MANAGEMENT SUCCESSION OF BLACK-OWNED FAMILY BUSINESSES IN LIMPOPO PROVINCE

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ABSTRACT

The family business is often said to be a special kind of firm. It is special in the way family members involved combine family life and work. Therefore, it is difficult to view the business, the management and the ownership separately.

In both advanced and developing economies, the great majority of business enterprises are family owned, and together they typically account for well over half of all existing and newly created jobs.

Management succession in family business is an issue of growing importance. These businesses generate a significant proportion of the economic activities in many countries, and a majority of these businesses are approaching the point where business owners will most likely be making serious decisions regarding their long-term future. The manner in which such large numbers of potential business successions is managed will impact, not only upon these individual businesses but also upon the business sector and society more broadly.

The problems encountered in the family business succession planning are generally human ones. Consequently, the areas most in need of consideration, the issues to be managed and the difficulties that must be overcome when family business plan for succession mostly revolve around relationships, individual attitudes and experiences, business and family cultures and the values and aspirations involved. This makes it unlikely that any single model or approach to family business succession planning can be applied in all situations.

However, some common themes emerge from a study of the business succession planning literature and the suggested models on offer. The required successor attributes need to be identified and appropriate processes for selecting and nurturing a suitable successor determined. The timing and manner for any hand over need to be matched to existing circumstances. The role and need of all the important participants should be acknowledged.
Future business planning and a family business vision shared by all should be established. Ownership, management and inheritances are importance issue and must be addressed. Maintaining good relationship and open communication process is vital. The future of the successor must be clearly determined and managed.

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

It further addresses the importance of understanding business succession. It links aspects of succession planning and successor preparation to the effectiveness of the transition and performance of the business.

The research was conducted by means of a literature and empirical study. The purpose of the literature study was to gain in-depth knowledge on family businesses and management succession. The literature study formed the basis of understanding family businesses and management succession.

In light of the findings of the empirical study, it was concluded, that the most neglected things in ensuring management succession of black-owned family businesses are: succession planning, selection of a successor, retirement planning, communication and family forums within the family businesses.
DEDICATION

I dedicate this project to my late grandfather Nyambeni Ben Daba and my late sister Thivhavhudzi Daba
ACKNOWLEDGEMENTS

It will be impossible to acknowledge adequately all the people who have been influential during my studies and specifically this mini-dissertation.

My deepest appreciation goes to:

- My Lord, for carrying me in times of vulnerability. His wisdom and strength have inspired me to be the best I can.
- My wife, Tshiwela, who supported and encourage me when things seemed tough.
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CHAPTER 1
NATURE AND SCOPE OF THE STUDY

1.1 Introduction

Family businesses make a substantial contribution towards the global economy (Maas, Van der Merwe & Venter, 2005: 5; Balshaw, 2003: 15). They are part of our economic life; provide jobs and lasting legacies to millions of people.

The role of family businesses cannot be underestimated when it comes to the realities of unemployment and job creation. Hess (2006: ix), Kenyon-Rouvinez and Ward (2005: 1) and Poza (2004: 3) estimated that 80 percent or more of all the registered businesses in the United States are family-owned and family controlled. Kets de Vries (1996: 3) stated that in Europe, this percentage range from 52 percent in the Netherlands to more than 80 percent in Germany and Austria. Family businesses are the primary engine of economic growth and vitality not only in the United States, but also in free economies all over the world (Poza, 2004: 3).

South Africa is no exception. Family businesses have been making a positive contribution towards the South African economy for the past 300 years or more (Van der Merwe, 1998: 3). Today’s economic realities and unemployment have forced many people to start their own businesses or, on completion of secondary or tertiary training, enter an existing family business (Maas et al., 2005: 6). Thabetha (2005: 4) indicated that in South Africa family businesses absorb between 50 and 60 percent of labour force and contribute 30 percent to the Gross Domestic Product (GDP) and this contribution is growing.

Maas et al. (2005: 6) said that the involvement of family adds a unique dimension to the business. In ideal circumstances a family business can be considered successful when the business is making profit, the family is happy, the full potential of family members is realised, wealth is created for the entire family and the continued existence of the business is ensured for generations to come.
1.2 The importance of family businesses

Family businesses, according to Ibrahim and Ellis (1994: 3), employ roughly 48% of the work force and contribute 50 percent of the Gross Domestic Product (GDP) of the United States. Kenyon-Rouvinez and Ward (2005: 1) and Balshaw (2003: 15) estimated that family-owned businesses represent 50 to 90 percent of the Gross domestic Product (GDP) in all free market economies and they generate more than 75 percent of new jobs and employ more than half of the work force.

According to Maas et al. (2004: 2-3), the family business plays a crucial role both socially and economically throughout the world. Figure 1.1 provides an overview of the economic contributions and proportions of family businesses to total businesses worldwide.

Table 1.1: Worldwide highlights of family businesses

<table>
<thead>
<tr>
<th>Country</th>
<th>% of FBs</th>
<th>GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>90%</td>
<td>63%</td>
</tr>
<tr>
<td>Chile</td>
<td>75%</td>
<td>50-70%</td>
</tr>
<tr>
<td>USA</td>
<td>96%</td>
<td>40%</td>
</tr>
<tr>
<td>Belgium</td>
<td>70%</td>
<td>55%</td>
</tr>
<tr>
<td>Finland</td>
<td>80%</td>
<td>40-50%</td>
</tr>
<tr>
<td>France</td>
<td>&gt;60%</td>
<td>&gt;60%</td>
</tr>
<tr>
<td>Germany</td>
<td>60%</td>
<td>55%</td>
</tr>
<tr>
<td>Italy</td>
<td>93%</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>74%</td>
<td>54%</td>
</tr>
<tr>
<td>Poland</td>
<td>80%</td>
<td>35%</td>
</tr>
<tr>
<td>Portugal</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>Spain</td>
<td>79%</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>75%</td>
<td>50%</td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>65%</td>
</tr>
</tbody>
</table>

Source: Timmons and Spinelli (2007) (quoted by Van Buuren, 2007: 3)

In South Africa family businesses are also seen as the predominant way of doing business today (Ackerman, 2001: 325). Maas et al. (2004: 2-3) poses that family business permits the character, energies and resources of a family to be focused
over a long term building a profitable business, providing and facilitating family growth.

Family businesses are important in resolving unemployment problems in South Africa as they are the primary contributors to the business economy and can offer powerful opportunities for further economic growth in South Africa (Venter, Boshoff & Maas, 2003a: 1). In South Africa it is estimated that more than 80% of all businesses have family ownership involvement, and more than 60% of all listed companies in South Africa comprises family involvement at least during its start-up phase (Van Buuren, 2007: 2). However, a large proportion of family businesses in South Africa are small to medium-sized enterprises, with nearly 50% employing less than 20 people per business (Van Buuren, 2007: 2).

Poza (2004: 3) summarises the importance of family businesses in United States as follows:

- Family businesses accounts for 49 percent of the Gross Domestic Product, and 59 percent of private sector employment.
- It is estimated that between 80 and 95 percent of all incorporated businesses in the United States are family-owned and family controlled businesses.
- Full one-third of all Fortune 500 companies are family controlled.

Family businesses are therefore primary contributors to the economy (Maas & Diederichs, 2007: 3; Maas et al., 2005: 10; Venter, Boshoff & Maas, 2003b: 2). However, their general lack of longevity is a cause for concern (Lansberg, 1999: 1). The vast majority of start-up ventures fail within the first five years. Maas et al. (2005: 8) estimated that only 30 percent of family businesses are transferred to the second generation and only 10 percent are transferred successfully to the third generation.

From the literature study it is evident that family businesses contribute considerably to the global economy and cannot be underestimated as such. It is therefore important to keep the family business alive.
1.3 Problem statement

The family businesses play an integral role in the South African economy and also in Limpopo Province’s economy. It is an important instrument in job creation, addressing unemployment and providing sustainable growth for the economy.

Black-owned family businesses however, find it difficult to continue for a long period of time (Carlock & Ward, 2001: 3). Given all the generation successions, Kets de Vries (1996: 5) puts the average lifespan of a family business, after a successful start-up, at 24 years.

According to Venter et al. (2003a: 2), one of the main reasons (if not the single important reason) of the high failure rate among first- and second generation family businesses is their inability to manage the complex and highly emotional process of ownership and management succession from one generation to the next.

It is apparent that to be able to manage succession properly, the succession process needs to be planned, identify and understand factors that influence succession in family businesses. Only then can family members address succession proactively (Venter et al., 2003b: 3).

This study is specifically focused on management succession of black-owned family businesses. A well-considered and planned succession will maximise the chances of finding a competent successor and will ensure smooth leadership transition between generations. The ultimate aim of the study is to offer managerial recommendations that could assist family business owners in successfully addressing succession.

1.4 Objectives of this study

1.4.1 Primary objective

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

It further addresses the importance of understanding business succession. It links
aspects of succession planning and successor preparation to the effectiveness of the
transition and performance of the business. The emphasis is not only placed on the
planning but also on the successor factors that lead to effectiveness.

1.4.2 Sub-objectives

In order to achieve the primary objective, the following subsequent sub-objectives
must be met:

- To determine what a family business is.
- To define the family business and its unique characteristics and culture;
- To identify the importance of family business;
- To emphasize the importance of management succession and succession
  planning in the family business.
- To determine the succession processes and procedures that enable family
  businesses to survive in the long term.
- To analyse management succession in black-owned family businesses in
  Limpopo.
- To present recommendations to ensure successful management succession in
  black-owned family businesses.

In order to achieve the above objectives, relevant literature on family businesses and
succession planning was researched and an empirical study was undertaken.
1.5 Scope of the study

The scope of this study covers black-owned family businesses in Limpopo Province. Refer to Figure 1.1 for a location map of Limpopo Province.

Figure 1.1: Location Map of Limpopo Province

Source: http://www.sacarrental.com/limpopo-map.htm

This study focuses on black-owned family businesses that are controlled by one family and the family having an intention to pass ownership to the next generation.

1.6 Research methodology

According to Welman and Kruger (1999: 2), research is a process in which scientific methods are used to expand knowledge in a particular field of study. Research in any field seeks to generate new information or knowledge which in turn, can be applied to solve problems, improve quality of life and provide better understanding of a research problem (White, 2004: 9).
It is argued by Leedy and Ormrad (2001: 8) that research originates with a problem and end with that problem solved. De Vos, Strydom, Fouche and Delport (2002: 78) further confirmed that conclusion resolves the research problem.

The definition contains the basic elements necessary for defining research, namely that successful research is pre-planned, conscious and deliberate process in which the researcher attempts to systematically investigate or analyse a problem (Babie, 1998: 24; Ghauri & Gronhaug, 2005: 56).

The following aspects will be required, given the objectives of the study:

1.6.1 Literature review

A literature review was done on the family business and succession planning. The purpose of the literature review was to refine or polish a person's theoretical understanding of the topic, to familiarise one with the latest theoretical developments and debates in the area of research and to acquaint one with the problem and results obtained by previous researchers.

The literature on family businesses is covered in various countries and views on family businesses are found locally, internationally and on the Internet. These views document the initiatives of family businesses in providing the preparations necessary to ensure family harmony and continuity of the family business through generations (Swart, 2005: 11).

1.6.2 Empirical study

All research methodologies rest upon a bedrock axiom, viz the nature of data and the problem for research dictate the research methodology (Leedy & Ormrad, 2001: 12). According to Ghauri and Gronhaug (2005: 140) and Leedy and Ormrad (2001: 14), qualitative research involve the use of qualitative data, such as interviews, documents and participant observation data to understand and explain social phenomena.
De Vos, Strydom, Fouche and Delport (2005: 268) and Leedy and Ormrad (2001: 14) indicate that the research methodology, which seeks to prove beyond reasonable doubt, is quantitative methodology. Quantitative methodology measures in terms of numerical data and uses tables, statistics and discussion in relation to the hypothesis. In this method theory is casual and deductive (De Vos et al., 2005: 93,160).

According to Ghauri and Gronhaug (2005: 145), quantitative research methods were originally developed in the natural sciences to study natural phenomena whereas qualitative research methods were developed in the social sciences to enable researchers to study social and cultural phenomena.

De Vos et al. (2005: 85) further state that all research, whether quantitative or qualitative, are based on some underlying assumptions about what constitutes valid research and which research methods are appropriate. In this research, quantitative approach will be used. Questionnaires based on the information obtained from the literature study were compiled and distributed to the relevant or appropriate family businesses.

The results of the questionnaires were analysed and documented. With this study it is hoped to achieve final conclusions and recommendations in such a way that it lead to achieving the objectives of the study.

1.7 Research process

The research process is a detailed process that the researcher must decide to adapt and it consists of a number of steps. Authors vary as to the number of steps to be followed in the process of conducting research. Although White (2004: 12) indicates seven steps, De Vos et al. (2002: 85) indicate only five steps. For the purpose of this study, the seven steps as proposed by White (2004: 12), will be used and are indicated in Figure 1.2.
1.7.1 Selection of a researchable topic or choosing a topic

The first step in the research process is that of identifying the research problem. Before deciding on the final topic of this study, various ideas were generated. Choice of research is important for several reasons, e.g. is the topic worth pursuing and is it practicable? (Ghauri & Gronhaug, 2005: 30).

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

- Is it possible to define the scope of the research properly?
• Is there enough literature available to enable a person to do proper literature study?
• Will the topic be interesting?
• Will it be possible to be able to substantiate the importance and usefulness of the research?
• Will the topic be relevant to enhance a person’s knowledge in business administration?
• Is the data susceptible to analyses?

Based on the above, a research problem, management succession of black-owned family businesses, was identified.

1.7.2 Formulate the problem and research questions

According to Ghauri and Gronhaug (2005: 43), problems are ‘questions’ driving research. De Vos et al. (2002: 100) stressed the importance of pinpointing a specific problems, questions or hypotheses as soon as researchable topic has been identified. This phase is sometimes called “focusing”. De Vos et al. (2002:100) further pointed out that writing and thinking will be difficult if the researcher lacks focus.

The way in which research problems are captured and framed drives subsequent research activities. The process of constructing research problems is not quite straightforward and often involves a lot of back and forth adjustment (Ghauri & Gronhaug, 2005: 43). Poorly formulated questions will lead to misguided research design (Ghauri & Gronhaug, 2005: 43).

1.7.3 Research design

Research design provides a plan or a framework for data collection and its analysis. It reveals the types of research, priorities of the researcher, research methods and the techniques used to collect data.
In this phase a quantitative research approach was identified. According to De Vos et al. (2005: 80), quantitative approach is defined as an inquiry into a social or human problem, based on testing a theory composed of variables, measurement with members analysed in order to determine whether the theory holds the truth.

De Vos et al. (2005: 170) indicates that the questionnaire should be brief, including only those questions which are absolutely necessary to collect all the relevant information and should long enough to incorporate all the questions, so that situation does not arise later where information is missing.

According to Monette, Sullivan and De Jong (2002: 169), the format of the questionnaire is influenced by whether it will be a mailed, telephonic, group-administered or other type of questionnaire, as well as where under what circumstance and by whom it will be completed. A questionnaire is accompanied by a covering letter that includes necessary information and motivates the respondent to complete the questionnaire.

De Vos et al. (2005: 170) stated that the format and layout of a questionnaire is just as the nature and wording of the questions asked. Questionnaires should be neat, clear and easy to follow (Rubin & Babie, 2001: 153). Inadequately laid out questionnaire can lead respondents to miss questions, confuse them about the nature of the data desired and, in the worst case, lead them to throw away the questionnaire. Each question should be numbered, never cramped questions together, or abbreviate the questions in order to shorten the questionnaire (Neuman, 2003: 284).

Respondents should be given a clear and precise direction or instruction on answering the questions (see attached example below).
In the questionnaire used in this study, the following format was used:

<table>
<thead>
<tr>
<th>A1</th>
<th>Relevant question</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
</table>

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

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

To answer the question the respondents select the number that best describes how he/she felt about the item.

It will take approximately 30 minutes for each family member (younger and senior generation) to complete the questionnaire. The completion of the questionnaire is not compulsory and the long completion time most definitely had a negative impact on the response rate.

This questionnaire is to be completed by both senior and younger generation family members who are actively involved in the family business.

1.7.4 Data collection

Data collection is the means by which measurement is realised (Du Plooy, 1995: 42). There are few basic way to collect data and the most widely used techniques are observing behaviour and asking questions (Du Plooy, 1995: 42).

In this study, a literature study on family businesses and management succession was done to help the researcher to find more useful information to solve the research problem and also to better understand and explain the research problem. The secondary data which has already been collected by someone else, the data may be
published or unpublished and can be found in journals, magazines, books, newspapers, reports and dissertations (Ghauri & Gronhaug, 2005: 91).

Primary data was collected during the course of conducting research in the form of structured questionnaires delivered by hand and personal interviews. According to De Vos et al. (2002: 174), by using this method much time can be saved.

A sampling plan was selected by using a convenience sample method and snowball-sampling technique was used (De Vos et al., 2005: 203). This technique entails approaching a few family businesses from the family business population in Limpopo Province. These businesses then act as informants and identified other family business from the same population for inclusion in the sample; the latter then identified a further set of family business in Limpopo so that the sample must be like a rolling snowball grows in size (De Vos et al., 2005: 203; Ghauri & Gronhaug, 2005: 184).

The study is focused on management succession of black-owned family businesses in Limpopo. Five districts from the province participated in this study i.e. Bohlabela, Capricorn, Sekhukhune, Vhembe and Waterburg. Seven percent of the family businesses that participated in the study are in the Bohlabela District, 40% in the Vhembe District, 30% in the Sekhukhune District, 15% in the Capricorn District and 8% in the Waterburg District due to time constrains a larger sample size could have given a better insight to this study.

1.7.5 Data analysis

After the data has been collected the task of analysing the data needs to be done. The main purpose of the analysis is to obtain meaning from the collected data. This will enable the researcher to draw conclusions and make recommendations.

The interpretation of data is essential for the simple reason that the usefulness and relevance of the research findings lie in proper interpretation (Swart, 2005: 25). Interpretation refers to the task of drawing inferences from the collected facts and
implies a search for the broader meaning of the findings (Du Plooy, 1995: 42). The statistical techniques used in this study are discussed below.

1.7.5.1 Frequency distribution

Frequency distribution is the grouping of data into mutually exclusive classes showing the number of observation in each (Ghauri & Gronhaug, 2005: 143). There are various graphic ways in which frequency may be displayed, such as bar graph, histogram, frequency polygon, pie chart and pictogram (De Vos et al., 2005: 222). The class frequencies are represented by heights of the bars and the bars are drawn adjacent to each other. Histogram is used for continuous data (De Vos et al., 2005: 222) and provides an easily interpreted visual representation of a frequency distribution.

1.7.5.2 Arithmetic mean

The arithmetic mean is one of the three measures of central tendency and it is the most accurate measure of central tendency (De Vos et al., 2005: 233-234). It is a useful instrument for all types of data, except nominal data (Page & Meyer, 2000: 147).

Arithmetic mean is calculated by summing all the observations in a batch of data and then divides the total by the number of items involved because it makes use of every score of the distribution (Leedy & Ormrad, 2001: 122; Neuman, 2003: 340). This is the only measure of central tendency where the sum of the deviations of each value from the mean will always be zero.

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

Standard deviation measures the square root of the average deviation from the mean, using square distances to emphasise the influence of unusual data (De Vos et al., 2005: 235). It is based on the mean and gives an "average distance" between all the scores and the mean. Standard deviation is used for comparison purposes only (Neuman, 2003: 342).

1.7.5.4 Cronbach alpha analysis

To assess soundness of the measuring instrument that was used, the internal consistency between the variables in the questionnaire was evaluated by making use of the Cronbach alpha coefficient. It was used to assess the consistency of the individual items or indicators of the scale.

The Cronbach alpha coefficient is based on average correlation of variables within the test, e.g. a reliability coefficient of 0.70 implies that 70 percent of the variance in the observed scores is due to the variance in the true scores. A high reliability coefficient generally indicates that the measure is highly reliable, whereas a low coefficient would indicate weak reliability.

Page and Meyer (2000: 292) stated that reliability coefficient lower than 0.60 are deemed to be questionable, those closer to 0.70 are considered acceptable and greater than 0.80 as good.

1.7.5.5 Tests of statistical significance

These tests have been developed to ascertain whether the results obtained by data analysis are statistically significant, i.e. whether they are meaningful and not merely the results of chance (De Vos et al., 2005: 242). These tests are executed on what is called a "level of significance".

According to De Vos et al. (2005; 242), these levels can be chosen in theory, but in practice conventions have developed which prescribe that the tests are usually
performed on either the 0.05 or the 0.01 level of significance. This means, in case of the 0.05 level of significance, that there is a 95 percent chance that the results are due to the influence of an independent variable. On the 0.01 level of significance, there is a 99 percent chance that the results are not due to chance – a rather powerful assertion.

Neuman (2003: 350) indicated that the main aim of significant tests is to make probability statements concerning the populations from which the samples were drawn. The purpose of the statistical significance test is to determine whether the observed data patterns are sufficiently strong to suggest general applicability in the research population. Significant results mean that the sample results can be generalised to the research population (Page & Meyer, 2000: 166).

1.7.6 Data interpretation and informing others

Practical and substantiated recommendations were made to improve the family businesses chances for success and conclusions were drawn. Williams, Tutty and Grinnell (1995: 316) states that a research report is the manner in which a completed study is described to other people whether they are colleagues at work or a worldwide audience. These are described in Chapter 5 of this study.

1.8 Limitations of the study

Due to the nature of this study, the following limitations were identified:

- Although the literature study was universal nature, the empirical research was limited to Limpopo Province and the results and recommendations of the research are representative of circumstance in Limpopo Province; it can therefore not be accepted as an overall reflection of family businesses in South Africa.
- The study was limited to small and medium sized black-owned family businesses and is therefore not representative of all family businesses. The operational aspects of the business were ignored for the purpose of this study.
The literature is mainly based on foreign literature because very limited research is available on family businesses in South Africa.

The snowball sample technique that was used can cause certain family businesses to be excluded from this study.

1.9 Layout of the study

This study consists of five chapters, and the relationship between these four chapters is shown in Figure 1.3.

Figure 1.3: Layout of the study
A brief overview of the study is as follows:

- **Chapter 1** provides the nature and scope of the study and includes the following: introduction, problem statement, objectives, and scope of the study, research methodology and limitations of the study.

- **Chapter 2** encompasses a literature study on family businesses. This includes defining the family business, characteristics and uniqueness of family business, advantages and disadvantages of family business and challenges to the continuity of family businesses.

- **Chapter 3** encompasses a literature study on management succession. This includes defining succession, discussing the importance of management succession, the nature of succession process, succession planning, selection or choosing of a successor, mentoring and preparing a successor and transfer of management.

- **Chapter 4** entails the empirical research. It deals with the analysis and discussion of findings of the empirical study.

- **Chapter 5** entails conclusions and recommendations based on the literature study from chapter 2 and chapter 3, as well as the empirical study conducted in chapter 4.
CHAPTER 2
LITERATURE REVIEW OF FAMILY BUSINESSES

2.1 Introduction

Family businesses are, according to Poza (2004: 3), the primary engine of economic growth and vitality not only in the United States but also in free economies all over the world. These businesses are also important in emerging market economies (Gibson, 2002: 68, Venter & Kruger, 2004:14, Kim, Kandemir & Cavusgil, 2003). Family businesses are, therefore, a vibrant and growing area of interest in the world economy and are regarded by various scholars as the most prevalent form of business throughout the world.

Kenyon-Rouvinez and Ward (2005: 1) state that most of the largest enterprises or companies in the world are family controlled, e.g. the Ford family (now in its fourth generation) controls 40 percent of Ford Motor Company, the second and third generation Walton family control 39 percent of Wal-Mart and 150 years old Cargill, with United States $60 billion in global revenue, is the largest family business in the world.

Family businesses confront substantial challenges, but they often possess unique advantages and characteristics on all of these fronts and way of doing things (Poza, 2004: xv). The advantages of family businesses are recognized as a real competitive advantage (Poza, 2004: xv).

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

Combining a family and business creates challenges and presents wonderful opportunities. Families who learn to work together can have a successful business
now as well as the satisfaction of passing the business down to successive generations (Anon., 2006b).

Working together as a family holds strong appeal and contains many advantages. Family members have a shared history, are aware of one another's weaknesses and strengths, trust and care for each other and often are able to communicate in ways that no one outside the family is able to fully appreciate (Anon., 2006b).

There are challenges though. The ability of a family to communicate effectively, resolve conflicts, make decisions and differentiate the family and the business can have a profound effect on the success of the business (Anon., 2006b).

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

2.2 Definitions

2.2.1 Family businesses

A significant problem in the family business field is the lack of definitional clarity on the central concept of family business. Neubauer and Lank (1998: 3) further indicate that there is no consensus on the definition of family businesses in the research, consulting communities, among journalists, general public and even those running family business are not sure about the formal definition.

From Chua, Chrisman and Sharma's (1999: 25) review of the important definitions of "family business" offered since 1964, it is clear that most definitions have tended to focus mainly on the ownership and management dimensions.
Most authors (Ibrahim & Ellis, 1994: 4; Gallo & Sveen 1991: 181) believe that family businesses are defined as those where a single family has controlling ownership (50 percent of shares or more), management control and the transfer of leadership to the next generation family members is anticipated. Since this definition is easy to operationalise, it is also the most often used in empirical studies of family business. This definition, however, seems to include businesses owned by a single person and businesses where the family has control but has little interest in the business' affairs or in continuing its involvement in the long run, while it excludes businesses where a family might have a significant influence over the direction of the firm but with little formal control.

To clarify, Bork (1993: 23) added further dimensions to the definition, most commonly the involvement of more than one generation in the business and the perception of being a family business. Bork (1993: 23) defined a family as anyone related to the family, either by birth or marriage.

The family business typology of Litz (1997: 57) suggests that the essence of family businesses is better captured by the behavioural dimension i.e. businesses are family businesses because they behave like family businesses. Some empirical studies pointed out the need for a behavioural perspective since it is possible for firms to be professionally managed and still exhibit the characteristics of family businesses (Daily & Dollinger 1993: 88). The empirical study by Chua et al. (1999: 28-35) confirmed that the behavioural dimension explains family business behaviour significantly better than any of the definitions that include easily operationalised variables such as ownership and management control.

Neubauer and Lank (1998; 5-6) have collected some important features of family firms from different studies:

- large share of capital owned by the family;
- family members employed by the firm owned by the family – however, for the family members that do not join the firm, this is an important question of their role in the decision-making and control;
- some non-family employees, even among management;
• high degree of expectations for children to get involved with the firm in the future – this is gradually changing;
• the number of family generations involved with the business;
• the number of family members as managers and/or owners;
• non-family members feel the distinct values and decision-making process that rules the family firms; and
• the family heirs share managerial positions and control even in case they do not possess appropriate skills and capabilities.

The definition offered by Chua et al. (1999: 25), Neubauer and Lank (1998; 5-6) and Ibrahim and Ellis (1994: 4) appears to come closest to incorporating the behavioural dimension and will consequently be used. A family business is a business governed and managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family in a manner that is potentially sustainable across generations.

Finally, the concept of family business is related to the willingness to transmit the ownership to the next generation, or commitment to trans-generational wealth creation (Aronoff et al., 2002: 2).

In this study assume a broad definition of family business as "a firm whose control (50%+1 of shares or voting rights) is closely held by the members of the same family and the transfer of management to the next generation in the family should be envisaged". Whenever only one person owns a firm, we considered it as a family firm only when at least another family member is involved in the enterprise activities. In our final sample, we identified family firms crossing the questions about the percentage of capital (rights to vote) owned by one family, with the presence of family members among the employees -managers.

2.2.2 Small and medium-sized enterprise

However, what exactly a small and medium-sized enterprise is depends on who is doing the defining and different countries defined small and medium-sized enterprise differently. Ward (2007) defined small and medium-sized enterprise in Canada as
businesses with fewer than 500 employees, while classifying firms with 500 or more employees as "large" businesses.

Ward (2007) further break down the small and medium-sized enterprise definition, a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business). A firm that has more employees than these cut-offs but fewer than 500 employees is classified as a medium-sized business.

Anon (2007b) and Ward (2007) defined small and medium-sized enterprise in Europe as businesses with fewer than 250 employees and that has an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.


2.2.3 Owner

According to Craig and Lindsay (2002:14) and Bains and Whellock (1998:16), defined owner as someone who has legal claim to the assets of the business and who may risk his or her own personal assets in hopes of realizing a profit.

Anon (2007c) further indicate that an owner is someone who owns, a rightful proprietor, one who has the legal or rightful title.

Haynes and Ou (2002: 7) classified the owner using two definitions. The first definition classified owners into four categories: self-employed owner is the smallest
owner or manager with one or fewer employees, the small business owner is the one with more than one employee, the angel investors, who are business owners with no active management responsibility in the business and other angel investors, who are primarily business owners with other investments where they provide some management support. The second definition classifies owners into three categories based on the number of businesses owned by the household and their ownership or management of the business. Owner-managers are households that owns and manage one business. Angel investors are households that own, but do not manage, one business. Multiple-business owners are households that own or manage more than one business.

2.3 Characteristics and uniqueness of family businesses

2.3.1 Characteristics of family businesses

To have a healthy family business, one needs to have healthy family relations (Balshaw, 2003: 24). Because the family and business systems so profoundly influence each other, caring for the health and growth of one will influence the other. A caring, supportive family operating a family business will have the following characteristics (Anon., 2006a).

- **A clear sense of purpose and values.** According to Ibrahim and Ellis (1994: 5) and Jaffe (1991: xiv), knowing what the family stands for and for what it is aiming has a strong unifying effect on its members. Knowing where the business is headed and what its future course will be, creates an effective business (Anon., 2006a; Lea, 2001). The values and beliefs allow a family business ho have a clear identity and a strong sense of mission to succeed (Miller, 2000: 22).

- **A policy of open and clear communications.** A healthy family has established a comfortable environment that allows and encourages its members to openly discuss their feelings, aspirations, dreams and needs (Maas & Diederichs, 2007: 24). This same open-communication policy is practised in the business as well (Anon., 2006a).
• **A willingness to accept differences.** Well-defined boundaries allow each member to be an individual (Jaffe, 1991: xiv). The key to success in family-owned business is being clear on where the family ends and the business begins. Relationship issues and personal needs, if not attended to in the family, play themselves out in the business (Roessl, 2005: 207). Differences leading to conflict can be resolved, usually with win-win solutions (Anon., 2006a). Successful family-owned businesses treat business as business, and family as family.

• **An atmosphere that encourages personal growth and development.** Within the context of the family, with its history and traditions, family members are allowed and expected to grow and change (Anon., 2006a, Jaffe, 1991: xiv).

• **A high level of trust.** Family members working inside the business and those outside the business trust each other. They treat each other with respect and people keep their word (Anon., 2006a, Jaffe, 1991: xiv). Interpersonal trust between family members in family businesses is considered an essential prerequisite for the successful start family business (Roessl, 2005: 207).

• **Clearly defined roles and responsibilities.** The differences in family roles and business roles are recognized, defined, respected and understood (Anon., 2006a, Venter & Kruger, 2004: 16).

• **Accountability.** Family members are expected to take responsibility for results and are evaluated consistently and fairly. Simply being a member of the family does not guarantee a position in the business (Anon., 2006a).

• **Balance.** There is a balance between involvement in the family and the business and outside interests. Pursuits outside the family and the business are encouraged because they bring new ideas and perspectives to the farm (Anon., 2006a).
• **A mechanism for regular discussions concerning family versus business affairs.** This may take the form of family retreats, business forums, or regular family meetings. What is essential is having a place where issues and conflicts can be discussed and dealt with (Anon., 2006a). Keep the focus on developing and maintaining healthy family relationships and preventing the business roles from enveloping the more basic familial roles (Jaffe, 1991: xiv).

These meetings are a perfect opportunity for expectations to be clarified so that resentments don’t smoulder and for the younger generation under the tutelage of current management teams to begin to take the responsibility for corporate initiatives (Poza, 2004: 140-141; Hess, 2006: 40).

• **Outside perspectives.** Successful family enterprises have an outside board of advisors. Outside advisors are critical in helping to establish succession, compensation and entry criteria, diffusing sibling issues and in developing market strategy. Unbiased, non-family professionals can give input and help business leaders make difficult, emotionally laden decisions (Balshaw, 2003: 143). A willingness to seek professional advice allows a business to bring in new and fresh perspectives from people outside the family (Anon., 2006).

• **Speed.** A family business has the ability to move quickly and speed is a cardinal principle in running a family business. This means being able to make decisions, handle complaints quickly and take immediate steps to rebuild relationships with customers (Nelton, 1992).

In fact, to some degree, all organizations exhibit some of the afore-mentioned characteristics of a family business. Each enterprise has a more or less ‘family aspect’ when looking at, for instance, the way co-workers ‘live’ with each other in their daily work. Also the spouse or other relatives, although not officially in the business, are often an important factor in the way a manager operates. Often, the spouse acts as a sounding board to the manager.
2.3.2 Uniqueness of family businesses

Family businesses are unique because of an intertwining of the principles of marriage and kinship and the use of capital to generate income (Reeve, 2001: 1).

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

Habbershon and Williams (2001: 18) indicated that family influence is one thing that is unique to family businesses, and could be regarded as a resource to a business. Family influence as a resource is referred to as familiness. Familiness is the unique bundle of resources a firm has as the result of the interaction of the family members with one another, and is also regarded as a capability in the sense that it is firm-specific, embedded in the firm and its processes, and is not transferable to another firms (Habbershon & Williams, 2001: 19).

Hughes (2007: 1) and Lea (1991: 6) further indicated that family-owned businesses are unique in personality and culture and it integrate a business system with fundamentally different family systems. They operate with complexities associated with the three overlapping, interacting, interdependent subsystem or components of ownership, the business and the family (Poza, 2004: 8; Hughes, 2007: 1).
According to the model presented in Figure 2-1, each subsystem or component maintains boundaries that separate it from the other subsystem and the general external environment within which the family business operates.

2.4 Advantages and disadvantages of family businesses

Several authors (e.g. Maas et al., 2005; Poza, 2004; Venter, 2002; Reeve, 2001; Habbershon & Williams, 2001; Leach & Bogod, 1999) have highlighted the unique characteristics of family-owned and managed businesses. However, Gersick et al., (1997: 3) has made a very important observation, namely that every unique attribute of the family could be a source of both benefit and disadvantage to the owner, family members employed in the business and non-family employees. Venter (2002: 67) labels these attribute “bivalent” maintaining that the success or failure depends on how well these attributes are managed.

2.4.1 Advantages of family businesses

The characteristic that distinguishes most family businesses is a unique atmosphere that creates a sense of belonging and enhances common purpose among the whole workforce (Venter, 2002: 68; Leach & Bogod, 1999: 5). This factor manifests itself in a number of very concrete and positive advantages that give family businesses a
Some of the advantages of family businesses are discussed below.

- **Knowledge.** Kets de Vries (1996: 23) stated that family businesses often have specific ways of doing things, e.g. commercial know-how not possessed by other competitors. These knowledge would normally become general in a regular commercial environment can be coveted and protected within the family.

  Knowledge handed down from generation to generation, starting in very early youth, is an important strength of family business (Donckels & Lamprecht, 1999: 180)

- **Shared values, vision and beliefs.** The values and beliefs of a person, team or business define who and what the person, team or business is, as values are powers, which determine human behaviour (Coetsee, 2002: 77). Family members are likely to share the same vision, values and beliefs on how things should be done. This gives them an extra purpose and pride as well as a competitive business advantage. The values and beliefs allow the family to have a clear identity and a strong sense of mission to succeed (Ibrahim & Ellis, 1994: 5).

  It is generally thought that siblings, despite jealousy and rivalry, have a better chance of forming a working relationship than people who have not grown together. By the time they are in business together, brothers and sisters—even if they do not love and trust each other—do know how the other thinks, what motivates them and how they respond to pressure, and will usually have developed some conflict resolution skills (Thornton, 1998: 15).

- **Family-centeredness or the family spirit.** The biological bond that connects family members is a major ingredient in the success of the family business. The family spirit helps overcome business emergencies and promotes family unity in difficult times (Ibrahim & Ellis, 1994: 5). Fleming (2000: 18) supports Ibrahim and Ellis (1994: 5) and he further stated that family members are more likely to fit in as they form a close unit.
Every business has its own culture. In a family business, this culture usually reflects the family itself (Fleming, 2000: 18). Employing a family member means employing someone who already fits in. This person will likely share similar values, beliefs and attitudes with both the family and the employer or business.

- **Flexibility and reaction.** Family businesses are less hierarchical and bureaucratic than professionally managed businesses, thus more flexibility that allows the family business to adapt to a changing environment (Venter, 2002: 69; Aronoff & Ward, 1996: 334, Lea, 1991: 6). Leach and Bogod (1999: 10) stated that the flexibility of family businesses speeds up and enhances decision-making and the handling of complaints.

Flexible labour force, family members are much more flexible in their work arrangements and adopt their lifestyle to the needs of the business. They are also flexible with payments and often share financial resources available on the long-term rather than demand monthly payment when the cash flow of the business cannot support it (Peters & Buhalis, 2004: 406). Finally, it is not unusual for family members to offer unpaid work to support the family in peak periods while they have different profession and paid employment (Anon., 2007).

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

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

- **Strong commitment.** Compared to publicly held companies, family businesses generally tend to be better at thinking long-term (Leach & Bogod, 1999: 7). The
fact that families usually have quite a clear view of their commercial objectives across, say, the next 10 to 15 years, can therefore represent a considerable advantage (Leach & Bogod, 1999: 7).

Family businesses do not plan only for a short-term gain at the cost of long-term investments. In many instances, the family business and its products affect the identity of the family members (Kets de Vries, 1996: 16). Family businesses worry less about take-over threats and the executives can save their energy for other causes (Kets de Vries, 1996: 7).

Family members tend to be more resilient during hard times, given the greater willingness to plough back profit into the business (Kets de Vries, 1996: 17). Where public companies operate for only one main constituency, namely the shareholders, the family businesses are responsible for five constituencies, the customers, the employees, the vendors, the community as well as the family.

- **Economic independence.** Family members of successful family businesses most likely will enjoy economic independence that will possibly be passed on to the next generations (Kets de Vries, 1996: 23). Ibrahim and Ellis (1994: 5) said that family members working in a family business feel more independent in terms of monetary rewards.

Often a family business defines success not only in terms of profit but also in providing employment and benefits to the community. A business, can offer employment to qualified relatives and opportunities to bond with them, as well as put cherished beliefs into practice.

- **Continuity.** Particularly in Europe the reputation of family businesses that have been operating for many years is, in the eyes of the customers, a criterion for buying goods and services. The continuity of family businesses and their presence in the market place are perceived to constitute strong and social values (Peters & Buhalis, 2004: 407).
2.4.2 Disadvantages of family businesses

Family businesses are prone to some serious and predominant disadvantages (Leach & Bogod, 1999: 11). These disadvantages are not unique, but family businesses are extremely vulnerable to these failure. Many of the problems hinges on the inherent conflict that can arise between family and business values (Leach & Bogod, 1999: 11). The disadvantages of family businesses are discussed below:

- **Family conflict.** Conflict occurring between the interests of the family and those of the business as a whole, can create emotional issues unheard of in non-family businesses (Balshaw, 2003: 32; Aronoff et al., 2002: 5). Most family business conflicts are generated by the older generation's desire to preserve wealth and next's generation diversification aspirations (Iyer, 2006).

  Ibrahim and Ellis (1994: 113) further indicated that separating family and business roles and problems, especially parent-child dynamics, have proved to be the single most ongoing conflict. In general, the better the initial family relationships are the greater chances the business has of being a success. "If you do a good job of running your family, chances are you will do a good job of running your business". A lot hinges on the ability to deal with and manage conflict. The resolution of this conflict and sustenance of family businesses would depend on the willingness of the older generation to let go of independence and authority (Iyer, 2006).

- **Family infighting.** A major disadvantage of family businesses is the infighting among the family members (Ibrahim & Ellis, 1994: 7). Hostility among children, spousal fights and sibling rivalry can lead to undesirable behaviour, confusion, poor performance, goal conflict and ultimately the demise of family business (Swart, 2005: 26).

  Kets de Vries (1996: 15) stated that infighting could become extremely complex in family businesses that have survived a number of generations and are run by large families. Too much time is spent conspiratorial activities rather than on the substance of businesses (Kets de Vries, 1996: 15).
• **The degree of dependence on a single individual/centralization of power.** The power structure in family businesses is usually characterized by one distinct level: the power core controlled by the owner-manager and there is no ranking among the employees (Lee, 1996: 63). They rarely delegate authority or management functions, even sons are permitted little participation in the decision making process (Feltham, Feltham & Barnett, 2005: 1).

• **Boundary problem.** Balshaw (2003: 29) and Ibrahim and Ellis (1994: 4) stated that the dual relation marks boundary problems in family business, namely being a member of the family business and the business system. Since both family and business have their evolving life cycles, problems arise when the family and business the life cycles are not coordinated (Balshaw, 2003: 48). These boundaries need to be clear, consistent, practical, and have enough flexibility to provide for the unforeseen (Balshaw, 2003: 33). Poorly defined boundaries can cause individuals to be caught in the middle and give rise to conflict situation.

• **Role confusion.** Roles and responsibilities of family members involved in the business may be unclear or not defined (Kets de Vries, 1996: 23). Some family members are also fulfilling multiple roles (e.g. family and business owner) at the same times.

• **Human resource and family employees.** Family members whose labour market value is poor cannot easily be made redundant. Family relationships often determine business practices. Family entrepreneurs expect family members to have high motivation and commitment to the business. Motivation or performance-oriented incentive systems are not in place. Furthermore, it is not easy for small family businesses to attract and to finance qualified personnel from the labour market, as they often find it strange to interfere with family structures (Peters & Buhalis, 2004: 408).

• **Informal business practice and lack of planning.** Small family businesses often have informal business practices and processes. Although they can be used to their advantage through flexibility and ability to react fast, they often lack a
systematic management approach. This effectively means lack of procedures that leads to variable performance and improvisation by family members, affecting both product standardization and quality control (Peters & Buhalis, 2004: 407).

2.5 Challenges to the continuity of family businesses

Numerous factors have been identified as contributing to the low survival rate of family businesses. According to Balshaw (2003: 23) and LaChapelle (1997: 8), one important issue is management/leadership succession, which can be especially complex in the family businesses for several reasons: 1) family members might be selected for management/leadership role while they are unqualified for or incapable of handling it; 2) when a family member is selected, the increase level of authority and power might adversely affect other family members; 3) the typical business founder has a high level of resistance to planning for the process, and often has difficulty of letting go.

It is therefore, easy to see how the level of trust exist among the family members, as well as between family members and key employees. This is a significant variable which affects the quality of communication and planning process that take place around critical business and family issues, such as management or leadership succession (Balshaw, 2003: 23; LaChapelle, 1997: 8).

In addition to succession, family businesses are challenged with both managing the demands of an increasingly competitive business climate and dealing with family needs and relation issues (Poza, 2004: 15; Lea, 2003). Complex problems can develop in connection with business issues such as: sibling rivalries, personal or business conflicts or communication difficulties which if not dealt with effectively can be destructive to both family and the business (Lea, 2003; Balshaw, 2003: 23; Ibrahim & Ellis, 1994: 7).

LaChapelle (1997: 8) suggests that family member's relationship with each other and with non-family member/employees are no less critical to the perpetuation of the
business than are financial and market factors. In any case the downfall of the business is based on the family’s inability to work together in a healthy way.

The impact of personal style, values and relationship of family members are factors determining the direction, culture and success of the business (Poza, 2004: 212; Balshaw, 2003: 79; Ibrahim & Ellis, 1994: 5). Venter and Boshoff (2006: 18) point out that family patterns and problems are usually not left behind because the family is involved in a business. Rather, the business relationship can provide endless ways in which intergenerational and sibling conflicts and regressive patterns can manifest. When exaggerated, such episodes are not only distracting to the business, but also destructive to both the family and the business continuity.

Maas et al. (2005: 32-47) stresses the importance of focusing on professionalizing family business through instituting formal organisational structures and planning mechanisms. Successful implementation of such procedures would anticipate the needs of the business and of the family and prevent the occurrence of many future problems in advance. Recommendations routinely made include: strategic planning; control mechanism to measure costs; performance and objectives; succession planning; hiring of outside professional managers; financial planning for retirement and estate planning.

There is strong evidence; however that suggest that when solutions are recommended that focus strictly on business issues, to the exclusion of family considerations and values can be detrimental to the continuity of the business (Balshaw, 2003: 90). Rather successful long-term performance in family managed companies goes hand in hand with the ability and commitment of the family to deal effectively with interpersonal dynamics and family problems and to merge family values with business strategies (LaChapelle, 1997: 10).

John Ward, who has conducted numerous studies which point to the benefits of strategic planning for family businesses, conveys the importance of aligning these business strategies with realistic assessment of family influences, circumstances and values and, in fact, using these as opportunities for effective strategic planning process. Ward note: “In family business the ideal starting point of planning process is the family itself. The first step is for the family to establish its level of commitment to
the future of the business and to plan as a way of securing that future” (Ward, 1988: 111).

Family businesses have many advantages and strengths, which, indeed should be acknowledged and used. A large percentage of family businesses are more humanistic in terms of their level of concern and caring for their members and less bureaucratic in their structures (LaChapelle, 1997: 14). They are also known as having a high commitment to quality and a high achievement orientation (Leach & Bogod, 1999: 7). In addition, family businesses are often associated with preserving the family name, individual pride, family pride and family tradition (Ibrahim & Ellis, 1994: 6).

It is easy to conclude that within all of the complexities of integration of the family system, with the realities of business and organisational life that, the level of trust that exist makes an impact on both the quality of life of members and long-term continuity of the business.

2.6 Summary

It is impossible to capture all the relevant dimensions and information of family businesses in this literature study. Topics discussed include an introduction to family businesses, the definition of family businesses, the characteristics and uniqueness of family businesses, advantages and disadvantages of family businesses and challenges to continuity of family businesses.

It is, however, of extreme importance to realise the uniqueness of family business and the crucial role in the South African and global economy. It is indeed part of the economic sector that provides jobs and lasting legacies to lots of people.

Family businesses is unique, complicated and function differently from non-family businesses. They operate with complexities associated with the three overlapping, interacting, interdependent subsystem or components of ownership, the business
and the family. When the three systems overlap, the personal and relationship issues in the family and management need to be addressed.

Numerous factors that contribute to the low survival rate of family business have been identified but succession is regarded as of critical importance to the continuity of family businesses.

The following chapters discuss management succession of family businesses. Topics to be discussed are the definition of succession, importance of management succession, the succession process and the selection, preparing and mentoring or preparation of a successor, succession planning as well as transfer of management or transition.
CHAPTER 3
LITERATURE REVIEW ON MANAGEMENT SUCCESSION
OF FAMILY BUSINESSES

3.1 Introduction

Family businesses face the dilemma of long-term survival (Brenes, Madrigal & Molina-Navarro, 2006: 373, Leach & Bogod, 1991: 161). Statistics shows that a significant number of businesses worldwide are family businesses and also that few have survived generational transition (Brenes et al., 2006: 373). Figure 3.1 provides the statistics of family businesses that survived the generational transition.

Figure 3.1: Percentage of family businesses that survive to the fourth generation

![Figure 3.1 Percentage of family businesses that survive to the fourth generation and beyond](image)

Source: Bareither and Reischl (2003: 21)
Succession is one of the inevitable events in the life of an owner of a family business. Many times, the owner's retirement and succession issues involve passing on the ownership to the next generation and keeping the ownership within the family or the extended family (Lee, Jasper & Goebel, 2003: 31). Since transferring ownership and succession decisions require balancing family issues and business development, these may constitute very stressful times for many business owners (Lee et al., 2003: 31).

Many factors regarding succession decisions present challenges for family business owners. Family businesses are more than just a job for most family business owners; therefore, decisions about the future of the business often have emotional content for the business owner. In addition, since other family members are often involved with these decisions, succession can cause problems or tensions within the family. An important component in determining successful transition is the time factor; advance planning is essential to allow time to make alterations and preparations in case problems or tensions occur (Lea, 1991:133).

Owners should start planning as soon as the business passes the 'fight for survival stage' and is recommended to start with succession planning not later than fifteen years before the owners planned retirement date (Lea, 1991: 85). Even earlier planning would appear important in the eventuality of disability, divorce, or untimely death. Early planning is crucial for family business owners to facilitate the smooth transition of the business to the next generation and assure continuity of the family business.

Despite all its advantages, planning is still inadequate in many family businesses. Cliffe (1998: 19) stated that the senior management in 50% of the family-owned businesses would change by 2008. Most of these companies had no succession plan in place in 1998. Over 66% of these businesses do not have a written strategic plan.

### 3.2 What is succession?

According to Hess (2006: 77); Maas et al. (2005: 53); Balshaw (2003: 110) and Aronoff and Ward (2002: 59), succession can be defined as a process during which a
business is transferred from one generation to the next while Phan, Buttler and Lee (2005: 8) and Bowman-Upton (1991: 6) imply that it is the management control that is transferred from one family member to another or passing of the leadership baton from the founder/owner to a successor.

This succession process can take place over many years requiring cooperation of family and non-family members and the management team (Van der Merwe, 2007: 37, Stavrou, 1999: 43). Succession involves planning, selection, and preparation of the next generation of managers or owners and the transition in management or ownership responsibility (Erven, 1996). Succession is, furthermore, a critical point in the history of a family business, and continuity from one generation to the next depends largely on succession planning (Van der Merwe, 2007: 37, Maas et al., 2005: 53; Bork, Jaffe, Lane, Dashew & Heisler, 1996: 63).

Family characteristics also influence whether succession will be a process or a crisis (Van der Merwe, 2007: 33). As the number of adult children and their children in the business increases, the complexity of succession increases. Similarly, difficulty in succession is likely to increase with an increase in the number of heirs expecting cash from their parents' estates. Tightly knit families with strong commitment to honouring their parents' wishes about business continuity should face fewer problems than fragmented contentious families. For succession to be a process rather than a crisis, the family business must deal with a wide range of problems (Erven, 1996).

3.3 **The importance of succession in family businesses**

Succession in family businesses tend to revolve around three interrelated themes: the interconnectedness of family and business issues; structural forms before and after succession; and the succession process itself, which encompasses planning, selection, founder resistance, and preparation of an heir. Maas et al. (2005: 53) points out that one of the most formidable obstacles to the stability and growth of a family business is the issue of succession.
To remain in a family business, each generation must be succeeded by the next, frequently the ultimate management challenge. The generation in power must let go, and the inheriting generation must desire involvement. Succession imposes a wide variety of significant changes simultaneously on the family ownership and management structures of the family business (Maas et al., 2005: 52).

Because of the important role the family business sector plays in the South African economy, its survival is of the utmost importance (Maas et al. 2002: 52). Authors such as Maas and Diederichs (2007: 124); Brenes et al. (2006: 373); Maas et al. (2005: 52); Poza (2004: 3); Balshaw (2003: 109) and Aronoff and Ward (2002: 3), who extensively reviewed the literature on family businesses, have concluded that succession is the single most important issue facing family businesses. Balshaw (2003: 111) believes that "the need for practical knowledge about leadership succession is urgent because of the emerging recognition of human assets as particularly critical in the effective implementation of business strategy."

The succession process starts long before the successor joins the family business on a full-time basis (Stavrou, 1999: 43; Aronoff & Ward, 2002: 61; Maas et al., 2002: 54). Continuity and succession planning require the development of effective governance structures and processes (Ward, 1999: 17).

A fundamental concept in family business research is the interdependence of the family, management, and ownership subsystems (Poza, 2004: 8). Some argue that failure to separate family from business issues jeopardises succession (Balshaw, 2003: 29; Ibrahim & Ellis, 1994: 4), and is one of the causes of the reported low levels of succession planning. The balance between the three subsystems is expected to vary with the relative importance of family, ownership, and management.

Anon. (2007) argues that the business is a performance-based system, whereas the family is a relationship-based system, and therefore conflicts between the two occur. The corollary of this argument is that where family and business systems are more alike, conflict should be reduced, for instance, if the business also has a strong relationship-based system.
Governance structures can monitor both the family and business systems to ensure that they are adequately attending to all issues associated with leadership and ownership changes (Poza, 2004: 145-148; Ward, 1987: 156).

3.4 The nature of the succession process

Succession in family firms is a long and sometimes challenging process (Kenyon-Rouvinez & Ward, 2005: 62). However, failing to create and diligently adhere to a succession plan can endanger the dream of building a continuing family business for the future (Maas & Diederichs, 2007: 121).

Succession entails much more than just replacing the retiring leader with a new one. Maas and Diederichs (2007: 122); Kenyon-Rouvinez and Ward (2005: 60) and Maas et al. (2002: 54) identified three specific phases in the succession process:

- The pre-succession phase, which involves long-term family involvement (i.e. succession planning, selecting or choosing a successor).
- The succession phase, during which the takeover period should be planned so that power can be transferred gradually (preparing and development of successor)
- The post-succession phase, during which a senior moves out of the business and transfer the power to the successor.

Erven (1996) summarised the above phases into three steps, i.e. planning, selection and preparation of the next generation of managers.

Morris, Williams and Nel (1996: 69) and Erven (1996) have proposed that family members play specific roles during the succession process, and that these roles change over the phases of the succession process. Further, they claim that successful succession requires a process of mutual role adjustment.

In evaluating succession, it has been suggested that one should distinguish between the “quality” of the experience and the “effectiveness” of the succession (Morris et al.,
1996: 70). Quality is a reflection of how the involved family members personally experience the process. It is concerned with such issues as conflict, distrust, rivalry, resentment and stress. Effectiveness is more related to how others judge the outcome of the succession process.

Along with the capability of the successor, there have been numerous family problems associated with the succession process. Messy succession fights, which can deplete energies and cause hard feelings in families, may distract the successor's attention (Levinson, 1971:93).

In an attempt to treat children fair and equal, an increasing number of founders are leaving their businesses to more than one child (Arthur Andersen, 1995, Leach & Bogod, 1991: 170). As a result, there are often problems with sibling rivalry. Because the successors are spending more time fighting, than managing the business, it is becoming evident that sibling rivalry is destroying many successful family businesses (Jaffe, 1991: 235).

In addition, a successor may feel pressure to perform better than his/her predecessor, which can often lead to reckless decision-making (Ibrahim & Ellis, 1994: 30). Peter Davis says, "The need to equal or outdo an entrepreneurial father is one of the most compelling forces" in a second generation business, setting up the "need to create something bigger, to remove themselves from dad's shadow. (Ibrahim & Ellis, 1994: 35). If motivated in this way, a successor may change the organization too quickly or unnecessarily to establish his/her own mark on the business.

Competition with dad's legacy can also lead to a disregard for the advice of non-family senior management still within the firm (Ibrahim & Ellis, 1994: 35). This lack of respect for their authority and position may cause some senior managers to bolt when the second generation takes over (Ashley-Cotleur & King, 1999: 7).
3.5 Succession planning

Thornton (1998: 33) and Aronoff and Ward (1992: 4) defined succession planning as a life-long process encompassing everything aimed at ensuring the continuity of business through the generations. Neubauer and Lank (1998: 60) and Lea (1991: 83) they stated that one of the most significant factors determining the continuity of the family business from one generation to the next is whether the succession process is planned.

Dunemann and Barrett (2000: 5) and Lea (1991: 83) stated that succession planning refers to the process of making changes in the top leadership of the business, a process which begins when the younger family member first join the business and which ends with their accession to the leadership and top management authority. The above-mentioned opinion is supported by Maas and Diederichs (2007: 121), Thornton (1998: 33) and Lea (1991: 85) they, furthermore, advised that succession should not be an event, but a carefully planned process that takes place over time because failing to do that can endanger your dreams of building a continuing family business. The absence of succession plan can cause serious management problems, even leading to a business failure (Wang, Watkins, Harris & Spicer, 2004: 61; Feschetti, 2001: 2).

Proper succession planning affords family firms the opportunity to select effective leaders who are capable of rejuvenating the business and will ensure harmony and the continuity of the family business from one generation to the next (Leach, Ball & Duncan, 2003: 174, Ibrahim, Soufani & Lam 2001: 245; Neubauer & Lank, 1998: 60). One of the most significant factors determining the continuity of the family businesses from one generation to the next is whether the family and non-family members contributed to the process of selecting the successor (Ibrahim & Ellis, 1994: 24, Leach & Bogod, 1991: 176).

Sharma, Chrisman and Chua (1997: 12), Lea (1991: 92- 98) and Jaffe (1991: 239) advocated for the use of board of advisors populated with outside directors, or at
least family council, in order to shift the burden of decision-making from a single person to the group thereby attenuating bias and increasing objectivity.

Phan *et al.* (2005: 1), Thornton, (1998: 35) and Jaffe (1991: 217) emphasise the need of an open communication using formal and informal family get-togethers throughout the succession planning process. They further recommended that such communication be extended beyond the incumbent and successor to include the constructive participation of key stakeholder while such conventional wisdom may have oversimplified the complexity of the issue, there should be no doubt that an “open policy” differ significantly from a “closed-door approach” in terms of personal emotions, family relations and the smoothness of transition.

From the standpoint of implementing the succession process, whether a succession plan is written or not makes no difference. The completed succession plan should clearly describe the family’s succession process and actions that should be taken to ensure successful succession (Lea, 1991: 100). It should work like an operations manual, with the important goals stated in priority and the steps are set down in their logical sequence. It should serve as a reference for the owner and other family members to turn to as the transition process goes forward and it is successfully finished. In order to be effective, a succession plan must be regularly reviewed and updated to reflect the business changes, industry or market development (Fischetti, 2001: 2).

Although various authors highlighted the importance of succession planning, Ibrahim and Ellis (1994: 224) as well as Phan *et al.* (2005: 6), stated that research studies suggest that a very small percentage of family businesses plan adequately for succession.

### 3.5.1 Key steps in effective succession planning

- **Revisit the business mission.** Revisiting the mission for both the family and business is the first step for being more systematic about the future direction of the business and the family and can benefit owners who have a succession plan strategy in mind (Fischetti, 2001: 11; Bork *et al.*, 1996: 172). Asking the question
"who are we and what do we stand for?" can establish a critical framework for identifying which succession strategy is the best fit (Lea, 1991: 88-89).

Rather than relying on their perspective alone, owners should invite key employees and family members to participate in revisiting the business mission (Sherman, 1999: 91). Everyone may be surprised to discover that the mission has changed over the years or that the mission and the business practices are no longer in alignment.

A general lack of business mission in family businesses has contributed to their high failure rate as they attempt to survive from one generation to the next. Business mission is important to all businesses; family businesses are not different in this respect (Maas et al., 2005: 59).

- **Conduct a business valuation.** Business valuation is a critical aspect of succession planning and one that should be undertaken at the beginning of the planning process. The owner needs to know exactly how viable his business is before making major decision about the future (Koss-Feder, 2000: 27). Furthermore, the owner needs to understand the fair market value of the business in order to make a sound decision about how much to spend on outside advisors to assist in succession planning process (Sherman, 1999: 15).

While self-valuation and a study of comparable businesses are two methods of arriving at a valuation for a closely held business, most succession planning experts recommend using a professional business appraiser to conduct the valuation, since it is part of the succession plan’s very foundation (Fischetti, 2001: 11).

When appointing an appraiser the owner should clearly define the terms under which the appraiser will be working (Sherman, 1999: 130). There are number of methods for business valuation, including the comparable worth method, the asset valuation method and the financial performance method. Most professional appraisers will try out a few different methods in order to pick the one or two most appropriate for the business at hand (Fischetti, 2001: 12).
• **Seek advisory help.** Business succession planning involves several disciplines. It is important to build an advisory team of professionals, that will help develop an effective business succession plan (DiCerbo, 2005; Leach *et al.*, 2003:174, Meek, 2003; Fischetti, 2001: 12, Lea, 1991: 92 - 98).

Third parties can help siblings in family businesses recognize their commonality of interests and examine their childhood patterns of interaction and conflict-handling behaviour in order to discover more rational patterns of interaction (Maas *et al.*, 2005: 72, Jaffe, 1991: 239). Without this external perspective, family businesses may lack the objectivity needed to make the best decisions about future leadership and business structures (Fischetti, 2001: 12, Leach & Bogod, 1999: 18).

• **Involve family members in the process.** The effectiveness of any succession plan ultimately depends on buy-in from family members who will play a role in the business future (Maas *et al.*, 2005: 58, Leach *et al.*, 2003: 174). Many factors can act as barriers to discussing succession candidly and an owner may not know how members of the next generation truly envision the future of the business and their specific roles within it. Without the involvement of the rest of the family, a business owner risks creating a succession plan that no one else is able or willing to support (Maas *et al.*, 2005: 58, Jaffe, 1991: 217).

Family participation in succession planning can take a number of forms but many experts recommend the creation of a “family council” for this purpose. The council can begin with a family retreat, perhaps assisted by a family business consultant (Benson, Creago JR. & Drucker, 1997: 30).

Owners may be concerned about giving family members too much of a voice in the succession planning process. Benson *et al.* (1997: 30) stated that, “Setting up a council does not mean that the business becomes a democracy and the owner gives up the last word. Family councils usually act responsibly and it is rarely necessary for the owners to exercise their veto power.”
• Establish a plan for preparing successors. Planning for the transfer of business management is as important as planning for the transfer of business ownership. Thus, the mentoring of potential successors should begin early and follow a planned, sequential process (Fischetti, 2001: 13). Experts note that this aspect of succession planning is often regarded too casually.

Mentoring includes providing direction on the kinds of opportunities and experiences that the successor should pursue, evaluating the successor’s performance, serving as a role model, explaining business dynamics, politics and introducing the successors to key contacts inside the business (Creago Jr., 1997: 51).

While business owners may assume that they themselves should mentor their successors, this can be a dangerous undertaking (Creago Jr., 1997: 51). Owners preparing their children for eventual management of the business may find it difficult to differentiate between parenting and mentoring task and successor career guidance from a parent may find it difficult to hear that advice in an unfiltered and open manner (Leach et al., 2003: 175 - 177, Lansberg, 1997: 50). When available, a well-prepared non-family executive may prove the ideal mentor. Such arrangement offers the mentor an opportunity to deepen his relationship with the future generation of ownership and to strengthen his job security by ensuring the future success of the business (Fischetti, 2001: 13).

Regardless of who officially serves in the role of mentor, mentoring is likely to be most effective when all involved in the business are committed to the ideas (Narva, 2001).

3.6 Selecting or choosing a successor

Choosing a successor is often fraught with emotion and tension and can be one of the most difficult decisions a family business owner has to make especially if you must choose among a number of children (Swart, 2005: 88; Ibrahim & Ellis, 1994: 223; Bowman-Upton, 1991: 13).
Many family businesses make a poor choice when it comes to selecting successors (Maas et al., 2005: 68). Siblings may view selecting a successor as favouring one child over the other, a perception that can be disastrous to a family well-being and sibling harmony (Aronoff & Ward, 1992: 21).

Nevertheless there is a solution to this dilemma. Complication in selecting a successor can be avoided by developing clear criteria for succession as many years in advance as possible (Swart, 2005: 88). Having criteria reduces the potential for conflict especially where there are number of siblings involved, as it establishes a sense of fairness and increase stakeholders' confidence in management (Swart, 2005: 88).

Criteria for choosing a successor vary from family to family. Some desirable attributes/ criteria that are considered include (Maas & Diederichs, 2007: 132; Maas et al., 2005: 68):

- Level of interest in the business.
- Appropriate abilities and skills.
- Education, training and experience.
- Practical training and knowledge of the business.
- Current involvement in the business.
- The successor's relationship with the incumbent and other family members.
- Personality traits (e.g. independence, integrity, self confidence, willingness to take risk).

According to Maas and Diederichs (2007: 132) and Bowman-Upton (1991: 13), when choosing a successor, it is best to start by determining the future needs of family business, the future challenges facing the business and the competence required from the business leadership to best deal with future needs and challenges.
3.6.1 Methods of selecting a successor

According to Maas and Diederichs (2007: 132), there are three different methods of determining a successor namely primogeniture, adoption and competency.

3.6.1.1 Primogeniture

Maas and Diederichs (2007: 132) stated that primogeniture originate from the system of ownership and cultivation of land at a time when the fortunes of the family depends on living off land and when the physical nature of the work considered unsuitable for female.

This method relies upon ascriptive criteria that of sex and birth order, rather than basing the transfer on an achieved status and the family member's demonstrated competence (Maas & Diederichs 2007: 132). The right to be the successor to the family business are the birthright of the first-born male child of the family (Leach & Bogod, 1999: 183, Ibrahim & Ellis, 1994: 230, Jaffe, 1991:212). The leadership of the business is not placed in the hands of the most qualified/ competent child (Leach & Bogod, 1999:183)

Maas and Diederichs (2007: 132) indicated that primogeniture still exists and is often found in agricultural family business but the pace and pressure of modern business practice has gradually reduced its popularity.

3.6.1.2 Adoption

Succession in family businesses in many countries has followed the Japanese primogeniture approach (Ibrahim & Ellis, 1994: 230). In the absence of the natural first-born son the family might adopt non-family member or son in law to be the successor (Maas & Diederichs 2007: 132).

For family businesses, selecting a non-family successor is an excellent temporary solution (Aronoff & Ward 1992; 24). This works especially well in a situation where the offspring are clearly too young to assume responsibility. A non-family successor
provides a buffer between generations that may be as much as thirty years apart (Swart, 2005: 89).

### 3.6.1.3 Competency

According to Maas and Diederichs (2007: 133), the traditional succession processes of primogeniture and adoption are no longer valid and the appointment of a successor is moving quickly from the birth order to the consideration of competency. The advantage of this approach is that the family feels it has chosen the best candidate or successor for the job and yet they also granted every one a chance and reduces the risk of making the wrong choice (Ward, 1987: 63; Aronoff & Ward, 1992: 23).

Jaffe (1991; 234) supports this method. However, he recommends that one must separate potential from actual achievement. A person may be excellent at a particular job but not having the breach to become an owner-manager (Swart, 2005: 89). Unhealthy competition may also develop among siblings, and family members may dog down in the difficulties of making decision (Ward, 1987: 63). Key stakeholders judge the competence and leadership of the successor on the basis of his/ her words, actions and decisions (Maas & Diederichs, 2007: 132).

### 3.7 Mentoring and preparation of a successor

Preparing the successor is a life-long process that starts at a very early age (Donald, 2005, Thornton, 1998: 37) and it does not begin when the incumbent leader starts to plan for retirement (Aronoff & Ward, 1992: 7). This can be even before the younger generation joins the family business (Afghan & Wiqar, 2007: 3). It includes their participation in different business events such as the family weekend get together, dinner table discussion and family business retreats (Afghan & Wiqar, 2007: 3; Swart, 2005: 55; Donald, 2005, Leach & Bogod, 1991: 177 - 179). Pre-entry acculturation allows the successor to become exposed to the family business (Maas & Diederichs, 2007: 63; Swart, 2005: 55; Balshaw, 2004: 121; Aronoff & Ward, 1992: 11).
According to Phan et al. (2005: 8), the mentoring of the successor is the most critical part of the succession process because it decreases the likelihood of failure when one generation succeeds the next. Successors are the important stakeholders group in the succession process. In the absence of a successor who is managerially and physically capable of taking over the business, succession within the business will rarely occur (Wang et al., 2004: 59).

Mentoring and coaching the successor is an essential developmental tool (Afghan & Wiqar, 2007: 6). Mentoring involves the leader of the firm guiding the successor by 'providing the resources, reinforcement, and guidance to encourage the self-development process' (Cabrera- Suarez, 2005: 75) in his work life, and since the leader is mostly a blood relation it is likely that the mentoring continues into his or her personal life as well. Mentoring by the parent is highly encouraged, however, sometimes instead of the father, senior non-family executive could act as mentors not only because it entails greater objectivity because as Afghan and Wiqar (2007: 6) mentioned, parents already have a number of other roles to perform.

Wang et al. (2005: 61) and Wang (2002: 8) compared successor development in family business and non-family owned businesses and conclude that family owned businesses favour more personal, direct, relationship centred approach to successor mentoring/ development, while non-family business rely more on formalised, detached, task-centred approaches. Lansberg (1997: 20) suggests that to be effective mentors, seniors must understand the difference between parenting and mentoring. The key to an effective succession is to find an optimal blend of well-timed parenting and mentoring.

A sound father-son relationship is deemed valuable not only in the personal dimension but also in the office environment, primarily because 'it can affect the predecessor's ability to teach and train his son' (Cabrera-Suarez, 2005: 75) and because it is an excellent mode of imparting 'strategic knowledge and insight to their successors' (Fiegener, Brown, Prince & File, 1996: 17). It is important that 'family business senior managers be able to nurture mature relationships with their offspring, accommodating conflicts to achieve win-win resolutions (Martin, Martin & Mabbett, 2002: 26).
According to Cabrera–Suarez, de Saa-Perez & Garcia-Almeida (2001: 43), the more the father-son relationship is characterized by ‘respect, understanding, and complementary behaviour, the greater the likelihood of success in the succession process’. Mutually adjusting the roles of both the senior manager and the successor to enable smooth transition is crucial to successor development as well (Erven, 1996). The concept of the mutual role adjustment process is suggested by Handler (1990: 40) and it entails a reduced involvement of the founder in the business and a growing involvement of the successor in a similar fashion. Both the founder and the successor assume varying roles, with the former delegating more responsibility, power and decision making to the latter with the passage of time (Cabrera–Suarez et al., 2001: 43).

It is important to provide the successor with sufficient freedom, which enables him to be responsible and accountable for decisions and actions taken, it is also an important developmental method. According to Fiegener et al. (1996: 20), the leadership and management styles of family firm owners are generally authoritarian and paternalistic, as a result of which they maintain a strong hold over the working of the firm and are unwilling to delegate. Such a centralized system of control is unhealthy not only for the firm but also for the development of the future leader. Cabrera–Suarez et al. (2001: 44) believe that ‘the predecessor’s ability to delegate and promote a business environment in which the successor feels free to make both decisions and mistakes is fundamental to the successor’s development’.

Through the mentorship relationship, offspring will learn how to manage people and time as well as gain valuable business principle (Swart, 2005: 55). This implies that the successors who are groomed for the job would be more likely to succeed than those who have not been groomed (Phan et al., 2005: 8).

3.8 Transfer of management or Transition

Lansberg (1999: 7) stated that succession is driven by a biological clock. The ages of the senior leaders of the business and of their designated successors determine the timing of succession (Swart, 2005: 65). The relative ages of the participants also
powerfully affect what is possible for the family to achieve at any stage of the planning process (Swart, 2005: 94).

Afghan and Wiqar (2007: 7) suggested that it takes at least two years to 'master the complexities of the position and gain the control associated with the leadership role'. The actual transfer of control to the successor occurs when the founder retires (Bowman-Upton, 1991: 14). It is also essential that once the successor is effectively integrated into the family firm and becomes self-sufficient, it is necessary for the founder to lessen his involvement (Handler, 1994: 151).

Handler (1994; 149) and Bowman-Upton (1991: 14) believe that to allow successful succession to take place, the founder/parent should gradually move away from active involvement in the business operations. Bowman-Upton (1991: 14) indicated that transitions are smoothest when:

- They are timely.
- They are final and do not include founder's participation in daily activities.
- The founder is publicly committed to an orderly succession plan.
- The founder has articulated and supervised the formulation of company principles regarding management, accountability, policies, objectives and strategies.

According to Afghan and Wiqar (2007: 7), 'it is important for the boundaries around the founder’s involvement to be drawn very clearly and for both the founder and the successor to monitor this aspect of the transition carefully'. The reason for this is that it is often hard for the founder to leave the family firm after having managed it for years, and as a result may 'infringe on the successor's territory and autonomy' (Lansberg, 1988: 136).

3.9 Summary

The main purpose of this chapter was to discuss the management succession of family businesses. Topics discussed include the definition of management succession, the nature of succession process, problems in succession the process,
succession planning, choosing or selection of the successor, mentoring and preparation of a successor and the final transfer of management.

Succession is a process that takes place over many years requiring cooperation of all people within the family and the management team. Succession involves planning, selection, and preparation of the next generation of managers or owners, transition in management responsibility. Succession is a critical point in the history of a family business and continuity from one generation to the next depends largely on succession planning.

Succession planning should not happen overnight, it’s a continuing process, which should start long before the owner plans to retire. The completed succession plan should clearly describe the family’s succession process and actions that should be taken to ensure successful succession. Succession planning should be communicated effectively within the family. A number of people play different roles in the succession process. This includes family and non-family members and their input during the process is important to be effective.

Planned succession will maximize the chances of finding a competent successor, will ensure smooth leadership transition between generations and it will decrease the likelihood of failure when one generation succeeds the other. Smooth transition in a family business requires that a successor be chosen before the founder plan to retire. To allow successful succession to take place, the founder/parent should gradually move away from active involvement in the business operations.

The following chapter is based on an existing questionnaire and entails the empirical study on management succession in black-owned family businesses in the Limpopo Province in South Africa. The analysis thereof is discussed in detail to produce a comprehensive report discussing the results. The empirical study findings underscore the concept discussed in the literature study. The discussion of the research methodology elucidates the results of the report and present observation.
4.1 Introduction

The purpose of the empirical study is to align the primary and secondary with the objectives of the research study as discussed in chapter one.

The empirical research was done by means of a quantitative study, using a structured questionnaire as the main component. The chapter is introduced with information regarding the sampling frame, followed by a discussion of the results. The latter include various aspects such as the response on the family business survey, the demographic and biographic information of the respondents and the structure of family businesses that participated in the study. The results of the evaluation of the factors and sub factors by the family members will also be discussed.

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

4.2 Gathering of data

The gathering of data relates to step four of the research process as indicated in Figure 1.2 in chapter one. Step four in the research process entails the collection of data. Primary data was collected in this study. Data collected in this manner is the most adequate to fulfil the aims of any research, because the gathering of data is directed towards answering precisely the questions raised by the researcher.
4.2.1 Population study

A population refers to the entire set of data that is of interest. A sample is a representative part of the population. The target population relevant to this research was black-owned family businesses that intend transferring the business to the next generation in Limpopo.

4.2.2 Sampling method

Numerous attempts were made to obtain a list of family businesses in Limpopo. However, this proved to be unsuccessful as no list is currently available in Limpopo to distinguish family businesses from non-family businesses. Therefore, it was decided to use a convenience sample, by means of snowball sampling technique.

Well-known family businesses in various districts (i.e. Bohlabela, Capricorn, Sekhukhune, Vhembe and Waterburg) were contacted in an attempt to compile a preliminary list of family businesses. These family businesses then acted as informants to identify potential family businesses for inclusion in the sample. The latter then identified additional family businesses. These referrals were contacted to determine their willingness to participate in this study.

Such samples cannot be fully representative of the population, but there is no other way of accessing the members of the population. A total of 80 black-owned family businesses were contacted and only 35 family businesses responded and return the questionnaires.

4.2.3 Data collection

The next step, step five in the research design involves the collection of data. As this study is based on primary data collection the data was collected for the first time and the data was original in character. Primary data was collected by means of research surveys. A structured questionnaire was used.
Various techniques were used to distribute a complete questionnaire such as: personal delivery to the business by a representative well known to the family businesses and questionnaires handed out at workshops. These were followed up by telephone calls to the family businesses directly to the representative.

A major challenge throughout the data collection process was to convince all the family members of a specific family to complete the questionnaire. Each questionnaire was sent out with a covering letter that guaranteed the anonymity of the respondents.

4.2.4 Data analysis

All data, including biographical as well as business specific information, was captured and summarised where appropriate. The results of the questionnaire were statistically analysed. The arithmetic mean, standard deviation, frequency distribution and Cronbach alpha coefficients were determine for each factor and sub-factor. The validity and reliability of measuring instrument (questionnaire) have already been tested in previous research studies.

Statistical descriptive measures used in this study were explained in chapter one.

4.3 Results and discussion

This section refers to step 6 (research results) of the research process as indicated in Figure 1.2 in chapter one.

4.3.1 Response to the family businesses surveyed

A total of 80 black-owned family businesses were selected to participate in this study and almost one third indicated that they were not interested. Their main reason for not being interest was lack of time to complete the questionnaires. Some family businesses said no without even enquiring what this study entails.
A total of 74 usable questionnaires were returned from 35 family businesses, with a total of 35 senior and 39 younger generation family members that completed the questionnaires and which were subject to statistical analysis. A few families were excluded from this study, as the questionnaires were not returned in time to meet the cut off date or because the questionnaires were not completed in full.

4.3.2 Demographic and biographic information of the respondents

The data as portrayed in section B of the questionnaire, relates to the demographic and biographic information of the respondents.

The variables (questions) were used to determine the relationship between the family business members who are actively involved or permanently employed by the family business.

The results of the analysis of the questionnaires are influenced by a range of demographical factors such as age, gender, marital status, highest academic qualification, percentage of shares owned, the relationship to the owner, number of employees, turnover, age of the business and the legal status of family businesses. The intent with these questions is to form an overall view of the family businesses applicable in this research. Thirty-five family businesses participated in this study.

4.3.2.1 Age classification of the respondents

The question was included to establish the distribution of the age groups of the respondents. The questionnaire was set-up in such a manner that the respondents were requested to indicate their age groups relative to pre-determined age groups. The age group gives an indication of the estimates to retirement, experience and knowledge pertaining to the business, self-development and the respondent’s proneness to risk. Figure 4.1 summarises the age groups of the respondents.
The age category with the highest number of respondents is 50-59, i.e. 23 respondents, being 32% of the total respondents. 37 respondents or (50%) are younger than 40 years and another 50% being 37 respondents are older than 40 years of age.

4.3.2.2 Gender of the respondents

Gender was included to determine the split between male and female respondents. The gender of the respondents is indicated in Figure 4.2.

Figure 4.2: Gender of the respondents
The gender distribution with the high number of respondents is male, with 53 (72%) and females with 21 or (28%) respondents.

4.3.2.3 Marital status of the respondents

Marital status was included in the questionnaire as it has an influence on the management of the overlap between the family and the family business. The marital status of the respondents is set out in Figure 4.3.

**Figure 4.3: Marital status of the respondents**

According to the analysis, the number of single respondents is 28 (38%). The majority of the respondents are married and comprises of 40 (54%) of the total respondents. The numbers of widow(ed) respondents are 6 or (8%) of the total respondents.

4.3.2.4 Relationship of the respondents to the owner

The rationale of this question was to ascertain the relationship of the family business members to the owner of the business. Relationship information indicates if family members are directly or indirectly related to the owner or senior generation executive. For the purpose of this study, an owner refers to the founder of the family business, or the most senior family executive of the family business.
The relevance of this question lies with the distinction between the family and the business systems. The closer the family ties, the more difficult the owner may find it to put the business before family in decision making.

The relationship of the respondents to the owner is indicated in Figure 4.4.

**Figure 4.4: Relationship of the respondents to the owner**

Only direct family members are involved. The category with highest representation is sons being 34 representing (45%) of the respondents. Daughters are less, representing 5 (7%) of the respondents.

The owners make up a total of 35 being 47% of the respondents. None of this family businesses pertaining to this research indicated sisters and brothers of the owner to be involved in the family business.

**4.3.2.5 Highest academic qualification of the respondents**

The reason for this question was to determine the highest academic qualification of the family members. The level of formal qualification has a direct influence on the manner in which the business is managed, as well as attitude, performance and risk profile of the respondent. The highest qualification of the respondents are summarised in Figure 4.5.
In total, the category that represents the smallest number of respondents is postgraduate degree and university degree with only 6% of the total respondents. Diploma is the highest academic qualification representing 40% of the total respondents. Lower than matric, lower than grade six and certificate represent an almost equal percentage of the total respondents at 7%, 9% and 8% respectively. Thirty percent of the respondents have only matric.

4.3.2.6 Jobs or careers prior to entering the family business

The purpose of this question was to determine the experience of the owner. Experience has a direct influence on the manner in which the business is managed as well as attitude, performance and risk profile of the respondent.

Not all the respondents indicated their prior experience. No conclusion could therefore be made on this aspect.

4.3.2.7 Percentage of shares owned by respondents

The purpose of this question was to determine the percentage of shares owned by the family members. The number of shares owned by a family member could have an
impact on the respondent’s attitude, loyalty and overall commitment towards the family business.

According to the analysis the respondents are unclear or uncertain about their share of ownership in the business. In many families the number of shares did not represent 100%.

4.3.3 Structure of the family businesses

The data in Section C of the questionnaire relates to the structural information of the family businesses. The structure of the family business such as the number of permanent employees, annual turnover, age as well as the legal status of the family business was collected to enable the data be sorted according to these demographics. The intent is also to form an overall view of the family businesses applicable in this research.

4.3.3.1 Number of permanent employees

The purpose of this question is to determine the structural information of family business.

According to SA Statistics (2003), the size of a family business is determined by the total number of fulltime employees and the total annual turnover of the business. The owner of each family business was requested to indicate the number of permanent employees employed in the family business, as well as the annual turnover of the business. The number of permanent employees employed by family business is set out in Figure 4.6.
The majority of family businesses have between one and 50 employees. Only 16% (a total of six) of the family businesses have 51 or more employees.

4.3.3.2: Turnover of the family business

The rationale of Section E of the questionnaire was to gain information on the financial success of the family business. The owner was requested to indicate the turnover of the business. Figure 4.7 represents the turnover of family businesses.

Figure 4.7: Turnover of the family businesses
Sixteen (47%) of the family businesses have an annual turnover of between R1 million and R2, 5 million. Eleven (31%) of the family businesses have an annual turnover of less than a million. The remaining eight (23%) family businesses have a turnover of between R2, 5 million and R10 million.

4.3.3.3 Sector in which the business operates

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

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

Figure 4.8: Sector in which the family businesses operates

The industry with the highest number of family businesses is the retail and services industries with ten businesses in each industry (28%) of the total industries. The second highest industry is wholesale with five businesses in the industry.

The construction industry encompasses three of the family businesses and manufacturing and retail wholesale have two each. The lowest industry with one
family business is agriculture. Some of the families have two or more businesses that are operating in different industries and they indicated that in one questionnaire.

4.3.3.4 Age of the family business

The purpose for including this question was to obtain information pertaining to the age of the family business. The age is an indication of the possibility for survival of the business to the next generation and in what generation is the family business.

Percentages are not given in this category due to the fact that some businesses did not indicate the number of years in business.

4.3.3.5 Generation

The distribution of the family businesses according to generation is indicated in Figure 4.9.

Figure 4.9: Distribution of the family businesses according to generation

Twenty-five (71%) of the family businesses researched are in the first generation while 29% of them are in the second generation.
The purpose of this question was to find out what business forms (legal status) are relevant to the family businesses. This information is important in the event of ownership planning.

Other family businesses operate different forms of businesses that fall under different legal status. Based on the data one family is operating a proprietorship and a private company. The business forms of the family businesses are indicated in Figure 4.10.

**Figure 4.10: Legal status of the family businesses**

Proprietorship is the legal form with the most representation, being 14 businesses. Private Company and Close Corporation represent an almost equal percentage of the total respondents at 23% and 26% respectively. Six percent of the respondents are business trust. The two remaining legal forms, co-operative and combination of proprietorship and private company involve only one business in each.
4.3.4 Analysis of factors and sub-factors

During the literature study insight was obtained relating to family business and management succession of family businesses. The existing questionnaire used in this study (Van der Merwe, 2004), measured 12 factors as well as 41 sub-factors. For the purpose of this study only the five factors that evaluate management succession will be used namely, factors six, seven, eight, nine and ten respectively (for this study the numbering of this factors has been changed from one up to five).

The data obtained from the completed questionnaires were statistically analysed. The arithmetic mean as discussed indicates the degree of agreement. The higher the arithmetic mean, the higher the agreement with the statement/ question. If the arithmetic mean is high, that specific factor/ sub-factor can be seen as strength. However, if the arithmetic mean is low, the factor/ sub-factor can be seen as a deficiency in the family business. The total arithmetic mean represents the arithmetic mean for the combination of all the factors and sub-factors.

4.3.4.1 Evaluation of the factors and sub-factors by all the family members

The purpose of the arithmetic mean analysis is to determine the relative importance of the factors and sub-factors as evaluated by all the family members.

The results of the arithmetic mean for all five main factors, as evaluated by all the family members (the senior and younger generation), are graphically depicted in Figure 4.11.
The total mean of the factors and sub-factors as evaluated by all the family members, is calculated at $\bar{x} = 4,959$. Refer to Table 4.1 for the detailed results of the evaluation of the factors and sub-factors by all the family members. The results are subsequently presented and discussed from the lowest ranked to the highest ranked factors.

Management succession (Factor 5: $\bar{x} = 3,436$) was evaluated low. Three of the five sub-factors were evaluated very low, namely Management succession planning ($\bar{x} = 2,164$), Criteria for selection of the successor ($\bar{x} = 2,642$) and Final transfer of management to the prospective successor ($\bar{x} = 2,099$). Suitability of the prospective successor ($\bar{x} = 5,366$) was rated higher than the factor itself. The expected outcome after the completion of management succession ($\bar{x} = 4,909$) was rated fairly average.

Based on the ranking arithmetic mean as in Section 4.3.5, this factor can be ranked as low. Three of the sub-factors can be ranked as low, one sub-factor is ranked as average and one sub-factor is ranked as high.
Table 4.1: The evaluation of the factors and sub factors by all the family members

<table>
<thead>
<tr>
<th>Factor and sub factor</th>
<th>n</th>
<th>(\bar{\mu})</th>
<th>s</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Management succession</td>
<td>74</td>
<td>3.436</td>
<td>0.295</td>
</tr>
<tr>
<td>5.1 Management succession planning</td>
<td>74</td>
<td>2.164</td>
<td>0.428</td>
</tr>
<tr>
<td>5.2 Criteria for the selection of the successor(s)</td>
<td>74</td>
<td>2.642</td>
<td>0.874</td>
</tr>
<tr>
<td>5.3 Suitability of the prospective successor(s)</td>
<td>74</td>
<td>5.366</td>
<td>0.465</td>
</tr>
<tr>
<td>5.4 Final transfer of management to the prospective successor(s)</td>
<td>74</td>
<td>2.099</td>
<td>0.477</td>
</tr>
<tr>
<td>5.5 The expected outcome after the completion of management succession</td>
<td>74</td>
<td>4.909</td>
<td>0.439</td>
</tr>
<tr>
<td>2. Development of the younger generation family members</td>
<td>74</td>
<td>4.818</td>
<td>0.510</td>
</tr>
<tr>
<td>2.1 Competence of the younger generation family members</td>
<td>74</td>
<td>4.809</td>
<td>0.706</td>
</tr>
<tr>
<td>2.2 Formal training and development of the younger generation</td>
<td>74</td>
<td>4.282</td>
<td>0.788</td>
</tr>
<tr>
<td>2.3 Mentoring of the younger generation family members</td>
<td>74</td>
<td>4.221</td>
<td>0.934</td>
</tr>
<tr>
<td>2.4 Participative management in the family business</td>
<td>74</td>
<td>5.491</td>
<td>0.827</td>
</tr>
<tr>
<td>2.5 Realising the full potential of the younger generation family members</td>
<td>74</td>
<td>5.289</td>
<td>0.376</td>
</tr>
<tr>
<td>1. Successful participation of the younger generation family members</td>
<td>74</td>
<td>5.507</td>
<td>0.453</td>
</tr>
<tr>
<td>1.1 The younger generation has good business sense</td>
<td>74</td>
<td>5.658</td>
<td>0.383</td>
</tr>
<tr>
<td>1.2 The younger generation adds value to the family business</td>
<td>74</td>
<td>5.491</td>
<td>0.711</td>
</tr>
<tr>
<td>1.3 Voluntary and happy participation by the younger generation</td>
<td>74</td>
<td>5.687</td>
<td>0.476</td>
</tr>
<tr>
<td>1.4 Credibility of the younger generation in the family business</td>
<td>74</td>
<td>5.336</td>
<td>0.668</td>
</tr>
<tr>
<td>1.5 Establishing and sustaining of a network by the younger generation</td>
<td>74</td>
<td>5.635</td>
<td>0.753</td>
</tr>
<tr>
<td>1.6 Degree of self-empowerment by the younger generation</td>
<td>74</td>
<td>5.236</td>
<td>0.402</td>
</tr>
<tr>
<td>3. Lack of factors that necessitate management succession</td>
<td>74</td>
<td>5.819</td>
<td>0.393</td>
</tr>
<tr>
<td>4. Readiness for succession of the senior generation family member</td>
<td>74</td>
<td>5.215</td>
<td>0.607</td>
</tr>
</tbody>
</table>

Development of the younger generation family members (Factor 2: \(\bar{\mu} = 4.818\)) was evaluated average. Three of the five sub-factors were evaluated average (two fairly average and one is average) namely, Formal training and development of the younger generation (\(\bar{\mu} = 4.282\)), Mentoring of the younger generation family members (\(\bar{\mu} = 4.221\)) and Competence of the younger generation family members (\(\bar{\mu} = 4.809\)). Participative management in the family business (\(\bar{\mu} = 5.491\)) and Realising the full potential of the younger generation family members (\(\bar{\mu} = 5.289\)) rated higher than the factor itself.

According to the responds from all the family members, the three factors with the highest arithmetic mean in ascending order are: Readiness for succession of the senior generation family member (Factor 4: \(\bar{\mu} = 5.215\)), Successful participation...
of the younger generation family members (Factor 1: $\bar{x} = 5,507$) and Lack of factors that necessitate management succession (Factor 3: $\bar{x} = 5,819$). All sub-factors were in this group were evaluated high.

4.3.4.2 Evaluation of the factors and sub factors by the senior generation family members

The results of the arithmetic mean for all five main factors, as evaluated by senior generation family members, are graphically depicted in Figure 4.12.

Figure 4.12: Results of the evaluation by the senior generation family members

![Graph showing the results of the evaluation by the senior generation family members.]

The total mean of the factors and sub factors as evaluated by the senior generation family members is calculated at $\bar{x} = 4,976$. Refer to Table 2 for the detailed results of the evaluation of the factors and sub factors by all the family members. The results are subsequently presented and discussed from the lowest ranked to the highest ranked factors.
Table 4.2: The evaluation of the factors and sub factors by the senior generation family members

<table>
<thead>
<tr>
<th>Factor and sub factor</th>
<th>n</th>
<th>$\bar{x}$</th>
<th>s</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Management succession</td>
<td>35</td>
<td>3.455</td>
<td>0.290</td>
</tr>
<tr>
<td>5.1 Management succession planning</td>
<td>35</td>
<td>2.150</td>
<td>0.394</td>
</tr>
<tr>
<td>5.2 Criteria for the selection of the successor(s)</td>
<td>35</td>
<td>2.667</td>
<td>0.863</td>
</tr>
<tr>
<td>5.3 Suitability of the prospective successor(s)</td>
<td>35</td>
<td>5.374</td>
<td>0.467</td>
</tr>
<tr>
<td>5.4 Final transfer of management to the prospective successor(s)</td>
<td>35</td>
<td>2.148</td>
<td>0.318</td>
</tr>
<tr>
<td>5.5 The expected outcome after the completion of management succession</td>
<td>74</td>
<td>4.909</td>
<td>0.439</td>
</tr>
<tr>
<td>2. Development of the younger generation family members</td>
<td>35</td>
<td>4.844</td>
<td>0.483</td>
</tr>
<tr>
<td>2.1 Competence of the younger generation family members</td>
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<td>4.840</td>
<td>0.641</td>
</tr>
<tr>
<td>2.2 Formal training and development of the younger generation</td>
<td>35</td>
<td>4.313</td>
<td>0.765</td>
</tr>
<tr>
<td>2.3 Mentoring of the younger generation family members</td>
<td>35</td>
<td>4.124</td>
<td>0.886</td>
</tr>
<tr>
<td>2.4 Participative management in the family business</td>
<td>35</td>
<td>5.629</td>
<td>0.751</td>
</tr>
<tr>
<td>2.5 Realising the full potential of the younger generation family members</td>
<td>35</td>
<td>5.314</td>
<td>0.412</td>
</tr>
<tr>
<td>1. Successful participation of the younger generation family members</td>
<td>35</td>
<td>5.492</td>
<td>0.437</td>
</tr>
<tr>
<td>1.1 The younger generation has good business sense</td>
<td>35</td>
<td>5.684</td>
<td>0.326</td>
</tr>
<tr>
<td>1.2 The younger generation adds value to the family business</td>
<td>35</td>
<td>5.449</td>
<td>0.659</td>
</tr>
<tr>
<td>1.3 Voluntary and happy participation by the younger generation</td>
<td>35</td>
<td>5.687</td>
<td>0.475</td>
</tr>
<tr>
<td>1.4 Credibility of the younger generation in the family business</td>
<td>35</td>
<td>5.376</td>
<td>0.591</td>
</tr>
<tr>
<td>1.5 Establishing and sustaining of a network by the younger generation</td>
<td>35</td>
<td>5.514</td>
<td>0.872</td>
</tr>
<tr>
<td>1.6 Degree of self-empowerment by the younger generation</td>
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<td>5.240</td>
<td>0.375</td>
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<tr>
<td>3. Lack of factors that necessitate management succession</td>
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<td>5.842</td>
<td>0.390</td>
</tr>
<tr>
<td>4. Readiness for succession of the senior generation family member</td>
<td>35</td>
<td>5.250</td>
<td>0.513</td>
</tr>
</tbody>
</table>

Management succession (Factor 5: $\bar{x} = 3.455$) was evaluated low. Three of the five sub-factors were evaluated very low, namely Management succession planning ($\bar{x} = 2.150$), Criteria for selection of the successor ($\bar{x} = 2.667$) and Final transfer of management to the prospective successor ($\bar{x} = 2.148$). Suitability of the prospective successor ($\bar{x} = 5.374$) was rated higher than the factor itself. The expected outcome after the completion of management succession ($\bar{x} = 4.934$) was rated fairly average.

Development of the younger generation family members (Factor 2: $\bar{x} = 4.844$) was evaluated average. Three of the five sub-factors were evaluated average (two fairly average and one is average) namely, Formal training and development of the younger generation ($\bar{x} = 4.313$), Mentoring of the younger generation family
members \((\bar{x} = 4,124)\) and Competence of the younger generation family members \((\bar{x} = 4,840)\). Participative management in the family business \((\bar{x} = 5,629)\) and Realising the full potential of the younger generation family members \((\bar{x} = 5,314)\) rated higher than the factor itself.

According to the responses from the senior generation family members, the three factors with the highest arithmetic mean in ascending order are: **Readiness for succession of the senior generation family member** (Factor 4: \(\bar{x} = 5,250\)), **Successful participation of the younger generation family members** (Factor 1: \(\bar{x} = 5,492\)) and **Lack of factors that necessitate management succession** (Factor 3: \(\bar{x} = 5,842\)).

### 4.3.4.4 Evaluation of the factors and sub factors by the younger generation family members

The results of the arithmetic mean for all five main factors, as evaluated by younger generation family members, are graphically depicted in Figure 4.13.

**Figure 4.13: Results of the evaluation by the younger generation family members**

<table>
<thead>
<tr>
<th>Main factors</th>
<th>Arithmetic mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

74
The total mean of the factors and sub factors as evaluated by the younger generation family members is calculated at $\bar{x} = 4,944$. Refer to Table 3 for the detailed results of the evaluation of the factors and sub factors by all the family members. The results are subsequently presented and discussed from the lowest ranked to the highest ranked factors.

**Table 4.3: The evaluation of the factors and sub factors by the younger generation family members**

<table>
<thead>
<tr>
<th>Factor and sub factor</th>
<th>n</th>
<th>$\bar{x}$</th>
<th>s</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Management succession</td>
<td>39</td>
<td>3.419</td>
<td>0.303</td>
</tr>
<tr>
<td>5.1 Management succession planning</td>
<td>39</td>
<td>2.177</td>
<td>0.461</td>
</tr>
<tr>
<td>5.2 Criteria for the selection of the successor(s)</td>
<td>39</td>
<td>2.620</td>
<td>0.894</td>
</tr>
<tr>
<td>5.3 Suitability of the prospective successor(s)</td>
<td>39</td>
<td>5.358</td>
<td>0.469</td>
</tr>
<tr>
<td>5.4 Final transfer of management to the prospective successor(s)</td>
<td>39</td>
<td>2.056</td>
<td>0.585</td>
</tr>
<tr>
<td>5.5 The expected outcome after the completion of management succession</td>
<td>39</td>
<td>4.887</td>
<td>0.474</td>
</tr>
<tr>
<td>2. Development of the younger generation family members</td>
<td>39</td>
<td>4.796</td>
<td>0.539</td>
</tr>
<tr>
<td>2.1 Competence of the younger generation family members</td>
<td>39</td>
<td>4.782</td>
<td>0.767</td>
</tr>
<tr>
<td>2.2 Formal training and development of the younger generation</td>
<td>39</td>
<td>4.254</td>
<td>0.818</td>
</tr>
<tr>
<td>2.3 Mentoring of the younger generation family members</td>
<td>39</td>
<td>4.308</td>
<td>0.977</td>
</tr>
<tr>
<td>2.4 Participative management in the family business</td>
<td>39</td>
<td>5.368</td>
<td>0.881</td>
</tr>
<tr>
<td>2.5 Realising the full potential of the younger generation family members</td>
<td>39</td>
<td>5.267</td>
<td>0.344</td>
</tr>
<tr>
<td>1. Successful participation of the younger generation family members</td>
<td>39</td>
<td>5.521</td>
<td>0.472</td>
</tr>
<tr>
<td>1.1 The younger generation has good business sense</td>
<td>39</td>
<td>5.635</td>
<td>0.432</td>
</tr>
<tr>
<td>1.2 The younger generation adds value to the family business</td>
<td>39</td>
<td>5.529</td>
<td>0.761</td>
</tr>
<tr>
<td>1.3 Voluntary and happy participation by the younger generation</td>
<td>39</td>
<td>5.687</td>
<td>0.484</td>
</tr>
<tr>
<td>1.4 Credibility of the younger generation in the family business</td>
<td>39</td>
<td>5.301</td>
<td>0.736</td>
</tr>
<tr>
<td>1.5 Establishing and sustaining of a network by the younger generation</td>
<td>39</td>
<td>5.744</td>
<td>0.619</td>
</tr>
<tr>
<td>1.6 Degree of self-empowerment by the younger generation</td>
<td>39</td>
<td>5.232</td>
<td>0.429</td>
</tr>
<tr>
<td>3. Lack of factors that necessitate management succession</td>
<td>39</td>
<td>5.799</td>
<td>0.400</td>
</tr>
<tr>
<td>4. Readiness for succession of the senior generation family member</td>
<td>39</td>
<td>5.183</td>
<td>0.685</td>
</tr>
</tbody>
</table>

Management succession (Factor 5: $\bar{x} = 3,419$) was evaluated low. Three of the five sub-factors were evaluated very low, namely Management succession planning ($\bar{x} = 2,177$), Criteria for selection of the successor ($\bar{x} = 2,620$) and Final transfer of management to the prospective successor ($\bar{x} = 2,056$). Suitability of the prospective successor ($\bar{x} = 5,358$) was rated higher than the factor itself. The expected outcome
after the completion of management succession ($\bar{x} = 4,887$) was rated fairly average.

**Development of the younger generation family members** (Factor 2: $\bar{x} = 4,796$) was evaluated average. Three of the five sub-factors were evaluated average (two fairly average and one is average) namely, *Formal training and development of the younger generation* ($\bar{x} = 4,254$), *Mentoring of the younger generation family members* ($\bar{x} = 4,308$) and *Competence of the younger generation family members* ($\bar{x} = 4,782$). *Participative management in the family business* ($\bar{x} = 5,368$) and *Realising the full potential of the younger generation family members* ($\bar{x} = 5,267$) rated higher than the factor itself.

According to the responses from the younger generation family members, the three factors with the highest arithmetic mean in ascending order are: **Readiness for succession of the senior generation family member** (Factor 4: $\bar{x} = 5,183$), **Successful participation of the younger generation family members** (Factor 1: $\bar{x} = 5,521$) and **Lack of factors that necessitate management succession** (Factor 3: $\bar{x} = 5,799$). All sub-factors in this group were evaluated high.

**4.3.4.5 Comparative results between the senior generation and the younger generation**

All five factors were completed and analysed for younger and senior generation family members. Figure 4.14 indicates the comparative results of the evaluation of these five factors between senior and younger generation family members.
It is evident from Figure 4.13 that there are only slight differences in the evaluation of the factors. It is, therefore, not necessary to calculate the effect sizes of the differences between the means of the evaluation by the senior and younger generation family members. The reasons for the lack of differences should, however, to be investigated with future research projects on the field.

4.4 Summary

The empirical research was done by means of a field study using structured questionnaire as the main component. The purpose of the literature review (chapter two and three) was to attain insight into family businesses and management succession in family business in Limpopo. The management succession was aligned with the factors included by Dr. S.P. van der Merwe (van der Merwe, 2004) during the design of the family farm business diagnostic questionnaire. Five of the twelve factors were applicable to all family members (i.e. senior and younger generation family members).
In this chapter the empirical results of the study were presented. These presentations include the sampling frame, the demographic details of the respondents, the structure of the family businesses, the five relevant factors to the management succession of family businesses, reliability of the questionnaire, and the effect of the number of respondents versus the number of families, on the mean values.

The results of the evaluation of Section A were dealt with in a more analytical form, using detailed statistical techniques to derive an average value from all the respondents as well as the standard deviation around the average. Although the statistical results were tabulated, the five factors were also summarised by means of a bar graph to present the results in a graphical form. A distinction was made between the evaluations of all family members (i.e. senior and younger generation family members). Thus the influence of specific factors on the continued succession of the family businesses was empirically assessed.

The results of Section B and C of the questionnaire were presented using frequency distributions as well in graphical form using pie charts and entail the sampling frame, the demographic information of the respondents as well as the structure of the family businesses.

For the purpose of this study, the mean of three groups of family businesses, namely, senior and younger generations and all family members were presented.

The arithmetic mean values as calculated in the previous sections, were based on the total number of respondents, namely 74 in total. Thus, each respondent contributed a weight of one to the arithmetic mean value calculated. Arithmetic means were calculated for the respondents and for the families and the results compared very well with each other.

The following chapter entails conclusions and recommendations, based on the literature review from chapter two and three, as well as the empirical study conducted in chapter four. It was also evaluated whether the primary and secondary objectives were met.
CHAPTER 5
CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The final chapter comprises of the conclusion and recommendations drawn up based on management succession in black-owned family businesses in Limpopo, evaluated during the literature study in chapter two and three and the empirical study in chapter four. The questionnaire results were utilised to compare the relation of the management succession in family businesses in theory and in practice.

Conclusions were drawn on the response of the family survey, demographic and biographic information of the respondents and the structure of the family business. Conclusions were also made on the conformity between the literature and the questionnaire.

From this, a list of recommendations was suggested on how to overcome the challenges of management succession in black-owned family businesses.

5.2 Conclusions on the empirical study

An empirical study was undertaken using the family businesses as determined by means of snowball sampling method as described in Section 1.7.4. These family businesses were used as they form part of the Limpopo Province.

Based on the literature review in chapter two and three and the empirical study presented in chapter four, it is now possible to draw conclusions on the evaluation of management succession in black-owned family businesses in the Limpopo Province. Conclusions are made on the most significant findings as analysed in chapter four.
5.2.1 Response of the family business survey

A total of 80 black-owned family businesses were identified in the Limpopo Province. A total of 74 usable questionnaires of 35 businesses were gathered and subjected to the statistical analysis (response rate of 44 percent).

Some of the families that were contacted indicated that they are not willing to participate in this study. The main reasons for not participating can be summarised as follows:

- A questionnaire took each family member (younger and senior generation) approximately 30 minutes to complete. The completion of the questionnaire was not compulsory and the long completion time most definitely had a negative impact on the response rate.
- A questionnaire had to be completed by both senior and younger generation family members who are actively involved in the family business. For this study, it implied an average of 2.1 questionnaires per family business.
- In most instances, it was not possible to speak with the owner. Canvassing to participate in the study, and to complete the questionnaires on time, had to be done through my colleagues. The result of that was that some of these family businesses had not completed the questionnaires in time to be included in the study.

5.2.2 Demographic and biographic information of the respondents

A total of 74 family members participated in this study. The split between younger generation and senior generation family members is very close with 35 senior and 39 younger generation family members that participated in the study respectively.

Family businesses have no mandatory retirement age; owners of the family businesses older than 50 years are theoretically ready to hand the reigns over to a successor. The number of respondents in the age category of 50 years and older represents 41% of the total respondents (Figure 4.1) and 48% of the total respondents are owners (Figure 4.4).
The conclusion can be made that, due to the high age of the owners, and 50% of the younger generation are in the age group younger than 39, the transfer of management to a successor is due. However, all family members rated management succession, as relatively low (sections 4.3.4.1, 4.3.4.2 and 4.3.4.3). It can be concluded that limited time is left for succession planning.

The gender split is 72% male family members and 28% female family members. There is a definite pull towards first-born sons or primogeniture (section 3.6.1.1) as sons represent 45% and daughters 7% of the total respondents. It is concluded that competent daughters should also be recognised as potential successors of the family businesses (section 3.6.1.3).

Marital status is important due to the overlap between the family and business systems. The overlap can be more complicated with married than unmarried family members.

According to the analysis in Figure 4.3, the number of single respondents is 38%. The majority of the respondents are married and comprises of 54% of the total respondents. The number of widow(ed) respondents entails a mere 8% of the total respondents.

The higher involvement of married respondents influences the management of the overlap between family and business systems. It is concluded that spouses are important resources of the family businesses and care should be taken that they don’t feel left out.

Based on relationships, the chances for family harmony is very good as the majority of direct family members are actively involved in the family business.

According to the literature study, the closer the family relationship, the better the chances that children, as they enter the business, bring with them the same values as their parents. If there is basic agreement about underlying values, then it is possible for a family to create a shared vision for itself and the business’s future and these values can be pursued harmoniously.
The above can explain the disadvantages of family businesses, namely family infighting and family conflicts (section 2.4.2). In-laws, nephews and nieces can cause family and inter-generational fighting as a result of the differences in values between generations/families. This family fighting/conflict can lead to undesirable behaviour and poor performance.

Diploma and matric certificates are the highest academics qualification of 70% of the active respondents. From this it can be conclude that the success of the family business does not solely rely upon academic qualifications. Entry at floor level also plays a vital part in the success of a family business. Mentorship and external resources, e.g. a financial advisor can also fill a crucial gap.

Majority of the owners have been involved in business all their lives. Based on the latter, the conclusion can be made that the majority of the owners have enough experience in the businesses environment and this enhances their chances for success. Early inclusion of the offspring enhances effective succession and long-term success of the family business.

The importance of shares lies in the fact that the number of shares owned can have an impact on the respondent's attitude towards family businesses. Based on the analysis the conclusion can be made be made that appears to be confusion and in consistencies pertaining to the percentage of shares owned, as indicated by the respondents. In many families the number of shares did represent 100%. The number of families did not indicate the percentage shares owned at all.

The overall conclusion can be made that the majority of the shares belongs to the owners.
5.2.3 Structure of the family businesses

The data on the structure of the family businesses was analysed to determine the frequency distribution in terms of the location of family business, the size, annual turnover, industries the family businesses operate in, the age of the family businesses, the business form and the current generation of the family business.

Seven percent of the family businesses that participated in the study are in the Bohlabela District, 40% in the Vhembe District, 30% in the Sekhukhune District, 15% in the Capricorn District and 8% in the Waterburg District. This uneven distribution is not a concern as the target population was black-owned family businesses in Limpopo Province. These areas were assumed, as a relative representative sample of Limpopo and the intent of the study were never to distinguish between family businesses within the study area.

Based on the number of employees, only 5% of the family businesses can be classified as being very small businesses. Eleven (37%) family businesses represent the category of small businesses. Medium sized business account for 42% of the family businesses as they employ 11 to 50 employees. Four (11%) of the family businesses can be classified as being micro businesses. A mere 5% of family businesses employ more than 100 employees.

It can be concluded that the majority of family businesses can be categorised as small businesses.

The family businesses operate in various sectors. Based on the analysis of Figure 4.7, the conclusion can be made that the majority of family businesses generate their income from at least two sectors (i.e. retail and services) and that these sectors can be regarded as the most dominant sectors for family businesses in Limpopo Province.

It is evident that majority of the businesses are in the first generation (71%) (Figure 4.8). Based on the age of the owner as well as observation stated in Section 5.2.2 above (majority of the owners have been involved in business all their lives), it can be
concluded that the planning of management succession should have commenced a long time ago.

Thus, the majority of the businesses studied are already in, or will very soon be, at the most critical point of their businesses, namely the transfer the business to the next generation. The current owner-managers should, therefore, seriously start with management succession planning.

5.2.4 Conclusion on factors and sub-factors relevant to management succession of family businesses

The five factors, with the related sub factors, as evaluated by the questionnaire, were analysed in Section 4.3.4. Based on these analyses the following conclusions are made.

5.2.4.1 Overall evaluation

The total arithmetic mean gives an indication of the general health in the family businesses. The overall evaluation by all family members was 4,959. The family members experience their family business as average and therefore moderately addressed.

All five factors were completed and analysed for both senior and younger generation family members. There are only slight differences in the evaluation of the mean values pertaining to the five factors when comparing the mean values of senior generation to the mean values of younger generation. Factor (4) Readiness for succession of the senior generation family member reveals the slight big difference in the comparisons of the arithmetic mean of the other four factors between the senior generation ($\bar{x} = 5, 250$) and younger generation ($\bar{x} = 5, 183$) family members. Although Factor 4 has the bigger difference of the five factors applicable to both senior and younger generation, it is a relative small difference.

The conclusion can, therefore be made that there are no major gaps in the perspectives of the senior and younger generation family members. As mentioned in
chapter 4, it was not seemed necessary to calculate the effect sizes of the differences between the means of the evaluation by the senior en younger generation family members. The reasons for the lack of differences should, however, be investigated in future research projects on the field.

5.2.4.2 Factor 1: Successful participation of the younger generation family members

This factor was evaluated by senior generation as relative high ($\bar{x} = 5,492$) and by the younger generation as even higher ($\bar{x} = 5,521$). Based on the high ranking as evaluated by the family members, a conclusion can be made that that both the senior and younger generation are in agreement that the younger generation will participate successfully in the family business.

According to the senior generation family members, the younger generation are voluntarily active in the business and participate happily in the business, has furthermore a good sense of the business and they also add value to the business. The younger generation also indicated that they have established a strong sustainable network with suppliers, other businesses and peers.

5.2.4.3 Factor 2: Development of the younger generation family members

This factor was evaluated by both the senior and younger generation as average ($\bar{x} = 4,844$) and ($\bar{x} = 4,796$). This is a feather in the cap for the owners on their management style. There are two sub-factors that were identified in need of special attention, namely Formal training and development of the younger generation ($\bar{x} = 4,254$) and Mentoring of the younger generation family members ($\bar{x} = 4,308$).

5.2.4.4 Factor 3: Lack of factors that necessitate management succession

This factor, Lack of factors that necessitate management succession, scored the highest ranking of the five factors: senior generation ($\bar{x} = 5,842$) and younger generation ($\bar{x} = 5,799$). From this ranking it can be concluded that both generations have trust and faith in the senior generation executive manager. It can further be
concluded that the senior generation executive manager still adds value to the family business, is not experiencing any physical or psychological problems and has kept up with modern technology.

The conclusion can, therefore, be made that the current performance of the operations of the family business is due to the leadership of the senior generation executive manager.

5.2.4.5 Factor 4: Readiness for succession of the senior generation family members

This factor was evaluated by both the senior and younger generation as relatively high ($\bar{x} = 5, 250$) and ($\bar{x} = 5, 183$). The younger generation are of the opinion that senior generation executive managers are ready for management succession.

The following can be concluded as the reasons why senior generation executive managers are not fully ready for management succession:

- Lack of trust they perceive their business to be part of themselves and thus find it difficult to let someone else assume control.
- The fact that the senior generation are still actively involved in the operations of the family business.
- They are not involved in other activities outside the context of the family business.
- Lack of financial security after retirement.

5.2.4.6 Factor 5: Management succession

This factor was evaluated by senior generation as low ($\bar{x} = 3, 455$) and by the younger generation also as low ($\bar{x} = 3, 419$). According to literature, a smooth transition in family business requires the successor to be chosen long before the owner retires. Taking into account the age of the senior generation executive manager, it is a cause for major concern.
Three of the five sub-factors were ranked very low, namely Management succession planning, Criteria for the selection of the successor and Final transfer of management to the prospective successor. Suitability of the prospective successor was rated higher than the factor itself. The expected outcome after the completion of management succession was rated as average.

It can be concluded that the following is not in place:

- A detailed plan on how and when management transition will take place.
- Communication to all stakeholders regarding succession planning.
- A timetable pertaining to the implementation of the management transition.
- Announcement of the retirement date by the owner.

It is clear from the literature that succession planning can take up to five to ten years to get in place. It is clear succession planning is a critical issue to address in family business.

5.2.5 Conformity between the literature study and the questionnaire

The main purpose of the literature review in chapter two and three was to gain an insight on family businesses and management succession on family businesses. The questionnaire used, as developed by Van der Merwe (2004), also took management succession into consideration.

The conformity between the literature reviews presented in chapter two and three and a questionnaire was done by means of cross-referencing the issues addressed by this questionnaire to the literature review. Table 5.1 indicates the cross referencing from the literature to the questionnaire.
Table 5.1: Cross reference from the literature to questionnaire

<table>
<thead>
<tr>
<th>Management succession</th>
<th>Reference to literature review</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Section no.</td>
</tr>
</tbody>
</table>
| Family, business and ownership systems | 2.3.2 | Poza (2004: 8)  
Hughes (2007: 1) |
| Family harmony         | 2.4.1       | Ibrahim & Ellis (1994: 5)      |
| Conflict and infighting in family businesses | 2.4.2 | Balshaw (2003:32)  
Aronoff et al (2002:5)  
Iyer (2006)  
Ibrahim & Ellis (1994: 7)  
Kets de Vries (1999: 15) |
| Management succession  | 3.2         | Hess (2006:77)  
Maas et al (2005: 53)  
Balshaw (2003: 110)  
Phan et al (2005:8)  
Bowman-Upton (1991: 6)  
Stavrou (1999: 43)  
Van der Merwe (2007: 37) |
| Succession planning    | 3.5  
3.5.1 | Aronoff & Ward (1992: 4)  
Thornton (1998: 33)  
Dunemann & Barrett (2000: 5)  
Lea (1991: 83)  
Maas and Diederichs (2007: 121)  
Neubauer & Lank (1998: 60)  
Fischetti, 2001: 11 |
| Choosing or selection of a successor | 3.6  
3.6.1.1  
3.6.1.2  
3.6.1.3 | Aronoff & Ward (1992: 7)  
Swart (2005: 88)  
Ibrahim & Ellis, (1994: 223)  
Bowman-Upton, (1991: 13)  
Maas and Diederichs (2007: 132)  
Ward (1987:63)  
Jaffe (1991: 234) |
| Mentoring, training or development of successor | 3. 5 | Donald (2005)  
Swart (2005: 55);  
Phan et al (2005: 8). |
5.3 Recommendations

To remain in business, family businesses need to understand, recognise and work on the issues or challenges that affect their businesses actively and also learn from the experiences in other family businesses. The family and business systems cannot be viewed in isolation, they are equally important and should receive mutual respect and care to create a positive environment whereby the family and business can perform. Families, furthermore, need to understand and address the complex, inter-related family and business issues that are often lost in the cluster of family emotions.

The primary objective of this study is to assess management succession in black-owned family businesses in the Limpopo Province and make recommendations on how these businesses can ensure the successful transfer of the business to the next generation of family members. Recommendations will be listed below to assist family businesses in conquering this challenge.

5.3.1 General recommendations to family business

Succession planning. It is recommended that succession planning must commence as soon as possible in the family businesses investigated. A decision must also be made on the most suitable successor. It must be ensured that the proposed successor develops the necessary skills, experience and competency to effectively manage the family business in the future. The family, relevant stakeholders, employees, suppliers and clients should, furthermore, be clearly informed on the decision of the suitable successor.

Mentoring the successor and consider someone within and outside the business as additional mentors is also recommended.

A further recommendation is to set a timetable for the retirement of the senior generation owner-manager or put a deadline to the shift of power. Put it in writing and stick to it.
Selecting a successor. It is strongly recommended that the selection should not be based on the birthrights and gender of a person, but on competency. It was indicated in the literature that first born sons tended to be the successors in family businesses and that daughters or women are seldom considered as successors. It is recommended that women must be valued and acknowledged as important resources of the family business because their contribution in the business is both critical and important. The most suitable successor should, therefore, be selected to manage the family business in the future.

Family forums. The establishment and maintenance of family forums need urgent attention. The values, ideas and sense of purpose nurtured by family are potential vast resource for the family business and should be discussed during family forum meetings and nurtured. At the same time, business ownership is an unparalleled opportunity for the family business to grow, develop and manifest its values and dreams in society. The family forum could enable the senior generation owner-manager to make the most of the opportunity to get the family together and make important decisions to ensure family business continuity. The family forum also offers a variety of other benefits such as building a stronger family and stronger business, planning for the future of the business and family, opening up the succession process and improving communication.

It is, therefore, strongly recommended that the continuity of the business as a family business in the future be addressed at the family forum.

Improvement of communication skills. No family is perfect and can easily slip into poor communication. Each individual family member must improve his/her own communication skills and the changes made will tend to influence the other family member and employees as well. It is recommended that all family members attend courses to improve their communication and conflict management skills. These skills can be ploughed back into the family business.

Retirement planning. It is recommended that the senior generation owner-manager have a clear future vision of their lives after retirement. They should also plan to be financially secured after retirement.
It is further recommended that the family members must understand what the retiring executive is going through, as this will strengthen his psychological resistance to retirement planning.

5.4 Recommendations for future research

As an exploratory study, this report represents several opportunities for future research. All of these opportunities stem from only one aspect in a family business namely, management succession.

Based on the outcome of this study, the following limitations and recommendations are put forward for consideration in future research on management succession of family businesses:

- Using snowball sampling (convenience sampling), due to the lack of a proper database on family businesses in South Africa, was a limitation of this study. Further research should aim to develop a comprehensive database from which probability sample can be drawn. It is recommended that more scientific-based research on this topic must be done to ensure the continuity of black-owned family businesses in South Africa.

- Exploration of the quality of the parent-child relationship as an important indicator of understanding how succession process will evolve could be another avenue of research.

5.5 Summary

Family business plays a major role in our economy. It is estimated that over 90% of all businesses are family-owned or controlled. These businesses contribute almost 50% of our nation's Gross Domestic Product. In South Africa, family businesses have been making a positive contribution towards the South African economy for the last 300 years, with approximately 80% of the businesses classified as family businesses.
The future of family businesses is not as rosy as one would expect. Family businesses are extremely fragile, less than 30% last into the second generation, 12% make it to the third generation, and of these, only about three percent make it to the fourth generation. In order to achieve the continuity and success, the size of the business does not matter. What is important is the ability of the owner to plan succession, choose and mentor the successor, understand succession and learn from other family businesses to find the solution.

The literature study highlighted the succession of family businesses and the empirical study revealed the weak areas. From these key factors, recommendations were made on how to correct the shortfalls.

The success and survival of black-owned family businesses in Limpopo Province may depend on the professionals they choose to advice them on management succession of family businesses. This study is a major step forward for black-owned family businesses as it is authoritative and adds value to the body of knowledge in family business research.

A comprehensive study was conducted to give a broad background to the nature of a family business and management succession of family businesses. The empirical study was conducted by means of a scientific measuring instrument (a questionnaire) and conformity between the literature study and the measuring instrument was confirmed. Relevant statistical analyses of the data were performed and appropriate conclusions were drawn and recommendations made.

Based on the knowledge gained during this study, the necessary expertise to assist family business owners in the country was acquired.
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APPENDIX 1: QUESTIONNAIRE

FAMILY BUSINESS MANAGEMENT SUCCESSION QUESTIONNAIRE

Family Businesses
Ensure your Future

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FAMILY BUSINESS SUCCESSION QUESTIONNAIRE

Family businesses are unique in the sense that family interests have to be brought into balance with the business interests of the family business. Should the interaction between the interests of the family and the business not be managed efficiently, this may lead to a serious conflict of interest, which will be detrimental to the long-term survival of the family business.

This questionnaire is designed to collect information concerning management succession in family businesses. The results of this study may form the basis for assisting the family business to ensure the successful transfer of the business to the next generation family members. Your answers will be dealt with in the utmost confidence. The value of the questionnaire depends on the honesty and open-heartedness with which you answer the questions.

Once you have completed the questionnaire, please place it in the envelope provided. Seal the envelope. The person who co-ordinates the survey in your business will collect the envelopes which will be collected from him/her.

Thank you for your co-operation. We hope that you will find the questionnaire interesting and stimulating.

GENERAL INSTRUCTIONS

Virtually all the questions may be answered by making a cross in the relevant block. Use the following key: 1 = Strongly disagree; 2 = Disagree; 3 = Slightly disagree; 4 = Neutral view; 5 = Slightly agree; 6 = Agree; 7 = Strongly agree. You must select the number which best describes how you feel about the item. For example, should you be asked the extent to which you agree with the statement:

"The younger generation family member is passionate about the family business."

and you feel that you agree, you will mark the number 6 (6 = Agree) as in the example:

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Slightly disagree</th>
<th>Neutral view</th>
<th>Slightly agree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>The younger generation family member is passionate about the family business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

It is essential you indicate your choice clearly with a pen.

Please complete Section A and Section B of the questionnaire. The senior generation owner-manager should also complete Section C of the questionnaire.

Please read the full instructions and make sure that you complete the right sections. It is important that you complete all the questions in the relevant sections.
TERMINOLOGY

Peruse the definitions (terminology). Ensure that you understand all the definitions before you complete the questionnaire.

<table>
<thead>
<tr>
<th>TERM</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management succession</td>
<td>Management succession indicates the transfer of the executive management of the business from the current executive manager to a successor.</td>
</tr>
<tr>
<td>Management succession planning</td>
<td>Management succession planning is the process of making the necessary preparations to ensure harmony in the family and the continuity of the enterprise to the next generation. The result thereof is a management succession plan.</td>
</tr>
<tr>
<td>Prospective successor</td>
<td>The prospective successor is that person or persons who have been identified or earmarked to take over the management of the business in the future.</td>
</tr>
<tr>
<td>Senior generation</td>
<td>The senior generation family members (parents) are those family members who are currently in control of the business and who plan to transfer the management and ownership of the business to the younger generation of family members (children) in future.</td>
</tr>
<tr>
<td>Senior generation executive manager</td>
<td>The senior generation executive manager or Chief Executive Officer (CEO) is the person responsible for the management of the family business. It is normally the person who established the business or who is the owner. Sometimes a management team manages the business, i.e. more than one executive manager.</td>
</tr>
<tr>
<td>Successor</td>
<td>The successor is the person to whom the management of the enterprise will be transferred from the person who established the business or from the current manager. There may be more than one successor (business managed by a management team).</td>
</tr>
<tr>
<td>Younger generation family member</td>
<td>The younger generation family member refers to a younger generation family member (children) who is permanently employed by the family business.</td>
</tr>
</tbody>
</table>
This section should be completed by the senior generation family members (parents) as well as the prospected successors employed by the family business (active children).

Take note: In cases where no family members of the younger generation (prospective successors) are employed by the family business, the family can’t participate in this study. It is also important that the transfer of management is envisaged for the next 10-15 years.

Indicate to what extent does you agree or disagree with the statements. Mark the applicable block with a cross (X).

<table>
<thead>
<tr>
<th></th>
<th>The prospective successor(s) possess (es) the necessary skills to ensure the success of the family business after succession.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The family business provides opportunities for the younger generation family member to grow and develop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The senior generation family members are actively mentoring the younger generation family member.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The younger generation family member attends courses and seminars to better equip him/her for the family business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The younger generation family member is passionate about the family business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The criteria for the selection of the successor(s) have been identified.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>It is expected that the family business will perform equally well after succession.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The senior generation executive management of the family business is currently not experiencing any physical or psychological problems.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The senior generation family members listen to and consider new ideas from the younger generation family member.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A9</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The younger generation family member adds more value to the business than what he/she costs the family business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The senior generation family members have faith in the ability of the younger generation family member to run the family business independently.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A11</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The younger generation family member has the necessary skills to do his/her work well.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A12</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>The senior generation family members encourage the younger generation family member to attend training courses and seminars.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A13</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

|   | There is no deterioration in the performance of the family business (finances, market share, contracts, quality) during the past number of years. |
|---|---------------------------------------------------------------------------------------------------------------------------------
| A14|                                                                                                                                  |
|   | Strongly disagree | Disagree | Slightly disagree | Neutral | Slightly agree | Agree | Strongly agree |
|   | 1                | 2        | 3                | 4       | 5               | 6     | 7              |

<table>
<thead>
<tr>
<th></th>
<th>The younger generation family member seizes opportunities to develop his/her skills.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strongly disagree</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>A16</td>
<td>The time scale, according to which management succession will take place, is planned.</td>
</tr>
<tr>
<td>A17</td>
<td>The younger generation family member maintains a network to support or advise him/her.</td>
</tr>
<tr>
<td>A18</td>
<td>A well thought-out process is followed to select the most suitable successor(s) for the family business.</td>
</tr>
<tr>
<td>A19</td>
<td>The senior generation executive manager feels increasingly that his/her direct involvement in the family business is not essential for its survival.</td>
</tr>
<tr>
<td>A20</td>
<td>The family business provides opportunities for the younger generation family member to use his/her particular skills and abilities.</td>
</tr>
<tr>
<td>A21</td>
<td>The younger generation family member has acquired a good knowledge base of the family business.</td>
</tr>
<tr>
<td>A22</td>
<td>The business expanded significantly after the younger generation family member's entry into the family business.</td>
</tr>
<tr>
<td>A23</td>
<td>The family planned for management succession.</td>
</tr>
<tr>
<td>A24</td>
<td>The prospective successor(s) has/have the necessary leadership skills to manage the family business after the transfer of management.</td>
</tr>
<tr>
<td>A25</td>
<td>The senior generation family members include the younger generation family member in key meetings with suppliers, customers and advisors.</td>
</tr>
<tr>
<td>A26</td>
<td>The date for transfer of management has been scheduled and announced.</td>
</tr>
<tr>
<td>A27</td>
<td>It is expected that it will be possible to maintain the existing contracts and client base after succession.</td>
</tr>
<tr>
<td>A28</td>
<td>The younger generation family member adds significant value to the family business.</td>
</tr>
<tr>
<td>A29</td>
<td>The younger generation family member has an academic qualification that better equips him/her to make a success of the family business.</td>
</tr>
<tr>
<td>A30</td>
<td>The senior generation executive manager is willing to delegate authority to younger family members.</td>
</tr>
<tr>
<td>A31</td>
<td>The younger generation family member is very happy to be working in the family business.</td>
</tr>
<tr>
<td>A32</td>
<td>The younger generation family member knows what the required skills, experience and knowledge are to be successful in his/her particular job.</td>
</tr>
<tr>
<td>A33</td>
<td>The younger generation family member has acquired relevant outside experience that better equips him/her to make a success of the family business.</td>
</tr>
<tr>
<td>A34</td>
<td>The younger generation family member is able to realise his/her full potential in the family business.</td>
</tr>
<tr>
<td>A35</td>
<td>The younger generation family member is a businessman to the core.</td>
</tr>
<tr>
<td>A36</td>
<td>It is expected that all family members will support the successor(s) once the leadership has been transferred to him/her.</td>
</tr>
<tr>
<td>A37</td>
<td>The family business provides opportunities for the younger generation family member to fulfill his/her personal and career goals.</td>
</tr>
<tr>
<td>A38</td>
<td>The younger generation family member has the ability to influence the strategic direction of the family business.</td>
</tr>
<tr>
<td>A39</td>
<td>The career requirements and interests of the younger generation family member are suited to the opportunities within the family business.</td>
</tr>
<tr>
<td>A40</td>
<td>The senior generation executive manager will be financially secure after his/her retirement.</td>
</tr>
<tr>
<td>A41</td>
<td>The younger generation family member is eager to learn and is receptive.</td>
</tr>
<tr>
<td>A42</td>
<td>The younger generation family member's interests and career requirements are suited to the opportunities offered by the family business.</td>
</tr>
<tr>
<td>A43</td>
<td>The senior generation executive manager talks with other business men who are also in the process of transferring management of their family business to the younger family members.</td>
</tr>
<tr>
<td>A44</td>
<td>The prospective successor(s) believe(s) in his/her ability to successfully manage the family business.</td>
</tr>
<tr>
<td>A45</td>
<td>The younger generation family member's entry into the business did not put financial pressure on the family business.</td>
</tr>
<tr>
<td>A46</td>
<td>The family business functions well when senior generation family members are away for long periods of time.</td>
</tr>
<tr>
<td>A47</td>
<td>The prospective successor(s) possess (es) the knowledge and experience needed to ensure the success of the family business after succession.</td>
</tr>
<tr>
<td>A48</td>
<td>The younger generation family member has an advice network to better equip himself/herself for the challenges of the family business.</td>
</tr>
<tr>
<td>A49</td>
<td>The senior generation executive manager will be willing to relinquish control of the family business.</td>
</tr>
<tr>
<td>A50</td>
<td>The family has a plan in place to ensure smooth management succession.</td>
</tr>
<tr>
<td>A51</td>
<td>The younger generation family member finds it exciting to work in the family business.</td>
</tr>
<tr>
<td>A52</td>
<td>It is expected that family relationships will remain good after succession.</td>
</tr>
<tr>
<td>A53</td>
<td>The younger generation family member has sufficient training to do his/her work well.</td>
</tr>
<tr>
<td>A54</td>
<td>The senior generation family members have faith in the ability of the younger generation family member to run the family business independently.</td>
</tr>
<tr>
<td>A55</td>
<td>The senior generation executive management definitely kept up with modern business methods.</td>
</tr>
<tr>
<td>A56</td>
<td>The younger generation family member prefers to work in the family business (although he/she has other career options available).</td>
</tr>
<tr>
<td>A57</td>
<td>We established a formal mechanism (committee, work team) to lead the management succession process.</td>
</tr>
<tr>
<td>A58</td>
<td>The senior generation executive management listens to new innovative ideas to improve the family business.</td>
</tr>
<tr>
<td>A59</td>
<td>There is an active attempt to prepare the younger generation family member to manage the family business in the future.</td>
</tr>
<tr>
<td>A60</td>
<td>The senior generation executive manager has passionate interests outside the family business to fill his/her time after retirement (hobbies, sport, and other interests).</td>
</tr>
<tr>
<td>A61</td>
<td>The senior generation family members encourage the younger generation family member to participate in making important decisions.</td>
</tr>
<tr>
<td>A62</td>
<td>The performance of the family business is due to the leadership of the senior generation executive manager.</td>
</tr>
<tr>
<td>A63</td>
<td>There is a good fit between the skills and knowledge of the prospective successor(s) and what is needed for the family business to succeed.</td>
</tr>
<tr>
<td>A64</td>
<td>The family has developed criteria to evaluate the work performance of the new executive manager (after succession).</td>
</tr>
<tr>
<td>A65</td>
<td>The younger generation family member has built up an active network of fellow business men and other experts to support him/her.</td>
</tr>
<tr>
<td>A66</td>
<td>The family has selected (a) successor(s) to take over the management of the family business.</td>
</tr>
<tr>
<td>A67</td>
<td>The younger generation family member is actively busy to qualify himself/herself.</td>
</tr>
<tr>
<td>A68</td>
<td>The younger generation family member has, over time, acquired credibility in the family business.</td>
</tr>
<tr>
<td>A69</td>
<td>The family knows which criteria must be satisfied by the prospective successor(s) to ensure the success of the family business after succession.</td>
</tr>
<tr>
<td>A70</td>
<td>The younger generation family member has acquired enough experience (at all levels) in the family business to be successful.</td>
</tr>
<tr>
<td>A71</td>
<td>The business explored new income streams after the younger generation family member's entry into the family business.</td>
</tr>
<tr>
<td>A72</td>
<td>The family business offers the younger generation family member good job security.</td>
</tr>
<tr>
<td>A73</td>
<td>The younger generation family member has a good sense of the family business.</td>
</tr>
<tr>
<td>A74</td>
<td>The senior generation executive manager is involved in activities outside the context of the family business.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>A75</td>
<td>The younger generation family member avails himself of opportunities to grow and develop.</td>
</tr>
<tr>
<td>A76</td>
<td>The senior generation executive management adapts easily to change.</td>
</tr>
<tr>
<td>A77</td>
<td>The senior generation family members encourage the younger generation family member to air his/her views whenever he/she does not agree with a decision.</td>
</tr>
<tr>
<td>A78</td>
<td>The younger generation family member is consulted when decisions are made that affect him/her in the family business.</td>
</tr>
<tr>
<td>A79</td>
<td>The family knows when and how management transition will take place.</td>
</tr>
<tr>
<td>A80</td>
<td>Plans exist for management succession in the event of the untimely death of the senior generation executive manager.</td>
</tr>
<tr>
<td>A81</td>
<td>The younger generation family member has sufficient knowledge and experience to do his/her work well.</td>
</tr>
<tr>
<td>A82</td>
<td>The younger generation family member has a choice to work in the family business or not.</td>
</tr>
<tr>
<td>A83</td>
<td>A policy exists to actively unlock the younger generation family member's leadership potential.</td>
</tr>
<tr>
<td>A84</td>
<td>It is expected that the employees of the family business will support the successor(s) once the leadership has been transferred to him/her.</td>
</tr>
<tr>
<td>A85</td>
<td>There is a personal and leadership development plan in place to train and develop the younger generation family member.</td>
</tr>
<tr>
<td>A86</td>
<td>The choice of successor(s) was communicated to key interest groups.</td>
</tr>
<tr>
<td>A87</td>
<td>The senior generation executive manager feels that the younger family members are capable of managing the family business after his/her retirement.</td>
</tr>
<tr>
<td>A88</td>
<td>The senior generation family members can count on the younger generation family member to complete tasks successfully.</td>
</tr>
<tr>
<td>A89</td>
<td>The younger generation family member has a non-family member (outside or inside the family business) as mentor.</td>
</tr>
</tbody>
</table>
**SECTION B**

The following information is needed to help us with the statistical analysis of the data for comparisons among different interest groups. All your responses will be treated confidentially. Individual responses will not be seen by any one in the business. We appreciate your help in providing this important information.

**Take note:** This section should be completed by the senior en next generation family members.

Mark the applicable block with a cross (X). Complete the applicable information.

**B1** In which age group do you fall?  
= 29 | 30 - 39 | 40 - 49 | 50 - 59 | 60+

**B2** What is your sex?  
Male | Female

**B3** What is your marital status?  
Single | Married | Divorce | Widow(er)

**B4** Are you from the senior (parents) or younger generation (children)?  
Senior | Younger

**B5** What is your relationship to the family? (Owner/senior generation executive as the basis)  
Owner | Spouse | 1st son | 2nd son | 3rd son | 4th son | 1st daughter | 2nd daughter | 3rd daughter | 4th daughter | In-law | Other: Specify:

**B6** State your highest academic qualification. Mark the applicable block with a cross (X).  
Lower than Grade 8 (Std. 6 – only primary school education)  
Lower than matric, but with secondary school education  
Matric  
Certificate  
Diploma (Technical College or Technicon)  
University degree  
Post Graduate degree

**B7** State other jobs/careers before you entered the family business (if applicable)  
Specify

**B8** State the percentage shares you own in the family business?  
%
SECTION C

This section should be completed by the senior generation owner-manager of the family business.

Mark the applicable block with a cross (X).
Complete the applicable information.

<table>
<thead>
<tr>
<th>C1</th>
<th>How many permanent employees are employed by the family business?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C2</th>
<th>What is the turnover of the family business per year?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt; R 1 m</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C3</th>
<th>In which industry does the business operates?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Automotive</td>
</tr>
<tr>
<td></td>
<td>Real estate</td>
</tr>
<tr>
<td></td>
<td>Other: (Specify):</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C4</th>
<th>What is the age of the business (years)?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Specify:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C5</th>
<th>In which generation is the family business?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First generation</td>
</tr>
<tr>
<td></td>
<td>Others: specify</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C6</th>
<th>What is the legal status of the business?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proprietorship</td>
</tr>
<tr>
<td></td>
<td>Close Corporation</td>
</tr>
<tr>
<td></td>
<td>Other or combination (specify):</td>
</tr>
</tbody>
</table>

THANK YOU FOR YOUR TIME.