

CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

From the earliest times and in almost every culture, the presence of family businesses has been prominent. Entrepreneurial fathers with huge families started to build commercial empires, aiming to provide for their families (Bork, 1993:1). These businesses may have started as small hunting, gathering, farming, trading and craft workshops and then gradually developed into stores, factories and merchant banks (Kaye, 2005:3).

Kets de Vries (1996:3) argues that an increase in entrepreneurial ventures definitely contributes to more family businesses start-ups and it is of vital importance for future local and global economic growth. Fleming (2000:12) furthers that family businesses are the most substantial economic force in society. Family businesses are increasingly recognised as a potential driver of economic growth and wealth creation over the globe (Kets de Vries, 1996:3). No other type of business has driven economic development in the same way. In almost every country, family businesses are responsible for more than half of the Gross National Product (GNP) and employment.

From this perspective, it is easy to see why more and more researchers, academics, service providers, consultants and politicians are starting to look more closely to the phenomenon of family businesses. Brockhaus (2001:3) points out, however, that in South Africa, relatively little research has been carried out on family-run businesses. During the past decade, however, research on family businesses in South Africa gained more momentum (Van der Merwe, 1998; Venter, 2003), but more scientific-based research is still urgently needed. There is ample justification, against the barren background of scientific value-added research, to pursue more earnest investigations

into the role of family businesses globally, in general, and specifically in the South African economy (Van der Merwe & Ellis, 2008).

A major concern in most family businesses is the question of its longevity. Astrachan and McMillan (2003:1) make no secret about the fact that history is filled with instances of family businesses that failed to survive to the next generation because of a lack of good family relationships or harmony (Also refer to Van der Merwe & Ellis, 2008).

The objective of this study is to gain insight in the dynamics of family harmony in small and medium-sized family businesses. For the purpose of this study, the existence of harmonious family relationships or family harmony among family members are characterised by a high level of trust, mutual support, care about each other's well-being, closeness of family members, mutual respect, the understanding of other's views, and a willingness to acknowledge other's achievements (Handler, 1989:213; Neubauer & Lank, 1998:142; Seymore, 1993:268).

In this chapter the problem statement, objectives of the study, scope of the study, research methodology, the layout of the study and the limitations of the study will be discussed.

1.2 IMPORTANCE OF FAMILY BUSINESSES IN SOUTH AFRICA

It is estimated that in the United States of America alone there are currently more than 12 million family-owned businesses (Dascher & Jens, 1999:2) constituting between 70 and 90% of all registered businesses (Bareither & Reischl, 2003:20). A total of 177 (35%) of these businesses are included in the *Fortune* 500 companies (Anon., 2003:236).

Family businesses are by no means only restricted to the United States of America, but are also the powerhouse of other economies of the world (Lansberg, 1999:1). Family businesses also represent the majority of businesses in countries like Austria, Belgium,

France, Finland, Germany, Greece, Italy, Portugal, Spain, Sweden, the Netherlands and the United Kingdom. Anon. (2003:237) summarises the statistics of family businesses in other countries as follows in table 1.1 below.

Table 1.1: Global family businesses representation and contribution towards GNP

Country	Percentage of family businesses	Contribution towards GNP	% of Employment supplied in the country
Belgium	70%	55%	n/a
Finland	80%	45%	n/a
France	60%	60%	45%
Germany	60%	55%	58%
Netherlands	74%	54%	43%
Portugal	70%	60%	n/a
Italy	93%	n/a	79%
Australia	75%	50%	50%
United Kingdom	70%	n/a	50%
Brazil	90%	65%	n/a

Source: Anon. (2003: 237)

Family businesses all over the world are also a valuable source of employment ranging from 50% in Australia to 60% in the United States of America up to 75% in India and 80% in Italy (Anon., 2003:237).

Approximately 80% of all businesses in South Africa could be classified as family businesses and these businesses comprise 60% of the companies listed on the Johannesburg Stock Exchange (Ackerman, 2001:325; Dickenson, 2000:3; Meyer (1994:1) which are mostly small to medium-sized (Maas, 1999:2). The South African economy will not be the same without the contributions of the following well-known

family empires: the Altron Group (Venter), Anglo American (Oppenheimer), De Beers (Oppenheimer), Pick 'n Pay (Ackerman) and the Rembrandt Group (Rupert). These family business empires must not be seen alone, as the smaller family businesses also contribute immensely towards the South African economy.

Family businesses are fast becoming the dominant option of business arrangement in both developing and developed economies and play a vital role, both economically and socially in these economies. More importantly, however, the influence and number of family businesses can be expected to increase substantially in the near future. This rapid growth could be attributed to the rationalising process taking place in many large corporations, together with the growing inability of the formal sector to create new jobs. Family businesses could therefore offer influential opportunities for further economic growth in South Africa.

1.3 PROBLEM STATEMENT

The majority of family businesses in South Africa seem to be small and medium-sized businesses and this is why family businesses have not received the recognition they deserve in contributing towards the economy. It is often found that smaller family businesses have particular attributes that provide them with certain competitive advantages over large industrial giants. They are nimbler, more customer-orientated, quality focussed and also more active in the community where they operate. As a result they tend to outperform non-family businesses (Ibrahim, Angelidis & Parsa, 2008:95).

Van der Merwe (1998:4) stresses the importance of family businesses in South Africa as they have been making a positive contribution to the South African economy over the past 300 years. Today's economic realities and high unemployment figures have forced many people to start their own businesses or, on completion of secondary or tertiary training, to enter an existing family business (Maas, Van der Merwe & Venter, 2005:6). It is therefore important to ensure the long-term sustainability of family businesses in

South Africa because of their contribution towards the future economic growth of in the country.

Many family business scholars are of the opinion that close family ties and strong working relationships are vital to the longevity of a family business (Venter & Boshoff, 2006:19; Sharma 1997:61). Close family ties and strong working relationships, however, is not the only determinants for the longevity of family businesses. A major component which has been neglected in the past is that family harmony is a fundamental prerequisite for the future continuity of family businesses. Past researchers have, however, underestimated the significant role that family harmony has and can play to ensure the prolonged existence of family businesses. The purpose of this study is thus to determine and evaluate the critical important factors that could influence family harmony and therefore ensure the long-term sustainability of family businesses.

Dascher and Jens (1999:3) argue that the long term sustainability of family businesses is a taxing challenge. From this perspective it is evident that although many authors claimed that open communication and conflict resolution skills were formerly regarded as most important determinants to ensure family harmony, more in-puts, however, are necessary to really obtain family harmony. Other essential determinants of family harmony which have previously been underestimated are mutual trust and respect, family commitment, personal needs alignment, division of labour, fairness, leadership, governance, non-active family members, non-family members, senior generation of family members. These determinants will collectively be included in this study to determine, distinguish and to evaluate how they must be applied to obtain family harmony towards ensuring the long-term sustainability of family businesses.

The secret recipe for successful family businesses needs lots of scoops of its core ingredient, which is family harmony. The only way to obtain this is that all the determinants mentioned must actively be present other wise the family businesses will surely be on the highway towards a disastrous end.

1.4 OBJECTIVES OF THE STUDY

1.4.1 Primary objective

The primary objective of this study was to empirically explore various determinants of harmonious family relationships in small and medium-sized family businesses in South Africa.

1.4.2 Secondary objectives

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

- To gain insight into the dynamics of family businesses by means of a literature review.
- To identify the items that could measure the determinants of family harmony in family businesses.
- To assess the reliability of the questionnaire.
- To assess the determinants of family harmony in small and medium-sized family businesses.
- To explore the correlation/relationship between the dependent and independent variables.
- To examine the relationship between the demographical variables and the constructs measuring family harmony.
- To suggest practical recommendations to improve family relationships in the family business.

1.5 SCOPE OF THE STUDY

This section will be divided in two sub-sections containing the field of study and the geographical demarcation of the study.

1.5.1 Field of the study

This study falls within the subject field of entrepreneurship with specific reference to family businesses. This study focuses on the contribution of various determinants identified towards achieving family harmony in small and medium-sized family businesses.

1.5.2 Geographical demarcation of the study

The geographical area of this study is restricted to family businesses in the Tlokwe Municipality in the North-West Province of South Africa (refer to Figure 1.1)

Figure 1.1: Map of the Tlokwe area in the North West Province



Source: Anon. (2007)

The study will only be conducted on family businesses inside the Tlokwe municipal area, formerly known as the Potchefstroom Municipality.

1.6 RESEARCH METHODOLOGY

This study will be conducted in two phases, i.e. a literature review of family businesses followed by an empirical study investigating the determinants of family harmony in small to medium-sized family businesses in the Tlokwe Municipality in the North-West Province, South Africa

1.6.1 Literature review

The purpose of the literature review is to understand the contribution and the roles that various pre-identified determinants can play in achieving family harmony between family members. This is done in an attempt to ensure the long-term sustainability of family owned businesses in South Africa.

The literature review was done mainly from various text books, academic journals, dissertations and thesis's obtained from the Ferdinand Postma Library at the North-West University, Potchefstroom Campus and various Internet websites.

The literature review in chapter two commences with an introduction, followed by the definition of small to medium-sized family businesses, the dynamics of family businesses and the advantages and disadvantages of family businesses. The next section will discuss family harmony (dependent variable), followed by the determinants (independent variables) of family harmony. These independent variables include fairness, open communication, mutual trust and respect, conflict between family members, family commitment, personal needs alignment, the division of labour, leadership, governance, non-active family members, non-family members and senior generation of family members. The penultimate discussion entails the perceived future

continuity of family businesses, followed by a summary of the various factors' role in obtaining family harmony which ends-off the literature review.

1.6.2 Empirical study

The empirical study emanates from the literature review and will be discussed in chapter three. The empirical study, however, consists out of the following topics:

1.6.2.1 Development and construction of the questionnaire

Questionnaire design and administration is a crucial component of research projects. The order in which the items are presented has an effect on the response (Babbie & Mouton, 2001:243, 244). A well-designed questionnaire can provide the necessary data to address research questions, while a poor designed and administrated questionnaire will result in useless information (Frazer & Lawley, 2000:2).

Questionnaires with closed-ended questions will be ideal if the problem is well defined as well as specific and information on attitudes and opinions are required. The following type of questions should, however, be avoided (Babbie & Mouton, 2001:237):

- Questions that rely too heavily on the memory of the participant.
- Questions that is too general or vague.
- Questions that necessitate a considerable amount of self-analysis on the part of the participant.
- Questions that require a considerable amount of thinking before an answer can be given.
- Questions that is too personal.

The literature research provided valuable insight into the identification of the determinants of family harmony in family businesses. Based on the literature research, thirteen latent constructs or independent variables which could be used to assess family

harmony or the dependent variable were identified (Farrington 2009, Venter 2003 & Sharma 1997). These independent variables are: *open communication, mutual trust and respect, conflict between family members, family commitment, personal needs alignment, division of labour, fairness, leadership, governance, non-active family members, non-family members, senior generation of family members*. A comprehensive measuring questionnaire was designed to evaluate these constructs.

The measuring questionnaire used in this study assess the thirteen latent constructs with 96 statements on the basis of a 7-point Likert type scale ranging from Strongly Disagree (1) to Strongly Agree (7).

Demographic information, which included the distinction between active and inactive family members, age classification, gender, marital status, relationship to the senior generation owner-managers and shareholding percentages were collected. Information on the structure of the participating family businesses that was also collected included the amount of permanent employees, annual turnover, industry focus, the age of the business, generation of family members managing the business and the legal status of the participating family businesses.

1.6.2.2 The study population

The target population of this study was small and medium-sized family businesses in the Tlokwe Municipality in the North-West Province of South Africa. Since no formal database for such small and medium-sized family businesses in the area existed, a convenience sample, by means of a snowball sampling technique was used to identify possible participants for this study.

To generate a list of family business, various well-known business people were contacted in the area. These business people then acted as informants and identified potential family businesses for inclusion in the sample. These referrals were subsequently contacted in person to confirm that they are indeed family businesses and

that they are willing to participate in the study. Twenty-nine family businesses indicated their willingness to participate in the study.

1.6.2.3 Data collection

As soon as the design of the questionnaire has been finalised and a suitable sampling strategy determined, the process can continue towards the next level, which will be the data collection process. It is during this stage that the questionnaires are actually administrated (Frazer & Lawley, 2000:10).

Problems may arise here in order to persuade participants to co-operate in the process. According to Babbie and Mouton (2001:237), a lack of co-operation may result in to problems like incomplete questionnaires or too little response or unreliable results.

Babbie and Mouton (2001:237) state that data gathered must be interpreted in order to draw conclusions that reflect on the interests, ideas and theories that initiated the query. The data must be in suitable form to enable appropriate data analysis techniques.

The techniques to distribute and complete the questionnaires included: distribution of questionnaires via post, e-mail or facsimile, personal delivery of questionnaires, followed up by telephone calls, telephone interviews or structured interviews (Neuman, 1997:251–263; Bless & Higson-Smith, 1995:112; Du Plooy, 1995:109–124). Throughout the data collection process a major challenge was to persuade all the family members of a particular family, including the active (employed by the business) and inactive family members, to complete the questionnaire.

Each questionnaire was sent with a covering letter that guaranteed the confidentiality of the responses. Three weeks time was given for the participants to complete the questionnaire. After that all family businesses were visited to collect all the completed questionnaires.

1.6.2.4 The statistical analysis

The data collected were statistically analysed, using Statistica (Statsoft, 2008) and SPSS (SPSS, 2005). The reliability of the questionnaire was assessed by calculating Cronbach alpha coefficients. Thereafter, the constructs measuring family harmony were assessed by means of descriptive statistics. The correlation between the dependent and independent variable will also be assessed by calculating Pearson's correlation coefficients. The relationship between the demographical variables and the constructs measuring family harmony were also explored by means of independent t-tests.

1.7 LIMITATIONS OF THE STUDY

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

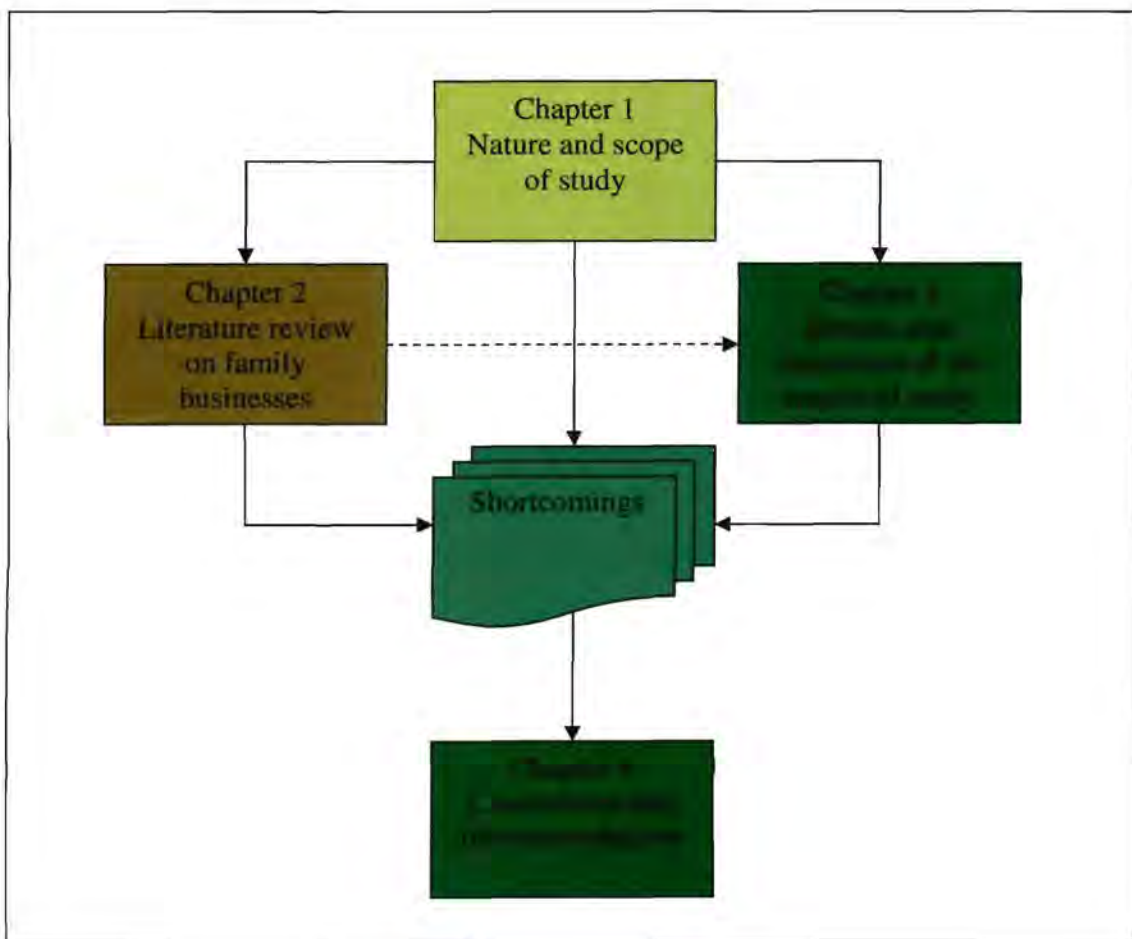
- The literature review is mainly based on international literature because very limited research is available on family businesses in South Africa.
- The research was confined to the Potchefstroom district of the Tlokwe Municipality and the results are typical to the circumstances of the geographical scope. It can therefore not be accepted as an overall reflection of family businesses in South Africa. Care should, therefore, be exercised in the interpretation and utilisation of the results and its findings can not be generalised.
- The focus was on the family, the ownership and business systems. The operational aspects of the business were ignored for the purpose of the study.
- The scope of study, with specific reference to the field of study, was too comprehensive to cover all aspects of family businesses in detail. The results and conclusions made are therefore on broad guidelines that can be used for future research.
- The snowball sample technique that was used can cause certain family businesses to be excluded from the study.

The limitation of the study must be taken into consideration when the results and conclusions of this study are applied to family businesses in a broad sense. The findings of this study can, therefore, not be generalised to family businesses in South Africa or in the rest of the world.

1.8 LAYOUT OF THE STUDY

The layout of this study is presented in Figure 1.2 below. This study consists of four chapters and the layout can be summarised as follows.

Figure 1.2: Layout of the study



Chapter two consists of a comprehensive literature review that formed the basis of the empirical study. Topics to be discussed include an introduction, definition of family businesses, the uniqueness of family businesses, advantages and disadvantages of family businesses, family harmony, the factors influencing family harmony, and perceived future continuity. The chapter ends-off with a summary of all the determinants of family harmony.

Chapter three comprises of a discussion of the process to construct the questionnaire, the study population, the gathering of the data and the presentation and discussion of the results of the empirical study.

Chapter four includes the conclusions based on the literature review and the empirical study, practical recommendations to ensure family harmony in family businesses, a discussion of the achievement of the objectives of this study, and suggestions for future research.