

## **CHAPTER 4**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **4.1 INTRODUCTION**

In this chapter conclusions and recommendations will be discussed based on the constructs determining family harmony amongst family members in family businesses as evaluated during the literature study (Chapter 2) and the empirical study (Chapter 3).

#### **4.2 CONCLUSIONS ON THE EMPIRICAL STUDY**

An empirical study was undertaken using 29 family businesses in Potchefstroom or the Tlokwe Municipality of the North-West Province. Based on the literature review presented in Chapter 2 and the results of the empirical study presented in Chapter 3, it is now possible to make conclusions on the factors that could ensure harmonious family relationships in family businesses.

##### **4.2.1 Conclusions on biographical data analysis**

A total of 81 active and 39 inactive family members from 29 family businesses participated in the research study. The following biographical factors were analysed; age group categories, gender, marital status, relationship to the owner / senior generation executive, highest academic qualification and percentage shareholding. The most important conclusions on the biographical analysis are discussed below.

A senior generation owner-manager or the Chief Executive Officer (CEO) of a family business, age 50 and older should be ready to transfer the management, as well as the ownership of the family business to a suitable successor or the next generation family members. Thirty six percent of CEO's in this study are already above 50 years of age.

The ownership of family businesses is still dominated by active males (56%). Active females such as mothers, spouses, daughters and sisters represent (46%) of the ownership. Females however play a significant role in the overall effectiveness of family businesses, but a large number of sons are involved in the family business, relative to daughters, almost three times more. In this study, considering the participative family businesses, it can be concluded that daughters are almost overlooked as possible successors for the family business.

The level of formal qualification can have an impact on the way that businesses are managed. Almost half (39%) of all the active family members have no further formal education after they finished matric, comparing to the one third (33%) inactive family members that have a university degree / post graduate degree. No correlation between the highest academic qualification and the success of a business can be drawn as only 32% of CEO's have a formal qualification after matric. It is therefore important that family businesses must utilise external sources, expertise and advice to fill the educational gap that may occur from the scarcity of formal qualification.

The numbers of shares owned by active and inactive family members can have an impact on loyalty, commitment and family harmony amongst family members in the family business. This topic raised concern, since almost half (45%) of the participative family businesses in this study shareholding percentages did not add up to 100%. It is thus clear that family members that participate in this study are confused, concerning their shareholding percentages in the family business. It can be concluded that this confusion can cause serious problems within family businesses, such as conflict, mistrust, the break-down of effective communication and a lack of commitment.

#### **4.2.2 Conclusions on family business information**

The family business data that were gathered was analysed in paragraph 3.5. A total of 29 family businesses participated in this study. The relevant conclusions based on the family business information are made in the following paragraphs.

All the family businesses that participated in this study were located in Potchefstroom of the Tlokwe Municipality. Although the distribution of family businesses that participated in the study is not evenly distributed it can be concluded that all the important geographical areas, in the scope of the study, were covered.

The majority of family businesses that participated in this study are classified as small family businesses based on the number of permanent employees (between five and 50) employed by them. The average annual turnover generated between the family businesses ranges between R 2.5 and R 10 million. One fifth (21%) of family businesses in this study, however, neglected to reveal their annual turnover. It can be concluded that this is a touchy issue for many family businesses and that they do not want to inform outsiders of the financial status of their family businesses.

Family businesses in this study mainly focus on the retail, food and service industries and operate as family businesses for an average of 23 years already. Twenty three years also represents the average number of years that a CEO spends in a family business. Two thirds (67%) of the family businesses in this study are in the second generation of ownership, 12% in the third generation, but none has yet survived towards the fourth generation.

The legal status or business form of the family business has a significant impact on a business especially when it comes to transferring of ownership from one generation to another. Almost half (46%) of family businesses in this study were registered as close corporations and one third (34%) were registered as private companies.

#### **4.2.3 Conclusions on the constructs determining family harmony**

During the literature review (Chapter 2) insight were gained on obtaining family harmony to ensure the future continuity of family businesses. Two existing measurement instruments (questionnaires, refer to Appendix A and B), that were designed by Prof Elmarie Venter (NMMU), Ms Shelly Farrington (Van Eeden) (NMMU) and Dr Stephan

van der Merwe (NWU), were utilised to obtain information from the participants, and also to take these factors into consideration.

By referring to paragraph 3.7 and table 3.8 it is evident that the three constructs that were rated the most positive by the respondents were those of **Family commitment** ( $\bar{x} = 6.250$ ), **Mutual trust and respect** ( $\bar{x} = 6.217$ ) and **Leadership** ( $\bar{x} = 6.023$ ). The results indicated that the three constructs that obtained the lowest rankings were **Division of labour** ( $\bar{x} = 5.425$ ), **Non-family members** ( $\bar{x} = 4.627$ ) and **Governance** ( $\bar{x} = 4.350$ ).

#### **4.2.4 Conclusions on the Cronbach Alpha coefficients of the constructs**

The Cronbach alpha coefficient analysis was used to evaluate the internal consistency of the items measuring the constructs in the questionnaire. A Cronbach Alpha coefficient of 0.70 can be considered acceptable in basic exploratory research. Cronbach alpha coefficients of more than 0.80 generally indicate high reliability.

Considering the results of the Cronbach analysis, as displayed in paragraph 3.6 and Table 3.7, it is evident that the measurement instrument in this study is internally consistent.

#### **4.2.5 Conclusions on the correlation between family harmony and constructs**

Strong positive correlations existed between the dependent variable, family harmony, and the majority of the independent variables (refer to table 3.9). High correlation coefficients represent strong linear relationships between the construct (independent variable) and family harmony (dependent variable). The four highest correlation coefficients in this study were those of **Mutual trust and respect** ( $r = 0.925$ ), **Leadership** ( $r = 0.848$ ), **Open communication** ( $r = 0.821$ ) and **Family commitment** ( $r = 0.819$ ).

The three lowest correlation coefficients in this study were those of **Inactive family members** ( $r = 0.465$ ), **Governance** ( $r = 0.392$ ) and the lowest that of **Non-family members** ( $r = 0.313$ ).

#### **4.2.6 Conclusions on the relationship between demographic variables and the constructs**

No practical significant differences existed between the four demographical variables and the constructs. There were, however, three visible differences in the perceptions of the respondents regarding the demographic variables and the constructs. The first visible difference (medium effect) was that of **Personal needs alignment** between active and inactive family members (d-value = 0.53). The second visible difference (medium effect) was also that of **Personal needs alignment** between family members younger than 40 years and those older than 40 years of age (d-value = 0.47). The last visible difference (medium effect) found was also that of family members younger than 40 years and those older than 40 years of age, but between their perceptions of the **Perceived future continuity** of the family business (d-value = 0.41). No other visible differences were found.

### **4.3 PRACTICAL RECOMMENDATIONS**

The primary objective of this study was to present recommendations to family business role players on how to obtain family harmony; therefore ensuring the future continuity of the family business.

The recommendations are based on the analysis that was done and conclusions that were drawn from the information gathered from the literature review and the empirical study. It is important to notice that every family business is unique. Some of these recommendations could therefore be more applicable to a specific family business, and other, not so applicable.



Successful family businesses should mainly focus on the principle of parallel focus between the interests of the family and the interests of the business. It is therefore recommended that a balancing approach should be followed to nurture the delicate balance between the family-, business- and ownership systems (refer to paragraph 2.3.2), since these systems are the basis for healthy family business relationships and will ultimately create family harmony to ensure the future continuity of the family business legacy.

### **Ensure open communication**

Communication in any family business is essential, not only amongst the active family members, but especially with inactive family members. Communication could thus be improved by means of:

- Creating an atmosphere where open discussion is welcomed and uneasy topics can be discussed without blame being cast. This could build mutual trust and respect between all family members.
- Approved techniques to improve communication among family members should be adopted. This may include; to learn to be able to listen well, how to avoid misinterpretation, how to build and maintain trust, how to regard discrepancies as emotionally neutral, direct consistent communication towards all family members involved and to help building self confidence.
- Communication should happen regularly and in such a way that the same message is encoded to all family members, by using various communication channels such as; e-mails, news letters, faxes or any other written method.
- All family members should attend communication training programs to assist them to become more familiar and confident to express their feelings and wants.

Family businesses should thus establish communication forums and the prevention and management of conflict should be improved. It is recommended that family businesses should specifically focus on effective communication with inactive family members.

## **Establishing family forums**

It often happens that families are so involved in the day-to-day activities of the business that they neglect to pay attention to important issues or to build on their relationships with fellow family members. This study aims to stress the urgency of healthy interpersonal relationships between all family members. Family forums are an useful communication enhancement mechanism to prevent conflict from erupting into nasty family disputes and even violent infighting.

Establishing and maintaining family forums can play an important role for the successful continuity of the business as a family business. The ultimate goal of such a family forum is to bring family members together so that they can focus on issues of mutual interest between them. In order for family forums to be successful it is recommended that:

- Family forums must be made more productive by removing personal issues from business issues and by holding these forums on neutral ground, away from the work or home environment.
- Constructive feedback mechanisms should be established to acknowledge the individual's dreams and needs, especially those of inactive and non-family employees from feeling uninvolved and de-motivated.
- Formulating a vision for the family business as well as for the individual family members. The vision of the family business must be communicated to all family members to gain an overall understanding of the proposed future plans, and to support these future plans.
- These family forums should also include discussions on issues such as; the uniqueness of the family business, the interaction between the family and the business system, the reason and the consequences of conflict, succession planning, retirement planning and the strategic management of the business.

Family forums or meetings should aim to build unity and cohesion among family members and to boost the sense of identity as a family team; which are necessary for

the future continuity of the family business. Special care should however be taken that the holistic approach of the family should not be neglected, by only favouring the needs and dreams of a few prevailing family members. The overall approach should be a strategic approach to managing the management succession to family businesses.

At the family forum meeting ample time should be set aside for formal discussions and feedback sessions, but social activities should also be catered for. The aim of a family forum should also be to improve communication between active and inactive family members. Inactive members should therefore be encouraged to have their say. It is also important to involve in-laws in the family forums. The family should realise that the family forum is there for all family members. It is not a forum where the active members may enforce their opinions upon inactive members or in-laws (Van der Merwe, 2008b:21).

### **Conflict management**

The most effective way to manage conflict is to prevent misunderstandings from happening in the first place. Intelligent business owners need to be able to predict potential problematic issues and develop a systematic way to address these issues before they arise, and before it gets personal. Although conflict has proved to be having some positive effects on family businesses in the past, it must not be underestimated and not be avoided at all, as it can then cause greater damage to family relationships in the long run.

Families and family businesses should therefore be able to effectively manage conflict and develop mechanisms to resolve disputes as soon as they appear. The capability to effectively manage conflict determines the maturity and emotional health of the family and the family business and plays an important role in obtaining family harmony and therefore ensuring the future continuity of the business. Thus to improve conflict management in family businesses, it is recommended that:



- Family executives need to understand the symptoms, causes and reality of conflict in the family business in order to pro-actively deal with conflict as soon as it occurs.
- All inactive family members like spouses and other in-laws should help to resolve conflict to contribute to family harmony instead of disrupting it.
- Family members should also be trained to deal with interpersonal conflict effectively, via family forums. This will then fulfil the needs of the family and the family business, without interpersonal conflict constantly disrupting activities.

To summarised, family businesses should thus establish communication forums and the prevention and management of conflict should be improved.

### **Ensuring fairness**

Compensation and the work performance of family employees are important aspects to ensure a fair and equal work environment for all employees. Family businesses are continually confronted with conflict as the result of unclear work roles and responsibilities and perceptions on the work performance and compensation of in particular, family employees. The following guidelines are suggested to effectively manage these issues (also refer to Van der Merwe, 2008a:20, 21):

- A qualified or experienced external advisor should be appointed to assist with the establishment of compensation and disciplinary policies and procedures.
- Establish a family employment, performance measurement and compensation policy for family members. Thus, set policies for family member employment, performance measurement and discipline, as well as all types of compensation, including bonuses, cost-of-living raises, perks and other benefits.
- If possible, make the policies clear before the family members enter the family business. Discuss and revisit these policies on a regular basis during family forum meetings.
- Set clear guidelines for work performance reviews and feedback. A well-designed performance evaluation system must be designed, based on the family business'

performance, and communicated and agreed among all active family members. The participation of non-family employees in the evaluation system, however, is very critical.

- Incorporate some form of incentive or performance-based compensation that rewards family employees achieving goals. The family business compensation policies should thus be market-related. Professional and independent consultants can also assist by doing salary surveys on behalf of the family business. It is also recommended that family members need to establish their own fair market value by working outside the family business first.
- Establish a special group to resolve family employee work performance and compensation issues. This group could include the senior generation owner-managers (parents), other key family members, directors and non-family managers. A family forum can play a pivotal role in this process.
- A family council should be established to assist families in answering questions regarding disputes that may arise over issues such as compensation and non-performance of family members.
- Discuss family employee work performance and compensation on a regular basis during family forum meetings.

### **Strategic planning for management transition towards the next generation**

This topic is a critical step in the entire succession process to ensure the future continuity of the family empire, it is thus recommended that:

- Possible successors should be introduced as early as possible and they should be included in the formulation of the corporate mission, vision and strategy.
- The transfer of control of the family business should commence when a suitable successors are between the age of 35 and 45.
- A family business succession transition team should be appointed to assist family and non-family members to participate in the succession plan.

- Provision should be made for the actual departure time and duties of the senior generation executive family members once they leave the family business. They should then comply with the strategy decided on and not interfere with the newly appointed successor.

### **The future involvement of the family in the family business**

It is important that the family discussed the future role and involvement of the family in the business during family forum meetings. Many people find discussing the involvement and future role of the family in the business around a table, a daunting prospect (Van der Merwe, 2008b:20). The majority of business families avoid discussions about the individual dreams, fears and needs of family members, as they feel it may result in conflict, assuming that ignoring the issue will preserve the family relationships. Usually the opposite happens, as it often results in major differences of opinion and a lack of trust, which tend to become more difficult to resolve in the long run. Generating a family vision by all the family members during a family forum, should therefore, be encouraged actively.

The generation of the family vision is a dynamic process. The family vision should be formulated and put in writing, communicated to all the family members and revisited on a regular basis and adapted to the fast changing family and business environment. The vision should form the basis for an aligned commitment to family business continuity by all family members and the drafting of the formal family business continuity plan (Van der Merwe, 2008b:20).

### **Ensure good corporate governance**

The importance of good governance of family businesses is often evident to astute family business owners, and to improve corporate governance it is recommended that:

- Family businesses must appoint external board members or establish family councils to ensure good corporate governance.
- Families must design a protocol that provides the framework for outlining the basic values and beliefs of the family; it must then indicate how the family and the business must be governed and how major decisions will be made, conflicts to be resolved and it should also outline the relationships between the different governing bodies.
- Family businesses should formulate policies to govern the business. These policies could include policies for the entry or exit of family members, compensation, discipline, performance measurement and feedback, ownership, amongst others.

### **Make full use of external expertise**

Family businesses should not hesitate to seek for external assistance on important issues, which they do not have the ability to deal with and solve themselves.

## **4.4 CRITICAL EVALUATION OF THE STUDY**

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

### **4.4.1 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 and to put forward recommendations to enable the family businesses to obtain family harmony to ensure long-term sustainability.

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

#### **4.4.2 Secondary objectives**

As indicated in paragraph 1.4.2, the secondary objectives had to be met to be able to achieve the primary objectives. The following secondary objectives were formulated:

- To define family businesses.
- 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.

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

The second secondary objective, to obtain insight into the dynamics of family businesses by means of a literature review, was achieved by means of the literature review as presented in chapter 2.

The third objective was to identify the items that could measure the determinants of family harmony in family businesses; this was also achieved by means of a literature review and the constructing of the questionnaire. Take note that the questionnaire used



in this study was constructed by Prof Elmarie Venter (NMMU), Ms Shelly Farrington (Van Eeden) (NMMU) and Dr Stephan van der Merwe (NWU).

The fourth objective was to determine the reliability of the existing questionnaire. This objective was achieved as it was concluded that the existing questionnaire has acceptable reliability. The empirical study in paragraph 3.6 discussed the calculated Cronbach alpha coefficients and the conclusions were put forward in section 4.2.4 of this study.

The fifth objective, to assess the determinants of family harmony in small and medium-sized family businesses, was achieved by means of a detailed literature review (refer to section 2.6), followed by an evaluation thereof in chapter three (refer to paragraph 3.7), as well as conclusions made in chapter four (refer to paragraph 4.2.3).

The sixth objective, to determine the correlations between the dependent and independent variables was achieved by presenting the findings in paragraph 3.9 of this study.

The seventh objective was to examine the relationship between the demographical variables and the constructs measuring family harmony. By achieving this objective, it was important to determine if any statistical and practical significant differences exist between the four demographical variables used and that of the dependent variable family harmony, the independent variables and the construct, perceived future continuity. This objective was achieved by means of the presentation and discussion of the findings in paragraph 3.11 and 3.12, respectively.

The last secondary objective, to suggest practical recommendations to improve family relationships in the family business was achieved by presenting practical recommendations in paragraph 4.3 of this study.

The conclusion can thus be made that all of the secondary objectives were achieved. Based on the realising of the secondary objectives, as well as the recommendations for future study put forward in paragraph 4.5, it can be concluded that the primary objective of this study was achieved.

#### **4.5 SUGGESTIONS FOR FUTURE RESEARCH**

Research on family businesses in South Africa is far behind the advanced studies done in the United States of America and in Europe. The following are some recommendations for future research studies:

- Sixty-seven percent of the family businesses in this study are within the second generation of the founder of the family business and have only experienced one leadership transition. Further studies could aim to determine whether success in family businesses differ between different generations.
- Seven percent of the respondents in this study did not obtain a matriculation certificate, although they manage and own large businesses. Future studies could aim to determine whether or not successful family businesses really depend on the qualification level of its founder.
- Fifty-six percent of all active family members in this study are males. Future studies could determine how this unbalanced ratio between male and female could affect the success of family business, if at all. Future studies can also focus on comparing different management styles and their outcomes as used by male and female managers.
- A major concern detected in this study is that almost half the respondents' shareholding distribution did not add up to 100%; future study could aim to determine what the reason for this is and how it can affect the success of family businesses.
- All family businesses that took part in this study were "white" owned. A big entrepreneurial issue, however, is that large institutions require that a traditional "white" business must acquire a Black Economic Empowerment (BEE) partner.

Future studies could do research on mixed partnerships to determine the effect, if any, on the successes of especially small and medium family businesses.

- Future studies could aim to develop a comprehensive database on family businesses, from which probability samples can be drawn.
- It is recommended that further research should be conducted to determine the validity of the questionnaire by means of exploratory and confirmatory factor analysis.

#### **4.6 SUMMARY**

In this chapter, conclusions and recommendations were drawn based on the constructs that contribute towards family harmony and ultimately ensure the future continuity of family businesses, as identified in the literature review in Chapter 2 and the empirical study in Chapter 3.

A structured questionnaire was administered at 29 family businesses in Potchefstroom of the Tlokwe Municipality that participated in this study. Conclusions were drawn from the results of the empirical study.

A total of 120 family members took part in this study, 81 were actively involved and 39 were inactively involved in the family businesses. Biographical factors such as their relationship to the owner, age, gender, marital status, highest academic qualification and percentage shareholding were analysed (refer to section 3.4) and conclusions were drawn based on the results (refer to paragraph 4.2.1).

The family business information such as the permanent number of employees that are employed by the family business, the annual turnover, the industry focus area, the age of the business, the generation of family (i.e. 1<sup>st</sup>, 2<sup>nd</sup> or 3<sup>rd</sup>) managing the business and the legal status of the business were gathered and analysed (refer to section 3.5) and conclusions were drawn based on the results (refer to paragraph 4.2.2).

The conclusions based on the results were presented regarding the determinants of family harmony (refer to paragraph 4.2.3), the Cronbach alpha coefficients of the constructs (refer to paragraph 4.2.4), the correlation between family harmony and the constructs (refer to paragraph 4.2.5) and the relationship between the demographic variables and the constructs (refer to paragraph 4.2.6).

Practical recommendations were presented regarding issues that were identified during the literature review and confirmed during the empirical study. These recommendations are based on, amongst others, open communication, family forums and family meetings, conflict management, ensuring fairness, strategic planning for management transition towards the next generation, corporate governance and the use external expertise (refer to paragraph 4.3).

The realisation of the study objectives was tested against outcomes achieved in the study. The primary objective was achieved as was depicted through the conclusions and recommendations (refer to paragraph 4.4.1). The secondary objectives were also achieved (refer to paragraph 4.4.2).

Finally, suggestions for future study were made. These recommendations include research that focus on success factors experienced in family businesses between different generations, whether successful family businesses really depend on the qualification level of its founder, whether or not unbalanced ratio between male and female could affect the success of family business, whether or not the confusion between family members regarding shareholding distribution can effect the future success of the business, whether or not mixed partnerships will influence the successes of especially small and medium family businesses, to develop a comprehensive database on family businesses from which probability samples can be drawn and lastly further research should be conducted to determine the validity of the questionnaire by means of exploratory and confirmatory factor analysis.