

**Gordon Institute  
of Business Science**  
University of Pretoria

**Understanding the inter-relationship between  
governance and organisational culture in South  
African family owned businesses**

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A research proposal submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

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## **ABSTRACT**

Family owned businesses play a significant role in the global economy and can thus not be neglected. The contribution of family businesses to the South African economy is growing yearly.

Despite their significant contribution, over generations, family owned businesses inevitably face greater complexities. These complex business dynamics can have serious repercussions for the family and the sustainability of the business. A positive correlation has been found between governance and family business continuity. Organisational culture was also found to play a critical role within family businesses.

This study therefore focuses on understanding the inter-relationship between governance and organisational culture within family businesses. A total of eleven South African family businesses were selected for the study. The sample population was targeted at owners and family members involved in management within the family business. A phenomenological qualitative research methodology was adopted for the study.

The findings of the study revealed that family culture is intrinsically intertwined with organisational culture. The identified dominant cultural dimensions thereof were found to be influential in the development of governance structures across different generations.

## **Keywords**

Family owned business, Governance, Organisational culture.

## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Masters of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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## ACKNOWLEDGEMENTS

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## CHAPTER 1: INTRODUCTION

### 1.1 Research Overview

Chapter 1 provides an overview of family owned businesses by drawing on its functions and relevance in the South African context. This research looks into the interrelationship between governance and organisational culture in family owned business and how they impact the longevity and continuity thereof. This research is based in South African family owned business, as the researcher is a South African citizen. Also because of the need for job creation, as the economy has not been growing well to stimulate employment on its own. Research has indicated that most businesses in the world are family businesses and contribute significantly to the creation of the employment in the economy.

This is followed by providing a theoretical link between family business, governance and organisational culture in Chapter 2. Chapter 3 will introduce research question for this study and the research method thereof will be discussed in Chapter 4. Chapter 5 describes the research data gathered while Chapter 6 discusses the findings, drawing from theoretical frameworks discussed in Chapter 2. The final Chapter concludes the research and provide recommendation for future research.

### 1.2 Background to the family owned business

According to International Finance Corporation (2011), family owned businesses are the oldest and most dominant form of businesses in the world. The International Finance Corporation (2011), estimates that in total family owned businesses constitute 70% of businesses in the world. According to Gersick, Davis, Hampton & Lansberg (1997) in Europe, family businesses are dominant in small and medium enterprises and they are more prevalent in all of the most developed countries in Asia with the exception of China.

Although family businesses are the dominant form of businesses in global organisations, the literature of families and family businesses in non-Anglo cultures is limited (Gupta, Levenburg, Moore, Motwani, & Schwarz, 2011).

Visser & Chiloane-Tsoka (2014) have found no reliable database pertaining to family businesses in South Africa. van der Merwe, Venter, & Ellis (2009) have however estimated that approximately 80% of businesses are family owned. Of the family owned businesses, Fishman, (2009) suggests that 50% of family owned businesses account directly to the South African economic growth. According to the estimated size of family owned businesses provided by van der Merwe et al., (2009) and Fishman, (2009), the contribution of family owned businesses in South Africa exceeded the global average and also that these businesses are the dominant way of doing business in South Africa.

In addition to their contribution, van der Merwe et al., (2009) found that family owned businesses in South Africa have grown rapidly in recent years.

With an estimated 40% of the Fortune 500 companies being either family owned or family controlled, family owned businesses are not only confined to the small business category. It is estimated that in the United States of America, family businesses generate approximately 50 per cent of the gross domestic product (GDP) and are responsible for half of the employment figures. This makes these businesses significant players in the growth economies, employment, skills acquisition and job creation in the world.

According to Taruwinga (2011), family owned businesses are the most effective way of reducing unemployment and improving economic growth. In addition to their contribution to the economy, Vassiliadis & Vassiliadis (2014) have found that family owned businesses also provided long-term stability, inculcate responsibility and good values.

### **1.3 Problem Statement**

Botero, Betancourt, Ramirez, & Vergara (2015) argue that multiple challenges that family businesses face can have adverse effects on their long-term survival. The International Finance Corporation (2011) indicates that the most often cited attribute of family businesses is that many of them have failed to maintain continuity and be sustainable in the long term. Despite their significant economic contribution, research has shown that only 30% of family businesses transcend into the second generation with less than 12% viable in the third generation (Fernández-Aráoz, Iqbal, & Ritter, 2015 & International Finance Corporation (2011). Only 3% transition successfully into the fourth generation and beyond (Visser & Chiloane-Tsoka, 2014).

Unlike publicly held businesses, the sustainability of a family business does not only depend on business performance, but also on family functionality (Ngobo & Fouda, 2012).

Balshaw, (2003) attributes the low longevity of family businesses to their failure to recognize, understand and respond to their unique challenges and dynamics. Botero et al., (2015) suggest that internal family dynamics could create tensions between family members and the business that will affect how they work. Botero et al., (2015) further cite that one of the challenges stems from the manner in which family members manage internal relationships and interactions between the family, business and ownership subsystems within the family business system. In addition, Nieman (2006) has also found that the failure rate can be attributed to family conflicts, tradition and autocratic culture prevalent in family owned businesses. Hiebl (2013) argues that conflicts between family members have a potential to spill over into the business, with significant consequences affecting the business. Similarly, there may be decision-making powers concentrated on a small group within the family (Hiebl, 2013).

Denison, Lief, & Ward, (2004) on the other hand, attribute the low longevity rates in family businesses to succession, governance and estate planning. While concurring with Denison, Lief, & Ward, (2004) on the factors of succession and governance, Chirico & Nordqvist, (2010) have also included family conflict and intergenerational changes as areas of concern affecting the sustainability of the family business. Adendorff & Boshoff, (2010) indicate that good governance practices are required for sustainable family business.

Adendorff & Boshoff, (2010) perspective is shared by Cadbury, (2000, p5) who suggests that “family firms with effective governance practices are more likely to do strategic planning and to do succession planning” and that on average they tend to grow faster and survive for longer periods. The significance of governance is also shared by Steier, Chrisman, & Chua, (2015) and Botero et al., (2015) who have indicated that governance is well known as a key attributing factor in the success and failure of all business activity.

According to the International Finance Corporation, (2011), the adverse impacts of governance on family businesses can be reduced by designing and implementing the right governance structures in the early life of the business. Giovannini, (2010) suggests that defining and contextualising a governance system in a business should take into consideration the geographical, cultural, sectoral, and specific business differences.

The governance structures put in place should be regularly adjusted as the business grows and becomes more complex to take into account potential emerging gaps in governance (OECD, 2007).

Sharma, Chrisman, & Gersick (2012) argue that regardless of recent developments in literature, the depth of detail in this field still warrants a wider view of governance topics in family businesses. (Adendorff et al., 2011) found that there is limited research that has been conducted to investigate relationships between culture and governance in South Africa. This presents a gap in the South African family business literature. This paper therefore aims to address this limitation by making an academic contribution to the body knowledge of governance and how it inter relate with organisational culture in family owned businesses.

#### **1.4 Research Objective**

This study seeks to understand how organisational culture impact and shape the development of governance structures in family businesses.

van Essen, Carney, Gedajlovic, & Heugens (2011) argue that although research of family owned businesses has grown rapidly over recent years, the literature is still under-developed, particularly in privately held family businesses. This is evidenced by the lack of a consensual definition of a family owned business (Chua, Chrisman, & Sharma, 1999).

Furthermore, while there is a universal agreement that organisational culture exists and plays a significant role in shaping behaviour in organisations, there is still little consensus on the its exact meaning (Watkins, 2013). This is a challenge, particularly in family owned businesses, because without reasonable culture definition it is difficult to understand and explain the connection thereof to organisational elements such as governance structures.

This paper therefore aims to contribute to the literature of family owned business governance by providing the current state of governance across the different generations, identifying the organisational cultural dimensions prevalent in the business and develop a conceptual model to explain the inter-relationship between governance and organisational culture.

## **1.5 Conclusion**

The purpose of chapter was to introduce the topic of this research. In particular, the chapter sought to give an overview of the governance and organisational culture of a family business and the significant role it plays in South African economy.

In addressing these issues, the chapter also provided the rationale of this research, its objectives and the question this research seeks to answer.

In Chapter 2 this research will review literature relevant to the phenomena of governance, and organisational culture in family owned businesses. The review of literature identified the gap, which this research aims to address. Chapter 3 will outline the research questions that arose from the literature review while Chapter 4 will present the methodology of this research. The research findings will be presented in Chapter 5 and research findings will be discussed in Chapter 6. Finally, in Chapter 7 will provide conclusion arrived at in the conduct of this research and suggest future lines of research.

## CHAPTER 2: LITERATURE REVIEW

### 2.1 Introduction

The previous chapter of this document discussed the contribution and significance of family owned businesses on addressing socio economic challenges and positively contributing positively to the country's GDP. It is therefore vital that family businesses design and implement structures that will ensure growth and sustainability of the business in order to continue issues benefitting owners as well as contributing to the economy. This research is concerned with issues of governance and organisational culture in family owned businesses. To establish and understand the factors related to governance issues in these businesses, this chapter seeks to review literature and theory underpinning family business governance, the logics at play and how they can potentially deter or enhance business performance.

However it should be noted that despite the fact that businesses are the dominant form of enterprises in the world, the literature of families in non-Anglo cultures is limited (Gupta et al., 2011).

### 2.2 Family Owned Business

#### 2.2.1 Definition of a Family-owned Business

Literature indicates a lack of consensus on the definition of family business amongst scholars. Le Breton-Miller & Miller (2013) have also noted the different definitions of a family owned business by different scholars. The table below summarises some of the definitions.

**Table 1: Family Business definitions by different authors**

Author	Definition	Dimension used to define family business
Van der Merwe et al (2012)	A business where a single family owns at least 1% of the equity of the business and can exercise significant influence in the business. They also explain it as a business where at least two family members are concerned with the business' senior management.	Percentage ownership, voting control, control over strategic direction, active family members involvement in management.
Jimenez, Martos & Jimenez (2010)	Business in which family members have enough capital to dominate and there must be a desire to pass the business to the next generation.	Control over strategic direction, voting control, involvement in more than one generation
Giovannini (2010)	Defined as a business whereby the founding family owns a sizeable amount of share in the business.	Percentage ownership/largest shareholdings
Pounder (2015)	Defined as a business where family owns enough of the equity to be able to exert control over strategy and is involved in top management positions.	Percentage ownership/largest shareholdings, control over strategic direction, active family members involvement in management
IFC family business handbook	Defined family owned business as a company whereby the voting majority lies with the family that is in control and there is an intent to pass the business to next generations.	Voting control, involvement in more than one generation, percentage ownership/largest shareholdings
Miller et al., (2013)	Defines family business as the percentage ownership of family	Percentage ownership/largest shareholdings
Pollack, (2012)	family firm is a business that is owned or managed by a family	Percentage ownership/largest shareholdings, active family members involvement in management,
Chua, Chrisman & Sharma (1999)	A business that is governed and/or managed with the intention to shape and pursue the vision of the business held by dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.	Active family members involvement in management, vision to transcend into multiple generations, voting control, control over strategic direction, percentage ownership/largest shareholdings

Based on Table 1 above, it can be deduced that that most scholars include the following attributes in defining a family business:-

- I. Percentage ownership or maximum shareholding
- II. Active family members involvement in management
- III. Voting Control
- IV. Control over strategic direction

Therefore, while there is no consensus on the precise definition on the precise definition of a family business, most authors include ownership or percentage shareholding as an attribute in defining a family business.

However, Chua, Chrisman, & Sharma (1999) do not subscribe to the equity-based definition of a family business. They argue that by defining a family business solely on the basis of ownership, may eliminate a distinction between a family business and a non-family business, which has the same level of family involvement in the management. Their study suggests that a family business is a matter of behaviour of family members towards the business and that family members must behave in a manner that serves a purpose of shaping and pursuing the vision of a controlling family. For this reason and incorporating the attributes as explained by other authors, the following definition will be adopted for the purpose of the current study.



“The family business is a business governed and/or 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 or a small number of families in a manner that is potentially sustainable across generations of the family or families” (Chua et al., 1999, p7).

### **2.2.2 Importance of a Family Business**

Poza & Daugherty (2013) state that 80% of global free markets businesses are family businesses, with approximately 50% to 75% of the world working population employed by family businesses. Adendorff & Boshoff, (2010) indicate that even in South Africa, family businesses also make up the greater percentage of the private sector businesses. van der Merwe et al., (2009) put the figure of family owned business in South Africa at 80%. While figures on the number of people employed in family businesses in South Africa is not clear due to the large number of informal businesses, some being family owned businesses, it can be deduced that family business employ a large number of people. This suggests that family businesses play a critical role in the economy of the country. Therefore the sustainability and endurance of these businesses is important.

According to PriceWaterhouseCoopers (2014) 78% of family businesses reported growth in 2014 while 64% expect business to grow in the next five years. A study by Bartholomeusz and Tanewski, (2006) suggest that family owned businesses have different structures to no-family businesses. Adendorff & Boshoff, (2010) see the main difference between family and non-family businesses. They see the main difference between family and non-family businesses as the blurring of boundaries between family and business. They further indicate that in family owned businesses, business matters are intrinsically intertwined with family financial affairs, power relationships and emotional bonds prevalent in family dynamics. In addition to making family businesses more complicated, the blurring of boundaries between family and business complicate governance matters. Adendorff & Boshoff, (2010) also found evidence that these complexities have an impact on business performance.

### **2.2.3 Family business as a system**

While Adendorff & Boshoff, (2010) note the dualism of family and business in a family business as a matter of differentiation between a family and a non-family owned business, Gersick, Davis, Hampton & Lansberg, (1997) perceive the dualism as a differentiating systematic feature.

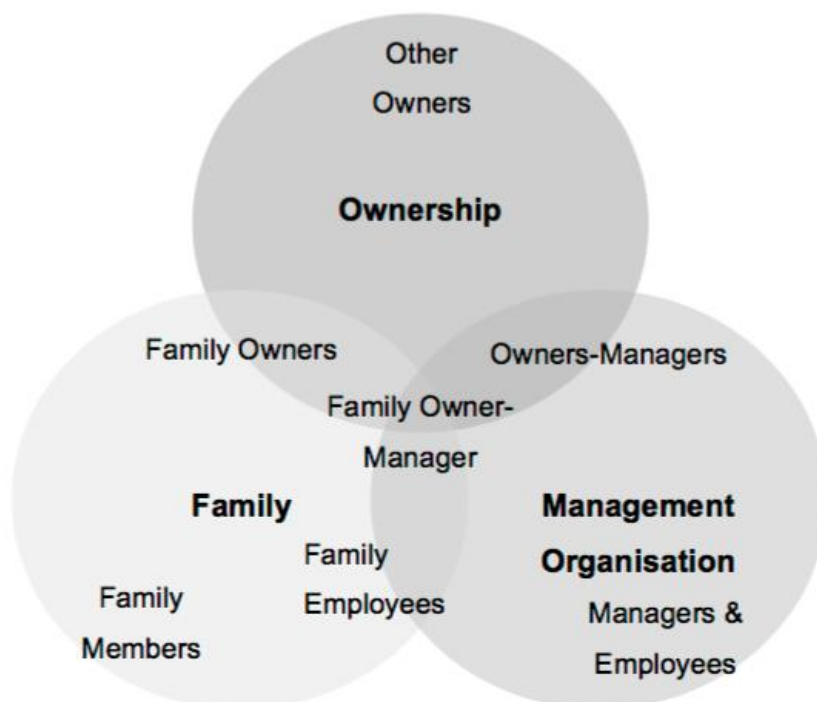


They argue that the family and the business component are two overlapping systems of a family business, each with its own norms, values and structures. Problems, however arise as the same individuals have to fulfill their obligations in each of the two systems. Therefore for a family business to be effective, suitable strategies that are applicable for both family and business systems have to be in place. Gersick et al., (1997) further assert that for a family business, there should be a clear distinction between management and ownership.

Gersick et al., (1997) introduced a third subsystem in the family business structure whereby there could be individuals who own equity but are not involved in the operation of the business, those who are managers but do not have control of the shares in the business. Figure 1 below demonstrates how these three subsystems in a family business system overlap.

**Figure 1: The three-circle model of family business.**

Source: Adapted from Poza & Daugherty (2014)



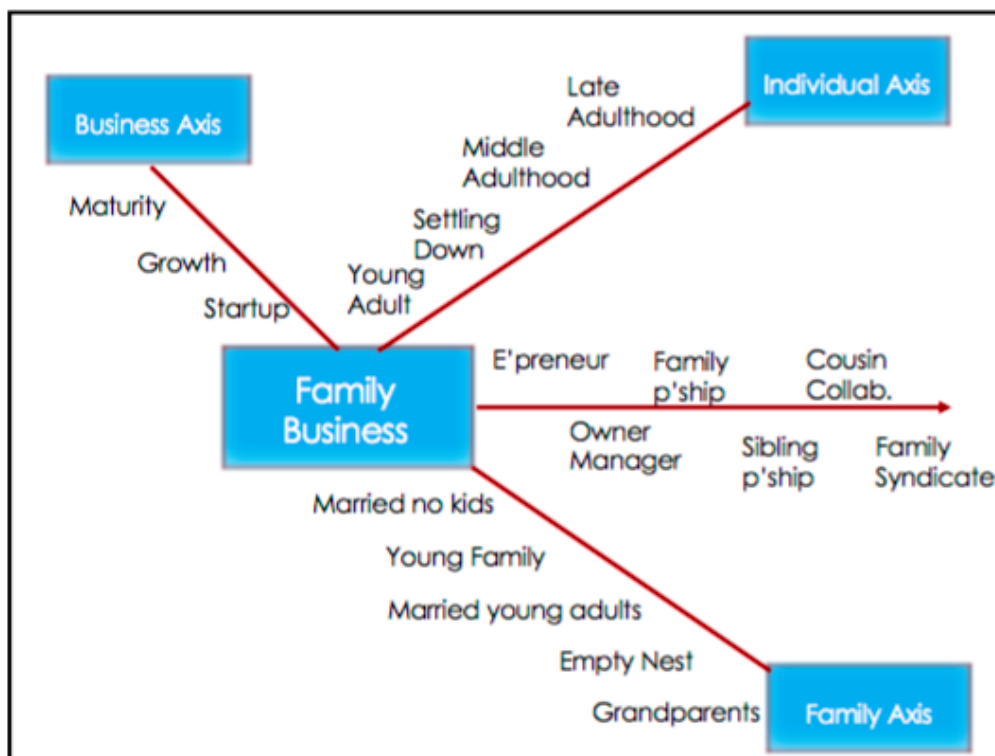
## 2.2.4 Family Owned business life cycle

Family businesses like other businesses go through business life cycles. Cruz & Nordqvist (2012) note that as family businesses evolve beyond the founder both owners and managers of the family need to contend with the developments that come with the evolution of the business and family. They emphasise that the development in these three subsystems are rarely synchronized. Handley & Corey (2015) suggest that such evolutions bring complexities in the business. Le Breton-Miller & Miller (2013) argue that each evolutionary stage of the family business life cycle have typical business and family characteristics that influence priorities of family members within the business.

It is thus important to see how family businesses change as individuals move across the different boundaries and subsystems. As Gersick et al., (1997) notes, the movement of individuals across the different boundaries and subsystems, has meaning on the lives of the individuals and also on the shaping of the entire family business as each subsystem goes through its own sequence of stages. The model on Figure 2 depicts the development of each subsystem.

**Figure 2: Developmental model of family business.**

Adapted from: Gersick et al. (1997)



## **2.3 Governance in family business**

### **2.3.1 Definition of Governance**

Gersick, Davis Hampton & Lansberg (1997) define governance as structures or processes intended to facilitate the relationship of the family with the business. Similarly, Carlock & Ward (2001) define governance as institutions and processes that aim to order the relationships occurring within the context of the family and the business. They further assert that the processes can be both formal and informal and change over time when both the business and the family systems transcend into new phases of the family business life cycle. In support of this, Suárez & Santana- Martín, (2004) argue that governance in family business is centred on the manner in which control mechanisms within the company are configured. These mechanisms are attempts to minimise or limit problems arising from potential conflict of interest between family business stakeholders. They further argue that these mechanisms depend on the corporate and institutional characteristics of the business to a great degree. Governance is thus focused on creating and enhancing a tight relationship between family and business and consequently a functioning family owned business that act in unison to safeguard business continuity and longevity (Suess, 2014).

The above-explained definitions all refer to governance within a family business as an internal control mechanism used to manage relationships. For this reason, all the above definitions will be used for the current study.

### **2.3.2 Governance in a family owned business**

Steier, Chrisman & Chua (2015) and Adendorff, (2011) suggest that governance is a significant attributor to the success and failure of all organisations. Adendorff & Halkias, (2014) also note the role of governance in organisations. They indicate that positive correlation exists between good governance and longevity of a family business. In support of this Steier et al., (2015) have indicated that governance is well known as a key attributing factor in the success and failure of all business activities.

With regards to family businesses, Au, Chiang, Birtch, & Ding, (2013) argue that excessive governance may, in fact, adversely affect innovation and the renewal of family businesses. They attribute this to family involvement in a business, which introduces a unique element to governance.

Steier et al., (2015) argue that governance processes in family businesses tend to assume a single family and single structure and thus do not align their governance systems accordingly for a multi generational family business.

Given the positive correlation between governance and business longevity Adendorff & Halkias (2014) this will introduce risks in the sustainability of the business.

According to Patel & Cooper (2014), the relationship between a family and its family business is deeply rooted, such that it is difficult to separate the subsystems prevalent within the family business system This suggests that clear processes and structures are required to manage these entities as the business evolve into different phases. Such governance mechanisms will enable tightening of relationship between the family and the business and thus ensure safeguarding of long-term existence and well being of the business (Suess, 2014).

Cruz & Nordqvist (2012) indicate that developments that emerge as family business grows come with challenges into both the business and the family subsystems and are thus not easy to harmonise. When this happens Bammens, Voordeckers, & Van Gils, (2011) state that , advisory councils and formal structures are needed to establish and facilitate the required strategic planning and other important matters of the business. On the other hand Handley & Corey (2015) argue that governance processes are more suitable to individualistic cultures whereby the social framework is not tightly knit within an organisation.

For a family system, governance establishes communication channels, facilitates communication flow of family involvement and defines the rewards system (Botero et al., 2015).

### **2.3.3 Theories of governance in a family business**

To contextualise governance in a family business environment, theoretical frameworks in family business research were used. The following commonly used frameworks will be used to explain-:

- i. Agency Theory
- ii. Stewardship Theory
- iii. System Theory

### 2.3.3.1 Agency Theory

Bammens, Voordeckers & Gils (2011) suggest that Agency Theory in family owned businesses focuses on family interests and takes into consideration both economic and non-economic behaviour motives of individuals in the business.

Therefore, agency theory is based on the conflict of interest between owner and manager and assign to the structure the task of controlling the work of management to prevent opportunistic behaviour, which could potentially result in reduced performance (Gubitta & Gianecchini, 2002). Poza, & Daugherty (2013) suggest that the alignment between owners and managers within a family business is inherent and thus minimises the need for formal supervision and governance structures thereby reducing agency costs. Zellweger & Kammerlander (2015) support the view that family involvement in both ownership and management should be particularly efficient in aligning the interests of principals and agents due to the inherent altruism prevalent in familial relationships.

Contrary to the perceived benefits of agency theory, Le Breton-Miller & Miller, (2013) argue that agency theory is double-edged in its appraisal of family businesses and family leadership. On one hand, it has been used to suggest that businesses run by family executives will benefit from lower agency costs, as there exists an alignment of interests and minimal information asymmetry between owners and managers. On the other hand, family executives are said to be able to use their superior positions and knowledge to exploit less influential owners and to only benefit themselves at the expense of the company. Sharma (2004) argues that even though some agency costs might be alleviated by the alignment of ownership and management, new types of problems emerge, particularly as the business grows and the subsystems within the family business evolve and dynamics within the family get complex (Suess, 2014). In that case, agency costs are expected to be higher. Governance is thus implemented to focus on reducing the costs by establishing the most efficient contracts to govern the principal-agent relationship (Miller, Minichilli, A. & Corbetta, 2013). Giovannini, (2010) indicates that this means that where ownership is dispersed, corporate governance measures have a positive relation with performance, all other conditions being equal.

### 2.3.3.2 Stewardship theory

An alternative viewpoint from the agency theory is offered by the Stewardship Theory. Stewardship Theory suggests that the prevalence of insider over outsider actors is appropriate (Giovannini, 2010).

This theory argues that managers are more reliable and are less liable to waste resources, as they act in the firm's interests and therefore aim to achieve higher profit and greater return to shareholders (Giovannini, 2010). Gubitta & Gianecchini (2002) further argue that the Steward Theory eliminates the lack of trust, which is present in agency theory.

This suggests that stewardship in a family business encourages pro organisational manner and can thus influence the presence of formal governance structures within the business.

On the contrary, other scholars maintain that family members in management positions will not be stewards of the business but of their immediate families. This is particularly relevant to the cousin consortium stage of development of the family where the level of commitment is not as high as the first two developmental stages (Le Breton-Miller & Miller, 2013). Accordingly, family CEOs or managers may act with partiality towards members of the family who may not deserve the benefits. This behaviour can impact the business negatively (Le Breton-Miller & Miller, 2013; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011).

Connecting this to governance, Suess (2014) cites that governance structures encourage stewardship behaviour among members of the family and strengthen cohesion and relationships with the family business. However, (Bammens et al., 2011) argue that excessive control mechanisms reduce the steward's motivation to behave in a pro organisational manner.

#### 2.3.3.3 System Theory

Aronoff (2004) defines systems theory as a system of interaction between management of the business, ownership and the family subsystems (Refer to Figure 1)

Poza & Daugherty (2013) argue that each subsystem maintain its boundaries and thus separate itself from other sub-systems. They further argue that to be able to understand the continuity and sustainability of the family business, there need to be a thorough understanding of how these three subsystems interact and the interdependencies thereof to enable the whole system to function as one entity. This will include culture, environment, values and vision of the business. In support of this, Patel & Cooper (2014) argue that the intrinsic intertwinement of the three subsystems makes it difficult to separate family from the business.

### **2.3.3 Challenges of implementing governance in a family business**

Gersick, Davis, Hampton, & Lansberg (1997) suggest that governance issues in family business are different to non-family business due to the fact that in family businesses, family and business issues are inter-twinned.

Suárez & Santana- Martín (2004) argue that the key to understanding the behaviour of family owned businesses lies in the manner in which the family and the business interact and the effect thereof on all those involved. The behaviour of a family owned business would thus show significant features because the relationships amongst the stakeholders have strong family links.

Giovannini (2010) suggests that the central problem of governance is a control mechanism to curb the self-interested managerial behaviour displayed in the principal-agent relationship. However, in family owned businesses this is irrelevant as the owners are often managers and the exploitation or opportunistic behaviour of the agent on the principal is prevented (Suárez & Santana- Martín, 2004).

Gubitta & Gianecchini (2002) assert that owners hinder governance processes out of fear of losing control sometimes or that they find it hard to implement effective governance mechanism control.

### **2.3.4 Governance mechanisms**

As Suárez & Santana- Martín (2004) argue, governance in family businesses is centred on the manner in which control mechanisms within the company are configured. These mechanisms are attempts to minimise or limit the problems arising from potential conflict of interest between family business stakeholders. Of importance are their assertions that these mechanisms depend on the corporate and institutional characteristics of the business to a great degree. Accordingly, these mechanisms could be a board of directors, protocol as governance, family council as governance, psychological contracts and formal communication structures (Suess, 2014; Suárez & Santana- Martín, (2004)). Giovannini (2010) further add that governance mechanisms are determined by geographical location, culture and business specific differences, and business size and lifecycle variations. Figure 3 depicts the connections between governance mechanisms and how they exist in different systems of the family business system. The mechanisms are discussed below.



#### 2.3.4.1 Board of directors

Adendorff & Halkias (2014) and Le Breton-Miller & Miller (2013) argue that the impact of board of directors can never be ignored. Similarly, El-chaarani, (2013) has identified the presence of board directors as a key attribute to the success of a family business. The significance of the board is grounded on agency theory as (Bammens et al., 2011) argue that the board is viewed as an internal control mechanism aimed at mitigating agency costs within a family business.

On the contrary, Giovannini (2010) states that independent advisors boards in family owned businesses do not have a positive effect on performance as the significance level is just below 10%. So, for family firms, it cannot be said that outside directors are the best way to improve performance. However, Bammens et al., (2011) asserts that the perceived need for boards is higher amongst the later developmental stages of family owned businesses. Therefore the need of board becomes increasingly vital as the threat of agency costs increases (Bammens et al., 2011).

#### 2.3.4.2 Protocol as governance

Ward and Gallo (1992) as cited in Suess (2014) define protocol as a document that explicitly describe the policies that guide relationships between family, ownership and business role in a family business. (International Finance Corporation, 2011) refer to it as “family creed” or “family constitution”. Suess (2014) argue that that these protocols enable the business to regulate, manage and prevent potential conflicts or any other challenges by articulating expectations and considerations necessary to manage interrelationships between the three subsystems in the family business system (Berent-Braun & Uhlener, 2012). Similarly, Botero et al., (2015), argue that protocol can help prevent misunderstandings of expectations between family members in relation to the business.

#### 2.3.4.3 Family Council as governance

Family council provides structured forum that enables the family to express its needs, expectations and values regarding the business development policies and family’s long- term interests (Gersick et al., 1997). Supporting this view, Suárez & Santana-Martín (2004) assert that its main function is to liaise between the family, board and the management.



Suess (2014) contends that agency costs prevalent in the business can be potentially minimised or completely eliminated by the existence of a family council which will consequently ensure that strategic decisions are taken as a collective and stimulate communications amongst family members on important business matters.

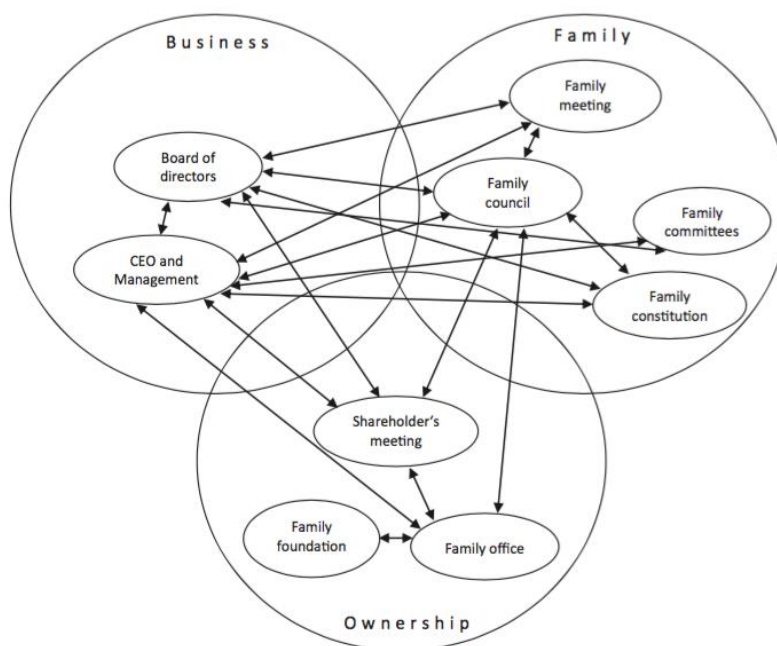
#### 2.3.4.4 Psychological contracts as governance

In this context, psychological contracts are used to explain the relationship between family members and the family business. Therefore the contract would define the details of the expectations, beliefs that family members have pertaining to the relationship with the business and the expected outcomes (Botero et al., 2015).

They continue to argue that these psychological contracts are informed by the information that family members gather about the organisation and the family through observation and interpersonal interactions with other family members. Therefore, the psychological contract between a family member and the family business is centered on what the family member perceives to have been agreed to or promised by the family firm at a certain stage, which may inconsistent with what is explicitly promised by those in charge of the family business in a different family developmental cycle stage (Botero et al., 2015).

**Figure 3: connections between the individual governance mechanisms in a family system.**

(Adopted from Suess, (2014))



#### 2.3.4.5 Family Trust

According to Zellweger & Kammerlander (2015), in some cases, family businesses are inclined to use trust as a form of governance. The trust serves a purpose of distancing the owner and other family members from controlling business assets. However, this results in the owners being relegated to mere passive beneficiaries Zellweger & Kammerlander (2015).

#### **2.3.5 Factors influencing governance in family business**

The factors influencing perceived good governance are discussed in the following section.

##### 2.3.5.1 Strategic planning and good governance

For the business to continue, family business needs to adapt to changing environments by implementing strategic planning. Adendorff & Halkias (2014) argue that proper planning, particularly strategic planning enhance good governance and thus the survival and growth of family business. In their study Eddleston, Kellermanns, Floyd, Crittenden, & Crittenden, (2013) found that family businesses that engage in strategic planning have higher chances of survival and ultimately long term growth as it enhances good governance Adendorff & Halkias (2014).

##### 2.3.5.2 Outside advice and good governance

Researchers have suggested that use of external advisers and governance structures, such as family councils; boards of directors play a significant role in good governance (S. P. Van Der Merwe, Venter, & Farrington, 2012).

##### 2.3.5.3 Governance structures and good governance

In this case, the term “Governance structures” refers to the overall existence of formal structures and the documentation thereof. If proper structures are in place, the implementation of good governance will most probably be enhanced (Adendorff & Halkias, 2014).

##### 2.3.5.4 Succession Planning

Succession planning determines the ability of a business to adapt and change (Collins & O'Regan, 2011). Their study further indicates that failure to plan for succession has adverse effects on the performance of the business and consequently the death of the business. To minimise agency costs as explained above, Williams, Zorn, Crook, & Combs (2013) contend that succession must be from within the family. This however needs to be communicated with the potential incumbent Williams, et al., (2013).

### **2.3.6 Governance mechanisms in generations**

Eddleston et al., (2013) suggest that each generation be studied separately and on its own terms due to the distinctive challenges and needs at different generational stages. Governance structures practised in different generations are discussed in subsequent sections.

#### **2.3.6.1 First generation**

Eddleston et al., (2013) define first generation as family managed with more than one family member active in the business with all family members originating from the founding generation. Pounder, (2015) argues that in this generation whereby owner and manager are the same, less complexity of alignment is expected. This however does not necessarily make decision making effective but rather efficient. Suárez & Santana- Martín, (2004) argue that the controlling owner stage of a family business consists of informal family meetings which are a suitable platform for spouses and children (if they are old enough to deal with matters related to the firm)

Suárez & Santana- Martín, (2004) argue that informal meetings in this generation are more prevalent because at this stage, generation families tend to be smaller in size and heavily dependent on all family members. In support of this, Sharma, (2004) has observed that in this generation there is a belief that governance structure are not needed as management and ownership are aligned and governance mechanisms will introduce unnecessary expenses.

#### **2.3.6.2 Second generation**

In second generation, strategic thinking of other family members may be in conflict with that of the owner generation Collins & O'Regan, (2011) As a result, family relationships conflict may arise if the differences are not managed (Eddleston et al., 2013). In this generation, the family owners usually play multiple roles that blur governance structures (Mustakallio, Autio, & Zahra, 2002).

With regards to governance structures prevalent in this generation, each family group continue with informal family meetings. However there will be a need to create a forum for a discussion between the branches of the Owner or founder. These forums will eventually translate into more formal meetings (Suárez & Santana- Martín, 2004).

### 2.3.6.3 Third and beyond generation

When compared to the first and second generations, third generation consists of non-family managers working together with managers from family (Eddleston et al., 2013) resulting in reduced altruism (Collins & O'Regan, 2011). Eddleston et al., (2013) have observed that family businesses that grow to accommodate the increasing number of family members do so on the basis of planned and formal structures or strategies. In this generation, formal meetings are held to avoid negative energies that might arise from the different multiple family members, active or inactive in the business and non-family managers (Suárez & Santana- Martín, 2004).

On the other hand, Rettab & Azzam (2011) argue that the level of shareholding of family members in the family business can serve the same purpose as of formal governance processes. This suggests that formal governance structures can be substituted by majority shareholding in the business.

The dynamics and challenges prevalent in different generations are summarised in Table 2.

**Table 2: Summary of family business stages, dynamics and challenges and governance**

Adapted from (International Finance Corporation, 2011) and Le Breton-Miller et al. (2013)

<b>Ownership stage</b>	<b>Dynamics and Challenges</b>	<b>Governance</b>
First generation	<ul style="list-style-type: none"> <li>• Control and ownership in hands of founder</li> <li>• Family members very committed</li> <li>• Clear line of command</li> </ul> <p><u>Challenges</u></p> <ul style="list-style-type: none"> <li>• Succession planning</li> </ul>	<ul style="list-style-type: none"> <li>• Informal</li> <li>• If board exists, it is usually made up of local community</li> <li>• Owner makes majority of strategic decisions</li> <li>• Founder/owner resolves all conflicts</li> <li>• Governance structure influenced by the thought that there must be one leader for the family and the business.</li> </ul>

2 <sup>nd</sup> Generation/Siblings	<ul style="list-style-type: none"> <li>• Business run by family and thus decisions are made by members</li> <li>• Nuclear family still involved</li> <li>• Mutual benevolence and blind trust (Zellwenger &amp; kammerlander, 2015)</li> </ul> <p><u>Challenges</u></p> <ul style="list-style-type: none"> <li>• How to maintain harmony?</li> <li>• Efficient communication channels</li> <li>• Succession planning</li> </ul>	<ul style="list-style-type: none"> <li>• Family seniors serve role of “family council”</li> <li>• Board predominantly made up of family members</li> </ul>
3 <sup>rd</sup> Generation	<ul style="list-style-type: none"> <li>• Business run by family</li> <li>• Nuclear family still involved</li> </ul> <p><u>Challenges</u></p> <ul style="list-style-type: none"> <li>• How to maintain harmony?</li> <li>• Efficient communication channels</li> <li>• Succession planning</li> </ul>	<ul style="list-style-type: none"> <li>• Family seniors serve role of “family council”</li> <li>• Board predominantly made up of family members</li> </ul>

## 2.4 Organisational Culture

### 2.4.1 Definition of organisational culture

Arnold, (2005) defines culture as the distinctive norms, beliefs, principles and ways of behaving that collectively gives each organisation a distinct character. Laforet (2016) notes that organisational culture determines characteristics, core competencies and organisational settings in the organisation. Zahra, Hayton, & Salvato, (2004), see organizational culture as an important strategic resource that family businesses can use to gain a competitive advantage in the market. Hartnell, Ou, & Kinicki, (2011) suggest that organisational culture significantly influences the dominant operational mode of employees in the business.

Therefore, according to Dan, Liu, Hsu, & Yu (2014) suggest that organisational culture is an important element within an organisation that needs to be thoroughly understood. The significance of organisational culture can thus not be ignored as it permeates all of the organisational activities (Jones, Steffy & Bray, 1991 in Burnett & Huisman, 2010).

With regard to family businesses, Adendorff & Halkias, (2014) indicate that organisational is an outcome of values, beliefs and goals embedded in the family, its history and present social relationships which, through family interactions as well as in relation to the organisation that cultural behaviour patterns are cultivated resulting in the business adopting the culture of the family that owns it.

Brice & Richardson, (2009) indicate that in a family owned business, family values become organizational cultural values. Accordingly, the family will influence the behaviours, success and strategy of the business (Papalexandris & Panayotopoulou, 2004).

## **2.4.2 Types of organisational culture dimensions**

### **2.4.2.1 Organisational culture according to Dyer (1988)**

Dyer, (1988) identified the following organisational cultural dimensions in his study.

- Paternalistic culture, which depends on personal and charismatic attributes of the founder; power, authority and key decisions are retained by leaders of the family.
- The laissez-faire culture refers to the freedom given to employees make decisions and liberty to determine ways of achieving business goals.
- The participative culture refers to more group oriented and egalitarian dimensions.
- The professional culture, which indicates working systems and environment in the organisation.

### **2.4.2.2 Culture according to (1991)**

Hofstede (1991) explains culture based on five dimensions, namely, power distance, individualism/collectivism, uncertainty avoidance, masculinity and long/short term orientation.

#### 2.4.2.3 Organisational culture according to Zahra (2004)

Zahra et al., (2004) identified “Individual vs. group orientation” which refers to the value placed upon an individual as opposed to the group contribution, “Internal vs. External cultural\_orientation” which is an indication of controlling power and dominance orientation and “Assumptions concerning coordination, control” which refers to decentralisation or complete centralisation of decision-making authority and “Short vs. Long-term orientation” referring to organisation’s disposition towards long-term business activities.

#### 2.4.2.4 Organisational culture according to Vallejo (2008)

Vallejo, (2008) developed a value based cultural model, “COURAGE”, based on Dyer (1988) and Hofstede's (1991)cultural dimensions.

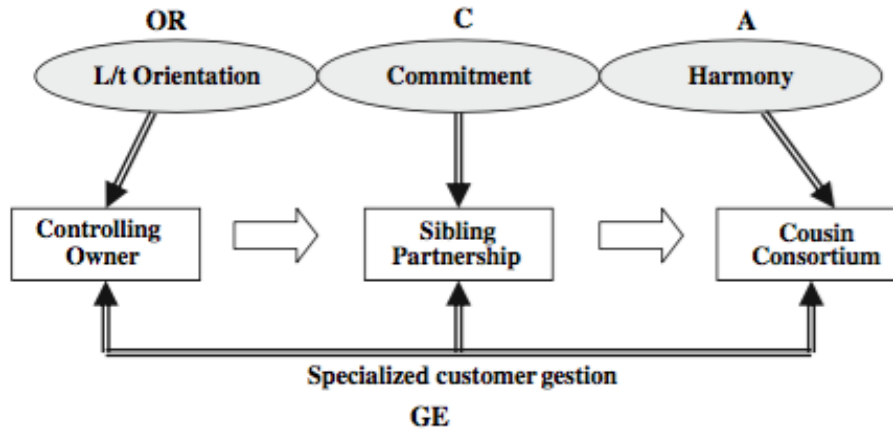
He identified “Long-term orientation”, “Commitment”, “Harmony” and “Customer gestion” as the four cultural dimensions in family owned businesses. In his study, he argues that long-term orientation refers to the ability of the business to have control systems that will ensure an evolution and non-traumatic transfer to next generations. Commitment of all members involved in the business in this context refers to ability of the business to overcome the foreseen and unforeseen challenges, particularly in the sibling phase. Similar to long-term orientation, this includes control processes, well defined functions and constant and continuous involvement of all employees, including non-family employees in the business. Brice (2013) argues that this culture is directly related to flexibility in strategy formation in the business. In this context, harmony is defined as mutual respect, trust, family members welfare concern, equitable manner of resolving conflict and having problem solving tactics in place (Adendorff & Halkias, 2014). Harmony is a critical cultural dimension, particularly in the cousin consortium stage that enables active participation of all members, representation of all groups and a conducive environment encouraging discussions of difference that may be prevalent between family branches. Vallejo-Martos, (2011) state that encouraging active participation of all members in decision-making process creates harmony. Relating this to governance in a family business, Kidwell, Kellermanns, & Eddleston (2012) cite that harmony yields positive creation which in turn creates harmony. They further argue that the created harmony allows for conflict resolution which serves the same purpose as a family council within a family business.



The summary of the model is depicted in Figure 4 below.

**Figure 4: Vallejo's Cultural model**

Source: (Vallejo, 2008)



#### 2.4.2.5 Organisational Culture according to Harrison (1993)

Harrison (1993) defines organisational culture in four dimensions, namely, power, role, achievement and support dimensions. Power dimension is based on biased access to resources whereby power is centralized; Role dimension focuses on formal establishment of procedures and rules, which control work dynamics in an organisation, thereby replacing the power of the leader in an organisation. Achievement refers to systems in place that enable to focus on the achievement of business goals. Support dimension indicates a climate in the organisation based on mutual trust and verbal and less formal communication channels.

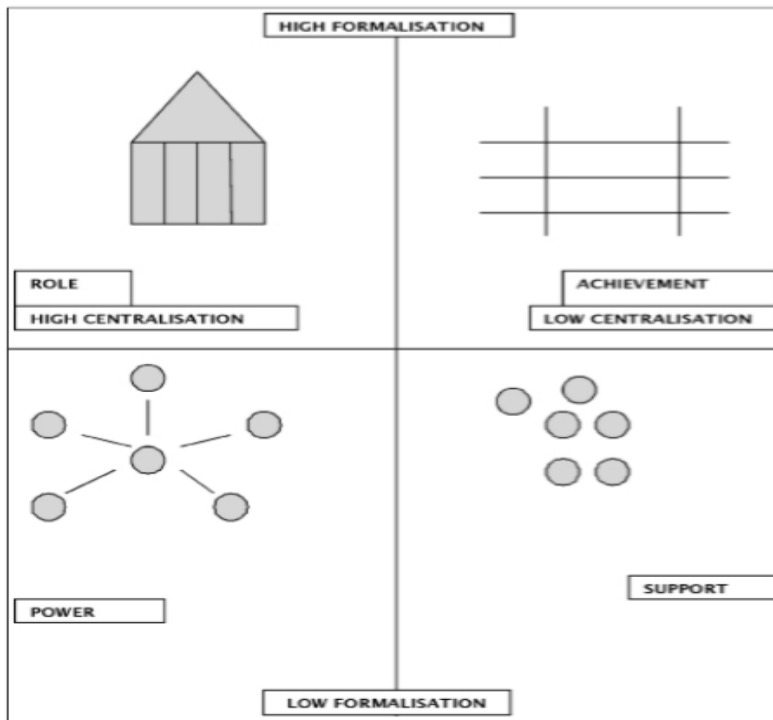
These four dimensions can be measured in both formalisation and centralization operational mode (Harrison, 1993). In this context, high formalization in creates predictability and orderliness in an organisation, which can serve as a substitute for a strong organisational culture. This suggests that the formal rules and structures, which regulate the behaviour of members, can be internalised by organisational members of when they accept its culture. This takes place with no written documentations.

The model is depicted in Figure 5 below.



**Figure 5: Organisational Culture Model by Harrison (1993)**

Source: Harrison (1993)



### 2.4.3 Organisational culture in current study

As explained in the System Theory of family owned business, it is evident that family culture strongly influences cultural patterns in an organisation due to the interaction and inter-dependencies between the two subsystems.

The above discussed organisational culture typologies provide broad overviews of the variations that exist between different authors in their description of this concept. Therefore, it is important to select a theoretical framework that will be relevant for the current study.

To be able to develop an understanding of the inter-relationship between governance and organisational culture in a family owned business, Vallejo, (2008), Hofstede, (1991) and Harrison, (1993)'s cultural dimensions will be used. These perspectives of these authors seem to be relevant to the study as they clearly define the cultural dimension in an organisation and further explain through a model how these dimensions can be measured in terms of formalisation and centralisation modes of operation.

## 2.5 Chapter Summary

While the contribution of family businesses towards the economy is undeniable (Taruwanga, 2011), their contribution is however reduced through generations, with an estimated 30% successfully transferred to second generation and a mere 3% success into the third generation (Visser & Chiloane-Tsoka, 2014).

Although research on family owned businesses has increased over the years (van Essen, Carney, Gedajlovic, & Heugens, 2011) the developing literature is still insufficient, particularly in private held family businesses. This is evidenced by the lack of a consensual definition of a family owned business.

It is difficult to separate family from the business as the relationship between the family, business and the ownership within the business system are intrinsically intertwined (Patel & Cooper, 2014), making it necessary to have processes and systems in place that are different from non-family businesses and will be able to manage potential conflicts (Suárez & Santana- Martín, 2004).

The contribution of governance structures in a family business cannot be ignored as they have a positive effect on the longevity and viability of the business (Adendorff & Halkias, 2014) as they limit agency costs and enhance stewardship in the business (Pindado & Requejo, 2014), which in turn build an atmosphere of trust within the business (Kidwell et al., 2012).

The importance of organisational culture on the shaping of governance structure was discussed and how they change with the evolutionary stages through which family businesses go through (Vallejo, 2008). As such, (Dan, Liu, Hsu, & Yu (2014) found that as an organisation grows increase in size, the culture in the organisation also changes, requiring the need to implement more formal governance mechanisms (Suárez & Santana- Martín, 2004).

However, it was argued that excessive governance in family business may introduce unnecessary bureaucracies and red tapes which may have a negative impact on the agility of the business (Au et al., 2013) or the structures might be rigid and conservative such that they are unsuitable for the business (Erdem & Baser, 2010). Therefore, it is vital to take into consideration the developmental stage of the business and the prevalent dynamics at each generation, so as to design and adopt processes that are relevant to the business need and the environment (S. van der Merwe et al., 2009)

## CHAPTER 3: RESEARCH QUESTIONS

### 3.1 Research Questions Introduction

The literature reviewed in Chapter Two of this document indicates that a comprehensive understanding of the inter-relationship of governance structures in a family business, specifically focusing on the different stages of family business cycle and the organisational culture has not been well developed. This research aims to address this shortcoming.

### 3.2 Research Questions

To understand the inter relationship between governance and organisational culture in family owned businesses, the following research questions were formulated-:

1. What is the state of governance within family owned businesses?
2. What type of culture is practised or promoted within family owned businesses?
3. What is the perceived impact of the practised culture on governance structures?

## CHAPTER 4: RESEARCH METHODOLOGY

### 4.1 Chapter Introduction

Chapter three presented the research questions for the current research study. These questions emanated from literature review as areas needing future research. The aim of this study, as already indicated, is to understand inter relationship between governance structures and organisational culture in South African family owned businesses with the objective of establishing what these cultural dimensions are and how they shape the establishment and design of governance in family owned businesses. This chapter outlines the methodology that will be followed to explore and answer the research questions identified in Chapter Three.

### 4.2 Research Method and Rationale

The study seeks to understand the inter-relationship between governance structures and organisational culture in family businesses. van Essen, Carney, Gedajlovic, & Heugens (2011) argue that although research of family owned businesses has grown rapidly over recent years, the developing literature is still underdeveloped, particularly with regard to privately held family businesses. This is evidenced by the lack of a consensual definition of a family owned business. In support of this, Sharma, Chrisman, & Gersick (2012) argue that regardless of these recent developments in literature, the depth of detail in this field still warrants a wider view of governance topics in family businesses. Adendorff & Halkias (2014) indicate that no study has been conducted to establish the relationship between culture, ethnicity, family dynamics and governance.

Owing to the paucity of research in family business studies, the exploratory qualitative research method was adopted for the current research study. Zikmund, Babin, Carr, & Griffin (2013, p 52) define an exploratory qualitative research method as that “conducted to clarify ambiguous situations or discover potential business opportunities”.

In this case, the exploratory research was employed as a first step in the research process to explore and discover the true meanings and insights of governance structures in family business and the inter-relationship with organisational culture.

Qualitative research allows for a direct dialogue with the interviews which ultimately yields the merging of minds to achieve insights and possibilities on the subject matter (Branthwaite & Patterson, 2011), which contrasts with the quantitative research method whereby research objectives are addressed using empirical assessments that involve numerical measurements and analysis (Zikmund, Babin, Carr, & Griffin, 2013). Similarly, Lyall & King (2016) further emphasise that by qualitative data collection, the researcher is offered with the opportunity to explore uncertainties and investigate the reasons for the participants' views.

As the study aims to understand cultural phenomena, Tuohy, Cooney, Dowling, Murphy & Sixsmith, (2013) state that phenomenological research is a qualitative method used as a way of exploring the real phenomena's general characteristics as they appear to research participants. They further argue that a core element of phenomenology is that extraneous elements such as cultural dimensions' everyday assumptions can be set aside so that they can be understood in their purest form. Phenomenology as an exploratory research method was thus used in the current study.

### **4.3 Research Design**

According to Lyall & King (2016) semi-structured interviews in qualitative research methods are designed to extract in-depth information from participants. Similarly, Seidman, (2005) argue that the main function of interviews is not just to get answers to questions or to validate or invalidate hypotheses. Rather, he points out that "at the root of in-depth interviewing is an interest in understanding the lived experience of other people and the meaning they make of that difference" (Seidman, 2005, p9). For these reasons, semi-structured interviews were used.

### **4.4 Research Population**

Zikmund, Babin, Carr, & Griffin, (2013) define population as any complete group of entities that share some common set of characteristics. Furthermore, Ritchie, Lewis, Nicholls, & Ormston (2013) assert that to be able to gather the richest and most relevant information to answer research questions, it is important that the researcher consider the population of the study and the constituency from which the sample will be drawn. Therefore, the following inclusion criteria were deemed appropriate for the population of the current study.

The identified participants within family businesses were :

- Founders of family business
- Current CEOs of a family business
- Family members in senior management

Furthermore, Chua et al., (1999) definition or characteristics of family businesses were used to define the study population. These are:

- The family holds maximum shareholding
- The family members are actively involved in management
- Family has voting Control
- Family has Control over strategic direction
- Family self-declared that they are a family business
- Intention to grow beyond first generation

Given the context of the current study, which is focused on South Africa, the population of the study was restricted to family owned businesses in South Africa, irrespective of demographics, size and age of the business.

The author contacted the Family Business Association of South Africa (FABASA) to secure a database of family businesses in South Africa with no avail. The population was therefore also based on accessibility of potential companies to interview.

#### **4.5 Unit of analysis**

In defining the unit of analysis, Zikmund, Babin, Carr, Griffin (2013, p 118) assert that researchers should be able to identify beforehand the source of their data and the level of aggregation thereof so as to be able to answer the research questions. For the purpose of this study, the unit of analysis for the current study are individuals within the selected family owned businesses. Data collected will be from the owner or founder or family members active in the family business.

#### **4.6 Research Sample**

##### **4.6.1 Sampling technique**

Gomba, (2014) has shown in his study that there is lack of a readily available and a comprehensive database for family owned businesses. The author of the current study also contacted the Family Business Association of South Africa (FABASA) with no success (proof of communique thereof is included in Appendix D).

Therefore non-probability sampling method was under the circumstances, the most appropriate method to use. This sampling technique is used when the sample units are selected on the basis of personal judgment or convenience, therefore “the probability of any member of the population being chosen is unknown” Zikmund, Babin, Carr, Griffin (2013, p 392). For this study, a snowball sampling method was adopted.

Semi-structured interviews were adopted as a data collection method whereby the respondents were probed to tell their own stories by means of open-ended questions (Zikmund, Babin, Carr, Griffin, 2013)

Potential participants in the study were identified through author’s personal contacts and identified individual family members in the specific family. Although the first interview was arranged through a direct contact, the rest of the interviews were made directly with the participants through email and telephone calls so as to build the interviewing relationship. Seidman (2005) has suggested that an effective interviewing relationship between the interviewer and potential participant is established upon hearing and thorough explaining about the research study. Upon their response, they were each sent a consent letter that ensured that the interviewee gave their consent to be interviewed and were aware of the terms of the interview and their right to discontinue with the interview at any point of discomfort. Also, the interview questionnaires used for the research were screened through an ethical clearance process.

#### **4.6.2 Interview structure**

Seidman (2005) asserts that an in-depth enquiry is best carried out in a structure where both the participant and interviewer can maintain a sense of focus. For this study, the participants were made aware of the structure of the interview.

#### **4.6.3 Length of interviews**

Seidman (2005) suggests that an unrestricted duration for the interviews tends to cause undue anxiety. Based on the research that Seidman (2005) conducted, it was found that most participants were comfortable with 90 minutes. In the consent letter, the participants were made aware of the required one hour duration of the interview. All interviews lasted between 30 and 70 minutes.

#### **4.6.4 Sample size**

According to Zikmund et al., (2013) determining a sample size depends on the degree of variability within the sample itself, the size of the acceptable error and confidence level. Since the size of the sample is unknown, the above-defined factors cannot be

used to estimate the size of the sample. Instead, Zikmund et al., (2013) suggest that judgement be used to estimate the size whereby the researcher can compare other researchers' judgements and make an informed decision. Boddy (2016) suggests that theoretical saturation can be used as a guide to design qualitative research method sample size, whereby further data collection of evidence yields little or no further or different insights, perspectives or information. He recommends 12 samples for a relatively homogeneous population. Similarly, Saunders & Lewis (2012) recommend 10 samples for a homogeneous population. For the current study, 11 interviews were deemed appropriate.

#### 4.6.3 Demographics of companies interviewed

The table below summarises the details of the companies that were interviewed. As it can be deduced, approximately 70% of the companies are currently in their second generation. All companies interviewed have less than 10 family members active in the family business.

**Table 3: Details of companies interviewed**

Case	Year Established	Generation position	Number of active family members in the business
1	1904	4 work with 3 <sup>rd</sup> generation	6
2	1990	2 work with first generation	3
3	1976	3 work with 2 <sup>nd</sup> gen	5
4	1969	2	2
5	1981	2 work with 1 <sup>st</sup> gen	4
6	1971	2 work with 1 <sup>st</sup> gen	6
7	1988	1	3
8	1987	2	2
9	1980	3	2
10	1900	6	6
11	1996	2	10+



## **4.7 Research Measurement Instrument**

### **4.7.1 Pilot Studies**

Seidman (2005) states that it is necessary to explore the interview process prior to embarking on the full interview process with participants. In this manner, the interviewer is able to detect if the research structure is appropriate for the research study and to make the interviewer aware of elements of their own interview techniques that support the research objectives. In support of this, Zikmund et al., (2013), argue that a pilot study is conducted to see if the designed structure will realise its intended objectives and thus minimise the risk of failure of the full research study.

For the current research study, a pilot study was conducted with two participants with a similar profile to the intended participants involved in a family business. Thereafter, the research interview questions were amended to incorporate the suggestions put forward. The “before” and “after” of the questionnaires have been appended in Appendix B.

### **4.7.2 Data analysis approach**

Zikmund, Babin, Carr, & Griffin (2013) state that data collected might not be in the format that is ready to be analysed and therefore suggest that raw data need to first be converted into a suitable format for data analysis. All interviews were recorded and subsequently transcribed into text. The transcripts were then loaded onto Atlas.Ti program which have been rightly acknowledged as an essential tool that facilitates researchers’ ability to undertake well-organized, systematic, effective and efficient data analysis in many studies (Rambaree, 2012). The researcher had two options to conduct the coding; based on whether the themes were more data driven or theory driven (Braun & Clarke, 2006). The coding used deductive approach and was theory driven in line with the conceptual framework discussed in Chapter two.

From the codes, the family of codes were created which resulted in “Network of codes” using relationships between the codes that were identified across the data set. In this stage the focus was on themes instead of codes. Some initial codes went on to form main themes, whereas others were sub-themes.

### **4.7.3 Data Reliability and Validity**

Data reliability is based on determining whether the findings of the study are accurate and consistent (Creswell, 2013). For the current study, the researcher ensured reliability by applying a standard interview format as far as possible across all the participants’ interviews.

Saunders & Lewis (2012, p127) define validity as “the extent to which data collection methods accurately measures what they were intended to measure and research findings are really about what they profess to be about”. The researcher is closely related to family owned business owners and thus research bias was possible. Therefore, the researcher consciously paid attention to detail and deferred her own interpretations.

#### **4.8 Research Limitations**

The following were identified as limitations of this research study:-

- Limitation related to non-probability sampling  
The drawback of using non-probability sampling mechanism is that results cannot be generalised to all South African family owned business population as the samples were not statistically representative of the whole South Africa Saunders & Lewis, (2012). Also, the referred subsequent samples have a potential to share the same views with the samples that recommended them, resulting in similar results. The results thereof must therefore be interpreted and used with caution.
- Sample bias  
In this study, all participants were family members involved in the business. This can result in the self-serving bias where the participants can potentially reveal opinions in a manner that favours them
- Interview skills and experience  
Since the researcher does not have experience in semi-structured interviews, the researcher could have been biased by using leading and spontaneous questions (Seidman, 2005)

#### **4.9 Chapter Summary**

This chapter reviewed the research methodology used in this research study. Research questions were reviewed with the supporting literature. Research designed was consistent with literature and the actual study.

The next chapter explains the results of the study in relation to the objectives of the study, literature review and the research questions.

## CHAPTER 5: RESULTS

### 5.1 Introduction

The aim of the study was to establish the inter-relationship between governance and organisational culture in South African family owned business. To achieve this aim, three research questions were investigated. In this chapter the overview of the sample is presented, followed by the approach to data analysis, the findings and the validation of the data.

### 5.2 Interview details

A total of 12 participants were interviewed in 11 face-to-face interview sessions, with one of those conducted with two participants. The total duration of the interviews was n9.88 hours, with the average times being forty-five minutes. The shortest interview was 24 and the longest interview was 92 minutes.

The sample comprised of participants from the family families, some of which were more than 100 years in existence, and the youngest being participant 10, which is 20 years in existence. The generation in-charge of these businesses range from first generation to sixth generation. The family members who are actively involved in the business range from two to ten. These businesses are from different industries, including agriculture, hardware (construction), manufacturing and property.

**Table 4: Summary of companies interviewed**

Participant	Year Established	Generation position	Number of active family members in the business	Company profile
PT1	1981	2 work with 1 <sup>st</sup> gen	4	“Nullies construction had been fine, we’ve just been handed a house which was 14 million. We are building, operating and transferring the warehouses. We are actually going to put ware houses, which we are going to build, operate and transfer.”
PT2	1990	2 work with first generation	3	“Our family business is predominantly in the agricultural industry of South Africa, basically what we’ve got, is we’ve got farming operations in macadamias, avocados and blueberries and then we’ve also moved into now game farming and specifically buffalo, stud breeding”
PT3	1904	4 work with 3 <sup>rd</sup> generation	6	“In 1968 and since then they kind of grown it from your corner hardware store, to this big company now. We sell bricks and cement”
PT4	1976	3 work with 2 <sup>nd</sup> gen	5	As we are growing here and start developing this thing of rental space that’s what we do. - now we have recently tapped into building and also that thing of Thato, the guesthouse. We are +-15 or 18, we are really grown
PT5	1980	3	1 with 3 playing supportive roles	Our family business is in agriculture, farming So then included into the crop and animal farming. He added an abattoir and a peanut processing and shelling operation. Which makes peanut butter and shells peanuts and stuff.
PT6	1987	2	2	It’s still run like that and managed by family, myself, my wife and my children fortunately and we are exclusively a fashion retail company
PT7	1969	2	2	Currently we are working on a portfolio worth about three billion rand The portfolio comprises of sixty percent retail development, accommodation in the form of student accommodation, plus a bit of housing, rental units.
PT8*	1988	1	3	George and I started this business where we serviced those big companies with their needs. So that involves-- we have a fleet of vans around the country that distribute products and we’ve become sort of, the third division, we do some consulting and speak at a lot of conferences and that type of thing
PT9	1971	2 work with 1 <sup>st</sup>	6	We are high end furniture retailers and manufacturers, we furnish the houses from top to

		gen		bottom.
<b>PT10</b>	1996	2	10+	It's a company which does manufacturing and repairs of military vehicles, the name is Bothabelo.
<b>PT11</b>	1860	6 <sup>th</sup> gen	5	well we've had the farm since 1860s and I'm the sixth generation on the farm , my dad started a trust, so in this stage we farming in the trust for the reason...those days it was for tax benefits we started the trust and I don't know how viable it is now, , we started to plant pecan nuts because maize is not viable.

\*Dual

interview

### 5.3 Approach to data analysis

From the codes, the family of codes were created which resulted in “Network of codes” using relationships between the codes that were identified across the data set. In this stage the focus was on themes instead of codes. Some initial codes went on to form main themes, whereas others were sub-themes.

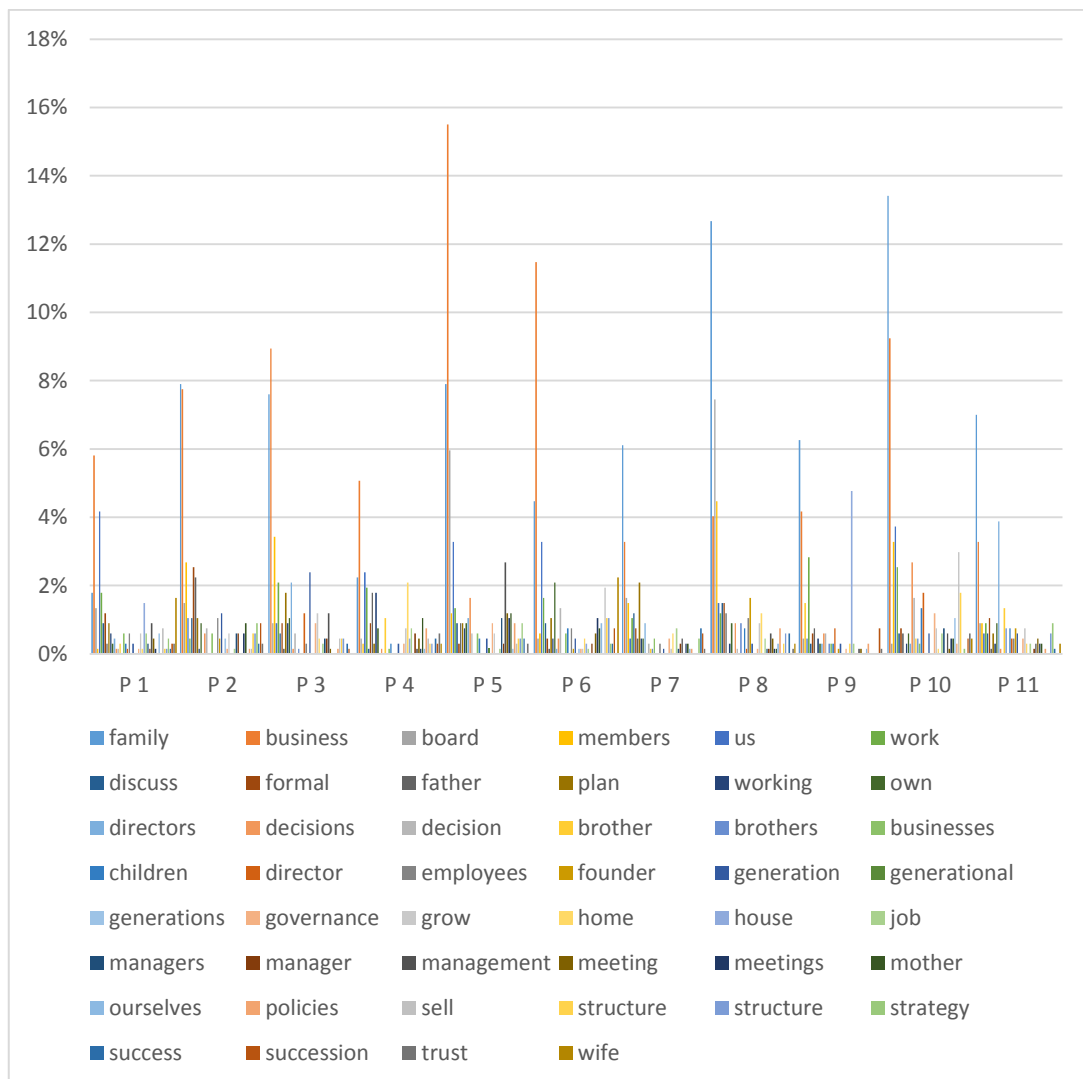
### 5.4 Findings of the study

The findings are presented in a theme format. The research questions are then answered in the summary of the findings.

#### 5.4.1 Related keywords

Figure 6 presents some of the key words relevant to the research objectives that were found in this study. These words were mainly limited to those that were repeated for about 50 times.

**Figure 6 Key words in the study**



Some of the most prominent key words included family; business, members, us and other family related ones like generation and father. The other aspects in this study included succession plan, trust, governance and strategy, which were also evident in the words within the transcribed interviews.

#### 5.4.2 Codes of the empirical data

A total of 149 initial codes were extracted from the transcriptions. These codes are presented in Appendix C. After the initial coding, further coding was conducted through the continuous comparison of the codes, merging of the similar codes and rejecting of the codes that were deemed irrelevant to the purpose of the study. This exercise resulted in 38 codes and its list is presented in Table 5 below.

**Table 5 List of consolidated codes**

1	Strong brand	20	Employee based decision making
2	Business aspiration	21	Long term strategy
3	Non-family skills	22	Not cost conscious
4	Decision making	23	Informal strategy
5	Family education levels	24	Loyal management team
6	Generation to generation	25	Capital saved
7	Business background	26	Diversification of business
8	Family involvement	27	Educational level
9	Business board	28	Good mentor
10	Delegation of authority	29	Joint ventures
11	Performance process	30	Personal attributes
12	Collectivism	31	Luck
13	Communication channel	32	Close shop
14	Conflict resolution	33	External experience
15	Customs alignment	34	Future orientated
16	Learning	35	Hope
17	Informal structure	36	Generation of the business
18	Diversification of business	37	Non-family skills
19	Due diligence	38	Selling the business

### 5.4.3 Families of codes of the empirical data

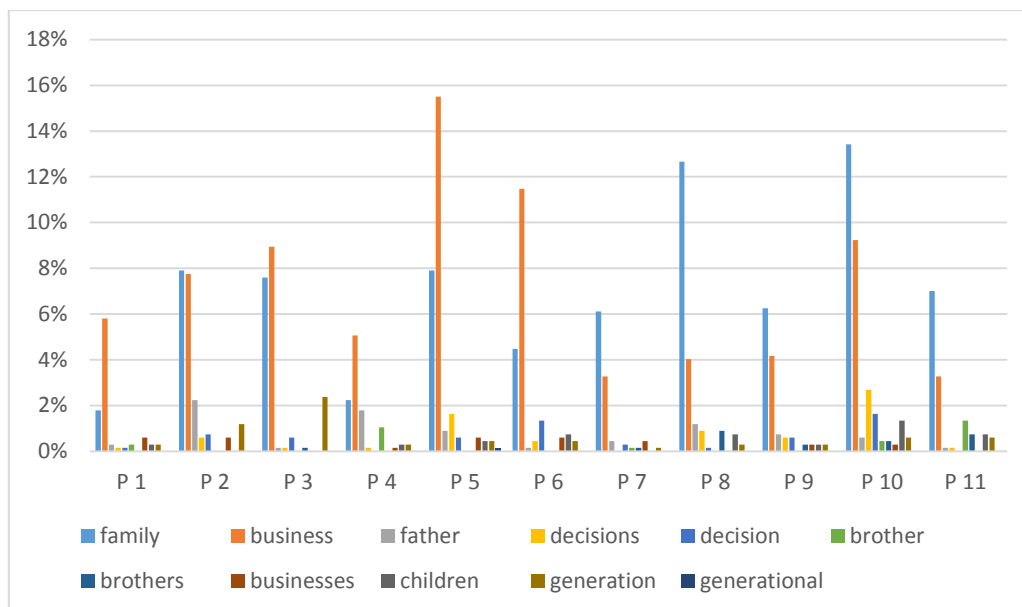
From these consolidated codes, key themes were formed, with the themes focusing on the purpose of the study and the organisational cultural dimensions discussed in Chapter two. These were family business, success factors (of the business), state of business strategy and decision making, governance structure, succession plan and organisational cultural dimensions

#### 5.4.3.1 Theme1: Family Owned Business

This study was based on family business of which 11 family businesses across several industries were interviewed with the interest on governance and organisational culture. However, understanding the family business through their perspective was deemed critical as it supported the purpose of the study and provided the necessary insights and more importantly validated the structure of the business which is “family-owned business”.

Figure 7 Key words on family within family business context present some of the key words with the context of a family owned business. Family, business, brother(s), father, children and generation were evident within this empirical data.

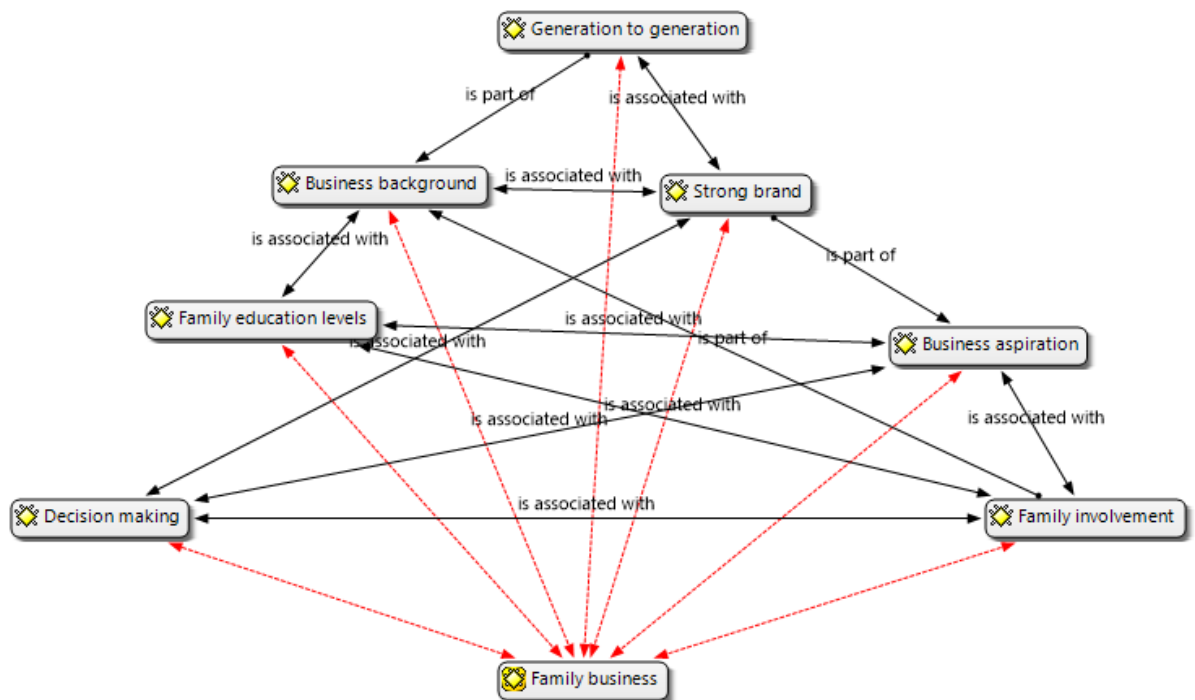
**Figure 7 Key words on family within family business context**



Within this theme “family business”, there were a total of seven consolidated codes that were used to form the map commonly known as codes of network (Figure 8).



**Figure 8 Network map for family business**



This network of codes shows relationship between the codes themselves in correlation with the family business.

As already mentioned that the businesses were founded by these families some more than 100 years ago and the latest being 26 years.

*“It was started about 114/113 years ago in 1903, by my great grand uncle, my grandfather’s uncle. My grandfather then inherited the business in the 1950’s when his uncle passed away. Probably 15 people less when they got involved and now it’s a 1000 people, so it’s grown into a 21<sup>st</sup> century company”*

This was generally the business background, which most of them had grown amidst the challenges they encountered.

*[29 years], That’s how long we have been in business and of course there is eight years of these years, Eight of them were years when we had gone under, because of some recklessness, and some ignorance, some – especially financial ignorance that led us to go back to the drawing room and restructure and comeback some 10 years ago and continue the business in the way that it is now.*

These family businesses are successful and most of them are market leaders within their industry being agriculture, hardware [construction] or property. They have also grown strong brands with high turnover and portfolio management, with aspiration for future growth. For example, participants three and seven explained:

*“We just over a billion, we are aiming for [R]1.2 – 1.3 [billion] if we are lucky”*

*“Currently we are working on a portfolio worth about three billion rand. The portfolio comprises of sixty percent retail development, accommodation in the form of student accommodation, plus a bit of housing, rental units. Acquisitions, by acquisition I mean mergers. So we will merge with a company that has properties that match our portfolio profile”.*

What was clear was that the founding families were still involved in the business even though some were at their sixth generation of ownership of the business. The norm was mainly the father and then son, with few cases where the daughter and wife also got involved.

#### 5.4.3.2 Theme 2: Success factors

There was an elaborate outcome with these family businesses on their recipe for success. There were eight factors that they discussed as being key to success (Figure 9).

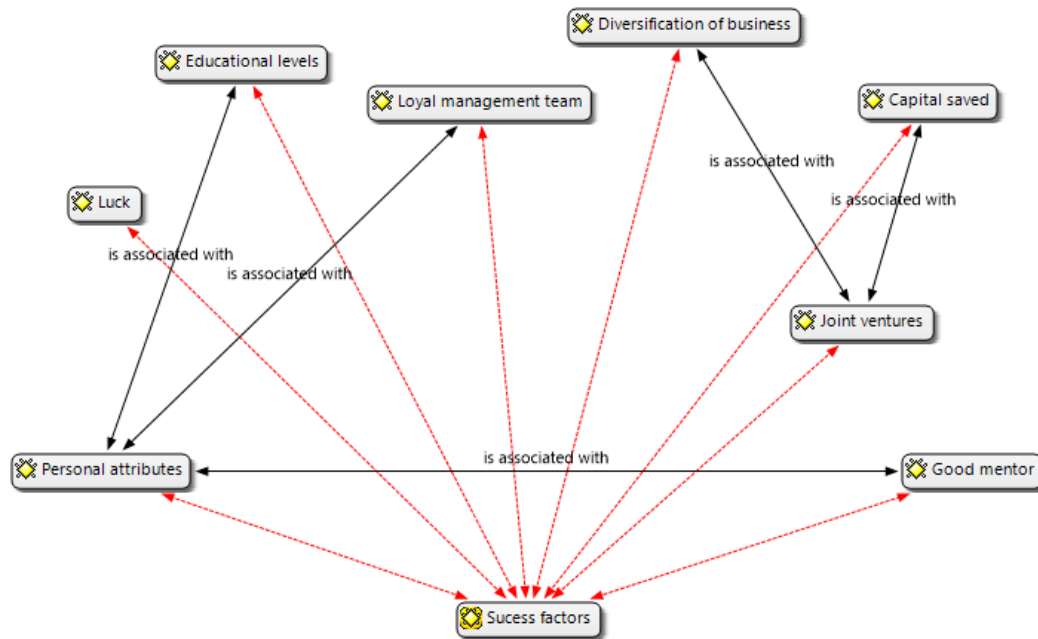
##### i. Personal attributes

Humbleness and integrity were some of the personal attributes that given by participants as their key factors to success (Figure 9).

*“Even if I might be thinking on a particular thing I am right and there has been instances where I was correct and she has always been humble enough to come back and say, You did well”.*

*“I think is humbleness and taking things as they come. And then I go for the major one that my wife calls that my husband is a man of integrity”.*

Figure 9 Network map for success factors



## ii. Education

*“Well it’s all down to my dad really. Because he ran it and upgraded it, he wasn’t a farmer, well he was a farmer, but he was more of a businessman. He was highly educated, very intelligent man, he sat on many corporate boards outside of agriculture, so he had that experience”.*

## iii. Diversification of business

*I think the biggest success was the diversification of the business, which he did*

## iv. Capital saved

*So you must have enough capital saved to survive those 7 years without an income.*

## v. Joint venture

*Attributes of the success of the business have been our joint business experiences. We come into the business with experience.*

*The family is involved with another business, which are partnerships with other people, I suppose those do not qualify you will guide me whether you want to discuss those as well [it like a joint venture].*

#### vi. Loyal management team

*I think that was one of the biggest successes and he was able to build a very loyal management team around him.*

*Ever since the business started, we have had the same kind of loyal dedicated staff.*

#### vii. Good mentor

Mentoring was also enlisted as part of success factor. It must be noted that there was formal mentorship or informal, which was more an exposure to business.

*You can't go to a university to teach you to farm, believe me. You have to have practical experience, you have to have it and you have to have a good mentor. That it is very, very important*

*It was not a formal mentoring process, but we were exposed to the various aspect of the company.*

#### viii. Luck

Luck was regarded as also necessary success factor especially with the agricultural industry.

*If you want to be a successful farmer you have to have rain, you have to have luck. You have to be a lucky person and of course it's hard work.*

We just over a billion, we are aiming for 1.2 – 1.3 if we are lucky.

These seven factors ranged from business conventional aspects, which included joint ventures, diversification of the business to having a loyal management team. With non-conventional aspects such as luck and instinct being regarded as part of the recipe for success.

#### 5.4..3.3 Theme 3: Governance structures

Governance structure was regarded as formal structures that existed which include their documentation. There were four aspects that dealt with the governance structure such as board of directors, protocol or constitution, family council, communication platforms and family reunions, decision-making and strategic planning.

## State of strategy and decision-making

All participants indicated that all their businesses had strategies. However, with an exception of one participant, all participants had informal strategies. Participant 3 was one, who had a formal strategy, which was said to be developed in a “Bosbraad”.

*“what we do, is in the old school it was called like a Bosberaad. So like we get all the store managers, because like they are very heavily involved still, the branch managers and all the kind of top little management and directors, we will go away after every couple of years and then set some goals. That will be slightly medium term goals, that will be like 3 or 4 year goals, to say okay by this time we want to have a shrinkage of 1 percent kind of set specifics with everyone involved, but more recently with the annual stuff the CEO just sets “.*

Even though this business was conducting the formal strategy, it was a long-term strategy, with focus on 3 to 4 year goals. The majority as mentioned above have strategies but informal.

*“You know, now we are doing most of the talking. It’s myself and XXXX who are still making those long term decisions. Like I say we have decided to go on property, to do more of property, because we have realized that this is okay but it’s really demanding.”*

*“That’s one of the key things, my dad because he’s been really hands on, it’s been his goal and his strategy, so him and I will chat about it and we’ll have discussions depending obviously what’s happening politically in the country, but also very informal.”*

*“It’s myself and xxxx who are still making those long term decisions”.*

There was also an interesting contradiction between two participants, whereby one (participant 6) mentioned that they never really change strategies, this being a company of more than 20 years, while participant 5, acknowledge that the changes are forcing them to look at their strategy in the next six months.

*“We have really, we have never really had drastic strategies, we have just been consistent. We have not invented any new method in how we do things”*

*“We in a position where we, not immediately, but over the next six months will be relooking the whole strategy of the business. And having, it’s not only that we want to do it, but we are kind of forced to do it. Because of having come out of one of the worst droughts in history.”*

Despite this, there were several strategies that were revealed by the participants as those that their companies were following to ensure that they are performing well. This include due diligence when then plan to enter new business outside the country.

*“Spend time in those countries get a feel for them, higher those staff.”*

There were few, which mention employee based decision making, to make their employees to feel part of the company.

*“So you always talk as if you are part of it. You say to them “We are going to do that” and then one of them will say “ I don’t think if they do it this way, it’s a better idea?”*

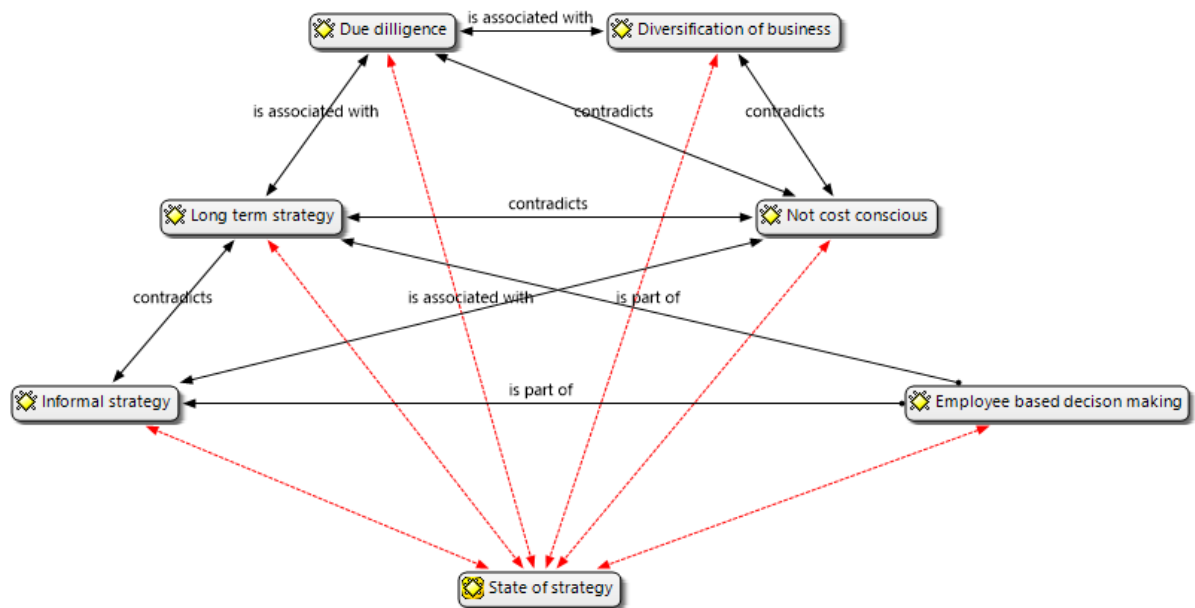
*“When we have meetings with staff, when we have meetings and we do have one on ones, we have do group meetings per store and that’s why interact with staff on an on-going basis by the way ... By being consistent, by having consistent relationships that has worked for us”.*

Participant 6 also acknowledged that there were improvements required, in so far as ensuring that employees were more cost conscious especially the younger generation.

*“They just throw ideas; they are not cost conscious. I mean, we will sit down and assess ideas. We will evaluate everything that comes onto the table, but being a young generation they will just think let’s do it”.*

The network map shows the possible relationships and contradictions, with poor cost containment a contradiction to sound strategic options (Figure 10)

**Figure 10 Network map for state of strategy**



There is a relationship of employee-based decision making to long-term strategy, with also due diligence associated with diversification of the business.

### Board of directors

The Board of directors of those participants that indicated that they had a board, were mostly made up of family members, with the owner or CEO playing a dual role of both CEO and chairman of the board. However, there was an indication that even with an existence of a board, it was not fulfilling board duties and was instead very informal.

*“very formal and we’ve obviously got a board that meet twice a year or ad hoc when necessary, that is very formalised.”*

*“This is the one probably the most informal of structures, there is a board on paper (a board of directors) but they don’t really meet much and everything. The business is being run more on informal terms.”*

### Communication channels

The management of these family businesses seem to be conscious of the fact that, there is a need of a good communication as this promotes a good culture of fairness and employee development within the business. However, in most cases there were no formal communication channels.



As a family, discussion regarding business matters would occur unplanned and when required via a telephonic call or around the dinner table. With non-family members employee, there was an indication that open communication culture was encouraged.

*“We allow people to talk and my saying, or our saying is that we don’t say come to work and leave your head at the gate and come inside here with your body only because we want your mind at work “.*

*“Like I say, we are having so much informal discussions. Usually, it’s interesting that so many unlike sometimes you can sit for hours trying to do that thing, but on a very- - when you are eating together at the table, then comes up a good idea, okay then you can think about it.”*

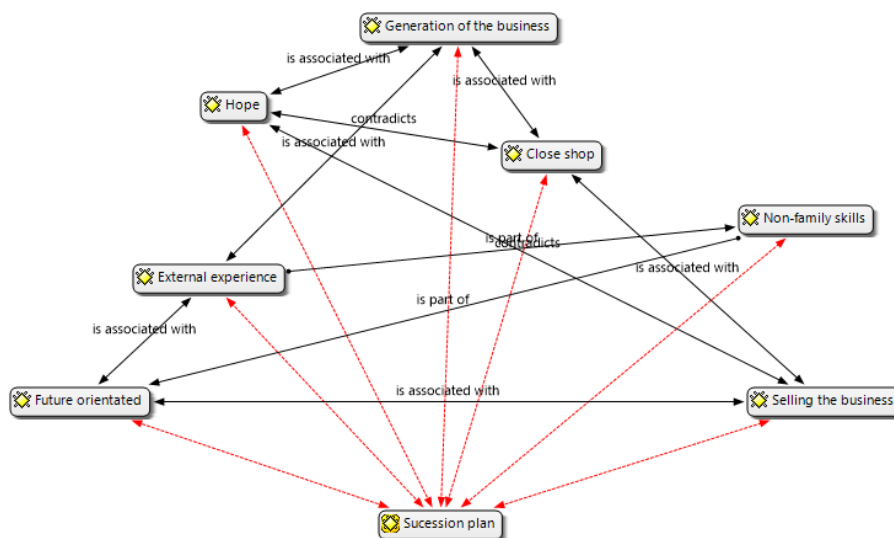
*“Be [it] fair in terms of having a voice and opinion and knowing that they are being heard. So me fairness I would say is the highest on creating pride within the work place.”*

*“That also is very informal and what we’ll do is we will phone each other I mean we are quite a close family.”*

### Succession planning

Part of the governance structures in this study was succession planning. It was clear that there was a mixed state of readiness in as far as the succession planning was concerned, with few businesses having a clear plan while others did not have a plan. The network map is provided in Figure 11.

**Figure 11 Network map for succession plan**





Companies that had a succession plan based it on the generation to generation business involvement, external experience and growth of the non-family member employees.

One of the interviewees was a second generation leader in the business and he was getting more involved in the operation while the father played more of an advisory role though he was still involved. This plan was based on the interviewee going outside the family business to acquire the business experience.

*“There was always a sort of plan that I would come back, to the family business. Always what the plan was to go out and get some experience and like they say is to break someone else’s tractor before you break you own... The succession plan at the moment basically is me.”*

This plan of generation to generation was different to the one of the other business where they were relying on external experience.

*“We have got what we call a **board** of trustees and investment will. For every development you have what is called a special purpose vehicle. So we have got various trusts of various kind looked after by the group. They are reputable trustees who have a similar background to our business. Because you need to be criticized. So I am currently looking for them. I will be the chairman for a short period of time. Just a short period of time until we put someone in place”.*

Other business like those of participant 3 have been grooming non-family members as their succession to the business, some were doing that while they were also keeping the family in the business.

*“Yes, so we do. So there’s in terms of the p9 dad’ has been developing some very strong sales director and financial director that do a lot when he’s not around and he’s kind of slowly been giving them more and pulling away a bit. So is my sister Catherine she’s also taken slowly over for last few years, she’s been taking over a lot more of the CEO role and he’s been kind of stepping back a bit. It’s been in progress for the last 2 or 3 years and will be for the next few years.”*

This was also a default position even for participant 8, who made it clear that they did not have a succession plan for the business.

*“I never think about it. I must be honest, I never think about retiring, what I’m going to be doing, I just-- as long as I’m enjoying it and there’s still clients who want our work then-- what’s interesting is we’ve got a couple of clients now that we’ve been with for many years, one’s an MD and one’s a marketing director and they are both planning for our succession inside their business when they retire”.*

In addition to this company, there were several participants’ companies that did were trying to develop a plan without success, as their plan was based on the children taking over the business but the children had other plans. Participant 6 had been running a business since 1987. They started this business with the wife and they were hoping to give it to the children.

*“My succession plan is based primarily on hope, I keep hoping that my children will continue with what we are doing, however there are signs, there are evident signs that they have very little interest. They have other interest which look like they are pursuing for themselves”.*

Due to this, they believed they had two options for their family business to sell it or to close shop.

*“We run a very healthy company, we are debt free, and it’s a very healthy business and if we would to really want to retire the two options we have is to sell it out or to just close shop. And we keep talking to them, it is not like, it is not like they are not aware of our succession wishes”.*

There were also two participants whom believed that they do not necessarily need the success plan or succession plan in a very long term aspect, and it is thus not something they can prioritise at this stage, it is in a distant future.

*“Going forward the succession plan, I suppose because I’m still young (in brackets) there really isn’t a plan in the moment. But currently there is no standing succession plan for the business”.*

*“Okay who is going to take over after me? I’ll be there until I die. I’m not going to retire because if I want to die I can go on retirement. So what’s going to happen, what I foresee is that the trust with all the family members, will appoint somebody to run the farm. I think that’s what’s going to happen”.*

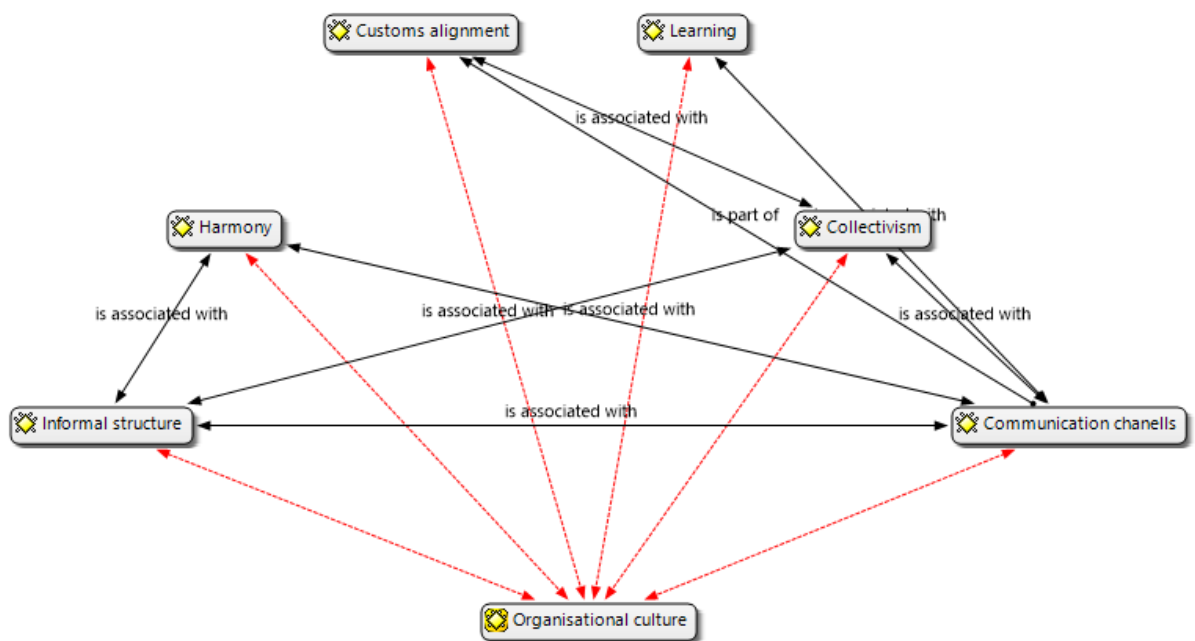
*“I’m getting married in December. I am hoping to have a couple of little XXX boys. ....Little future CEO’s. And, eh, yah you know. I’m hoping that in a few years time, once we achieved our short and (medium) term goals, um, I’m more than happy finding a CEO to come in a run the business and I can take a more chairman role and eh, the day to day op- running of the business I’m more than happy to hand over”.*

This was an area, where gaps existed within these family businesses.

#### 5.4.3.3 Theme 3: Organisational Culture

Figure 12 presents the network for culture. The network map is comprised of the organisational culture as the family and other 9 codes which were included as part of this family. These factors were collectivism, customs alignment, harmony, learning [organisation], communication channels and informal structures.

**Figure 12 Network map for culture**



#### Collectivism/Group orientation

During the interviews, discussions took into consideration the degree to which these family businesses were integrating group inputs in decision-making and business strategy and how they were promoting a sense of community. As participant 1 alluded, the promoted collaboration.

“We have a culture of collaboration, of openness of—we call it binding... we say to you before you do anything, make sure that one or two of us has bought into you so it becomes much easier because I can say to you what you are disagreeing about I don’t buy it so therefore we need to sit down at the table and talk to other people”

### Harmony

There was generally good harmony with this family business, which enhanced trust and minimise conflicts. This resulted in good unity within these families.

*“I decided to then rebrand myself and everyone’s aspirations. With the knowledge I poses I can actually build an empire where everybody can benefit from. Hence Re ba Moratiwa. Re ba Moratiwa means we belong to the Moratiwas” ( The beloved)*

*“I think we got a very strong culture, that comes from the top. Literally of that whole XXXX theme of “Integrity”, “hard work” and” proceed with caution”, and there’s a strong respect for people in the business...”.*

### Trust

There are highly levels of trust within these businesses, whether those managed by family or non-family. This resulted in higher loyalty even for management and also high level of autonomy due to the trust that they would do their job and deliver.

*“It’s nice having a small team so that no one has to get 15 people to agree and they all in their fields they get a lot of respect from the other 4, so if you are the financial guy doesn’t have to a lot of complement, everyone has faith in what the other guy is doing, but there’s always someone looking at least saying what are you doing? So that works well that small team”.*

“I think respect comes stronger than any other thing. Then the rest is trust worthy”.

### Customary practice

Some of the participants demonstrated that by virtue of how things have always been done, there was no need to change them This is evidenced by an automatic assumption that the son in the family is most likely to take over the reigns.

*“Culture is something else. I am the last born of the boys. It is expected that the lastborn should take over. This is because the older one is a friend to your father. The younger one will bring dynamics as well in my culture. The responsibilities i took were as a result of both cultural and it was also a natural progression of how it happened.”*

*“In each generation there has always been one son, yes. So fortunately I was the only son and I got to carry on the business that my grandparents, my grandfather and my dad started”.*

### Learning organisation

Employee and organisational development tend to take place in a learning organisation. There were perceptions within these family businesses that they had a culture of learning and thus a learning organisation.

*“So there’s in terms of the non-family members’ dads’ has been developing some very strong sales director and financial director that do a lot when he’s not around”.*

*“So for the moment, because we got the idea from another family business, to go see a like counsellor. We do, do that on a small scale and then discuss, so what’s plotting? What are the management skills you can learn or use on a situation? But I think it is something we need to do more off”.*

## **5.5 Summary of the findings**

### **5.5.1 Research Question 1**

#### **What is the state of governance within family owned businesses?**

##### Governance structures

Of the eleven companies that were interviewed, only one per cent of the participants had formal governance structures in place and the rest of the businesses had structures in place but were informal and not documented. The business that had formal structures had a board of directors in place in which three family members sat.

*“We’ve got all kind of King 3 all that kind of stuff we have to comply with, we do, just because its business too. We’ve got a company secretary and they make sure that we tick all the right boxes, we always analysing, we make sure that we do all the correct day gyms, do all the correct risk analysis, so we not a corporate governance”.*

As for the rest of the participants, their structures were flexible, informal and not documented.

*“I’d say they’re quite loose. We have rules and things that we do and we comply with all the governmental things that we need to but I don’t think we’re rigid”.*

#### Board of directors

As explained in the previous section, only few businesses had board of directors of which only one had non-family members comprised of the board.

*“We do have a board of non-executive, and executives’ directors. The non-executives are experienced in the field we’ve got a lawyer and CA and they are both kind of highly very experienced, probably about 70 years old...And then having the non-executives is very effective, because they have this industry wide view that comes in, which is very helpful with legal stuff and the governance issues”.*

#### Family Council

All the participants did not have a formal family council, as they believe that conflicts can be solved organically or naturally in the family. In some cases, the mother assumed responsibility of mediator and in the other the conflict resolution process was outsourced to external professional counsellors.

*“We were humbled by where we come from. I have learnt that it is important to guard against infiltration. So we haven’t had to make a conflict resolution strategy. It was tested before and it was resolved through getting together. Just by getting together”.*

#### Strategic planning

In a case where the founder was still alive or active in the business, the founder does the strategic planning of the business together with his son or eldest child. Depending on the phase of generation the business was in and the maturity of the business system, inputs from other family members and in some cases, employees, were incorporated in the strategy formulation of the business.

#### Succession planning

None of those interviewed had a clear succession plan in place. The following elements were identified as key factors of a succession plan.

- Hope

The founder hopes that his children will be interested to take over the business. This expectation is however not explicitly discussed with potential incumbents, which might lead to the expectation not being met.

- Culture/custom or natural succession

With an exception of one participant, there was an indication that the males and eldest children in the family are likely to be the successors. Although this is not formalised, there are indications that the succession will occur naturally. One of the respondents indicated that by virtue of him being the youngest boy, in his culture it was expected of him that he would take over the reigns when the time arrived.

### Trust Account

There was an indication in most of the businesses that governance practice was through ensuring that business assets are protected by holding them in a trust fund.

In Summary, it was established that although, these business have been running for a very long time, with the youngest already over 20 years, there was still a big element of low formalisation. The business with fairly high formalisation was the participant that was currently in the cousin consortium developmental stage. Among the elements that showed the level of formalisation of these business was found mainly in their approach to strategy and decision-making, their board of directors

The level of informality is best explained by

“What happens at XXX basically, this is the one probably the most informal of structures, there is a board on paper (a board of directors) but they don’t really meet much and everything. The business is being run more on informal terms”.

This level of informality is also found in other family business, it is a matter of how informal this business a being run.

Participant 4 explained that:

*“Like I say, we are having so much informal discussions. Usually, it’s interesting that so many unlike sometimes you can sit for hours trying to do that thing, but on a very- - when you are eating together at the table, then comes up a good idea, okay then you can think about it. Like I said we are all still literally staying*



*together at home, so there is no need to arrange a formal meeting. It's stressing on its own you know"*

Despite this, XXX still mentioned that they have people in finance and in HR among others, for running a structured business.

*"we are having bookkeepers that are taking care of the whole system, we are having- - we do have an office which there's HR, there's everybody there. We have an office that is running and my son is overseeing all those and I'm just acting more of a general manager"*

The same approach was used by participant 7 where there are informal meetings:

*"My siblings because they are busy in Joburg, we will informally meet for lunch or dinner, and update one another in terms of what is happening. It is a weakness at this point because we don't have a proper forum to report. It can be real overwhelming because it can be a burden as you have to work with other people and it can be political if not well-managed".*

This pattern was continuing in other family business, for example participant 5, where the dad who use to run the company died and the son took the need to change things and ensure the company goes forward.

*"We'll have formal meeting, we're trying to have it once a month or at least once a quarter as has been, if not more. But in between that, there are many informal discussions or things that need to be raised or just discussed, without making decisions, we will before work or at the start of work. ...We haven't had our first formal board meeting yet, but now when my dad used to make the decisions, whether the board questioned it or not, when he saw that it was the right decision he used to make it. Now, I as the CEO am accountable, more accountable to my family to the directors"*

It was already discussed above with Participant 2 where their strategy was informal:

*"That's one of the key things, my dad because he's been really hands on, it's been his goal and his strategy, so him and I will chat about it and we'll have discussions depending obviously what's happening politically in the country, but also very informal".*

Even those businesses that had formal structure, there was still a considerable level of informality in areas like succession planning. When the interviewer was asked about the succession plan and its communication.



*“Official, yes, it was not official like you would have in corporate. It was more kind of organic, but there was definitely a firm plan and the people, the players knew, they were aware, are aware”.*

## **5.5.2 Research Question 2**

### **What type of culture is practised or promoted within this family business?**

Harmony, trust, Collectivism, support and power culture were found to be the most dominant cultural dimensions found in family owned businesses. This was evidenced by the inherent trust and support that was strongly engrained in the organisation, particularly in the first two developmental stages of a family business. Furthermore, in a case whereby the owner or the elders in the family were still involved, there seemed to be an approval or validation needed from them in case where decisions needed to be made. The strong family welfare, even for those who are not actively involved in the business, was an indication of the strong collectivism culture that is entrenched within the business culture.

## **5.5.3 Research question 3**

### **What is the perceived impact of the practised culture on governance structures?**

The results show that strong cultural dimensions are entrenched with family owned businesses. General. There was also an indication of these cultural dimensions substituting governance structures within the organisations, particularly in the first two developmental stages of the business. In case where certain degrees of governance structures were in place, both the business and the family were in or post the cousin consortium stages. In summary, there is an informal culture within these family businesses, which promote collectivism and harmony. These are learning businesses and have open communication.

## CHAPTER 6: DISCUSSION OF RESULTS

### 6.1 Introduction

Based on the literature reviewed, the contribution of family owned businesses towards the economy of any country is undeniable. In order to ensure the sustainability of the businesses, good governance has to be in place. The objective of this study was to understand how governance inter-related with organisational culture in family owned businesses. To be able to do that, a qualitative study was designed to gather an in-depth understanding of the topic. A total of 11 interviews were conducted. The findings were presented in Chapter Five where themes were also extracted.

In this chapter, the findings of the research will be discussed by synergistically combining the responses of all the participants in line with literature as discussed in Chapter two. Thus the aim of this chapter is to answer the research questions.

### 6.2. Discussion of Results

To support the purpose of the study, the definition of family business as described by participants were compared with the theoretical definition so as to understand the perspectives of the participants. According to the research findings, “family involvement”, “generation-to-generation”, “business aspiration” and “decision-making” were words used to describe a family owned business. Although not all elements were captured, most of the words used to describe family owned business were in line with Chua et al., (1999) whose definition is based on ownership, decision making control and family involvement. The research study is therefore aligned with the population inclusion criteria as explained in Chapter Four.

The following section discusses the research questions.

#### 6.2.1 Research question 1

##### **What is the state of governance within family owned businesses?**

Adendorff & Halkias, (2014) argue that family owned businesses operate in complex environments, which introduces the need for the development of governance structures suitable for the family business and not generic ones. Based on the key variables that determine good governance within a family business identified by Adendorff & Halkias, (2014), the findings in this research revealed that to a certain degree family businesses have governance structures but these are very informal and undocumented. The four attributes are explained below.

#### 6.2.1.1 Strategic planning

Research findings revealed that although some of the businesses were involved in strategic planning, they all employed a very informal process. In case of first and second generations, the strategic planning was centralised to the founder, as he had to approve or disapprove the plans thereof. Active participation of non-family members in the planning process was only observed in the third generation.

#### 6.2.1.2 Board of directors

Adendorff & Halkias (2014) have observed that involvement of non-family members in the board enhances the effectiveness of governance structures in a business. The findings demonstrate that the majority of the family owned businesses did not have formal board of directors in place. In case where there was a form of a board, it was made up of family members, with an exception of one, which consisted of two non-family board members. It is important to note that this is the one business that has transcended into the third generation and continue to strive. This is aligned with Cruz & Nordqvist (2012) who explained that third generation family businesses in and those beyond are more complex and thus need good governance structures in place to strive.

This contradicts El-chaarani, (2013) who has identified an independent board of directors as a key element of governance as it ensures that the family control over the direction of the business is maintained. However, Giovannini, (2010) argues that independent advisors in board of directors in a family business do not have a positive impact on performance. Also, Bammens et al., (2011) support that excessive control within family businesses through the board of directors decreases the steward's motivation to behave in a pro-organisational manner.

#### 6.2.1.3. General Governance structures

The findings demonstrate that all businesses involved in the study did not have any formal governance structures in place. According to Rettab & Azzam (2011), in a case of absence of formal structures, the level of ownership involvement in the family business can equally serve a similar purpose of formal governance structures, albeit informally. This was evidenced in the current study by the manner in which the first and second generations processes were still centralised around the founder.

The findings demonstrated that the meetings or any form of communication platforms were quite informal in most of the businesses, particularly in generations one.

This is in correlation with literature as Suárez et al., (2004) has indicated that informal meetings in first generation are more prevalent as the business is small and heavily dependent on all family members. Furthermore, Sharma, (2004) and Pounder (2015) contend that since management and ownership are aligned in this developmental stage, there is minimal need for formal governance structures.

#### 6.2.1.4 Succession planning

Findings demonstrate that some of the businesses transcended beyond the third generation up to the sixth. In most cases, there was no prior formal succession plan in place and it was not formally discussed with the incumbents. There was also an indication that family members occupy high positions in the business and an expectation has been set that by virtue of them being family members, the probability that they will be the successors were high. Therefore natural succession was employed in most cases. This finding of using natural succession was found to be normal in family owned businesses. This is supported by Williams, Zorn, Crook, & Combs, (2013) who argued that for the family business to continue across generations, the family is of an opinion that succession must be from within the family so as to limit or minimise agency costs. Table 6 summarises the governance mechanisms that were revealed in the study and compares to literature.

**Table 6: Summary of governance mechanisms across generations**

<b>Governance attributes</b>	<b>Generation 1</b>	<b>Generation 2</b>	<b>Generation 3 and beyond</b>	<b>Supported by Literature?</b>
Strategic Planning	Informal and done by founder	Informal and done by founder with those involved in business	Semi formal and not documented	Yes
Board of directors	Non-existent	Family serves as board	Presence of non-family members observed	Yes
General	No family	No family	Conflict	Yes

Governance structures	council Patriarch and monarch acts as conflict resolution mediator	council or any other formal structures	resolution forum outsourced to professional	
Succession Planning	Informal, based on natural succession or family cultural customs	Informal, based on natural succession or family cultural customs	Semi-formal,	Yes

#### 6.2.1.5 Family Trust

The findings demonstrated that a business trust was used as a form of a governance structure whereby all assets of the business are securitised in a trust fund. This correlates with Zellweger & Kammerlander (2015) who have observed that family trusts are used by families as governance structures. They however contend that these trusts progressively distance family owners and members from the control of assets and thus relegate them to passive beneficiaries.

#### **6.2.2 Research Question 2**

##### **What type of culture is practised or promoted within family owned businesses?**

In this section, organisational cultural dimensions that influence the shaping of governance structures within the family owned business will be discussed. This will be done by first discussing the findings as explained in Chapter five in conjunction with theory of culture discussed in Chapter two.

The findings indicated that the business was closely intertwined with the family environment.

This concurs well with Patel & Cooper (2014), and Papalexandris, N., & Panayotopoulou (2004) who indicated that issues, including culture in family businesses are different from non-family businesses as both the family and business systems are intrinsically intertwined. The systems theory prevalent in family businesses also validate this phenomena (Poza & Daugherty, 2013).

The findings of this study indicated that the dominant culture prevalent in each generation is influenced by the dynamics and challenges at each developmental stage of the family business. This is confirmed by Le Breton-Miller & Miller (2013), who even argue that due to the different dynamics and challenges prevalent at each family business developmental stages different governance structures will be employed.

#### 6.2.2.1 Emerging overall organisational culture

The following cultural dimensions were identified from the research study:

##### Harmony

A culture of harmony was identified as one of the most prevalent in the businesses whose representatives were interviewed. This agrees with Vallejo's (2008) culture model whereby he describes harmony culture as mutual respect, trust, family members welfare concern, equitable manner of resolving conflict and having problem solving tactics in place. Although most of the participants did not have formal problem solving tactics in place, the desired harmony in the family in favour of the business continuity superseded the need for formal techniques.

Also, the study indicated that the adopted decision-making strategy, which was inclusive and encouraged active participation of most of the family members induced the harmony within the family. With an exception of few participants, the involvement in decision-making process was also extended to non-family members involved in the business. This agrees with Carlos & Vallejo-Martos (2011) who have indicated that by encouraging active participation of all members in decision-making, created harmony.

##### Trust

Trust emerged as an overarching cultural dimension. Within a family business, members found trust to be a major factor that substitutes formal governance structure, which was driven through the cultural dimension of harmony (Vallejo, 2008). Based on the findings, of all participants who had board of directors, only one had non-family members serving in the board and all family members made up the family council.

According to Le Breton-Miller et al., (2013), this is an indication of trust that is prevalent in the family.

### Power

Even though the findings revealed that the decision making process is included all the family members, the study showed that the final decisions still sat with the elder, particularly in businesses where the founder was still alive and active in the business. Based on Harrison's (1993) organisational cultural model, this implies that power with the organisation was centralised and both family and non-family employees are connected to the centre by functional strings. Centre in this case refers to founders who have formal authority and hold power to control and influence activities within the family business (Harrison, 1993).

Furthermore, strong family relations prevalent in most of the participants' businesses have resulted in a strong family presence in the business. The presence thereof has brought about a dominant control of family within the business. In some cases, this high ownership level, which concurs with Chua et al., (1999) definition of a family business, has led to highly centralised power culture.

Although the study revealed that power was one of the dominant cultural dimensions, the communication channels employed in most of the participants contradicted the "top down" communication approach (Harrison, 1993) used mostly in organisations that show power as a culture.

### Support Culture

Mutual trust and open and informal communication channels revealed in the study is indicative that there was a degree of support culture within the business as described by Harrison (1993). The findings also indicated that there was no need for formal conflict resolution structures as by virtue of familiness, the conflicts experienced can be naturally resolved. This agrees with Harrison's (1993) of description of support culture description.

### Collectivism

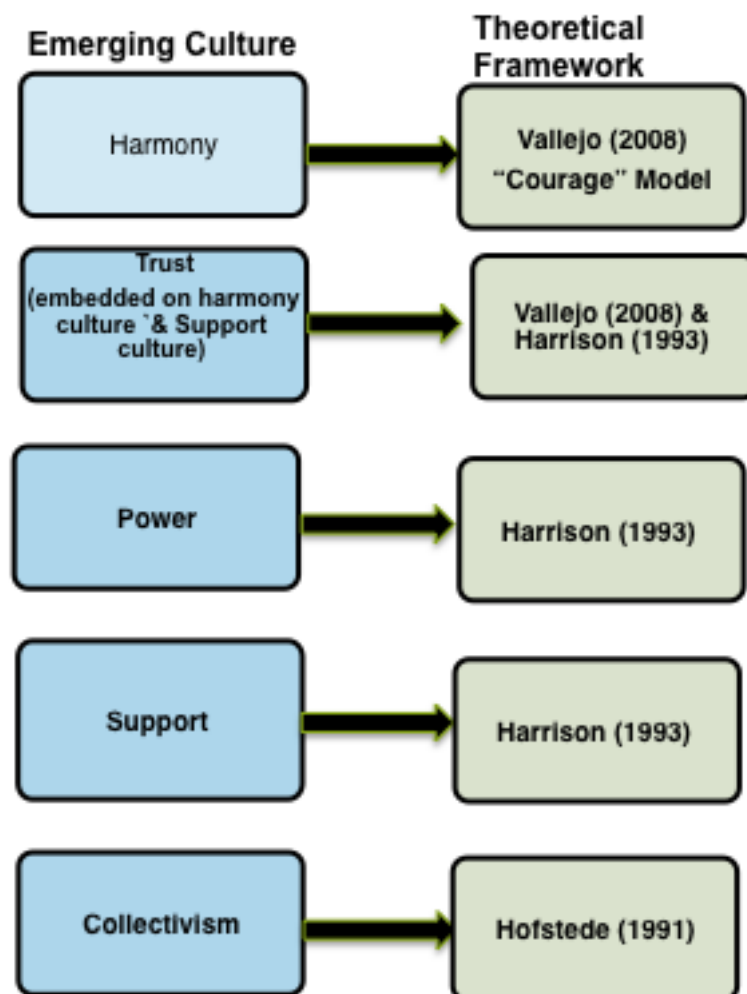
As already discussed in power culture section, findings revealed that all businesses interviewed had dominant level of control, which to some, has led to family and non-family members being governed by different rules. The findings also indicated that the business is responsible for the welfare of other family members.

These two aspects are indicative of the of a highly collectivist culture as explained by Hofstede (1991). Also the inclusive decision-making process, which was practiced by the majority of the business, is indicative that there was a strong collectivist culture within the business.

The emerging cultures and the relevant theoretical frameworks are summarised in Figure 13 below.

**Figure 13: Emerging Cultures and relevant theoretical frameworks.**

Source (Author, 2016)



#### 6.2.2.2 Emerging cultures in each generation

In general, all generations showed harmony as a culture.



The findings of the current study indicated that that the dominant culture in generation 1 is “Power” whereby the control and decision making is centralised around the founder. This concurs with Le Breton-Miller & Miller (2013) who have indicated that in generation 1 the founder is centrally responsible for dispute resolution and decision-making within the business.

### **6.2.3 Research Question 3**

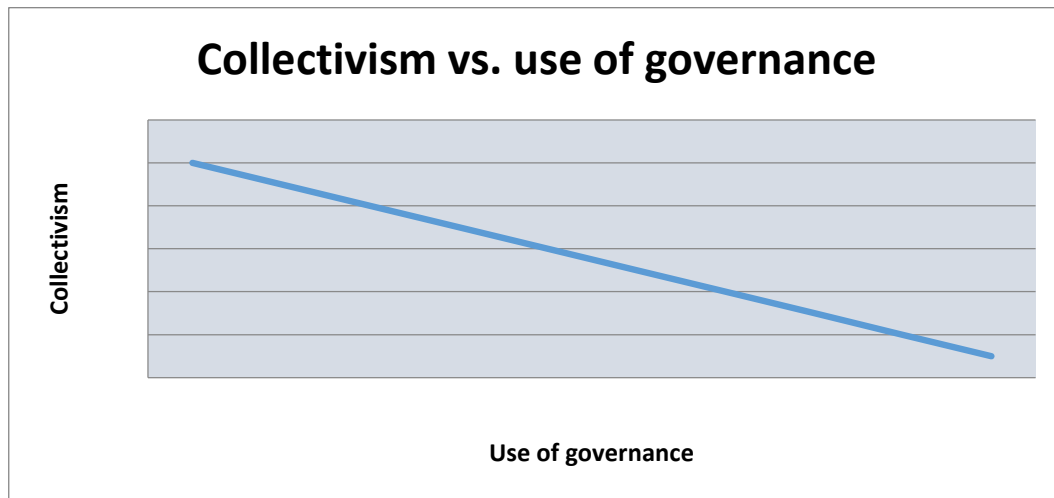
#### **What is the perceived impact of the practised culture on governance structures?**

##### 6.2.3.1 Impact of collectivism on governance

The concept of collectivism reflects how tightly knit the social framework within an organisation (family owned business) is (Handley & Corey, 2015). As already discussed in prior section, collectivism was one of the organisational cultures that emerged within a family owned business. Also, findings revealed that founder generation and sibling generation, reflected more collectivism than the cousin consortium generation which indicated that the social welfare was more for the family members who were actively involved in the business. This is an indication that as the business and family systems evolve so does the culture within the family owned business system. This occurrence is supported in literature by Le Breton-Miller & Miller (2013) and (Gersick et al., 1997) who argue that there are changes in family involvement patterns as the both the family and business system through the family business life-cycle. These changes bring about complexity in the business and the governance thereof. Handley & Corey (2015) argued that governance structures are more suited to individualistic cultures as they are associated with high agency costs. Similarly Le Breton-Miller & Miller (2013) have observed that collectivism yields high alignment of interests and consequently reduced agency costs and hence family owned businesses tend to have fewer non-family directors as compared to non-family businesses. The findings demonstrated that most of the participants did not have formal governance structures in place. This implies that collectivism within the family business can serve as an informal governance mechanism and effectively substitute formal governance structures in a family owned business. Figure 14 below depicts the relationship between collectivism and the level of governance in a business.

**Figure 14: Relationship between collectivism and level of governance in a business.**

Source: (Author, 2016)



Impact of Power culture on governance

This type of culture can be regarded as being rule oriented since it focuses on respect of those in authority (Harrison, 1993). In the founder stage and the sibling stage, centralised power to the founder results in low formalisation of modes of operations (Harrison, 1993). The findings indicated that governance structures were not formalised. Even with unformalised governance structures, there seemed to be an understanding of responsibilities within the family business. Also, there was an indication that the decision-making a strategic planning had to be finalised by the founder even though the process thereof was inclusive of all members and in some cases it extended to non-family employees. Therefore, it appears that power culture can serve as a substitute for formal governance structures, particularly in phases of development where the founder is still involved or is alive.

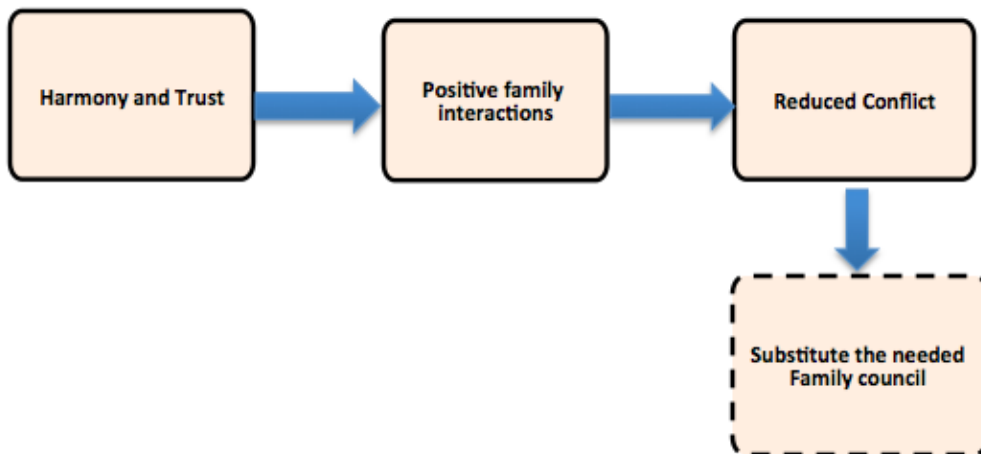
Impact of Harmony and trust on governance

The identified harmony as a culture in the findings is a reflection of stewardship in the family business. This is supported by Giovannini (2010) who has indicated that stewardship in family business provide social capital. Similarly, Kidwell, Kellermanns, & Eddleston (2012) agrees that stewardship in a family business may build an atmosphere of trust. They further postulate that harmony within a family business yields positive interactions between family members, which in turn reinforce interdependence of family members.

The atmosphere thereof encourages family members to get along and cooperate. Kidwell, Kellermanns, & Eddleston (2012) suggest that trust created harmony act a s a conflict resolution technique and can thus substitute a family council as illustrated by Figure 15.

**Figure 15: A presentation of harmony and trust can substitute family council in the family business**

Source ( Author, 2016)



### Impact of Support culture on Governance

Support culture is very similar to harmony and trust cultures. As indicated above, prevalence of support culture has the potential to induce positive interactions and hence limit conflicts within the family owned business, thereby substituting the needed governance with culture.

### **6.6 Chapter Summary**

It has been found that governance processes in most family owned businesses are informal and not documented. A certain degree of formality was observed in family businesses that were in the cousin consortium developmental stage as identified by Eddleston et al., (2013). This is aligned with literature as Carlock & Ward (2001) have observed that governance processes can be both formal and informal and evolve over time as the business transcends into next generations.

High levels of harmony, trust, collectivism, support and power cultures were found to be the most influential organisational cultural dimensions on governance processes within family owned businesses.

Although Vallejo, (2008) showed that family businesses displayed high levels of “long term orientation”, “commitment” and “harmony”, in the current study, “harmony” proved to be the most dominant across the different family business developmental stages. It is therefore evident that governance implemented in family owned businesses is affected and influenced by organisational cultural dimensions. This was evidenced by the absence of formal governance structures. This absence of formal governance structures proved that strong cultural dimensional can in fact substitute formal governance structures within family owned businesses. This is aligned with findings established by (Adendorff et al., 2009) who showed that governance in family businesses is affected by cultural influences.

Furthermore, family businesses in post third generation have proven to be successful without formal governance structures. This is aligned with literature that suggest that family businesses are different from non-family business and thus encourages that the need for formal governance structures within family business be implemented differently from non-family businesses (El-chaarani, 2013) as it is not a “one size fits all” (Suess, 2014) .

## CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

### 7.1 Introduction

In Chapter 5, the results of the current study were presented and discussed in Chapter 6. These results were based on the research questions outlined in Chapter 3 following the review of literature on the inter-relationship between governance and organisational culture in family owned businesses in Chapter 2. The theory was used to understand the concise inter relationship between governance and organisational culture through the use of governance techniques and the attributes thereof as well as organisational cultural dimensions that emerged from the study. This chapter aims to review the research problem and summarise the key findings from the discussion in Chapter 6 as a way of providing conclusions reached in this research.

### 7.2 Research Background and Objectives

Family owned businesses are increasingly being viewed as distinctive and economically significant business entities. According to Poza & Daugherty (2013), 80% of global free market businesses are made up of family businesses, with approximately 50% to 75% of the world working population employed by family businesses.

Despite their significant economic contribution and many other competitive advantages, family businesses have to contend with several issues over and above standard business concerns. Research has shown that only 30% of family businesses transcend into the second generation with less than 12% viable in the third generation (Fernández-Aráoz et al., 2015), while only 3% transition successfully into the fourth generation and beyond (Visser & Chiloane-Tsoka, 2014).

Brice & Richardson (2009) have indicated that cultural dimensions drive the success of a family business prevalent in the business. Supporting this view, Adendorff & Boshoff, (2010) asserted that family owned businesses are different from other businesses due to the inclusion of family and relational bonds among family members. This results in the integration of family and business cultures. According to Denison, Lief, & Ward, (2004), the low longevity rates in family businesses can amongst other things be attributed to succession planning and governance. While concurring with Denison, Lief, & Ward, (2004) on the factors of succession and governance, Chirico & Nordqvist (2010) have also included family conflict and intergenerational changes as areas of concern affecting the sustainability of the family business. Understanding governance and how it inter-relates to culture in a family business is therefore important in the sustainability and longevity of the business.

Thus, the aim of the current study was to provide more insights into the inter-relationship between governance and organisational culture in family owned business. The study did this by focusing on governance structures prevalent in family owned business, cultural dimensions practiced in the organisation and the perceived impact thereof on governance.

### **7.3 Approach to the study**

By using phenomenological exploratory research methodology, the researcher was able to explore the real cultural phenomena (Tuohy, Cooney, Dowling, Murphy, & Sixsmith, 2013), in a bid to answer the primary question of: What is the inter-relationship between governance and organisational culture?

### **7.4 Key Findings**

From the findings, it is evident that most family owned businesses do not have formal governance structures in place. A certain degree of formality was observed in family businesses that were in the cousin consortium developmental stage. These findings are in correlation with the findings of Carlock & Ward (2001) that revealed that governance processes can be both formal and informal and evolves over time as the business transcends into the next generations.

The findings demonstrated that the culture of an organisation is intrinsically intertwined with the values and beliefs of the family. This is evidenced by the cultural dimensions in the family and those of the founder being cascaded down into the business system. This is aligned with literature as observed by Adendorff & Boshoff, (2010) and Papalexandris & Panayatopoulou (2004).

From the study, few organisational cultural dimensions emerged. These dimensions were based on Vallejo's (2008) "COURAGE" model, Harrison (1991) culture model and Hofstede's (1991) five cultural dimensions. It was found that from all these cultural dimensions "Harmony" and "Trust", derived from family business dimensions developed by Vallejo's (2008) "COURAGE" model, "Power" and "Achievement" which are based on Harrison (1993) organisational culture model as well as Hofstede's (1991) "collectivism" emerged as the most dominant cultural dimensions that influenced most of the stages of the developmental model as explained by Gersick et al., (1997) within a family business.

Harmony, which is an indication of mutual respect, trust, family members welfare concern, equitable manner of resolving conflict and having problem solving tactics in place was found to play a critical role in creating a family presence in both the family and business systems of the family owned business, and consequently, serve as a family council in the absence of formal structures. Also, the matriarch in the family was found to be the one playing a significant role in maintaining harmony in the family and thus played a role of family councillor within the family business.

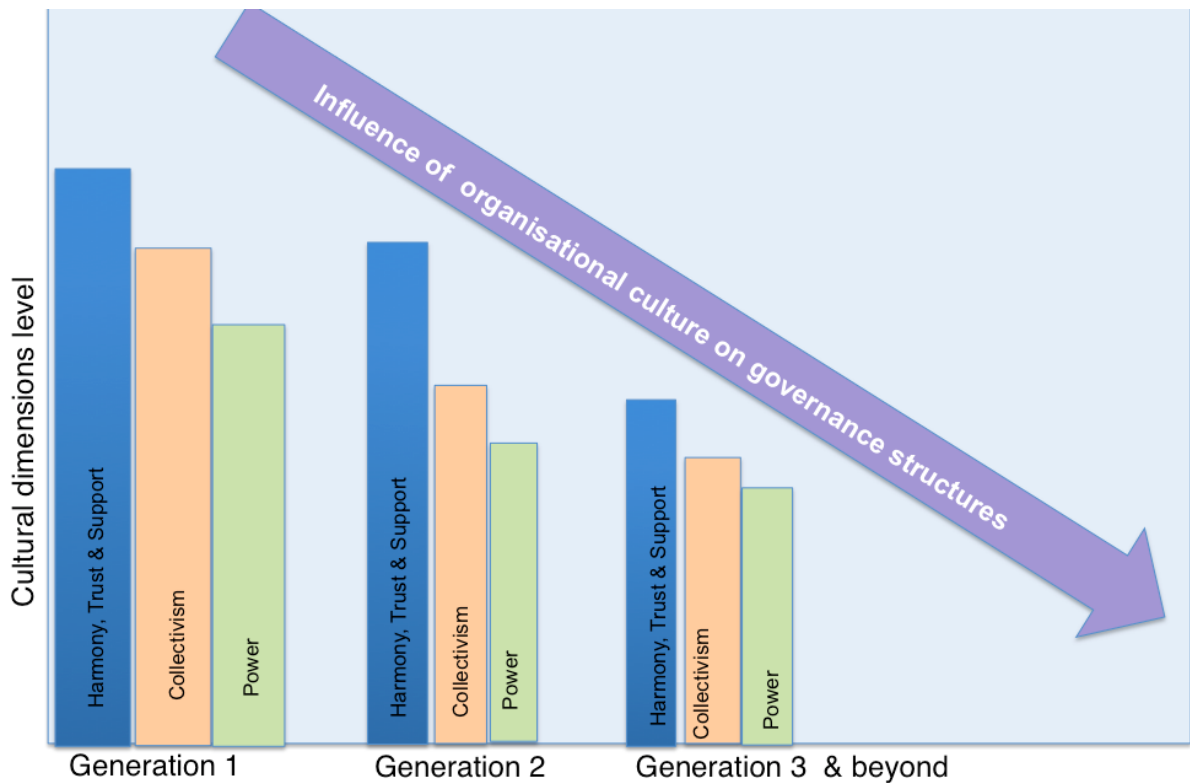
Power was predominantly prevalent in the founder and sibling stages of Gersick et al., (1997) developmental model. In these stages, centralised power to the founder resulted in low formalisation of modes of operations (Harrison, 1993). The absence of formal structures thereof are compensated by this strong power culture. Also, findings revealed that founder generation and sibling generation, reflected more collectivism cultural dimension more than the cousin consortium generation. This is an indication that as the business and family systems evolve so did the culture within the family owned business system.

Overall, the study demonstrated how strong organisational cultural dimensions can compensate for the absence of formal and documented governance structures. As the levels of cultural dimensions decrease across the different business developmental stages, the need for formal governance structures intensifies. Figure 16 below encapsulates the findings on how the level of cultural dimensions prevalent in family owned business impact the need for formal structures. This is aligned with literature that suggest that family businesses are different from corporate and thus encourages that the need for formal governance structures within family business be implemented differently from non-family businesses (El-chaarani, 2013).



**Figure 16: Framework of how organisational cultural dimension across generations influence the development of governance structures.**

Source (Author, 2016)



## 7.5 Future Research

This section gives suggestions on possible future research that can possibly expand the current study to provide deeper insights.

While the inter-relationship of governance on organisational culture within South African family owned businesses was explored, a more comprehensive research can be conducted to explore the influence of organisational culture at each developmental stage of the family business life cycle. This could in turn provide or help develop simplified governance structures for family owned businesses as they are confronted with complex issues whereby the governance that works at different developmental stages cannot be replicated at different stages or that the governance that works for non-family business cannot be super imposed onto family owned business governance.

Also, the study was conducted on the owners and family members involved in the business. It is suggested that a study be extended to non-family members so as to develop an in-depth understanding of the organisational culture.



The influence of the size and age of the business was not considered in the current study. It is thus recommended that the inter relationship between business size and age on governance be investigated.

A qualitative research method was used for the current study. Studies have indicated a direct correlation between governance and continuity but no empirical study on organisational culture and governance has been conducted. It is therefore recommended that a quantitative approach with a larger sample be used to determine the correlation between different cultural dimensions on governance within family owned businesses.

## **7.6 Limitations of the Research**

The limitations are restated here as in Chapter four. The following were identified as limitations of this research study-:

- Limitation related to non-probability sampling  
The drawback of using non-probability sampling mechanism is that results cannot be generalised to all South African family owned business population as the samples were not statistically representative of the whole South Africa (Saunders & Lewis, 2012). Also, the referred subsequent individuals have a potential to share the same views with those who recommended them, resulting in similar results. The results thereof must therefore be interpreted and used with caution.
- Sample bias  
In this study, all participants were family members involved in the business. This can result in the self-serving bias where the participants can potentially reveal opinions in a manner that favours them
- Interview skills and experience  
Since the researcher does not have experience in semi-structured interviews, the researcher could have been biased by using leading and spontaneous questions (Seidman, 2005).

## **7.7. Managerial implications**

This section seeks to provide practical applications of the learnings from the study in the work place.

Business founders and owners can reflect on the findings of the study by reviewing and being consciously aware of their cultural practices and how these shapes or impacts governance practised in the business and consequently the continuity of the business.

Lastly, the next generations can also learn how to develop relevant and appropriate governance techniques by building on the answered research questions.

I hope and trust that this study contributes to the debate surrounding governance and organisational culture in family owned businesses and thus family business continuity.

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## APPENDIX A: INTERVIEW QUESTIONS

The questions below were used for the structured interviews conducted for the current study.

### 1. Overall business

- How many full time employees are employed in the business?
- What is your annual turnover?
- When was the business established?
- Which generation of the family is the business currently in?

### 2. Question on governance structures and organisational culture

- Which family members are included in the business?
  - What roles do they play?
- How would you describe your business in terms of the family's involvement in the business?
- Describe your succession plan?
- How would you describe the governance processes or formal business structures in your family business?
  - Explain how these structures may be effective in enhancing business performance?
  - How do these processes differ from previous generations?
- What structure do you have in place that discusses business issues, family issues as well as individual issues, family member roles, business growth and the welfare of family members?
  - What is your experience of that structure (e.g. family council) or a similar entity in terms of its effectiveness?
  - If you do not have one, do you think such a structure would be useful and why?
- What policies or official guidance do you have in place to govern the business structure?
- How are they applied to family and non-family members in the business?

- How often do you conduct analysis on the future of the business?
  - How do you go about doing this?
  - How do you go about doing this?
- What are official communication channels between family members?
- Who has access to information about the company and its activities?
- Who makes strategic decisions in the business? (Strategic decision is defined as choices with important consequence and resource demands for the organisation (Mustakallio, Mikko, Autio, Erkkö, Zahra & Shaker, 2002).
- How do you incorporate inputs of other family members and non-family members when making both strategic and operational decisions pertaining to the business?
- How are opinions of other members received, particularly when they differ to those members who are in management?
- How is power or authority shared in the business?
- What are the rules when new family members join the business?
- What strategic plans do you have in place for the business?
  - How are they done? (Is there a formal strategic session for planning)
- How are the different goals of individual members aligned to the business goals?
- What is the dependency of family members on the business?/ To what degree are family members dependent on the business?
- How committed are family members to fulfilling business or work obligations?
- What are expectations of the business from their members?
- How is difference in perspective within the business addressed?
- Who takes accountability for successes and failures of the business?
- What is the one important factor/attribute for the success of the family business?
- How do you build pride within the organisation i.e. is it measured against the performance of individuals?
- How does the business deal or handle personal issues or welfare of the members in the business?
- What drives and motivates the individuals/members in the business?

## Organisational culture in different generations

- What is or was the vision of the founder(s)?
  - Is the same vision still upheld in the current generation?
- Does the business demonstrate short term or long term when considering business decisions?
- What were some of the setbacks that the business faced?
  - How were these setbacks dealt with?
- How did the business transfer from previous generations?
- What are performance assessment processes of family members in the business?

## APPENDIX B: INTERVIEW QUESTION BEFORE THE PILOT STUDY

The questions below were used for the structured interviews conducted for the current study.

### 1. Overall business

- How many full time employees are employed in the business?
- What is your annual turnover?
- When was the business established?
- Which generation of the family is the business currently in?

### 2. Question on governance structures and organisational culture

- Which family members are included in the business?
  - What roles do they play?
- How would you describe your business in terms of the family's involvement in the business?
- Describe your succession plan?
- How would you describe the governance processes or formal business structures in your family business?
  - Explain how these structures may be effective in enhancing business performance?
  - How do these processes differ from previous generations?
- What structure do you have in place that discusses business issues, family issues as well as individual issues, family member roles, business growth and the welfare of family members?
  - What is your experience of that structure (e.g. family council) or a similar entity in terms of its effectiveness?
  - If you do not have one, do you think such a structure would be useful and why?
- What policies or official guidance do you have in place to govern the business structure?
- How are they applied to family and non-family members in the business?

- How often do you conduct analysis on the future of the business?
  - How do you go about doing this?
- How often do you formally analyse or plan careers and work future of the individuals in the business?
  - How do you go about doing this?
- What are official communication channels between family members?
- Who has access to information about the company and its activities?
- Who makes strategic decisions in the business? (Strategic decision is defined as choices with important consequence and resource demands for the organisation (Mustakallio, Mikko, Autio, Erkko, Zahra & Shaker, 2002).
- How do you incorporate inputs of other family members when making both strategic and operational decisions pertaining to the business?
- How are opinions of other members received, particularly when they differ to those members who are in management?
- How is power or authority shared in the business?
- How do employees participate in decision-making?
- How are new family members introduced into the business?
- What are the rules when new family members join the business?
- When challenges are encountered how are they usually solved? (Are direct and solution-oriented conflict resolution tactics are preferred?)
- What strategic plans do you have in place for the business?
  - How are they done? (Is there a formal strategic session for planning)
- How are the different goals of individual members aligned to the business goals?
- What is the dependency of family members on the business?/ To what degree are family members dependent on the business?
- How committed are family members to fulfilling business or work obligations?
- What responsibility does the business take for the welfare of the employees?
- What are expectations of the business from their members?
- How is difference in perspective within the business addressed?
- Who takes accountability for successes and failures of the business?
- What is the one important factor/attribute for the success of the family business?

- How do you build pride within the organisation i.e. is it measured against the performance of individuals?
- What support is offered to members when they age or reach retirement age?
- How are unique skills and abilities brought by family members received in the business?
- How does the business deal or handle personal issues or welfare of the members in the business?
- What drives and motivates the individuals/members in the business?

### **Organisational culture in different generations**

- What is the vision of the founder(s)?
  - Is the same vision still upheld in the current generation?
- Does the business demonstrate short term or long term when considering business decisions?
- What were some of the setbacks that the business faced?
  - How were these setbacks dealt with?
- What are tough challenges that the business has faced?
  - How were these challenges addressed?
- How did the business transfer from previous generations?
- What are formal business processes and procedures?
  - What are the changes that have been implemented on the processes over the years?
- What are performance assessment processes of family members in the business?



## APPENDIX C: INITIAL EMERGING THEMES FROM THE STUDY

1	Annual turnover	77	Growing business
2	Benefits	78	Hope
3	Biggest project	79	Informal strategy
4	Business industry	80	Informal structure plan
5	Business location	81	Informal structure
6	Business advantage	82	Insolvent
7	Business aspiration	83	Instinct
8	Business background	84	Investments
9	Business board	85	Investments or retirement plan
10	Business changes	86	Issues the business is facing at the moment
11	Business disadvantage	87	Joint ventures
12	Business experience	88	Key goal
13	Business factor	89	Learning culture
14	Business industry	90	Long term strategy
15	Business introduction	91	Loyal management team
16	Business investments	92	Luck
17	Business involvement	93	Non-family members' participation
18	Business location	94	Non-family skills
19	Business Meetings	95	Not cost conscious
20	Business name	96	Number of contract employees
21	Business objective	97	Number of employees
22	Business policies	98	Other sections of the business
23	Business risks	99	Participant's background on business
24	Business sector	100	Participant's background
25	Business setback	101	Participant's background on business
26	Business strategy planning methods	102	Participant's role in the business
27	Business2 objective	103	Participants business background
28	Capital saved	104	Participants year of involvement in the business
29	Career development	105	Participants years in business
30	Career progression	106	Partnership
31	Challenges	107	Partnerships
32	Close shop	108	Passing the baton
33	Collectivism	109	Paternalistic culture
34	Communication channel	110	Performance process
35	Compensation plan	111	Personal attributes
36	Competition	112	Planning team
37	Compromising strategy	113	Policies

38	Conflict resolution	114	Projects duration
39	Culture	115	Reason of starting the business
40	Current project worth	116	Relationship with employees
41	Customs alignment	117	Reports/Feedback
42	Decision making	118	Respect
43	Delegation of authority	119	Retirement plan
44	Developments	120	Role
45	Diversification of business	121	Self-discipline
46	Due diligence	122	Selling the business
47	Educational level	123	Semi-autonomy
48	Educational levels	124	Share same values
49	Educational levels in the family	125	Social relationships
50	Employee based decision making	126	Son's role on other business2
51	Employee development	127	State of business
52	Employee working strategy	128	strategy
53	Employees strategy	129	Strong brand
54	Employees training	130	Structure
55	Encouragement	131	Success factors
56	External experience	132	Succession plan
57	Faith	133	Survival
58	family benefits	134	Team building
59	Family constitution guide	135	Trust
60	Family council	136	Vision
61	Family disagreements on business	137	Vision for the business
62	Family education levels	138	Welfare for family members
63	Family experience	139	Who established the business
64	Family involvement	140	Who established the business
65	Family issues on the business	141	Wife's role in business
66	Family member's active	142	wife's role or involvement
67	Family takeover plan	143	Wife or mother involvement
68	Family trustees	144	Year of establishment
69	Future orientated	145	Years in business
70	Future plan	146	Wife's role in business
71	Generation of the business	147	wife's role or involvement
72	Generation to generation	148	Wife or mother involvement
73	Goal setting strategy	149	Year of establishment
74	Goals setting strategy		
75	Good mentor		
76	Governance system		



## APPENDIX D: COMMUNICATION WITH FABASA

**Andre Diederichs**

04 June 2016 at 3:16 PM

To: Tduetso Thage

Reply-To: [awdiederichs@mweb.co.za](mailto:awdiederichs@mweb.co.za)

Re: Details of black family owned business in south africa

AD

Good day

Unfortunately we are not allowed to provide any details of members

I wish you well with your studies

Regards,

-----Original Message-----

From: Tduetso Thage

To: [info@fabasa.co.za](mailto:info@fabasa.co.za)

ReplyTo: Tduetso Thage

Subject: Details of black family owned business in south africa

Sent: Jun 4, 2016 15:08

Message:

Good day,

my name is Tduetso Thage and i am currently busy with my MBA at GIBS. as part of the program, we have to complete a business related thesis study. I am specifically looking at the influence of cultural dimensions on decision making and governance structures in black family owned business. i am looking for Black family businesses to interview. i would appreciate if you could supply me with contact details of these families.

Thanks and regards,  
Tduetso Thage  
082 943 8969

Andre

Andre Diederichs & Assoc @ Business Jungle

Email: [awdiederichs@mweb.co.za](mailto:awdiederichs@mweb.co.za).

## APPENDIX E: ETHICAL CLEARANCE

Dear Mrs Tduetso Thage Protocol Number: **Temp2016-01676**

Title: **Understanding the relationship between governance structures and organisational culture in South African family-owned businesses**

Please be advised that your application for Ethical Clearance has been APPROVED. You are therefore allowed to continue collecting your data. We wish you everything of the best for the rest of the project. Kind Regards,

Adele Bekker