by spinning off a new start-up venture, acquiring a subsidiary in an earlier stage, or establishing remote or foreign branches that exhibit some of the start-up or expansion/formalisation characteristics (Kimberley, 1979).

The model provides a framework for the development of family businesses over time in each dimension and can be used in the recognition of the current stage and the combination of stages across ownership, family and business in an analysis of the dynamics of any family firm (Gersick et al, 1997).

Tremendous potential for conflict arises when family members find themselves in the overlap of the family and business system. It is therefore essential to understand the perspectives and separate roles that exist in the family system and the business system. These structures have a profound effect on the future success, or otherwise, of the family business, as do harmonious and fraternal multigenerational family relationships - both of which assist the family and business position itself in an ever changing global world (Balshaw, 2004).

2.4 Succession Planning

According to Ward (1997), succession is the definitive test of the constancy of a family business. Once the business has been transformed from an individual venture into a family enterprise, its continuity becomes a unifying concern. Passing the company on as a profitable concern and in good condition to a new generation of leaders is a goal that drives the members of all three circles -- family, ownership and business (Gersick et al, 1997). It is for this reason that it is viewed as a determinant of success.

When the founders of the business retire, more than two thirds of family firms close down or pass to new owners and less than one-third are continued by the next generation (Beckhard & Dyer, 1983; Emshwiller, 1989; Lansberg, 1998). If the owners of the firm want it to remain family-run and -owned, then succession becomes a critical issue (Balshaw, 2004b).

Regardless of the great variety of structures that are adopted by the family businesses, such as collective ownership, shared management responsibilities and multi-family succession, the literature about family business tends to remain focused on a single type of generation transition whereby, for example, a father passes his business to a son. The attention given to succession by the classic works in the field (Levinson, 1971; Danco, 1975; Barnes & Herson, 1976) seems to have inhibited a true understanding of the complexities of succession planning in family businesses.

Lansberg (1985) recognised two core concepts that expand the traditional view of the succession process. The first concept concerns the range of post-succession options available to a family business and the fundamentally different processes involved in executing the transactions common to each of them. Some leadership transactions involve only a change in the people who are running the company, while others involve a fundamental change in the structure and culture of the company.

The second concept concerns the choice of a particular structure at a given juncture in order to pursue a shared ‘dream’ in which the aspirations of individual family members combine to form a collective vision of their future. Members of the senior generation have ‘dreams’ for the company and the family after their death. They may see the company as a monument to their own accomplishment, with new leaders replicating their success in a replay of the seniors’ tenure; or it could be a very different vision, including the correction of all the seniors’ self-perceived mistakes. The ideal process of succession planning is the gradual uncovering of these individual ‘dreams’ and their integration into one goal and course of action (Lansberg, 1985).

2.4.1 Succession and conflict

Despite the unavoidable nature of succession, it was very hard for most founders to raise the issue of succession. This unwillingness may be due to the extensive adjustments and turbulence that may result: family relationships have to be re-evaluated, existing management styles have to make way for new ones, or former patterns of authority have to change. Tan et al (1997) found that the sensitivity of the founder of a family business towards succession might be due to the following reasons:

1. After the great effort which the founder doubtless invested in the business, giving up the position may mean losing the distinctiveness of being recognised as the founder who was central to the business.

2. The preparation of the founder's own succession could be compared with his/her planning for the event of his/her own early death. The founder has to consider the horrible reality of mortality. As a result, many founders choose to disregard the topic of succession.

3. The amalgam effects of all the above could result in a morbid jealousy of any potential successor, such that all kinds of excuses would be used to rationalise the founder's need to remain (Tan et al, 1997).

4. At retirement, the influence and authority that the founder commanded in the firm and among his/her business associates will cease. The founder's position in the family would be susceptible,in that he/she could not fulfill the central role as head of the family any longer.

2.4.2 Factors for Effective Family Run Business Succession

A number of factors have been identified by researchers as being important for effective family-run business successions. These are listed below:

1. The family-run business should look into the employment of professional managers and the provision of appropriate incentives to stay with the business. Many managers are reluctant to join family-owned enterprises as they are afraid that family members would be favoured for promotions and pay incentives. Levinson (1971) encourages family firms to implement professional management as soon as possible.

2. The early inclusion of children in responsible positions in the business is important, as is the development of an early interest in, and personal commitment to, the business. Ambrose (1983) recommends the early inclusion of children in “responsible positions”. He believes that this would enhance the probability of successful transfer of ownership as it would serve to nurture early interest and personal commitment.

3. That the founder has the ability to admit that the company would outlive his/her own lifetime was an issue that a retiring entrepreneur finds hard to accept. (Barnes & Hershon 1976).

4. Barnes (1976) and Levinson (1971) acknowledge the practice of open dialogue among family members to discuss their values and expectations of one another, as well as of the business.

5. The founder making after-retirement plans is another factor that Walker & Lazer (1978) found to be important to succession. According to them, when retiring entrepreneurs recognise this need and make appropriate plans it can facilitate their initiation into life as a retired person and also render their exit from the business easier.

Appropriate succession within family firms begins many years before a successor takes over as chief executive officer (CEO). It is considered to be the most extended strategic process within family-run businesses. For the succession process to occur correctly, the old must help the young with educational and operational challenges, as it is important for potential successors to take advantage of their family's values and special competencies, as well as to develop their own expertise (Barach & Ganitsky, 1995).

The founder of the family business must let relatives appreciate the business's real value, including all its potential benefits to their lives. Without such recognition, successors may choose not to pursue careers within the family firm. It is not enough to let the family know that working for the firm gives pleasure as well as problems. (Barach, 1995).

2.4.3 Nepotism

Succession is brought about by the commitment of the CEO to the goal of preserving the business as a family-run firm. The CEO must decide which values and goals to "inculcate" in his/her children (Dumas, 1989).

A long term aim to keep the family in the firm can be more important if all affected family members participate in the process of planning the succession well in advance of the actual passing over of power. Highly authoritarian CEOs also find a participative approach useful, as it nurtures mature communication and mutual trust between generations, and cultivates leadership skills in candidates (Bartolome, 1982; Hall & Richter, 1998).

The neglecting of discussion of succession with the affected family members, or leaving key features uncertain, does not contribute to a calm transition; neither does an implicit but vague commitment to nepotism (Jonovic, 1982).

2.4.4 Traits of the CEO

Succession can be inhibited by the personal traits of the CEO. These traits are often an important factor in the succession process. According to Pave (1985), the process of transferring the firm is inhibited by a CEO who responds in the following ways:

- Is completely immersed in the business's challenges
- Has been unwilling to identify and prepare acceptable successors
- Has a personality that requires he/she retain control of most details
- Has minimal trust in others, including family members
- Does not want, or know how to, delegate responsibility
- Is highly dogmatic

According to Barach & Ganitsky (1995), a successful succession process is more possible if the CEO exhibits the following, or has the following values:

- Does not enjoy good health or is mentally threatened by the family's history of health problems
- Has outside interests, goals and ambitions in life
- Feels close to retiring and is therefore willing to teach and become a mentor
- Is consistently receptive to new ideas and to others' advice and viewpoints
- Encourages others to participate
- Skilfully managers the training and political dimensions of the succession process

The succession planning process is a challenging process of reassessment and fundamental change during which a complete web of issues and alternatives will need to be explored, examined, evaluated and debated. The incumbent's need and willingness to commit to a course of action will have a direct effect on the success of the organisation.

2.5 Corporate Governance

The family functions within an emotionally-driven dynamic system with where certain patterns of behaviour are established as the norm, while the business system is task based and operationally driven. The family or an individual member thereof is often caught between these two systems with no appropriate mechanism to cope with conflicting pressures. An understanding of corporate governance will definitely assist the family and business.

Corporate governance includes the identification and establishment of appropriate board structures, processes and values to cope with the rapidly changing demands of both shareholders and stakeholders in and around the enterprise (Garratt, 2003).

Garratt (2003) suggests that the owner’s appointment of a board of directors is based on the assumption that the directors will be fully accountable, corporally (as the board has an independent legal status from the company) and individually, for their actions on behalf of those owners.

2.5.1 Lack of Governance in Family Businesses

According to Balshaw (2004b), if a family-run business is to continue growing successfully, the informal methods of start-up must give way to a more disciplined and professional environment.

One of the fundamental characteristics of owner-managed family businesses is the marked absence of effective communication, decision making and governance structures (Friedman, 1997; Gersick et al, 1997; Balshaw, 2004b). The following two examples illustrate this point:

Non-active family shareowner perceptions

- "In closely held entities, non-active shareowners are often concerned about the concentration of power in the hands of shareowners employed in the business and the professionalism of managers. Active shareowners are, for example, perceived to begrudge non-active shareowners' demands for dividends. The lack of shared information often results in a knowledge vacuum that people tend to fill with their own perceptions. This in turn creates a breeding ground for mistrust and conflict, which ultimately leads to the destruction of the family business" (Balshaw, 2004a:23).

Token directorship

- "In many private companies, the annual general meeting and board meeting do little more than serve as proforma events and comprise the signing of the annual financial statements, with the owner and external auditor in attendance. Since their directorship exists merely on paper, directors often lack the experience and expertise to act independently and contribute to the company in a strategic capacity" (Balshaw, 2004a:24).

2.5.2 Embracing Effective Governance in Family Businesses

As closely held entities grow, family controlled companies become more complex (with more people involved) and operations mature, all facets of governance need to become more structured, efficient and transparent. Principles, policies and structures need to be formalised and governance structures need to be designed to safeguard the growth and interests of the company and family shareowners, while simultaneously promoting family harmony and welfare (Friedman, 1998; Lansberg, 1997; Gersick et al, 1997).

Governance is a complex and challenging task – it is not only the business that needs to be governed but also the owners and their emotion based family systems (Lansberg et al 1997), particularly insofar as they relate to the family business. The dimension of the family clearly adds to the complexity of the numerous roles to be managed in this type of business. It is also important to recognise that the ethical and legal obligations and responsibilities of businesses extend beyond the family, owners and management, to include a wide range of internal and external stakeholders, such as employees, customers, suppliers, regulators, the community and environment (Balshaw, 2004b; Gersick et al, 1997).

2.5.3 Balancing Governance and Entrepreneurial Performance

The King Report on Corporate Governance for South Africa – 2002 (the King II Report) codified principles in relation to Boards and Directors, including: the Unitary Board Structure, Board Composition, Chairperson and Chief Executive Officer, Categorisation of Directors, Remuneration, Board Meetings and Board Committees.

The recommendations contained in King II are self-regulatory, although conformance can be encouraged in various ways. The King Committee submits that it would be in the enlightened self-interest of every enterprise to take careful cognisance of the recommendations outlined in the report and to adhere to them to the extent practicable and applicable. As Balshaw observes, "It is therefore important that owner-managed family businesses embrace effective governance, recognising the nuances and uniqueness of governance in family businesses". (Balshaw, 2004a:27)

According to Cadbury (2000), corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The aim is to align as nearly as possible the interests of individuals, corporations and society.

2.5.4 Tools for Effective Communication, Decision-Making and Governance Structures

Strong governance in a family business consists of a board of directors to which the CEO and the executive directors report, a family shareowners' committee to address ownership issues, and a family council that represents the family's values and culture (Balshaw, 2004b).

According to Ward (2001), the following four structures have a profound impact on effective governance, communication and decision-making in closely held entities, particularly family controlled companies:

- The Shareowners Committee
- The Board of Directors
- The Management Committee
- The Family Council

Certain individuals may participate in more than one of these forums. It is important that these individuals behave according to the role they are expected to take in each forum

In the family business context, governance takes on a double importance, requiring governance structures for both the business and family. As the family grows and ownership expands, there is an increased need for planning formal governance structures for both systems (Carlock & Ward, 2001).

2.5.5 The Family Shareowners' Committee

The ongoing responsibility over ownership issues is best delegated to family shareowners who are informed about the business and ownership issues. Ownership that speaks with one voice to management and the board is essential to the future success of the business and family

Depending on the size and development phase of the family and the family business, it may be appropriate to establish a separate Family Shareowners' Committee to convey the views of family owners to the Board of Directors on ownership issues, and raise broad questions on the Board and Management's performance plans (Carlock & Ward, 2001).

2.5.6 The Board of Directors

The Board of Directors is often mentioned as the most important ingredient for business success, and operates as the formal communication mechanism between the company and the owners. The majority of families in business do not confine themselves to only owning the business; they often manage it and assume governing roles, such as having a seat on the Board of Directors (Ward, 1991).

According to Danco & Jonovic (1981) it is important that the Board of Directors become more decisive in family businesses that have been through their early start-up and development stages, particularly when they have progressed beyond the survival phase into owner-managed and multi-generational involvement phase.

In owner-managed and other closely held entities where there is a system of overlapping ownership, governance and management roles, the decision-making role of the Board of Directors is often diluted. In these situations, key decisions, contrary to sound governance practices, are repeatedly taken independently of the Board of Directors, which serves only to ratify them. Moreover, there is confusion between the role of family, social governance, the contractual governance role of the Boards of Directors, and the operational role of management and other committees (Danco, 1981; Balshaw, 2004b).

There are suggestions that Boards of Directors' characteristics adopt relatively large, active and external boards. This means that non-executive directors should not in any way have personal or professional relationships with the family or the firm (Nash, 1998).

Studies often do not hide an underlying, positive bias: Ward & Hardy (1998) suggest that the ideal board consists only of outside directors plus the CEO. In spirit; the CEO has a majority of independent outsiders to provide oversight and also the maximum amount of valuable counsel on key business issues.

Some experts disagree with this view. Ford (1998,1992), for example, suggests that outside directors reduce the influence of the board on several activities and functions due to their lack of understanding about the firm and the environment in which it operates, and a lack of availability to the firm. In another work, Huse (1994) suggests that family firm boards should be characterised by a mix of independence and interdependence. Adoption of active, external boards is typically explained or justified by family leaders' inability to perceive the limitations of their behaviour in the business environment (Alderfer, 1998).

Family owner-managers often resist forming a Board of Directors and using it effectively. They are concerned about loss of autonomy and discretionary control. They worry about confidentiality and privacy (Gersick et al, 1997; Friedman, 1998; Balshaw, 2004b). Directors need to be carefully chosen and the rules of participation made very clear from the outset (Lansberg et al, 1997).

Sonnenfeld (2002) suggests the following for building an effective Board:

- Create a climate of trust and candour

Share important information with directors in time for them to read and digest it. Rotate board members through small groups and committees so they spend time together meeting key company personnel and inspecting company sites. Work to eliminate polarising factions.

- Foster a culture of open dissent

If you’re the CEO, don’t punish mavericks or dissenters, even if they’re sometimes pains in the neck. Dissent is not the same thing as disloyalty. Use your own resistance as an opportunity to learn.

- Utilise a fluid portfolio of roles

Don’t let directors get trapped in rigid, typecast positions.

- Ensure individual accountability

Give directors tasks that require them to inform the rest of the board about the strategic and operational issues the company faces.

- Evaluate the board’s performance

Examine directors’ confidence in the integrity of the enterprise, the quality of the discussions at the board meetings, the credibility of reports, the use of constructive professional conflict, the level of interpersonal cohesion and the degree of knowledge.

- The Management Committee

The management committee on the other hand is less strategic, addressing largely operational issues and responsibilities delegated by the board through the CEO. These forums are tasks orientated, focusing on the day to day business and affairs of the company, including operational planning and efficiency, budget setting and revision, product and service development, human resource management and training (Friedman, 1998; Balshaw, 2004).

2.5.7 The Family Council

A family council is a mechanism many family businesses are increasingly utilizing to ensure the existence of a satisfactory forum for family communication (Carlock & Ward, 2001). The council is designed to facilitate discussion and decision-making on any number of important issues for the family and the business. It is a process designed to ensure that all family members have an opportunity to have a say and voice their opinions about issues of importance (Friedman, 1998). The family council should not be used to make business decisions or discuss management issues. It is important to recognise that families differ from each other in the way that they interact. These differences will impact in the level of discussion and the disclosure of issues, depending, for example, on whether the family is socially enmeshed or disengaged (Carlock & Ward, 2001; Balshaw, 2004b).

Governance is a fundamental stewardship responsibility of ownership and is of key importance to the continuing success of a family business. Formal governance structures are essential for the family shareowners and business. Unless formal mechanisms are in place to deal with the complex issues in a preventative manner, trust, unity and openness will not be achieved. Effective governance structures, such as boards, committees and other forums in the context of closely held entities will make governance clearer, more orderly and effective (Balshaw, 2004b).

Educated and well informed owners are important to the governance of the business. They need to appreciate the role and responsibility of the boards, executive management and family shareowners, and not get involved in endless debates and feuds over operational issues that can result in family shareowners' conflicts being carried over into the business (Balshaw, 2004b). Governance, or the lack of it, impacts significantly in the 'quality' of ownership in the family-run business.

2.6 Strategic Planning

2.6.1 What is Strategic Planning?

Strategic planning is a deliberate search for the business' vision, goals and objectives; and the consequent planning of courses of action, which includes the allocation of resources to develop and take control of the business' competitive advantage and its unique attributes (Balshaw, 2003; Carlock & Ward, 2001).

According to Ward (1998), family strategic planning addresses four questions: First: why is the family committed to perpetuating the business? For example, why not sell the company? What benefits does the family see in keeping the business? Second: how does the family see itself and the company in the years ahead? Does the family envision that many family members will be active in the firm, or will they be passive owners? Does the family see the business creating spin-off ventures for family members? Third: how will the family build and maintain strong relationships, resolve conflicts and work for harmony? How will the family and the business resolve questions of family compensation? Fourth, what are the specific steps required to accomplish the family's personal and professional goals each year? Is this the year to discuss and establish rules, such as expecting outside work experience? Will the family begin regular "family fun" activities, such as group vacations?

Answers to these questions are important, because in a family enterprise they shape business in ways that other companies do not need to consider. This mixing together of family and business plans is extremely challenging for the family business, because it means that the business and the family plans are highly interdependent (Lansberg, 1999). The business plan requires the family to determine the extent of its commitment to the company. That commitment depends on the prospects for the business that the planning process reveals. As a result, the family cannot separate strategic business planning from family strategic planning. It must undertake both in a connected and simultaneous way which needs to be very carefully managed and controlled (Ward, 1998).

If family businesses are to survive and thrive, they need to develop a culture of embracing change with strategic intent (Balshaw, 2004b). Most family-run businesses struggle to survive beyond a single generation (Gersick et al, 1997; Bennett 1999; Carlock & Ward, 2001; Ward, 1987). Strategic planning for both business and family can help to strengthen the family enterprise and extend its lifespan (Ward, 1987; Carlock & Ward, 2001).

Planning is very different in family businesses; for instance, it requires integrating the family's strategic plan with the business's strategic plan (Ward, 1997). Family concerns and preferences can influence the choice of business strategy and often make the family reluctant to embrace more formal goal-orientated discussions and decisions. Further, family considerations can limit the strategic aggressiveness of the family firm (Carlock & Ward, 2001).

> "It is of concern that South African family businesses are generally averse to change. They often do not understand or appreciate the role of strategic planning in developing a competitive advantage that will ensure the continuation of the family business beyond the current generation" (Balshaw, 2004a:144).

2.6.2 Strategic Planning to ad hoc

According to Balshaw (2004), family businesses are inherently insular, inward-focusing and restricted. They are reluctant to plan and, if they do, they tend to adopt a strategy that replicates past successes. Strategic decision-making is often ad hoc, based on the senior generation's intuition, and is invariably triggered by a crisis or setback such as the premature death of the patriarch/matriarch; steadily declining profitability; changing customer needs, products or technology; and increased competition.

It is clearly necessary to make the family business more professional in their outlook, and for the family to adopt a formal approach to strategic planning (Balshaw, 2004b; Ward, 1997; Gersick et al, 1997; Friedman 1997). Post (1993) suggests that for family businesses to remain successful, they should try to generate a new strategy for every generation that joins the business. This provides autonomy for the newly joined family members; this is good for the maintaining of good working relationships. Strategies recommended include starting a new venture or division of the business (Barach, 1984), internationalising (Gallo & Sveen, 1991), and helping successors acquire skills that other family members do not possess (Wong, 1993).

Individuals within the family go through different development phases and circumstances, as do the family, the owners and the business itself. Each stage has its own challenges, hurdles, responsibilities and tasks (Gersick et al, 1997). Accordingly, it is vital that the family's strategic plan will address issues such as succession planning – whether the family wants to perpetuate the family business in terms of ownership and/or management, equity ownership for family members, family members assuming an active role in the business, retirement of the senior generation, remuneration of active family members and conflict resolution (Lansberg, 1997; Carlock & Ward, 2001).

Family issues have a bearing on the outcome of the strategy of a family business. The family should provide direction on key issues; for example, by expressing the family's commitment to perpetuating the family business. The owner's goals for the family business may include return on investment, dividends, growth and maintaining tolerable risk levels (Balshaw, 2004b).

2.6.3 Benefits of Planning

Formal planning helps to prevent family businesses from not achieving their strategic potential by articulating assumptions and perceptions. Planning encourages commitment from family members as a part of the process. It provides techniques that help managers to assess the company's rate of reinvestment and assure that the business is retaining sufficient cash for a solid future (Balshaw, 2004b).

The literature strongly supports the argument that planning is a key issue in family-run businesses. Not only does planning increase the success rate (Barton & Hounsell, 1994; Jones 1982), but it affects the level of performance (Schwenk & Shrader, 1993). It has also been found that structured planning procedures allow firms to outperform firms with non-structured planning procedures (Bracker, Keats & Pearson, 1998) and results in a wider variety of strategic decision making.

Strategic planning gives the business direction and needs to be structured. This usually includes an environmental analysis; strategic internal and external diagnostic (SWOT); and the setting of specific measurable goals, objectives and strategies with specific action items, time frames, responsibilities, resource requirements and skills (Carlock & Ward, 2001; Balshaw, 2004b; Barton, 1994).

Individuals, families, owners and their businesses go through differing development phases and circumstances (Gersick et al, 1997). Each stage has its own challenges, hurdles, responsibilities and tasks (Gersick et al, 1997; Friedman 1997; Balshaw, 2004b). According to Balshaw (2004b), the family's strategic plan addresses issues such as:

- Succession planning
- Equity ownership for family members
- Family members assuming an active role in the business
- Retirement of the senior generation
- Remuneration of active family members
- Recognition
- Conflict resolution

The strategic future of the business involves assessing who the next leadership team will be. Not just the managing director, but also capable people who are young enough and dedicated enough to take the company to the next level, and not merely be clones of the founder (Jaffe, 2004).

According to Jaffe (2004), strategic planning for a family-run business is a two-dimensional process looking at the business' future, but also realising that the future lies within the context of ownership and control. The family looks after its business, as does the board. Both groups have their own concerns. The planning process has to ask how the family can achieve what it wants with the business it has. These two planning processes include some of the same people who are in both groups which may influence each other.

2.6.4 Reluctance of Family Business Owners to Plan

According to Ward (1997), the planning process often seems threatening to business owners. “Many think of planning as a straitjacket that will constrain their instinctive survival skills and limit business flexibility” (Balshaw, 2004a:145). The nature of the planning process also requires these independently minded business owners to share decisions and private financial statements with others in the company. These statements depict power and vital information that many owners would rather keep to themselves (Ward, 1997).

Others object to planning because they think the future is too uncertain to make the effort worthwhile. Rapidly changing markets, an unpredictable economy and the unclear career interests of the children are just a few of the unsettled issues that they foresee (Carlock, 2001). Perhaps the greatest threat to planning is its association with change. This association seems to create enormous dilemmas, because change requires compromise (Ward, 1997).

2.6.5 The Special Role of Personal Values and Family Communication

Even within families, values are bound to vary. They shape the choice of goals, modify the ability to tolerate risk, and influence ideas about teaching and learning. They show up in family decisions that, in turn, mould business strategies and the approach to strategic planning. How much money does the family need for security? The answer to this question affects the level of investment in a business strategy. This example illustrates how family factors influence the choice of strategy in a family business (Gersick et al, 1997).

Strategic planning strengthens the ability to share decisions and value orientation. Both are critical requirements for success in perpetuating the family business. So, in addition to providing a framework for evaluation and choice of a business direction and family goals, strategic planning is a process that prompts healthy communication on critical family issues (Ward, 1997).

It is clearly necessary to ‘professionalise’ the family business, and for the family to adopt a formal approach to strategic planning as this will affect the success of the business in the future.

2.7 Broad-Based Black Economic Empowerment

Broad-based black economic empowerment (BEE) is arguably the greatest strategic issue, challenge and opportunity facing businesses of all size, form and shape in South Africa. BEE is a government initiative to promote economic transformation in order to enable meaningful participation in the economy by black people (Balshaw, 2004a).

Broad-Based BEE touches a raw nerve – ownership and control – which, as has previously been stated, is a phenomenon that has been jealously, protected by family run businesses the world over for generations (Balshaw, 2004a). Families are often obsessed with control and have a business strategy of niche concentration and dominance (Jaffe, 2004). The wealth created by the business has in many instances been reinvested to sustain and grow the business. In essence, it is the “store” of the family’s wealth; there may well be no other nest eggs for many existing families in business (Lansberg et al, 1999; Gersick et al, 1997; Ward, 1997).

According to Goldberg & Balshaw (2004a), the BEE dilemma for family-run businesses is that:

- The majority of family wealth is invested in the business it owns and controls.
- Disposing of family equity removes funds from the heart of the economy.
- Family equity is replaced with highly geared debt finance.
- Interest and capital are repaid out of profits – dividends.

According to the DTI (2003), South Africa requires an economy that can meet the needs of all economic citizens – people and their enterprises – in a sustainable manner.

This will only be possible if the economy builds on the full potential of all persons and communities across the length and breadth of the country.

Family businesses and closely-held entities comprise over 84% of all registered businesses in South Africa, and are the engine of our economy (Bennett, 1999; Balshaw, 2004; Goldberg, 2005). The top of mind issue for many of these family business owners is the impact of BEE on their family businesses - particularly from an ownership perspective (Goldberg, 2005).

2.7.1 BEE Objectives

In pursuing BEE in South Africa, government has developed the following three important documents:

- The Strategy for Broad-Based Black Economic Empowerment (Strategy) in March 2003

- The Code of Good Practice (Code), which is an explanation of the approach to be adopted by government in the measurement of BEE compliance

- The Broad-Based Black Economic Empowerment Act 2003 (Act No. 53 of 2003).

According to the Broad-Based Black Economic Empowerment Act (Act No. 53 of 2003) Government defines BEE as having the following three separate but linked contexts:

- Promotion of ownership and control by black persons over the South African economy. This is measured by ownership and management criteria.

- Promotion of human resource development.

- Indirect empowerment, which includes the level of procurement sourced from black-empowered or black-owned businesses.

The following categories are, inter alia, proposed as a guide in the government strategy for broad-based BEE:

- A "black enterprise" is defined as one that is 50,1 % owned by black persons and where there is substantial management control.

- A "black empowerment enterprise" is defined as one that is at least 25,1 % owned by black persons and where there is substantial management control.

- A "black women-owned enterprise" is defined as one with at least 25,1 % representation of black women within the black equity and management portion.

Family businesses are discrete entities that choose, develop and implement their own particular structures, systems and practices appropriately tailored to the nuances of their unique set of circumstances (Gersick et al, 1999; Balshaw, 2004a; Lansberg, 1999). They face complex interrelated family and business issues (Lansberg, 1999), and there are also predictable life cycles and development phases which are often biologically induced (Balshaw, 2004a; Gersick et al, 1997).

> "One can only be confounded and perplexed by the apparent lack of understanding and awareness of the role family business plays in the South African economy, and the complex issues they face". (Balshaw, 2004b:1)

According to Balshaw (2004b), successful developed economies of the world give family businesses priority, yet in South Africa government, education institutions and other key role players still need to embrace them. Clearly, our economic future is dependent on creating, growing and nurturing successful family businesses.

Family businesses need to give BEE serious consideration. Equally government, in setting parameters for South Africa's economic transformation, needs to recognise, understand and create an environment that is conducive to creating and growing family businesses (Goldberg, 2005).

> "The cascade effect of BEE will be felt up and down the supplier chain – any business that ignores it would be ill-advised. The future strategic orientation of businesses clearly needs to be around BEE". (Balshaw, 2004b:20)

2.7.2 BEE a Strategic Social and Business Imperative

Before a family business can position itself with respect to its customers and competitors, the family and business lifecycle stage must be clarified – recognising that a family system is an emotion-based system and the business system task based (Gersick et al, 1997). The questions that must be asked are: What are the social and business imperatives of providing goods and services in South Africa? Who are our potential customers? And, do we want to transform into a truly representative South African based business? (Balshaw, 2004b).

In order to remain competitive, retain market position and leverage off new business opportunities, family businesses need to change their profile. The situation in South Africa is almost completely different to the past. If family business wants to trade with government departments and public entities, they will be required to demonstrate their BEE credentials; particularly in relation to ownership, governance, management, human resource development and affirmative procurement – in line with policy instruments, the BEE scorecard and applicable legislation. (Goldberg, 2005).

> "Each family business will need to examine its raison d'etre; choose, commit and position itself in relation to its chosen markets, resources and other strategic options and imperatives. It is a learning process in positioning, re-orientating and restructuring on the basis of shared values and committing to the chosen alternative" (Balshaw, 2004b p 20).

2.7.3 Triggering the Broad-Based BEE Process

Broad-based BEE legislation will be the trigger for a strategic transition in many family-run businesses in order for businesses to sustain their competitiveness in the market, and ultimately sustain and grow shareholder value without loosing control (Goldberg, 2005).

According to Goldberg (2005), the components of a transition are often the following:

- The continuous accumulation of development pressure.
- A trigger (for example, broad-based BEE legislation).
- Disengaging to dream, develop scenarios and explore options.
- Exploring alternatives and evaluating their feasibility.
- Commitment to new structure.

Once the broad-based BEE process is triggered, questions about the internal and external positioning of the family-run business will arise. It will be necessary to search for, discuss and evaluate alternatives as a precondition for strategic orientation around BEE. Parallel planning should address planning the future of both the family and the business around a promising vision and mission (Goldberg, 2005).

Family businesses who wish to be successful in the 21st century must preserve the values of the past, while creating a culture of change, innovation and flexibility for the future. Growth and transformation is a step-by-step process which requires time, understanding, patience, creativity, inordinate effort, compromise and commitment from all stakeholders – particularly family members (Gersick et al, 1997; Ward, 1997; Carlock & Ward, 2001; Balshaw, 2004a).

2.8 Conflict Resolution and Communication

Many families are, unfortunately, never free from the business. It tends to dominate every aspect of their lives, the business being run as though it is an extension of the family. There is an overlap between the emotion-based family system and the task-based business system (Gersick et al, 1997; Ward, 1987; Balshaw, 2004b)

According to Balshaw (2003) conflict in family-run businesses arises from numerous quarters, including the insular nature of the family members, lack of tolerance for process, autocratic seat-of-the-pants-style decision making, trying to be on top of everything, lack of clear vision and commitment, fear of succession, skewed perceptions and inordinate stress levels.

2.8.1 Containing Conflict

Balshaw (2004a) suggests that in order to reduce the potential for conflict and be successful, it is important that families understand the following:

- The need for clear and consistent communication
- The need to create formal decision-making structures
- The development phase of individuals, families, owners and the business
- The need to address special issues unique to family business

In effect, families in business need to be less secretive, since they have shared vision and goals, and they need to creatively stimulate communication.

According to Balshaw (2004a:16) there is no blueprint for family business success – "the issues families and family businesses face are similar, but families in business must be able to recognise and find their own solutions to these issues".

2.9 Ethnic and cultural considerations

Robbins (1991) makes reference to culture as a system of shared meanings, perceptions and beliefs held by persons belonging to some group.

Hofstede (1991) refers to the term ethnic, as a group of individuals who share a common culture, have a feeling of belonging and of common ancestral origin.

Given the above definitions of culture and ethnicity, one can identify the existence of the Indian, Jewish, Greek and black communities in South Africa that fall into these categories. These communities are clearly defined due to their culture and they are distinguished from other communities in terms of collective beliefs, norms, religion and language.

According to and Tagiuri & Davis (1982) entrepreneurs from distinct cultural or ethnic groups believe that their actions, as well as the actions of their colleagues in business, reflect on the reputation of the entire group. This identity leads to the monitoring of both their own and their fellow colleagues' (from the same cultural group) activities, thereby encouraging ethical and efficient business behaviour. Special words and phrases relating to common family experiences may evolve into a private language, creating heightened mutual awareness.

Advantages to the family firm of a common history and family language may include relatives drawing on one another's known strengths and trying to complement weaknesses, communicating well, and acting easily and in unison at work (Tagiuri & Davis 1982).

The above are important insights into the family and the family business, providing clues as to some of the reasons for a business' success and sustainability, which need to be studied further.

2.10 Conclusion

Based on the literature review, it is apparent that an understanding of the three dimensions (ownership, family and business) of Lansberg, Gersick & Associates' Three-Dimensional Model is vital to apprehending the unique dynamics of family business. The three dimensions also have a significant bearing on the recurring themes of the succession process, corporate governance, strategic planning and broad-based black economic empowerment within family businesses. It is furthermore apparent that there are a number of determinants of success for family-run businesses in South Africa, according to the literature. The researcher will examine whether these topic areas that arise from the literature are determinants of success for family-run businesses in South Africa, as based on interviewee perceptions, and if there are further underlying issues, such as culture, communication and trust, which impact on the success (or not) of these businesses.

3 RESEARCH PROPOSITIONS

On the basis of information afforded in the literature review, the following propositions were put forward. Of the issues that relate to family-run businesses and which emerge from the literature, some can be seen as external factors that are central to the success of the business, while the other set of factors can be viewed as internal.

3.1 Proposition One

External

The first proposition addresses external factors relevant to the development and future sustainability of family-run business enterprises in South Africa.

Succession Planning, Corporate Governance, Strategic Planning and Broad-Based Black Economic Empowerment are determinants of success for family-run businesses in South Africa, based on the perceptions of the interviewees to be sampled.

3.2 Proposition Two

Internal

The second proposition addresses internal factors (i.e., factors internal to the family as a unit) that have a bearing on family-run businesses in South Africa

From an internal family perspective, the future success of family-run businesses in South Africa relies on underlying factors, such as communication and trust, which are not apparent to outsiders. Therefore, success determinants underpinning family business are not limited to the ones cited above; there are others, which will be identified by the respondents.

3.3 Proposition Three

Ethnically distinct family-run businesses have specific cultural practices or beliefs that impact on the success of the family business in South Africa.

4 RESEARCH METHODOLOGY

4.1 Qualitative Research

This chapter describes the research methodology utilised in this study; the qualitative nature of the investigation is highlighted together with the research design, sampling characteristics and data analysis. This study was intended to examine the determinants of success for family-run businesses in South Africa. The research paradigm for the study was qualitative in nature.

According to Leedy (1997:185), qualitative research should be used when the purpose of the research is to "describe and explain". There are a number of characteristics that distinguish qualitative and quantitative approaches:

A qualitative approach, according to Schmitt and Klimoski (1991), allows for a rich and in-depth description of the phenomenon being researched. It is used to answer questions about relationships among measured variables with the purpose of explaining, predicting, and controlling phenomena (Leedy & Ormrod, 2001). This form of research can be productive in that it may bring to the surface issues and topics that are important, yet which are omitted by relying on the researcher as the source of what is relevant (Bryman, Brensen, Beardsworth & Kiel, 1998).

The qualitative approach is more holistic and "emergent" with the specific focus, design, measurement instruments and interpretations developing and possibly changing along the way. Researchers have open minds in this situation and interact with the participants (Leedy & Ormrod, 2001). The method is used to answer questions about the complex nature of phenomena, often with the purpose of describing and understanding the phenomena from the participants' point of view (Leedy & Ormrod, 2001:101), this method with all of its attendant strengths, will aid the researcher in geaining an in-depth understanding of the critical success factors for family-run businesses in South Africa.

4.2 Descriptive Research Design

Groebner and Shannon (1995) indicate that non-probability sampling provides the only feasible way of sampling where there is no way to estimate the total population. According to Leedy (1997), in non-probability sampling, there is no guarantee that each element in the population will be represented in the sample.

The research design took the form of in-depth open-ended interviews. The interview was based around three questions (Leedy & Ormrod, 2001). In-depth open-ended interviews, rather than the sending of a questionnaire, are selected for the following reasons:

- With an in-depth interview, while there is a schedule of questions to be asked, the methodology is a dynamic process which allows for flexibility in permitting the researcher to “pursue productive and appropriate lines of enquiry” (Schmitt and Klimoski, 1991). As the primary objective of the report is to identify critical success factors for family-run businesses in South Africa, it is necessary to seek the participant’s perspective and explore this with appropriate questions from the interview content.

- The danger with sending out a questionnaire containing pre-determined questions is that this will focus the respondent on areas which the researcher believes to be relevant and may therefore not raise the issues which the respondent thinks are important.

- A further advantage of in-depth interviews is that they provide a face to face encounter where large amounts of data can be obtained (Leedy, 1997).

- In-depth interviews, moreover, allow the researcher to adjust lines of questioning for immediate follow up. A questionnaire does not provide this flexibility.

4.3 Population and Sample

As previously noted, family-owned companies make up about 84% of South Africa's businesses and comprise 60% of the companies listed on the Johannesburg Stock Exchange (Bennett, 1999).

Families in business are characteristically distinct entities; it is difficult to objectively define and identify family businesses. A narrow definition would require multi-generational involvement in ownership, management and day-to-day operations (Balshaw, 2004)

Owing to this problem, the researcher identified the criteria for selection as follows:

1. They were all medium sized businesses. Medium sized businesses are defined here as firms with a turnover of between R6 million and R100 million

2. Businesses selected had more than 50% of voting shares owned by the family.

3. The chief executive officer and senior leadership were family members and had distinct control over the strategic direction of the business.

4. The organisations had been running for 5 years or more.

5. The businesses had a favourable liquidity ratio.

All of the companies selected met the criteria identified. The researcher received confirmation from the interviewees prior to undertaking the interviews. The technique of convenience sampling was used. The sample was composed of the first 20 family businesses identified below comprising 25 people aggregated into five distinct cultural groups, whose representatives were willing to participate in this study. The researcher is involved in his own family business and selected respondents with which he is familiar and has had a working relationship. The businesses that were researched represented a cross-section of sectors within the South African business environment.

The researcher nominated respondents from the following institutions who were interviewed.

Table 1: Summary of Respondents

COMPANY	NAME	DESIGNATION
Cultural Grouping: Jewish		
Ullmann Bros (Pty) Ltd Ullmann Bros (Pty) Ltd	Mr. A Goldberg Mr. H Goldberg	Managing Director Chairman
Barnes Tea & Coffee	Miss. Reid	Director
Orley Foods (Pty) Ltd	Mr. S Abrahams	Director
Cultural Grouping: Black		
Wandie's Place	Mr. Ndala	Managing Director
Blue Diamond Liquor	Miss. Cooper	Director
Egoli Carpets	Mr. Lucas	Managing Director
Co-Co (Pty) Ltd	Mrs. Khumalo	Managing Director
ED Design & Builders	Mr. Dlozi	Managing Director
Cultural Grouping: Greek		
Socrati (Pty) Ltd Socrati (Pty) Ltd	Mr. Trimmis Mrs. Trimmis	Managing Director Director
Valentis distribution	Mr. Valentis	Managing Director
Meze Foods (Pty) Ltd	Mr. Papadopoulos	Director
Exclusive Dry Cleaners	Mr. Parpottas	Director
Cultural Grouping: Anglo Saxon		
Weavers World	Mr. S Watkins	Joint Managing Director

Weavers World	Mr. R Watkins	Joint Managing Director
Creative Equipment Creative Equipment	Mr. M Guy Mr. H Guy	Managing Director Director
S.A Mercantile	Mr. Ferguson	Chairman
B & S Agencies	Mrs. Schaffner	Director
Cultural Grouping: Indian		
Chathley Holdings Chathley Holdings	Mr. A Chathley Mrs. P Chathley	Director Director
Delta (Pty) Ltd	Mrs. Lawrence	Director
Hoxies	Mr. Rawjee	Director
Cassims (Pty) Ltd	Miss. Cassim	Director

The following companies, which also meet the stated criteria and were familiar to the researcher, had been identified as a back-up in case additional firms were needed which was not the case.

1. Corp Com
2. Graphic Imprint
3. Sutherland & Sons
4. Beswick Machinery

4.4 Data Collection

The prospective interviewees were contacted telephonically and then electronically if requested. Contact was made at least 2 weeks prior to the actual interviews taking place, particularly when a series of interviews needed to be conducted outside of the Johannesburg area, such as in Cape Town. The researcher was mindful at all times of the time and effort that the interviewees kindly allocated to the project report and sought to display courtesy and an appreciation of the interviewees' contribution. The questions that formed the crux of the discussion were sent in advance to each interviewee if requested. The interviewees were informed of the value that the research potentially could bring to him or herself. Each interviewee was offered a copy of the research findings on completion. It was anticipated that the interviews would take approximately one hour each and the time allocated was discussed with the participants.

The personal semi-structured interviews were conducted using a carefully worded and unambiguous discussion guide. Careful thought and planning went into the questionnaire structure and the actual interview itself. The researcher taped the interview after receiving permission to do so.

Following the interview the researcher, if necessary, phoned the interviewee to confirm certain details of what was said in the interview.

According to Leedy (1997), there are eight steps for successfully handling the interview as a technique for gathering data for one's research:

1. Set up the interview
2. Send the agenda of questions you will ask the interviewee
3. Ask for permission to tape the conference
4. Confirm the date immediately in writing
5. Send a reminder together with the agenda of questions 10 days before you expect to arrive
6. Be prompt; follow the agenda; have a copy of your questions for your interviewee in case he or she has mislaid his or her copy.
7. Following the interview, submit a typescript of the interview and get either a written acknowledgement of its accuracy or a correct copy from the interviewee.
8. After you have incorporated the material into your research report, send that section of the report to the interviewee for final approval and written permission to use the data in your report

According to Leedy (1997:185), the task of the researcher is to "try to get to the heart of the matter by looking for themes that lie concealed…to find meaningful, shared themes in different people's descriptions of common experience".

The responses to the open ended questions will thus be classified into groups of answers and analysed accordingly to the number of responses in each of the classifications.

Each personal interview was approached in the following manner:

- All interviews were conducted by the researcher.
- All interviews were taped.
- Written notes were taken during the interview.
- The notes and taped responses were transcribed, typed and captured in electronic format.

4.5 Data Analysis

Content analysis was used to analyse the data collected from the interviews. Leedy & Ormrod (2001) describe content analysis as “a detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes or biases”. It was not the intention of the researcher to perform any quantitative analysis on the frequency of certain factors, but rather to document them in tabular format and then provide basic numeric analysis and interpretation of the factors.

- Classes of meanings were assigned to predefined questions
- Frequency counts of world/idiom meaning were assigned to the variables and studied and analysed
- Thus patterns of meaning were identified

4.6 Validity and Reliability

Internal validity is “the extent to which its design and the data that it yields allow the researcher to draw accurate conclusions about cause-and-effect and other relationships within the data” (Leedy & Ormrod, 2001:103), and external validity is “the extent to which its results apply to situations beyond the study itself” (Leedy & Ormrod, 2001:105).

4.6.1 Internal Validity

Internal validity, "[a]ttempts to minimise alternative explanations for the results obtained" (Leedy & Ormrod, 2001:107). The validity of the research was checked against participants who were involved in the research by asking them if what was recorded was accurate. Participants were asked to comment on what was found and follow-up interviews were conducted if necessary.

4.6.2 External Validity

To ensure that the findings were valid they needed to be generalisable (Leedy & Ormrod, 2001). This is to make sure that the sample is representative of the population. The external validity of this research is enhanced in that it takes place in "a real-life setting" (Leedy & Ormrod, 2001:105).

4.6.3 Reliability

The researcher made sure that the interviews were administered in a consistent fashion to ensure that the instrument was standardised. The researcher made sure that similar results were obtained in the interview process by administering the instrument himself (Leedy & Ormrod, 2001).

5 ANALYSIS OF RESULTS

5.1 Introduction

In this chapter the key themes stemming from the empirical data will be discussed. The principal purpose of the literature review was to establish what the determinants of success were for medium sized family businesses in South Africa, followed by an interview process aimed at confirming or rejecting these factors.

All the responses from the interviewees were content analysed as themes and constructs elicited from the interviews. Conceptual categories were developed as they emerged from the data. There was no reference to the theory as the themes and constructs were extracted directly from the contents of the interviews. The objective was to extract the perceptions and beliefs from the respondents themselves without preconceived ideas or notions intervening in the process.

5.2 Sample Description

A total of 25 interviews were conducted as depicted in tables 1 and 2.

Table 2: Description of sample by culture and gender

Culture	**Male**	**Female**	**Total**
Jewish	3	1	4
Black	3	2	5
Indian	2	3	5
Anglo Saxon	5	1	6
Greek	4	1	5
Total	**17**	**8**	**25**

There were 25 family members who were involved in the family-run businesses interviewed. The sample was racially and culturally diverse and those interviewed were predominantly male. This seems to fit the demographics of South African business in general. Table 2 depicts the culture and the gender of the sample. The sample constituted 4 Jewish businesses, 5 Black run family firms, 5 Indian organisations, 6 Anglo Saxon companies and 5 Greek family run businesses. There were 17 male and 8 female respondents within the sample.

5.2.1 Generations in the medium sized family run business

Respondents were asked to state which generation they originated from.

Table 3: Generation

Founder	**1st Generation**	**2nd Generation**	**3rd Generation**
9	11	4	1

This response was sought to determine if there was any difference in the way different generations within medium sized family run businesses ensure survivability. It was interesting to note that all of the respondents from black family businesses interviewed were founders of the business. This would also depict the legacy of the political circumstances that South Africa historically experienced. The researcher found it extremely difficult to firstly find black family-run businesses that fell into the stipulated category and, secondly, to receive consent to look at their financials, which they deemed to be of a sensitive nature. Many of the black business owners in South Africa have tended to steer towards corporate employment, but through the discussions held with respondents it is clear that there is definitely a shift towards family-run businesses. It is important to note that, over time, black family businesses will also experience the issues that impede other families in business as the firm is transferred from generation to generation. Table 3 depicts the lineage of the family business in the sample. The sample constitutes 9 founders, 11 first-generation, 4 second-generation and 1 third-generation interviewee. A correlation could be considered between the size of the business and the number of generations, as the majority of the businesses were in the R6 million to R47million range.

5.2.2 Length of Operation of the Business (years) and Interest Cover

Respondents were asked how long they had been in business and what their interest cover ratio was.

Table 4: Success

Length (years)	6 – 26	27 – 47	48 – 68	69 +
	5	9	3	3
Interest Cover	**1 – 2x**	**2 – 3x**	**3- 4x**	**5x**
	3	12	4	1
Turnover Millions of Rands	**6 – 26**	**27 – 47**	**48 – 68**	**69 – 99**
	6	6	3	5

The response from these three questions was sought to determine financial success and business sustainability success, which was established as part of the criteria for success, to which all respondents conformed. As depicted in table 4 the majority of businesses were in the 27^{th} to 47^{th} year of ownership. This would correlate to the majority of 1st generation owners within family-run businesses. There were only 3 family businesses in the sample which fell into the category of over 69 years old. Generally these businesses had a higher annual turnover but, interestingly, a medium range of interest cover. Turnover was in the mid range of the stipulated category for medium sized businesses, with the majority of respondents from businesses with annual turnovers of between R27 million and R47 million. Companies that fell into higher turnover categories have been in existence for a longer period of time and had more generations within the business. It was interesting to note that one of the respondents interviewed had an array of family members in the business covering the ownership developmental dimensions of the three-dimensional development model which was developed by Ward in 1987.

5.3 Perceptions of success

Respondents were asked three specific questions in which they were requested to: define success; identify what they considered the drivers for their success to be; and to elaborate on what had allowed them to be successful. These questions were posed to establish from the respondents what they perceived as success.

5.3.1 Definitions

Table 5: Themes for definitions of success

Rank	**Themes**	**Mentions**
1	Positive Cash Flow	25
2	Legacy	15
3	Respect	9
4	Social	7
5	Survivability	1

The prevailing opinion held by the respondents and gleaned from the research is that a positive cash flow is what they consider as success. *"… A positive cash flow for any family business is critical to its success in the long term in South Africa because without the ability to trade openly without debt and without the shackles that banks (introduce) the business can grow from strength to strength unencumbered"* (Respondent) It was highlighted as being strategic for family business development and growth to maintain a healthy positive cash flow. This was emphasised as the only way in which the family business can grow and prosper from generation to generation.

Furthermore, an overwhelming body of opinion held most strongly by the first generation is that leaving a legacy is of the utmost importance for any family business and, if able to do so, can be a true measure of the success of a family-run business. *"…Leaving a legacy is what success is all about because without that what have you achieved - nothing"* (Respondent). Interviewees felt that leaving a legacy to their children and to their children's children would enable the family to prosper and establish themselves in the ever changing economic environment.

The third key theme that came to the fore related to respect from customers. It is important to note that this was a theme used by many respondents from all sectors of the South African economy. *"…If I can ensure that my customers are satisfied at all times then this is what I consider success in my business"* (Respondent). Customer satisfaction was seen by the sample as critical to their success and the survivability of the family business. It was also considered of paramount importance to ensure that this happens at all levels within the organisation.

There were three mentions of social success within family businesses, which included thoughts on caring for employees and adequate remuneration for the entire workforce and family. It was interesting to note that all three mentions were from Indian family run businesses. *"…We make sure that the entire family is looked after whether they are employed by the business or not; it is just in our culture to protect our family financially"* (Respondent). Only one respondent mentioned survivability as a definition of success. Obviously survivability is essential for any business but as gleaned from the interviews it was not established as a definition of success by the interviewees.

It is interesting to document that many of the respondents noticeably had more than one thought with regard to success. Eight family business directors across cultural groupings, after having mentioned cash flow as a determinant of success, articulated that success was not only financial but that achievement of goals and being at peace with family and God was integral to their success as business leaders and family members, and that having this alignment at a higher spiritual level definitely aided their success as a family run business. Furthermore, it was noted that supporting social development signified social success, which was considered to be part of the theme of social responsibility. Many Indian family businesses made this connection to social success as they considered success to be the ability of the organisation to support social development causes within South Africa. A rich response that arose from one respondent was that the business did not matter and business success and survivability of the business was of no consequence *"…I love my life, I love my wife and I can only wish you that kind of success"* (Respondent).

While the literature regards organisational success as survivability (Robbins 1987, this did not apply in the research carried out here, thereby demonstrating a lack of knowledge in the literature with regard to how family-run business define success in South Africa. The study also revealed a distinctive between the theory (in the literature) and the practice (of real business according to the sample).

5.3.2 Drivers and determinants for Success

Respondents were asked to discuss what they thought the drivers were for their success.

Table 6: Constructs for Success

Rank	**Themes**	**Mentions**
1	Ambition	20
2	Integrity & Honesty	18
3	Passion for the Business	15
4	Education	14
5	Luck	13
6	Self Esteem	12
7	Ability	8
8	Hard Work	7
9	Experience	6
10	Respect for the Business	5
11	Entrepreneurial Spirit	4
12	Timing	3
13	Unique Product	3

From the responses it was apparent that ambition was a major theme, followed by integrity/honesty and passion for the business, which received the second and third highest mentions, respectively. Ambition as a construct was an interesting theme due to the fact that you certainly need an amount of entrepreneurial flare to manage and grow a successful business in South Africa which, as established from the research, these business owners certainly have.

Many of the interviewees held the perception that education was a major driving force for their success. Interestingly, 80% of the respondents who mentioned education were 2nd generation and had some type of tertiary education. *"…Due to the competitive nature of our business and the demands of globalisation it is essential that the senior family managers are well equipped from an education point of view to be able to compete in the global market"* (Respondent). Listed below are interesting quotes taken from respondents with regard to the benefits of education in family run businesses.

- *Planning for strategic growth, developing and implementing strategies.*
- *Being a catalyst for change – introducing new ideas and management techniques.*
- *Improving work flow, accounting, marketing and other operating systems*

The thirteen mentions of luck could be viewed as timing but have been identified separately in order to retain detail. Luck is an interesting theme that arose from the respondents. Many interviewees mentioned that they were in the right place at the right time and happened to stumble upon the business.

Another school of thought that emerged felt strongly that self esteem was essential to them as individuals. This was apparent within the 2nd and 3rd generations who needed to feel that they had made a contribution to the family business and was not looked upon as token appointments from the employees within the business. Furthermore, it was noted by one of the respondents that *"… if self esteem issues are not addressed timeously and effectively, there is a real danger that members of the next generation may, in the most productive years of their career, leave the family business"*.

Interestingly enough, all black family business participants rated respect for the business as their driving force for success *"…Don't kill the cow that feeds you"* was a quote from one respondent who stated that the entire family needs to understand how important the business is to the whole family and that the family members need to make sure that the business is protected and nurtured so that it can support the family.

There appears to be very little emphasis placed on what the business offers by way of a unique product. This perception may be because it does not matter what product you market or sell - it is the way you manage the business that matters.

5.4 Main Findings

There was no mention of survival as a driver for the success of the family business. The main themes taken from the respondents were: The ambition of the founder and family members, which ensure the growth and longevity of the business; integrity and honesty, which was seen as a major driving force by respondents for success; passion for the business was a definite driver for many interviewees as they indicated that without the passion for the business and what the business offers, success and survival would not be possible; and education, which certainly gave the business a competitive advantage within the market place due to the skills and formal education that the family had acquired. This signifies that survivability is not a construct for success, in contrast with the literature review.

5.5 The Relationship between Propositions, Key Themes and Resultant Conclusions

A comparison is drawn between the three propositions generated during the literature review and the dominant themes that arose through empirical research (interviews). The important differences are highlighted and analysed. At the end of each comparison, conclusions have been drawn. Respondents were asked a question as stated below. From the categorisation of answers given by the respondents, ten themes were developed that best described the answers. The results from these questions have been summarised in Tables 7, 8 and 9 where the key themes have been ranked according to mention.

External

The first proposition addressed external factors relevant to the development and future sustainability of family-run business enterprises in South Africa.

From a family business perspective, what do you consider to be the factors that have allowed you to be successful, and which will ensure your survivability from generation to generation?

Table 7: Themes for survivability arising from the research

The themes from the interview process did not fall into any of the constructs determined from the literature review and are depicted and discussed below. The analysis of these themes indicate that these are new constructs for medium sized family-run businesses in South Africa

Rank	**Themes**	**Mentions**
1	Professional Management	20
2	Qualified Family Members	18
3	Clarity of Roles	14
4	Respect	12
5	Common Goals	11
6	Adaptability	8
7	Diversification	6
8	Connected	4
9	Authority to Make Decisions	3
10	Prudence	2

Table 8: Constructs Determined from the Literature Review

Rank	Themes	Mentions
11	BEE	1
12	Strategic Planning	1
13	Corporate Governance	1
14	Succession Planning	1

The prevailing opinion held by the vast majority of interviewees was that professional management would ensure business survivability from generation to generation. This view was taken by all generations in the business. "*…Outside professional management will ensure that we stay competitive*" (Respondent). It is important to note that the majority held this opinion but that there were certain interviewees who did not even take this theme into consideration. These few respondents felt that their survivability was due to the family -- their involvement and the connections that they had established over the years whilst doing business professionally and with integrity.

Qualified family members received the second highest mention. There was consensus among respondents that family members need external business experience before entering the family business. This perspective was conveyed generally from the founders of family run businesses. There is a general belief that this will result in respect from non-family employees and will aid in the confidence and ability of the next generation. *"…My son has a professional qualification and worked in the legal field for six years before entering the family business. He has definitely enhanced the business and brought a qualified and technical view to the organisation"(Respondent).*

The third key theme that came to the fore related to clarity of roles amongst family members within the organisation. Respondents felt that they needed clear and decisive roles in order to establish themselves in a position which ultimately leads to accountability and ownership. One interviewee stated that *"… he never grew as an individual before the business introduced clarity to different family members' roles"(Respondent).* Another respondent said that the founder of the business was always covering for the family members and never gave them the responsibility to learn and make mistakes. *"…All I wanted was to make my own decisions about certain issues and be responsible for my choices"* (Respondent).

Respect for the family and the business was a prevailing theme amongst black and Anglo Saxon family run businesses. Interestingly, the theme was raised predominately by founders of the organisation. *"…If your children respect you and the business that supports the family then you can ensure survivability from generation to generation"* (Respondent). This is a theme that came through strongly as the founders were ready for retirement and probably needed to ensure stability of the organisation.

Diversification as a determinant for success/survivability was a perception held mainly by Anglo Saxon family businesses. There appears to be some relationship to generation with regard to this opinion. The majority of the sample who mentioned diversification were in the 1st generation category. "…*In order for my father to feel comfortable with the fact that I am taking over the business, diversification of business interests and financial funds is essential"* (Respondent). Many family-run businesses have all their wealth, and generally the founder's wealth, tied up in the business. It was established through the empirical research that any money gained through the business is reinvested in order to achieve growth. Diversification was the only way that families could get some money out of the business, which ultimately would ensure an easier transition from generation to generation due to the fact that the founder feels more comfortable knowing that not all his wealth is tied up in the business.

Succession Planning, Corporate Governance, Strategic Planning and Broad-Based Black Economic Empowerment was considered essential by only one company, which happened to be Jewish with a turnover of over R80 million. The interviewee had those answers on the tip of his tongue due to the fact that his company had gone through a family business workshop. The respondent had initiated the process due to the complexity of the organisation and the vast number of family members working within the company. The respondent's organisation had gone through many of the phases as stated in the literature review, such as the Ownership Development dimension, the Family Development dimension and the Business Developmental dimension, and issues such as succession were very real at this time due to the extent of the family. A successor needed to be identified and nurtured into the CEO position as easily and quickly as possible. Corporate governance was also identified by the interviewee as essential to the success of the business in order for them to manage and run the business correctly through committees and councils. Strategic planning was seen as critical due to the fact that issues such as broad-based black economic empowerment were discussed and deliberated upon. Broad-based black economic empowerment was a crucial theme for their survivability as a family business due to the pressure that government was putting on the organisation in order to comply and meet the stipulated scorecards.

5.5.1 Discussion

The literature review generated the proposition that Succession Planning, Corporate Governance, Strategic Planning and Broad-Based Black Economic Empowerment are determinants of success for family-run businesses in South Africa.

There does appear to be a difference between the determinants of success identified in the literature review and what actually applies in the real world. This study shows that Succession Planning, Strategic Planning, Corporate Governance and Broad-Based Black Economic Empowerment are not determinants of success for medium sized family-run Businesses in South Africa

The literature review highlighted that passing the company on as a profitable concern and in good condition to a new generation of leaders is a goal that drives the members of all three circles (family, ownership and business) (Gersick et al, 1997). According to Balshaw (2004b), if a family-run business is to continue growing successfully, the informal methods of start-up must give way to a more disciplined and professional environment. If family businesses are to survive and thrive, they need to develop a culture of embracing change with strategic intent (Balshaw, 2004b). Broad-Based BEE touches a raw nerve – ownership and control – which, as has previously been stated, is a phenomenon that has been jealously protected by family-run businesses the world over for generations (Balshaw, 2004a).

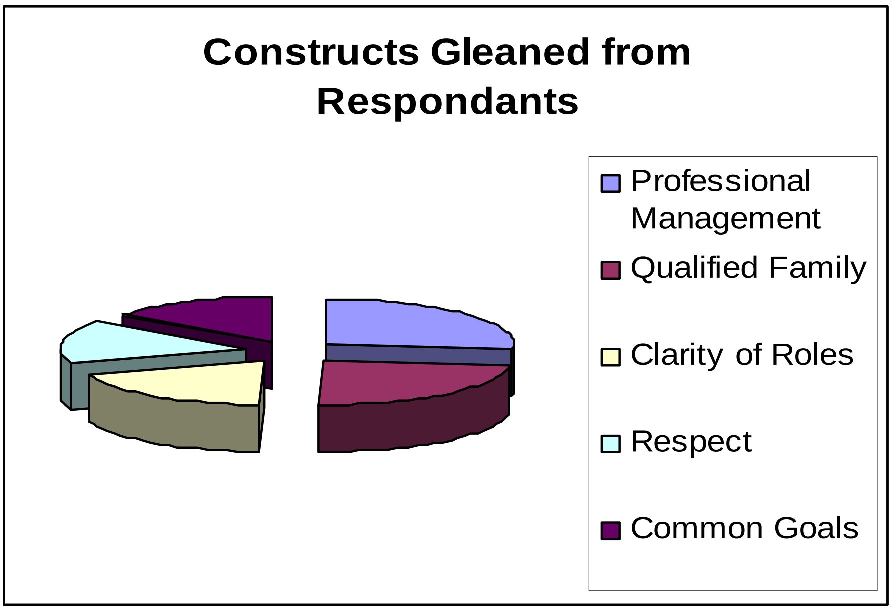
In the empirical work for this report, Succession Planning, Corporate Governance, Strategic Planning and Broad-Based Black Economic Empowerment did not emerge as important determinants of success. Only one respondent in the entire sample (Jewish, 2nd Generation) spoke of these elements. The absence of these topic areas probably relate to the informal measures and practices that family businesses seem to employ.

In order to ascertain if the respondents understood the question correctly, interviewees were prompted on the topic areas. This resulted in a clear response to the effect that they did not consider the topic areas to be a consideration in the determinants of their success.

Ambrose (1983) suggested early inclusion of children into responsible positions in the business would greatly enhance the probability of successful transfer of ownership. The study respondents do not see early inclusion as a determinant for success. Instead, they stipulated that external work experience before entering the business was critical to the ongoing success of the organisation. Gaining work experience outside the family business was seen as critical for the majority of interviewees. Being able to bring something to the business and add value definitely made for an easier and more effective transition phase within the business, both for employees and the family as a whole.

The constructs identified by the study informants are not consistent with the mindset of the scholarly work of family-run businesses. The new themes that were gleaned from the respondents as depicted in Table 7 indicate new constructs which should be carefully considered by any family business as these are constructs that the respondents identified as external determinants for their success.

Figure 1: Constructs Gleaned from the Respondents



5.6.1 Professional Management

The respondents identified the need for professional management within medium sized family-run businesses in order to be successful, grow and satisfy the needs and demands of its stakeholders. The family needs to pursue a policy of ensuring that the business is run by the most competent management.

All participants within the sample group responded that the owner-manager's attitude to professional mangers in key management positions is crucial to survivability. The owners need to understand and accept the critical role of professional management, and undertake to not, for any reason, place unreasonable pressure on management for dividends, jobs or benefits inconsistent with the business objectives.

Interestingly, in the literature Levinson (1971) refers to the employment of professional managers and encourages family firms to implement professional management as soon as possible. Succession was not identified by the respondents as a determinant for success. The inclusion of professional management within the family business appears not to be greatly emphasised in the literature study. By contrast, professional management was seen by participants in the empirical component as crucial to the successful transition for the business and the family.

5.6.2 Qualified Family Members

Factors identified by the interviewees regarding qualified family members within the organisation are essential to note, as families are discovering that their roles as owners are more important to the success and legacy of their business, and are embracing the concepts of 'family owned' and 'professionally managed' to enhance both the family and the business. As described by the majority of the respondents, it is usually when the owner-manager phase begins to formalise and the company experiences growth that it is critical that the family business has a qualified family member to lead the company through its competitive environment.

5.6.3 Clarity of Roles

One key factor that emerged during the empirical research but was less emphasised in the literature study was the notion of conflict within family-run businesses which, according to Balshaw (2004a), arises from numerous quarters and which a clear understanding of family members' roles and positions within the organisation can contain. It is essential to clearly define each member's role within the family business, ensuring that there is no overlap of responsibilities which can result in confusion and ambiguity among the family members. As determined from interviewee perceptions, it is important that the family communicate and discuss their roles within the business as often as possible as the business is a dynamic organism which changes regularly and clarity needs to be confirmed and discussed.

5.6.4 Common Goals

The theme of common goals was articulated by a vast majority of the respondents who felt that in order for the business to survive from generation to generation common goals and a shared vision were critical to the family and the business. It was identified that the whole family has to have the same idea of where the business is heading, and that there should be no confusion in this regard. It was interesting to note that all interviewees had the same philosophy regarding the shared vision for the direction of the business.

In the final analysis, the literature review generated constructs regarding determinants of success for medium sized family-run businesses in South Africa which, according to the empirical data findings, did not apply to the real world of family businesses. In fact, the empirical study produced results that identified ten new constructs for determinants of success. The most discernible factor gleaned from the interviewees was including professional management in the family business to ensure survivability from generation to generation, which was acknowledged by 18 of the 25 interviewees.

5.5 **Internal**

The second proposition addresses internal factors - factors internal to the family as a unit - that have a bearing on family-run businesses in South Africa.

The question that was asked by the researcher was:

From a family perspective, what do you think are the underlying issues that are critical to the future continuity and success of your business?

The split of total mention for the various themes is well distributed between the nine themes identified during the interview process. The distribution ranges from the highest mention of 25 to the lowest mention of four. These themes are used in the analysis of the data to establish the determinants of success for medium sized family-run businesses in South Africa.

Table 9: Themes for Determinants of Success

Rank	**Themes**	**Mentions**
1	Trust	25
2	Communication	18
3	Spouse Support	15
4	Religion	13
5	Love	12
6	Integrity	7
7	Formal Decision Making	6
8	Respect	5
9	Maintain Link to the Past	4

Generally most interviewees mentioned communication in the same sentence as trust and regard communication as integral to their success. Furthermore, it was stated that *"… without communication you can't begin to trust"* (Respondent).

There was broad-based recognition on the role that religion plays within the family and the business. This perception was held mainly amongst the Indian and Jewish respondents. Interestingly, one Anglo Saxon (who mentioned that he was Catholic) interviewee stated that *"…without God in both our business and personal life the family business definitely would not have survived each generation. We instil a culture of respect, integrity and honesty which is the backbone of our existence and stems from our belief in God"*.

It was interesting to note that all Indian interviewees acknowledged that maintaining a link to the past was a major characteristic for Indian family-run businesses and this was emphasised to every generation entering the business. The founder of the business is always recognised and ancestors from the past needed to be thanked for the continual success of the organisation.

5.8 Discussion

The literature review generated the proposition that from an internal family perspective the future success of family-run businesses in South Africa relies on underlying factors such as communication and trust, which are not apparent to outsiders.

Various factors emerged from a comparison of the literature and the empirical research that enable one to draw conclusions in this regard.

Research indicates that most families are never free from the business dominating every aspect of their lives. There is an overlap between the emotion-based family system and the task-based business system (Gersick, 1997; Ward, 1987; Balshaw, 2004a).

Balshaw (2004a) identified certain factors for containing conflict and insuring continuation of the family business, one of them being communication.

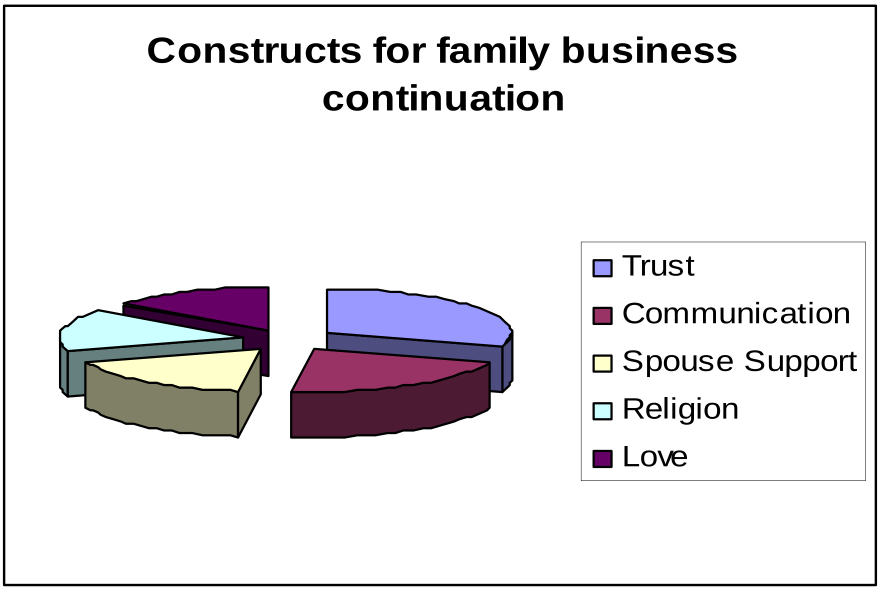
- ❖ The need for clear and consistent communication

The research question has been answered by taking the total mentions per construct as perceived and interpreted by the interviewees. An indication can be obtained of the importance of each construct by totalling the mentions for each construct and thus ranking them in order of importance.

Table 10: Constructs Mentioned but not Prominent in the Literature Review

Rank	**Themes**	**Mentions**
1	Trust	25
2	Communication	18

Figure 2: Constructs for Family Business Continuation



5.8.1 Trust and Communication

All interviewees held the perceptions that trust within the family is critical to the future continuity of the business. "…*I could not be involved with my family in business without trusting them completely to look after my best interests and it is fantastic to be* *able to have that security"* (Respondent). Overwhelmingly, trust was mentioned first without fail and is definitely the dominant theme in this research.

One of the key factors that arose from the empirical segment of the study was the issue of trust and communication. It is evident that the success of the family and the business hinges on the overarching characteristics – Trust and communication. They are the key values in the successful family system and the glue that binds the family together. Trust means that one can rely on and have confidence in the truth, worth and reliability of a person or thing. According to a respondent *"… It is essential that family members trust one another and those in family business leadership positions, so that they can work together collaboratively – across family branches, generations and other stakeholders in the family business"*

5.8.2 Spouse Support

One key factor that emerged during the observed research and which was not mentioned at all in the literature review was the notion that spouse support was a central aspect to the family within the family-run business and was thought to be one of the most important themes in answering the question:

From a family perspective, what do you think are the underlying issues that are critical to the future continuity and success of your business?

Interestingly, spousal support was seen by the majority of the participants as vital to their success as a business and a family. One respondent even said that *"…without my wife's support for the business the organisation would never have survived"*. Not all participants who mentioned this theme had a spouse working in the business. They nevertheless felt that the spouse's support in decision making and the stability that they represented within the family was essential and placed great importance on this aspect. It was fascinating to note that this perception stemmed from both male and female participants.

It is the opinion of the researcher that the spouse, particularly the mother, binds the family together within the family-run business context. The mother or wife is a crucial aspect within the family, the business and ownership. The wife (and/or mother) is able in many instances to smooth the way forward for the next generation to enter the business and to succeed the founder of the organisation or the previous generation. It is an interesting consideration for researchers to ponder, but what must be strongly reinforced is the considerable importance of the spouse within a family-run business and the role that he or she plays.

5.8.3 Religion

Many of the participants placed immense importance on the role that religion played as an underlying theme critical to the future success and continuity of the family run business. The researcher perceived religion to mean a belief in God or a following of a spiritual leader. This was one of the key factors that arose from "cultural" family businesses and, interestingly, was at times the first construct mentioned.

The researcher observed that the interviewees trust in God or a spiritual leader definitely assisted families in business by way of decision making and managing various governance issues that may arise from time to time. Most interviewees felt that without their faith to rely on and trust in they could not have succeeded in business and, especially, continued the family business from generation to generation.

5.8.4 Love

Love was a theme mentioned by 48% of the respondents as an essential factor for the family within the family business. One could assume that loving your family goes without saying but if you don't show it in business for family members then, as identified in the research, it can cause distrust and confusion within roles, especially when the business enters the Cousin Consortium phase of ownership when there are extended family within the business and a lot of vying for position and succession.

In conclusion, factors which have not been prominent in the literature review, and perhaps not been fully understood or researched in any depth, have been be examined based in this empirical study and support the proposition that the success of medium sized family-run businesses are reliant on underlying factors that have not been fully understood in the literature review.

5.9 Factors for Success

The main objective of the study was to assess if the determinants of success identified in the literature hold true for medium sized family-run businesses in South Africa. The empirical study extracted that there are in fact additional and hidden factors that contribute to family-run business success. Such factors were not prominent in the literature and not understood or researched in any depth

Respondents were asked to identify the most important determinants of success for the family business owners. From the answers given by the participants, themes were developed to determine - in their view - what was essential for their continued success and what would ensure their survivability from generation to generation.

Would you please rank the factors which have allowed you to be successful in order from the most important to the least important?

Table 11: Factors for Success

Rank	**Theme**	**Mentions**
1	Trust	25
2	Communication	23
3	Determination	18
4	Entrepreneurial Skill	15
5	Respect	12
6	Love	8
7	Prudence	7
8	Enjoyment	6
9	Ethics	5
10	Education	4
11	Mentorship	3
12	Support	2
13	Spouse support	2

5.10 Discussion

An overwhelming body of opinion, held by all participants and gleaned from the research, is that trust is the most important theme that has allowed medium sized family-run businesses to be successful from generation to generation. *"…without doubt trust is the only way that we can run our business. Trusting each other has allowed the business to grow in a non threatening environment with absolutely no lobbying or politicking involved"* (Respondent). It does appear that communication is closely linked with trust and the researcher feels that you cannot have one without the other. As one respondent quoted *"…open dialogue within the business creates an environment that is conducive to trust and love"*

Family business owners also ranked determination as a major determinant for their success. Interestingly, it was a vital theme in the research and above all else the respondents felt that without determination and drive from the family members the business would not have succeeded. The perception of the respondents was that Determination was very closely linked to hard-work. Hard-work and determination was a major construct with regard to success and without them the organisations would not be successful.

Entrepreneurial skill was another key factor that arose in the interviews and was fascinatingly the prevailing opinion amongst Indian and Greek interviewees. *"…Trading is in my blood - whatever I have achieved has been instilled in me from an early age by my father, and his father"* (Respondent). Furthermore, one respondent went as far as to stress that *"…without entrepreneurial flare you could never run your own business and be successful from generation to generation"*

Prudence was another theme raised by the interviewees and which had not been mentioned before in any of the other questions posed to the respondents. Being prudent in business with regard to the financials of the company was highlighted, as was the fact that the family should be aware of this and not do anything to jeopardise the family business. This theme was raised mainly by black family business owners who regard the business as the life-blood of the family that should be nurtured and grown slowly and carefully. *"…We do not just spend our money on stupid things; we are very careful in how we manage the business"* (Respondent).

Enjoyment was a refreshing and interesting theme revealed by the study. As one respondent declared, *"… without enjoying what you do, the business will never become valuable and grow so that it will survive to the next generation"*. It was also confirmed that it was difficult for the family business to succeed if the next generation did not have a definite interest in what the family business does. Respondents felt it was vital that any family member that entered the business was honest with him or herself about whether they enjoyed the type of business and had a passion for whatever the business was involved in.

Mentorship was also raised by a few respondents as invaluable to their survivability as a family business. This opinion was primarily expressed by 2nd generation family members and it is worth mentioning as the researcher feels it is a very important aspect in the continuation of the family business. It was felt by one respondent that without his father’s mentorship when he had taken over the family business he could never have survived through certain tough times. It is important to note that many of the family businesses interviewed still had the founders in the business working part-time or in a supportive role to the current CEO.

It is clear from the research that the determinants of success for medium sized family-run businesses, as gleaned from the interviewees, are largely due to many underlying issues that were not mentioned in the literature review, and have not been fully understood or studied in any great depth. The research confirms proposition number 2, which highlights the importance of underlying issues to the survival and sustainability of family-run businesses in South Africa.

5.11 Practices According to Ethnic Groups

South Africa is an extremely diverse country with a population that is made up of a melting pot of different ethnic groups and cultures. The myriad diverse groups within South Africa carry with them a certain culture that can, to a large extent, be traced back to their specific country, or culture, of origin. This would include countries such as Greece, India and Israel, and African cultures such as those of the Xhosa or Zulu. What effect therefore do culture and ethnicity have on the family business and what makes one more or less successful than another?

No particular questions were asked by the researcher with regard to culture and success but certain themes were extracted from the respondents of each cultural group interviewed. Certain deductions were made by the researcher with regard to constructs and themes.

5.11.1 Black Cultural Group

Most participants within this cultural grouping spoke about the importance of looking after and securing the longevity of the family business. This response emerged from the founders of the business and was reiterated by all family members interviewed. The family business needs to be respected by all family members and appreciated for the security that it affords the family (Table 9, ranked 8th). In this study, respect is categorised under ‘respect for the business’ and ‘respect for the people within the business’, such as the founder.

There was widespread recognition amongst all black family members that making sure the business is managed prudently and reinvesting in the business to ensure its survival was the key to all black-run medium sized family businesses. Reinvesting in the business was critical to many of the black respondents in this study *“…putting our profits back into the business has enabled us to invest in another business in Soweto and helped us to diversify our risk by opening up a hotel that will be positioned at the foreign tourist market giving them a true township experience that they can experience and treasure”* (Respondent).

5.11.2 Indian Cultural Group

Entrepreneurial flare (Table 6, ranked 11^{th}) was the key theme extracted from the Indian Cultural Grouping. Trading and doing business from an early age and being able to spot gaps in the market and act on them was a highly regarded trait and a main school of thought that emerged strongly in the study from this cultural grouping. It was established through the interview process how important this aspect is to the Indian culture and that all children are expected to learn the business and be able to make a contribution from an early age.

Interestingly, all the Indian respondents were of the opinion that entrepreneurial flare was critical to their success as a family business. Generally, the Indian-owned family businesses interviewed were more successful than any other cultural grouping with regard to turnover and interest cover ratios. Another theme which arose and has not been discussed is the importance of the family - and not just the family members within the business. According to one of the respondents *“… We look after the entire family financially. Whether they are working in the family business or not, they share in the success of the business and are supported as much as possible by all the family”.*

Recognition of a religious figure was deemed to be extremely important for the success of the Indian family business. Respondents felt that their faith and belief had enabled the business to succeed from generation to generation. This is identified in Table 8, which shows the constructs for determinants of success, and where religion is ranked 4^{th}.

One respondent made the observation that their success as an Indian company was due to the fact that Indian businesses had slotted themselves throughout the value chain and had formulated integral buying alliances that definitely aided them in achieving success as a cultural group and as a family-run business.

As depicted in Table 9, trust and communication (ranked 1^{st} and 2^{nd}, respectively) are considered major themes which were established through the interview process. These themes were strongly felt by the majority of Indian family-run businesses. It was felt that due to the presence of trust and communication little is questioned from any members of the family.

5.11.3 Jewish Cultural Group

As deduced from the study of Jewish family-run businesses that there was a definite culture of professionalism (as shown in Table 7, ranked 1^{st}) that held them together. Generally all participants believed strongly in outside professional management at board level to help run and guide the business. These individuals would act as non-executive directors and receive fees for their contribution in the boardroom. A consensus amongst respondents within the Jewish culture was that non-family executives need to have a symbiotic relationship with the family owners.

It was acknowledged how important it was that the non-family directors understood and shared in the same values as the family and were committed to the family and the business vision. This theme of professionalism (professional management), as gleaned from the empirical research, led to many other concerns for the family in business. Considerable attention was placed on compensation, cultural fit and communication. Obviously all three of these sub-themes within the Jewish cultural grouping were of concern to the family and needed to be carefully managed.

Religion was highlighted as a major theme by all Jewish interviewees and is at the forefront of any success for them as a cultural group. Religion is what bound the business together from all aspects and which would help the business and the family with regard to guidance and governance. Within the Jewish family organisation it was especially characterised by the cultural fit of any non-family employee who had to understand and have a genuine respect and appreciation for the family and its value system.

5.11.4 Greek Cultural Group

An entrepreneurial spirit (Table 6, ranked 11th) was also considered vital to the Greek respondents. It was listed as most important by many interviewees and it was acknowledged that without the business training from an early age by parents and grandparents the success of the business would not be what it is today. The importance of being entrepreneurial came through strongly in the survey highlighted by all Greek participants.

The ability of the entrepreneur to engender trust amongst a wide variety of different stakeholders is seen by the respondents as a critical trait of the leader of the family-run business. This ability was seen to be instilled in the family members from an early age, which ultimately enhances their ability as business leaders within the business environment in which they operate.

As a cultural group, communication played an important role for the business and the family as a whole and was seen by many participants as vital to their success. It was acknowledged that there is no formal structure within the business. The future success of the company rested on the fact that all family members communicated with each other and identified the role that communication played in the current and future success of the family business and for the family in business.

5.11.5 Anglo Saxon Cultural Group

Anglo Saxon respondents from the empirical study did not articulate any cultural issues that affected how they ran their organisations but one aspect that did arise was that respect for the founder was of the utmost importance (Table 9, ranked 8th). In discussions with the founders of family-run businesses the importance of earning and getting the respect from the next generation was generally established, as was its importance for a successful transition from generation to generation. Respect was more of an internal issue within the Anglo Saxon group. It was something that the founder needed as recognition for his/her invaluable input and for the contribution that he/she had made as the business had dominated every aspect of their lives since its inception. Consistency through many years of hard work, high standards and growth of the business were set as ideals by the founding father of the business. As the owner s/he had to maintain his/her belief in the business through difficult times and, as a family member, had to make sure the family could work together and solve disagreements. S/he also had to effectively separate and balance the dynamics of the home and work environment. *"…I, as the founder, have a significant influence and impact on the culture that develops within the business and this needs to be respected by all the family members within the organisation. I appreciate and need the admiration of my entire family for what I have achieved over the years"* (Respondent).

In conclusion, research gathered through the interview process and through the empirical study confirms proposition 3 that ethnically distinct family run businesses have specific cultural practices or beliefs that impact on the success of the family business in South Africa.

The research shows that culture does play a part in the success of family run businesses and it is fascinating to note how successful Indian families have been in South Africa in business and as a family unit. This supports the proposition that issues internal to the family as a unit that have not been identified in the literature review are definitely determinants for success for medium sized family-run businesses in South Africa. If the family and the business are managed correctly and with complete trust and understanding by all concerned, then the family and the business will grow from strength to strength as illustrated by the majority of the cultural groups examined.

6 CONCLUSION

The research revealed that of the three propositions stated, only one was incorrect, namely proposition 1, and that in fact the determinants of success for medium sized family-run businesses are internal to the company and are also pertinent, and internal, to the family as a unit. These determinants include underlying factors such as trust, communication, love, respect and loyalty. Other themes not specifically internal to the company or family that were identified as important determinants for survivability, include the need for more professional management in order to steer the company forward, as was highlighted in Table 7 where it was considered an important construct for survivability.

The research further showed that there are many internal and external determinants of success for medium sized family-run businesses in South Africa. Among the larger companies that were researched there was an identifiable trend to appoint a more educated management who shared the family's goals and visions and would ultimately aid and guide them through the many issues that face the family and the business, assisting them to ensure survivability from generation to generation.

There can be no doubt that in South Africa the growth, success and sustainability of family-run businesses is vital to provide employment and assist in the growth of the economy. There are obviously formal business issues such as succession planning, corporate governance, strategic planning and, in particular, broad-based black economic empowerment that will affect family-run businesses in South Africa as they continue to grow successfully from informal start-up companies to more disciplined and professional organisations. If they are willing grow and continue to be successful, having the correct formal business structures in place will ultimately aid them in attaining competitiveness.

Understanding complex interrelated family systems and issues is fundamental to a successful family business as established through the empirical research. Families who fail to anticipate, recognise, address and resolve complex family issues -- such as communication, trust and obtaining a balance between often conflicting family and business roles -- do so at their peril. On the other hand, those that do find solutions to these issues realise the rewards of a successful business and the joy of a happy, functional and fulfilled family life.

6.1 Recommendations

This research should help families in business identify the issues and dynamics that contribute toward the complexity of a family-run business in South Africa. The goal of the family working together harmoniously, and the family business being run efficiently and profitability, is attainable, but the members of the family will need to devote thought and time to the issues researched in this empirical study.

As identified in the research findings it is essential that all medium sized family businesses recognise the importance that internal issues pertinent to the family, such as trust and communication, play in the longevity and survivability of the business.

Balshaw (2004a) recommends effective communication and trust, making certain recommendations to management. In the absence of trust, continuity of the family legacy as shared heritage is remote. In such circumstances conflict is an inevitable consequence and could potentially result in loss of family harmony and the business. Trust is built through activities and events that often seem insignificant or small. Having fun and doing things together builds trust – for example, a family retreat, shared leisure activities, sports, arts and culture. It implies that people have the freedom to develop, grow and become unique. Trust also implies risk - the risk that someone's actions might not be congruent with the family values and that such actions could prove to be damaging.

Trust and communication is enhanced by addressing conflict, having shared vision, establishing appropriate communication channels and decision making structures, sharing information and avoiding secretiveness, and ensuring appropriate sanctions in circumstances where trust has been breached.

According to Ward (2001), and as discussed in the literature review, the following structures have a profound impact on effective communication and the researcher agrees they would definitely invoke effective dialogue between family members.

- ❖ The Shareowners Committee
- ❖ The Board of Directors
- ❖ The Management Committee
- ❖ The Family Council

6.2 Ideas for Further Research

- This research can be replicated to large family-run businesses. It would be interesting to understand if family businesses take on more formal methods when they reach an annual turnover of over R100 million.

- Further research may entail looking at family owned companies as opposed to family-run companies. This would pertain to aspects such as non-family executive issues and concerns, characteristics of successful non-family executives, cultural fit and compensation of non-family executives.

- Another idea for further research would be to undertake an empirical study of black family owned businesses in South Africa. Due to South Africa's history there seems to be little research on black families and how they manage their organisations from a cultural point of view.

- This exploratory study employed mainly qualitative methods. Further research employing more quantitative techniques could provide valuable insight.

- It would be interesting to study the after-succession environment that exists when the management and leadership of the family business are passed on to the next generation.

- The role that consultants play in the management and success of family-run businesses in South Africa. Consultants are an important function within business today and especially family run businesses. An interesting study would be to ascertain the impact that family business consultants have had on the family business and to what extent they have enabled the business to survive from generation to generation.

- According to Goldberg (2006), Broad-Based Black Economic Empowerment is arguably the greatest strategic issue, challenge, threat and potential opportunity facing business of all sizes, structures and shapes in South Africa today. It is a government initiative to promote economic transformation in order to enable meaningful participation in the economy by black people. A very interesting topic which has not been covered yet by any university research report would be to research the effects of Broad-Based Black Economic Empowerment on family-run businesses in South Africa and how it will affect ownership within the business.

- Research generally addresses issues of executive development, leadership and succession but it is obvious from the results of this study that significant gaps remain in the literature. Furthermore, few studies have systematically explored the systems by which the future leaders and successors of family run businesses are developed. The research conducted by Fiegner (1994) presented a descriptive study in which the successor development approaches of small to medium-sized family and non-family businesses were compared. The findings indicated that;

    - Family businesses favour more personal, relationship-centred approaches to successor development.

    - Non-family businesses prefer formalised, task-oriented development approaches.

- Professional management as highlighted in this study is of the utmost importance to the survivability of the family business, and more emphasis needs to be placed on this theme to ensure that family businesses can grow and maintain their competitiveness. It would be interesting to research the non-family executives and their role within family businesses. The characteristics of successful non-family executives can be researched to assess the important similarities that exist between successful non-family executives within the family-run or family owned business environment.

- Remuneration of family members within the business is a topic which has not received any attention from academics or family business scholars. A quantitative study emphasising remuneration and parity with other non-family run businesses in similar positions would definitely lead to an interesting study.

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8 APPENDICES

APPENDIX 1

Telephone Protocol

Good Morning my name is Chris Lewis-Enright. I am an MBA student at Wits Graduate School of Business Administration. I am currently undertaking a research report in partial fulfilment of my MBA degree. The Graduate School of Business places a great deal of emphasis on the research report, which ultimately forms a significant part of the MBA programme.

I am conducting research on family businesses in South Africa. I understand that the information may be of a confidential nature and for this reason I assure you that all information will be dealt with on a strictly confidential basis. I would like to include your family business in my research. This will entail a semi structured formal interview, which should take us about one hour to complete.

The research will be limited to businesses which have an annual turnover of between R6 million and R100 million. Does your company fall into this profile of medium sized businesses? Does your family control the majority of the voting shares in the business? Would it be possible to have a look at your financials?

I understand that you have a busy schedule but would appreciate your assistance and co-operation with my request.

- Set up a time for the interview

Thank you.

APPENDIX 2

Interview Protocol

Opening Statement to Respondent

Thank you for agreeing to contribute to this research study. The interview will not last longer than an hour. Your contributions will be anonymous, neither your name nor your company will be linked to any statement or comments made.

As mentioned briefly in our telephone conversation, I am investigating Family Run Businesses in South Africa and I would appreciate your comments and input with regard to this study.

PROPOSED INTERVIEW QUESTIONS

Section 1	**:**	**General Information and Demographics**
Name	:	---
Company	:	---
Address	:	---
Telephone No.	:	---
Facsimile No.	:	--
E-mail Address	:	--

1. Are you the chief executive or successor? Please state your position in the company (Founder, 2nd generation, 3rd generation)

2. Financial turnover over the last five years (million of Rands)?

3. How long have you been in business for?

4. What is your interest cover ratio?

5. Define what you consider success?

6. What do you think the drivers are for your success?

7. What has allowed you to succeed?

Section 2 : Key Research Questions

Question 1

External

From a family business perspective, what do you consider to be the factors that have allowed you to be successful and which will ensure your survivability from generation to generation?

- If succession planning is mentioned
  - Prompt
  - Is the business's succession plan documented?
  - Has the businesses succession plan been clearly communicated to the potential successor and staff?
  - Are all members of the family involved in the succession process?

- If corporate governance is mentioned
  - Prompt
  - Does your family business have structures in place to ensure proper corporate governance?
  - What structures are in place – family councils, management committee, Board of Directors, family shareowners committee?

- If strategic planning is mentioned
  - Prompt
  - Is it a structured plan or ad hoc?
  - Does the planning involve the family or only the business?
  - Are you as the owners of the business, averse to change or do you embrace it?

- If BEE is mentioned
  - Prompt

- Have you investigated the process of BEE?
- Have you planned for BEE in your succession plan?
- Has your business in any way been affected by the process of BEE?

Question 2

Internal

From a family perspective, what do you think are the underlying issues that are critical to the future continuity and success of your business?

- o Prompt
- Communication
- Conflict
- Disagreements
- Trust
- Values
- Culture
- Commitment

Question 3

Would you please rank the factors which have allowed you to be successful in order from the most important to the least important?

APPENDIX 3

Consistency matrix

The following will be applicable to all the propositions in Chapter 3

Proposition 1	**Source of theory**	**Source of data**	**How analysed**
Succession Planning, Corporate Governance, Strategic Planning and Broad-Based Black Economic Empowerment are critical success factors for family run businesses in South Africa	When owner-managers retire, more than two-thirds of family firms cease or pass to new owners, and less than one-third are continued by the next generation (Beckhard & Dyer, 1983; Emshwiller, 1989; Lansberg, 1998). If the owners of the firm want it to remain family-run and -owned, then succession becomes a crucial issue.	Question 1	Content analysis
Proposition 1	**Source of theory**	**Source of data**	**How analysed**
	If a family business is to continue growing successfully, the informal methods that start-up businesses portray	Question 1	Content analysis

	must give way to a more disciplined and professional environment (Balshaw, 2004; Lansberg, 1997; Friedman, 1998)		
Proposition 1	**Source of theory**	**Source of data**	**How analysed**
	Most family-run businesses struggle to survive beyond a single generation. Strategic planning for both business and family can help to strengthen the family enterprise and extend its lifespan (Ward, 1987; Carlock & Ward, 2001)	Question 1	Content analysis
	According to (Balshaw 2004) family businesses and closely-held entities comprise over 84 percent of all registered businesses in South Africa and are the engine of our	Question 1	Content analysis

	economy. The top of the mind issue for many of these family business owners is the impact of BEE on their family businesses, particularly from an ownership perspective (Goldberg et al, 2005; Balshaw, 2004).		

Proposition 2	**Source of theory**	**Source of data**	**How analysed**
From an internal family perspective, the future success of family-run businesses in South Africa relies on underlying factors such as communication and trust which is not apparent to outsiders. Therefore, critical success factors underpinning family business are not limited to the ones cited above; there are others, which will be	According to Balshaw (2004a:16) there is no blueprint for family business success – "the issues families and family businesses face are similar, but families in business must be able to recognise and find their own solutions to these issues'	Question 2	Content analysis

identified by the respondents.			
Proposition 3	**Source of theory**	**Source of data**	**How analysed**
Ethnically distinct family-run businesses have specific cultural practices or beliefs that impact on the success of the family business in South Africa.	According to Tagiuri & Davis (1982), entrepreneurs from distinct cultural or ethnic groups believe that their actions, as well as the actions of their colleagues in business, reflect on the reputation of the entire group. This identity leads to the monitoring of their own and their fellow colleagues' (from the same cultural group) activities, thereby encouraging ethical and efficient business behaviour. Special words and phrases relating to common family experiences may evolve into a private language creating heightened mutual awareness.	Question 2 & 3	Content analysis