VARIABLES AFFECTING FAMILY EMPLOYEE REMUNERATION IN SOUTH AFRICAN FAMILY BUSINESSES.

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By submitting this research report electronically, I, Lesvokli, N. Pitsiladi declare that the entirety of the work contained therein is my own, original work, that I am the owner of the copyright thereof (unless to the extent explicitly stated otherwise) and that I have not submitted it previously in its entirety or in part for obtaining another qualification.

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ABSTRACT

The purpose of this multi-case study research was to determine variables that affect The Perceived Success of Fair Family Employee Compensation in South African family businesses. Five propositions: Human Capital, Outside Advice, Succession Planning, Fairness and Family Harmony were tested and as a result, Human Capital, Fairness and Family Harmony were deduced to have a positive influence, while Outside Advice and Succession Planning had a non-significant influence.

The present research effort begun with an in-depth literature review on family business and the variables: Human Capital, Outside Advice, Succession Planning, Fairness, Family Harmony and Fair Family Employee Compensation, followed by a qualitative explanatory multi-case study research design using embedded units of analysis and provided a valuable insight into compensation issues regarding family businesses in South Africa.

Replication logic was used to generalise the results and it was recommended that the preliminary theory regarding Outside Advice and Succession Planning be revised and tested with another set of cases, while the results indicated that Human Capital, Fairness and Family Harmony could be generalised to the broader theory.

Keywords: Family business, Family employee, Compensation, Remuneration, Human Capital, Outside Advice, Succession Planning, Fairness, Family Harmony

Research Type: Multiple-case study
ACKNOWLEDGEMENTS AND APPRECIATION

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Port Elizabeth
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<td>BEE</td>
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<tr>
<td>B-BBEE</td>
<td>Broad-Based Black Economic Empowerment</td>
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<td>HCFE</td>
<td>Human Capital Earnings Function</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>DIY</td>
<td>Do It Yourself</td>
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<td>FFI</td>
<td>Family Firm Institute</td>
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<td>FMCG</td>
<td>Fast Moving Consumable Goods</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>NMMU</td>
<td>Nelson Mandela Metropolitan University</td>
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<td>MD</td>
<td>Managing director</td>
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<td>Pricewaterhouse Cooper</td>
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CHAPTER 1:  
INTRODUCTION OF THE STUDY

1.1 INTRODUCTION

It has been argued that family businesses are the most widespread form of business across the world (Allio, 2012; Venter and Kruger, 2004; Kim, Kandemir & Cavusgil 2003; Upton & Petty 2000; Heck, Upton, Bellet, Dunn & Parady 1994). The impact of family businesses has been widely recognised as a possible catalyst of worldwide economic growth and wealth creation (Merwe, 2009; Basu, 2004: 13; Morck and Yeung, 2004; Astrachan and Shanker, 2003; Ibrahim, Soufani and Lam, 2001; Birley, Ng and Godfrey, 1999). It was deduced by PwC (2011) that family businesses generated a considerable amount of the global wealth and that such businesses collectively, were responsible for between 70 and 90 percent of global GDP per year. In the United States of America (USA) family businesses made up about 80 percent, of all businesses (Visser, Africa, Chiloane-tsoka, 2014; Family Firm Institute, 2014; Merwe, 2007; Bareither & Reischl, 2003; Ward & Aronoff, 2002), while in Europe, family businesses represented between 60 and 70 percent of all small and medium firms (Visser et al., 2014; Maas and Diederichs, 2007). Some of the world’s largest firms namely, Samsung, Carrefour, Wal-Mart and Ford, originated as family businesses (Allio, 2012).

It has been estimated that family businesses were also the main form of business in South Africa that made up approximately 80 percent of all businesses and 60 percent of the firms listed on the Johannesburg Stock Exchange (JSE) (Visser et al., 2014; Merwe, 2009; Maas and Diederichs, 2007; Venter and Kruger, 2004; Ackerman, 2001). The fast growth in family businesses in South Africa may be ascribed to the rationalisation processes that had taken place in large firms, as well as the increasing incapability of the informal sector to create jobs (Visser et al., 2014; Merwe, Venter and Ellis, 2009).

It was quoted by PwC (2014) that “family businesses generally fail for family reasons”. The Family Firm Institute (FFI) in the USA had stipulated that approximately 30 percent, of family businesses lasted to the second generation of family members, while
about 12 percent made it to the third generation (Visser et al., 2014; Byrd and Megginson, 2013; PwC, 2011; Merwe, 2007; Venter and Kruger 2004; Ward, 1987). Lansberg (1999) had stipulated that the absence of the prolonged existence of family businesses as a major concern (Merwe, 2007). Nicholson (2003) and Visser et al., (2014) had identified a number of areas of alarm for family businesses, one being family conflict, while another problem noted by Nordqvist and Melin (2010) was the sustainability of the family. Astrachan & MacMillan (2003) and Merwe (2007) claimed that conflict played a significant role in the demise of many family businesses. Merwe (2007) on the other hand had listed a number of important factors relating to sustainability of family businesses of which family harmony and compensation of family members were mentioned. In 1999, the Family Business Magazine conducted a survey where the respondents had rated family employee compensation, second to succession, as a key concern (Merwe, 2009; Hoover & Hoover, 2001).

It is assumed that over the generations family businesses unavoidably face growing family complexity (Lambrecht & Lievens, 2008). Family complexity is defined “by the number of family members and the kind of relationships established among them, the number of generations alive at a given point in time, and so on” (Gimeno, Sandig, Labadie, Saris & Mayordomo, 2006; Lambrecht & Lievens, 2008). The increasing family complexity can have consequences for the family and the business (Lambrecht & Lievens, 2008). The consequences for the family are that the family’s diverse goals for the firm can cause high agency costs of conflict (Lambrecht & Lievens, 2008). The increase in successors and the growth of the size of the family may lay the foundation for conflict (PwC, 2014). When the decision-making is divided among the different family members, who have different views, makes it tougher to resolve issues and make decisions, which ultimately can result in conflict (PwC, 2014). The institutional overlap between family and the business produces conflicts, which cause contradictions between the family and the business and results in human resource problems, one of which is compensation (Lansberg, 1983). Allio (2012) noted that in general, the family business’s inequitable compensation and reward system had been a significant shortcoming for family businesses.

According to a number of family business researchers, there was no greater foundation of family business problems than a family business compensation strategy
(PwC, 2013; Lane, & Pfiffner, 2008: 32; Merwe, 2007; Dashew & Heisler, 1996). Gray (2006) had deduced that compensation in family businesses was one of the most divisive issues such businesses faced and that the discussion of compensation was complicated by years of the family member’s personal history. Problems emerge if family members are not compensated based on merit (Merwe, Venter & Farrington, 2012; Loeb, 2001; Jaffe, 1991). Lansberg (1983) quoted, “a fair day’s work for a fair day’s pay” in reference to compensation, meaning that in the working world, employees should be given fair compensation based on merit. The market value of a job is what is usually paid to someone in any firm with the right competencies and that all employees, whether normal or family employees, should be paid the competitive market value compensation for the job at hand (Salaries Family Firms, 2006; Barrett, 2000).

Family employee compensation has an increasing importance when moving from generation to generation and becomes ever more complex as the business grows (Merwe, 2009). It was deduced by Barrett (2000) that while compensation was an issue for all businesses and not just family businesses, when family members became employees, complications were added. According to Lane, & Pfiffner (2008), in their study, family business compensation had become a test for fairness in the family business. Gray (2006) claimed that it was also difficult to determine what was fair for everyone because it becomes complicated by the fact that people have different skill levels, personal goals and work preferences. Although in most families, the right thing to do is to treat the children equally in the firm, it becomes a difficult task to do because of the different talents, strengths, ambitions and life stages of the children (Merwe et al., 2012; Rivers, 2005). Establishing a compensation system amongst family employees is regarded as a significant concern when trying to achieve fairness in the family business (Merwe et al., 2012; Aronoff & Ward, 1993; Spector, 2001). If a compensation strategy is not consistent, fair and open, bitterness and conflict have a tendency to occur (Merwe, 2007; Buchholz et al., 2000).

Merwe et al., (2012) stipulated that family members would perceive fairness to exist in the family business when compensation is perceived to be fair and that such perceived fairness would bring about family harmony and family business continuity. The relationship between family harmony and family businesses continuity, determined by
Farrington (2009) and Malone (1989), showed that the more family harmony that occurs, the greater chance that there will be family business continuity (Merwe et al., 2012). The question arises whether family businesses are in fact compensating family employees fairly.

Research on family businesses in South Africa has grown during the past decade (Farrington, Venter & Sharp, 2014; Merwe et al., 2012; Farrington, 2009; Merwe, 2009; Merwe, 2007; Merwe & Ellis, 2007; Venter & Boshoff, 2006; Adendorff, Boshoff, Court & Radloff, 2005; Venter, 2003a; Venter, 2003b; Venter, Boshoff & Maas, 2003; Merwe 1998; among others), but more scientific-based research was needed to understand the different challenges facing the family business in South Africa. According to Merwe (2008), little evidence was available of empirical-based research on family employee compensation in South Africa.

To summarise, given the significance of family businesses in South Africa and around the world, as well as the effect that compensation policy can have on family business continuity, the lack of empirical evidence of factors affecting fair family employee compensation shows a vital gap in the family business research. The research effort will attempt to address the limitation by determining the factors that influence fair family employee compensation in South African family businesses. The research could assist family businesses operating in South Africa in setting compensation policy. On the other hand, the research could be guidance for family employees in deciding on a career path of whether to join the family business or to perhaps branch off on a different path outside the business. Either way, having reduced conflict regarding compensation in family businesses can change the focus from damaging family politics to more important matters such as profit maximisation and in turn, contribute to the South African economy.
1.2 CONCEPTUAL RESEARCH FRAMEWORK

The theoretical rationale for this study is graphically depicted in Figure 1.1.

The framework depicted in Figure 1.1, describes the proposed factors influencing Fair Family Employee Compensation in South African family businesses. When a family member is employed by the family business, it is proposed that the family employees’ human capital endowments, the professional advice of outsiders and a formal
succession plan contribute to determination of the family employees’ compensation. Compensation and whether family harmony is present, add to the determination of perceived fairness in the business, ultimately leading to fair compensation. The contribution to the determination of perceived fairness is because of distributive justice (see: Chapter Two, section 2.8.4.4), while in harmonious family relationships (see: Chapter Two, section 2.8.5), family members would want all family employees to be compensated in a way that is in the family employees’ best interest and well-being (see: Chapter Five, section 5.5.1.5). The focus was on family businesses located in South Africa, where a case study investigation was conducted into eight family businesses. The variables Human Capital, Outside Advice, Succession Planning, Fairness, and Family Harmony were investigated in each case study, to observe the influence each variable had on Fair Family Employee Compensation.

1.3 PROBLEM STATEMENT

Family businesses are the most widespread form of business in the world (Allio, 2012; Venter and Kruger, 2004; Kim, Kandemir & Cavusgil 2003; Upton & Petty 2000; Heck, Upton, Bellet, Dunn & Parady 1994), yet only approximately 30 and 12 percent make it to the second and third generation respectively (Visser et al., 2014; Byrd and Megginson, 2013; PwC, 2011; Merwe, 2007; Venter and Kruger 2004; Ward, 1987). Nicholson (2003) and Visser et al. (2014) had identified a number of areas of alarm for family businesses, one being family conflict. Conflict contributes to the downfall of many family businesses (Merwe, 2007; Astrachan and MacMillan, 2003), while compensation in family owned businesses had been argued to be a catalyst for conflict (PwC, 2013; Lane, & Pfiffner, 2008; Merwe, 2007; Dashew & Heisler, 1996).

The question arises as to why does compensation cause conflict? It is argued that family complexity grows when more family members join the family business (Lambrecht and Lievens, 2008; Miller & Le Breton-Miller, 2006). The increasing amount of family members joining the family business may be responsible for conflict (PWC, 2014). A sensitive subject such as compensation was identified as one of the reasons why conflict occurred (Gray, 2006) and if the compensation received by a family employee was not deemed as fair, it could be argued to be the very reason to trigger family conflict (Merwe, 2007; Buchholz et al., 2000).
As an example, suppose there are four siblings of equal shareholding, who all have two kids each of different ages. The four siblings were content with receiving equal compensation, however, some of the children decided to study to get degrees, others joined the family business at a young age to get work experience and the rest decided not to study or join the family business until very late. All the children in legal terms have equal rights in every respect because of the parent’s equal shareholding, yet is it fair to pay all the children the same when there are those who have different years of work experience, educational qualifications, passion and performance? The compensation method that was meant to be used to compensate all employees, whether normal or family is by means of the market value which rewards the competencies of the employees (Salaries Family Firms, 2006; Barrett, 2000). Can that be argued to be the case in South African family businesses? Do South African family businesses pay family members fairly? Against this background, the primary research problem to be investigated in this study is:

To determine variables that affect the perceived Success of Fair Family Employee Compensation in South African businesses.

In order to address the research problem, the following objectives will be pursued:

1. To investigate the criteria for a business to be categorised as a family business, in South Africa, derived from the literature.
2. To investigate the family, business and ownership dynamics of family businesses by referring to the literature.
3. To investigate all aspects of compensation including Fair Family Employee Compensation by referring to the literature.
4. To investigate the independent variables: Human Capital, Outside Advice, Succession Planning, Fairness and Family Harmony that are proposed to have a relationship with Fair Family Employee Compensation from the literature.
5. To construct a proposed theoretical model that will describe the relationships between the chosen variables that are proposed to impact Fair Family Employee Compensation.
6. To investigate and test the proposed theoretical model, by conducting interviews with family managers from various South African family businesses and using
pattern matching to link the primary data gathered, with the literature, for validity of the proposed model.

7. To discuss the results and interpretations of the research and to make suitable recommendations based on the results.

The dependent variable in the theoretical model that forms the basis of the treatise will be The Perceived Success of Fair Family Employee Compensation. The outcome of the treatise can assist family businesses in resolving conflict regarding family employee compensation, therefore insuring the family business continuity, growth and profitability.

1.3.1 Primary Research Question

Approximately 30 percent, of family businesses last to the second generation of family members, while about 12 percent make it to the third generation (Visser et al., 2014; Byrd and Megginson, 2013; PwC, 2011; Merwe, 2007; Venter and Kruger 2004; Ward, 1987). Family businesses fail for family reasons (PWC, 2014). Establishing a compensation system amongst family employees is regarded as a significant concern when trying to achieve fairness in the family business (Merwe et al., 2012; Aronoff & Ward, 1993; Spector, 2001). A sensitive subject such as compensation is one of the reasons why conflict occurred (Gray, 2006) and if the compensation received by a family employee was not deemed as fair, it could trigger family conflict (Merwe, 2007; Buchholz et al., 2000).

Therefore the main research question addressed was:

**What effects do the factors Human Capital, Outside Advice, Succession Planning, Fairness and Family Harmony have on The Perceived Success of Fair Family Employee Compensation in South African family businesses?**

1.3.2 Secondary Research Questions

The primary research problem was supported further by the secondary research questions presented below in Table 1.1.
<table>
<thead>
<tr>
<th>RQ1</th>
<th>Do the family members have the qualifications (education) that enables them to contribute to the effective functioning of the family business?</th>
</tr>
</thead>
<tbody>
<tr>
<td>RQ2</td>
<td>Do the family members have the appropriate business experience that enables them to contribute to the functioning of the family business?</td>
</tr>
<tr>
<td>RQ3</td>
<td>Are the family members competent in performing their tasks in the family business?</td>
</tr>
<tr>
<td>RQ4</td>
<td>Are there outside consultants advising the family business?</td>
</tr>
<tr>
<td>RQ5</td>
<td>When needed, does the family business draw on the expertise of professional outside advisors, to resolve conflict regarding family member compensation?</td>
</tr>
<tr>
<td>RQ6</td>
<td>When needed, does the family business draw on outside expertise to assist with determining what family employee compensation should entail and be?</td>
</tr>
<tr>
<td>RQ7</td>
<td>Has the person who will take over the family business when the current owner/manager retires already been identified?</td>
</tr>
<tr>
<td>RQ8</td>
<td>Is the person who will take over the family business when the current owner/manager retires being prepared for their role?</td>
</tr>
<tr>
<td>RQ9</td>
<td>Is there a proper succession plan in place for the family business which includes what the successor’s compensation will be?</td>
</tr>
<tr>
<td>RQ10</td>
<td>Will replacing the current owner/manager with a successor be done in good time?</td>
</tr>
<tr>
<td>RQ11</td>
<td>Has the identity of the successor to the current owner/manager been communicated to all concerned?</td>
</tr>
<tr>
<td>RQ12</td>
<td>Overall, are family members treated fairly by the family business?</td>
</tr>
<tr>
<td>RQ13</td>
<td>Is it fair how resources (e.g., salary, bonuses, etc.) are allocated amongst employees in the family business?</td>
</tr>
<tr>
<td>RQ14</td>
<td>Overall, is the salary the family members receive in the family business fair?</td>
</tr>
<tr>
<td>RQ15</td>
<td>Are the rules equally fair to everyone in the family business?</td>
</tr>
<tr>
<td>RQ16</td>
<td>Are the procedures followed, equally fair to everyone in the family business?</td>
</tr>
<tr>
<td>RQ17</td>
<td>Do the family members care about each other’s well-being?</td>
</tr>
<tr>
<td>RQ18</td>
<td>Do the family members respect each other?</td>
</tr>
<tr>
<td>RQ19</td>
<td>Do the family members support each other?</td>
</tr>
<tr>
<td>RQ20</td>
<td>Do the family members trust each other?</td>
</tr>
<tr>
<td>RQ21</td>
<td>Do the family members understand each other’s views?</td>
</tr>
<tr>
<td>RQ22</td>
<td>Do the family members listen to each other’s opinions?</td>
</tr>
<tr>
<td>RQ23</td>
<td>Are family members compensated according to their contribution to the business?</td>
</tr>
<tr>
<td>RQ24</td>
<td>Is there a direct link between work performance and compensation?</td>
</tr>
<tr>
<td>RQ25</td>
<td>Is there a direct link between the amount of responsibility and compensation in the family business?</td>
</tr>
<tr>
<td>RQ26</td>
<td>Are family members in the family business compensated at levels consistent with the standards of the industry?</td>
</tr>
<tr>
<td>RQ27</td>
<td>Is the compensation of individual family members reasonable compared to the salaries of other family members?</td>
</tr>
<tr>
<td>------</td>
<td>------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>RQ28</td>
<td>Given their compensation, does each family member hired by the family business do their fair share of the work in the family business?</td>
</tr>
<tr>
<td>RQ29</td>
<td>In the family business is each family member hired by the family business compensated fairly for the work that they do?</td>
</tr>
<tr>
<td>RQ30</td>
<td>In the family business are rewards for family employees based on merit?</td>
</tr>
<tr>
<td>RQ31</td>
<td>Are family members compensated without reference to age or gender?</td>
</tr>
<tr>
<td>RQ32</td>
<td>Are family members paid a competitive market-related salary/wage for their efforts in the family business?</td>
</tr>
</tbody>
</table>

*Source: (Researcher’s Own Construction, 2015)*

The research questions in Table 1.1 represent the items of the measuring instruments that were used for the purpose of measuring Human Capital, Outside Advice, Succession Planning, Fairness, Family Harmony and The Perceived Success of Fair Family Employee Compensation. Chapter Two will depict how the instruments were derived from existing instruments and the literature, in order to construct the respective instruments used to measure the factors in the present research effort.

### 1.4 PROPOSITIONS

To address the objectives of the present research effort, the following research propositions on Table 1.2 will be tested by applying the theory to various case studies.

**Table 1.2: Propositions**

<table>
<thead>
<tr>
<th>P1</th>
<th>It is proposed that there is a positive relationship between Human Capital and The Perceived Success of Fair Family Employees Compensation in South African Businesses.</th>
</tr>
</thead>
<tbody>
<tr>
<td>P2</td>
<td>It is proposed that there is a positive relationship between Outside Advice and The Perceived Success of Fair Family Employees Compensation in South African Businesses.</td>
</tr>
<tr>
<td>P3</td>
<td>It is proposed that there is a positive relationship between Succession Planning and The Perceived Success of Fair Family Employees Compensation in South African Businesses.</td>
</tr>
<tr>
<td>P4</td>
<td>It is proposed that there is a positive relationship between Fairness and The Perceived Success of Fair Family Employees Compensation in South African Businesses.</td>
</tr>
</tbody>
</table>
It is proposed that there is a positive relationship between **Family Harmony** and **The Perceived Success of Fair Family Employees Compensation** in South Africa.

*Source: (Researcher's Own Construction, 2015)*

The propositions described in Table 1.2 are depicted in graphical format in Figure 1.2.

![Diagram showing the relationship between Family Harmony and The Perceived Success of Fair Family Employees Compensation](image)

*Figure 1.2: Research propositions influencing perceived success*

*Source: Researcher’s Own Construction, 2015.*

The proposed theoretical model will be tested by conducting interviews with family managers from various family businesses around South Africa.
1.5 RESEARCH DESIGN AND METHODOLOGY

The objectives of the treatise will be addressed by means of consulting primary and secondary sources. The research design and methodology will be discussed in Chapter Three more thoroughly.

1.5.1 Research Paradigm

The present research effort adopted the Intrepretivist paradigm because the intention of the research is to investigate processes, the context, interpretation, meaning or understanding through inductive reasoning (Yilmaz, 2013). The aim is to describe and understand the phenomena studied by capturing and communicating participants’ experiences in their own words via observation and interview and what is emphasised is the examination of the context that influences people’s actions or interactions and the meaning that people ascribe to their experiences (Yilmaz, 2013).

1.5.2 Secondary Sources

In South Africa, there has been little research conducted regarding whether family employees received fair compensation. Literature was investigated to critically analyse the independent variables and the dependent variable of the theoretical model proposed in Figure 1.2. Secondary sources were consulted relating to disciplines such as Entrepreneurship, Business Management, Family Business Management, Human Resource Management, Organisational Behaviour and Economics. The Nelson Mandela Metropolitan University (NMMU) Business school library has given full access to international online journal and research databases such as EBSCOhost, Emerald, Sabinet Online and SAGE which were consulted. Google and Google Scholar on the internet, books, periodicals and newspaper articles were also utilised. In 2015, the researcher subscribed to the online Family Firm Institute (FFI), where the journal articles relating to family business was accessed on the institution’s online database.
1.5.3 Primary Sources

A semi-structured interview in English was developed, where the interview questions were derived from existing measuring instruments and from the in-depth consultation of literature from secondary sources. The interview was first tested with a non-family employee from the business, where the researcher was employed in South Africa, to make certain that the interview questions were easy to understand, to avoid any problems. The measuring instruments used to derive the interview questions, in order to measure the dependent variable and independent variables will be depicted in Chapter Two. The development of the proposed model, Figure 1.2, was based on discussions with the researcher's treatise supervisor, who has a familiar academic background on family businesses.

1.5.4 Sampling Design

The sample design consists of respondents, who are family managers employed by family businesses in South Africa. A total of eight family businesses were interviewed, all with one embedded unit which was the family manager.

1.5.5 Method of Data Collection

Semi-structured interviews were used to collect data for the research from eight family businesses located in South Africa. The interviews were undertaken between October 2015 and November 2015 and were captured with a voice recording device.

Interviews are guided conversations that are usually one of the most important sources of case study evidence (Baškarada; 2014; Yin, 2009). Interviews can be structured, semi-structured, or unstructured (Baškarada; 2014). Semi-structured interviews, or focused interviews (Baškarada; 2014; Dane, 2010), which was the method of data collection in the present research effort, can be more flexible than structured interviews and allow the researcher to better understand the perspective of the interviewees (Baškarada; 2014; Daymon & Holloway, 2002). In semi-structured interviews, a researcher is able to refocus the questions, or prompt for more information, if something interesting or novel emerges (Baškarada; 2014).
1.5.6 Measuring Instruments

The interview questions were derived from the items of the measuring instruments constructed or modified for the purpose of the present study. Table 1.3 shows how each instrument was derived from existing instruments and literature. In the interviews, respondents were asked to agree or disagree with the items and were given the opportunity to elaborate. By agreement to more than half of the items of the instrument construct signalled a significant positive presence of the variable in the case study. If half or less of the items were agreed to, then there was a non-significant presence of the variable in the case study.

Table 1.3: Deriving the Measuring Instruments

<table>
<thead>
<tr>
<th>Variable</th>
<th>Derived from</th>
<th>Cronbach-Alpha of Existing Instruments</th>
<th>Literature</th>
<th>Items Used</th>
<th>Measuring Instrument Construct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>Competence (3 items) (Eyber, 2010)</td>
<td>0.706</td>
<td>N/A</td>
<td>3 (all modified)</td>
<td>Human Capital (HC, 3 items)</td>
</tr>
<tr>
<td>Outside Advice</td>
<td>Outside Advice (5 items) (Adendorff, 2011; Neubauer and Lank, 1998; Sharma, 1997 and Upton et al., 2001)</td>
<td>0.823</td>
<td>N/A</td>
<td>3 (two modified)</td>
<td>Outside Advice (OA, 3 items)</td>
</tr>
<tr>
<td>Succession Planning</td>
<td>Management Succession Planning (7 items) (Adendorff, 2011; Neubauer and Lank, 1998; Sharma, 1997 and Lansberg &amp; Astrachan, 1994)</td>
<td>0.881</td>
<td>N/A</td>
<td>5 items (one modified)</td>
<td>Succession Planning (SP, 5 items)</td>
</tr>
<tr>
<td>---------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------</td>
<td>------</td>
<td>-----------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Fairness</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td>1 item (Ambrose &amp; Schminke, 2009; Colquitt &amp; Rodell, 2015) and 4 items (Blader and Tyler, 2003 and Colquitt &amp; Rodell, 2015)</td>
<td>5 items (all modified)</td>
</tr>
<tr>
<td>Family Harmony</td>
<td>Harmonious Family Relationships (8 items) (Ellis, 2007)</td>
<td>0.93</td>
<td>N/A</td>
<td>6 items</td>
<td>Family Harmony (FH, 6 items)</td>
</tr>
<tr>
<td>Fair Family Employee Compensation</td>
<td>Fairness (3 items) (Farrington, 2009)</td>
<td>0.745</td>
<td>N/A</td>
<td>3 items (all modified)</td>
<td>Fair Family Employee Compensation (FCOM, 10 items)</td>
</tr>
<tr>
<td></td>
<td>Family Employee Compensation</td>
<td>0.905</td>
<td>N/A</td>
<td>6 items (one modified)</td>
<td></td>
</tr>
</tbody>
</table>

15
1.5.7 Data Analysis

Qualitative research aims towards analytical generalisation, as opposed to statistical generalisation usually aimed at in quantitative studies (Baškarada; 2014). Analytical generalisation involves the extraction of abstract concepts from each unit of analysis (Baškarada; 2014; Yin, 2013). Analytical generalisation is made to theory and not to population; the theory can be further strengthened by performing cross-case comparisons (Baškarada; 2014; Yin, 1981, 2009). Regarding case studies, data analysis consists of examining, categorising, tabulating, testing, or otherwise recombining evidence to draw empirically based conclusions (Baškarada; 2014; Yin, 2009).

Pattern matching was used as a method of data analysis in the treatise. Pattern matching is one of the most desirable techniques as it involves the comparison of predicted patterns and/or effects with the ones that have been empirically observed and the identification of any variances or gaps (Baškarada; 2014; GAO, 1990). Pattern
matching may be used to enhance the internal validity, whereby, involving qualitative but logical deduction (Baškarada; 2014; Lee, 1989), an empirically based pattern is logically compared against a predicted pattern (Baškarada; 2014; Yin, 2009). The pattern matching necessary condition proposition test for independent variable design was applied to the present research (See: Chapter Four).

External validation, in terms of the limited generalisability of the findings can be established through the replication logic of the multiple - case study design (Creswell, 1994; Shakir, 2002; Yin, 1994). In a direct replication (also known as literal replication), the single cases would be predicted to arrive at similar results (Yin, 2012). In a theoretical replication, each single case’s ultimate disposition also would have been predicted beforehand, but each case might have been predicted to produce a varying or even contrasting result, based on the preconceived propositions (Yin, 2012). If multiple - cases lead to contradictory results, the preliminary theory should be revised and tested with another set of cases (Baškarada, 2014; Yin, 2009).

The interview questions were derived from measuring instruments (See: section 1.5.6) whereby the data was analysed, for correlations between the primary data and the literature were captured. Definitions of the different variables were provided during the interviews for respondent’s own understanding. The interview questions were structured in such a way that the respondents had to either agree, disagree with or have no comment regarding the statements and were given the opportunity to elaborate on their choice of answer. The opinion of topic experts was pursued to determine whether the experts agreed with the conclusions and results of the study, reached or not.

1.6 CONTRIBUTION OF THE STUDY

The reason behind conducting this investigation into fair compensation is that it will hopefully provide a compensation framework for other family businesses and family employees in South Africa, as well as help family members decide on career paths inside and outside the family business. This will possibly assist in bringing about a reduction in conflict within the family, diverting attention from time and resource wasting family politics to more important issues that determine family business
continuity. The investigation will reveal variables that influence Fair Family Employee Compensation. Other family businesses in South Africa would be able to use these results to benchmark their own family employee compensation policies. The treatise intended to add to the national and international body of knowledge regarding family business.

1.7 SCOPE OF THE STUDY

The researcher identified variables that are proposed to influence the fair compensation of family employees in South Africa, which is to be investigated by applying the theory and literature to various case studies in South Africa. There are a number of reasons why family businesses fail, one reason being conflict within the business (Merwe, 2007; Astrachan and MacMillan, 2003). The focus was on fair compensation because compensation was one reason that can result in the conflict (Gray, 2006).

1.8 DEFINITIONS OF CONCEPTS

1.8.1 The family

A definition of family is provided in Chapter Two, section 2.2. For the purpose of the present study, a family consists of the nuclear family, which is the mother, father, brothers, sisters, sons and daughters and the extended family, such as the great grandmother, great grandfather, grandmother, grandfather, aunts, uncles and cousins. The family also includes spouses and in-laws.

1.8.2 Family members

For purpose of the present study, a family member is any person who is categorised as being part of the family. Family members can be the mother, father, brother, sister, son, daughter, the great grandmother, great grandfather, grandmother, grandfather, aunt, uncle, cousin, spouse and in-law. Family members can include employees, management and owners (Alderson, 2015). Some family members may have all three roles; some may only have one role (Alderson, 2015). In The Three-Circle Model (see:
Chapter Two, section 2.3), family members (a subsection) fall within the family subsystem and do not necessarily have ownership, or are not necessarily employed by the family business (Davis, 2007; Farrington, 2009; Tagiuri & Davis, 1982).

1.8.3 The family business

The family business is a business where the majority of votes are held by the person who established or acquired the business (or their spouses, parents, child, or child's direct heirs); at least one representative of the family is involved in the management or administration of the business and in the case of a listed company, the person/s who established or acquired the business (or their families) possesses twenty five percent of the right to vote through their share capital, and there is at least one family member on the board of the company (PwC, 2014). Family businesses are also known as family firms, family-owned firms, family-owned businesses and family enterprises. South African family businesses are family businesses owned by South African nationals, within the boarders of the Republic of South Africa.

1.8.4 Family employees

A family employee refers to a family member who is permanently employed by the family business (Merwe, 2009). In The Three-Circle Model (see: Chapter Two, section 2.3), family employees (a subsection) fall within the intersection of the family and business subsystems (Davis, 2007; Farrington, 2009; Tagiuri & Davis, 1982). Family employees are employed by the firm but do not necessarily have ownership (Davis, 2007; Farrington, 2009; Tagiuri & Davis, 1982). Family employees can be in any position in the firm, including management (family managers) and executive level. The focus of the present research effort is about proposed factors that influence Fair Family Employee Compensation. To see the other subsections of The Three-Circle Model see Chapter Two, Table 2.1.

1.8.5 The founder, owners and incumbents

Founders in the context of family firms are entrepreneurs, having perceived an opportunity through the creation of a new firm (Aldrich and Cliff, 2003; Kraus et al.,
An “owner” refers to a “family” that can include several individuals depending on the number of family members holding shares in the same firm (Bjuggren et al., 2011). The incumbent is the person who holds the top management position in a family business and who must relinquish that position before another family member can take over (De Massis et al., 2008).

In The Three-Circle Model (see: Chapter Two, section 2.3), the founder can be categorised as family owners or family owner employees where the three subsystems of family, business and ownership intersect (Davis, 2007; Farrington, 2009; Tagiuri & Davis, 1982). For the purpose of the present research effort, the founder is the family member who started the family business, an owner is a family member who has shares but is not employed by the family business and an incumbent is a family member who is the predecessor of the successor. The founder has ownership of the business, with a shareholding of usually more than fifty percent and is not necessarily employed by the family business.

1.8.6 The successor

The successor, also known as a direct heir, is any family member who could assume managerial control of a family business when the incumbent steps down (De Massis et al., 2008). For the purpose of the present research effort, a successor is a family member or family employee who has been identified and is been prepared, trained and coached to assume the new role.

1.8.7 Compensation

Compensation is the financial and non-financial extrinsic rewards provided by an employer for the time, skills, and effort made available by the employee in fulfilling job requirements aimed at achieving institutional objectives (Van der Westhuizen & Wessels, 2011). Compensation will include salaries, fees, bonuses, wages, gratuity, pension, leave encashment, emolument, voluntary award, commission, annuity, stipend, overtime, superannuation allowance, retirement allowance, lump sum benefit payment, director's remuneration, etc (SARS, 2013). Another term for compensation is remuneration (Van der Westhuizen & Wessels, 2011).
1.8.8 Fair Family Employee Compensation

Fair Family Employee Compensation is the dependent variable in the present study and is family employee compensation that is derived from the family employees’ contribution, linked to work performance, linked to the amount of responsibility, is consistent with the standards of the industry, is reasonable when compared to the salaries of other family employees, not based on gender or age (Merwe, 2009), based on the fair share of work of the family employee and merit, is fair, (Farrington, 2009) and is competitive market-related (Aronoff et al., 1997: 43; Barrett, 2001: 19; Baskin, 2015; Farrington et al., 2014; Lansberg, 2001; Merwe et al., 2012 and Merwe, 2009).

1.8.9 Human Capital

Human Capital is one of the independent variables proposed to influence the dependent variable. Human capital is the knowledge and skills held by individuals obtained through their education, training and experience (Unger, Rauch, Frese and Rosenbusch, 2011).

1.8.10 Outside Advice

Outside advice is one of the independent variables proposed to influence the dependent variable. An external business advisor is an individual or company that is not directly involved in the operations or ownership of a business and provides knowledge, advice and/or support for issues relating to a business (Nicholson, Shepherd, & Woods, 2009). For the purpose of the present research effort, Outside Advice refers to an external individual or company that provides advice on family employee compensation issues.

1.8.11 Succession Planning

Succession Planning is one of the independent variables proposed to influence the dependent variable. Succession Planning is a structured process involving the identification and preparation of a potential successor to assume a new role (Barnett
& Davis, 2008; Garman & Glawe, 2004). For the purpose of the present research effort, compensation determination is included in the succession planning process.

1.8.12 Fairness

Fairness was defined as “expectations shaped by comparing what occurs (or is expected to occur) against reciprocity norm” (Kidwell, Kellermanns, & Eddleston, 2012; McLean Parks, 1997). Fairness is one of the independent variables proposed to influence the dependent variable. In the present research effort, Fairness means the perception of how a firm rewards employees, how a firm treats employees and how the firm’s procedures followed and rules apply to all the employees.

1.8.13 Family Harmony

Family Harmony is one of the independent variables proposed to influence the dependent variable. Family Harmony is harmonious family relationships, where there is a high level of trust, mutual support, mutual respect, caring about each other's well-being, closeness of family members and a willingness to acknowledge others' achievements (Ellis, 2007; Handler, 1989; Neubauer and Lank, 1998; Seymore, 1993).

1.9 STRUCTURE OF THE TREATISE

Chapter One provides an introduction to the problem at hand which is the issue family employee compensation in family businesses, the problem statement, theoretical rationale, theoretical model and propositions and research methodology.

Chapter Two starts off by discussing the definition of family and family businesses, the importance of family business both on a national and international scale. Differences between family and non-family businesses are touched on. Strengths, limitations of family businesses and current issues faced are then discussed. The institutional overlap of family, ownership and business and the conflicts that result from it are discussed. A literature review is provided on compensation and Fair Family Employee Compensation, the dependent variable in conjunction with the independent variables Human Capital, Outside Advice, Succession Planning, Fairness and Family...
Harmony, where past literature will assist with proposing the perceived relationship between the variables of the theoretical model.

**Chapter Three** is about the research design and methodology used for the investigation. Here the reader will be able to see the details on the multiple-case study approach, interviews, measuring instruments, pattern matching and replication logic.

**Chapter Four** is the results and interpretation chapter. Data from the semi-structured interviews will be analysed with the use of pattern matching and the interpretation of the results will help answer the questions from the problem statement. Pattern matching will determine the presence of the variable of focus in each case study. Replication logic will be used to generalise the results to the broader theory. In other words, the results will determine whether the propositions to be positive or non-significant.

**Chapter Five** ends off the present research effort with the conclusion to the topic and recommendations for further study. Limitations of the study will also be discussed.
CHAPTER 2
LITERATURE REVIEW

2.1 INTRODUCTION

The last decade have seen an increasing interest in family business research (e.g., Anderson & Reeb, 2003; Bird, Welsch, Astrachan, & Pistrui, 2002; Bjuggren, Johansson & Sjogren, 2011; Casillas & Acedo, 2007; Claessens, Djankov, & Lang, 2000; Colli, 2003; Dyer & Sánchez, 1998; Hoffman, Hoelscher, & Sorenson, 2006; Miller & Le Breton-Miller, 2005; Poutziouris, Smyrnios & Klein, 2006; Rose, 1995; Sharma, 2004; Sjögren, 2006; Zahra & Sharma, 2004).

The focus of the present research effort is on the fair compensation of family employees in family-owned and managed businesses. Compensation is an issue in any business (Merwe, 2009; Spector, 2001) and it is no different in family-owned businesses where emotions are amplified and the stakes are high (Merwe 2009). Compensation is at the heart of more family business concerns than any other topic except succession (Walsh, 2011). In a survey conducted by the Family Business Magazine (Autumn, 1999) respondents rated family employee compensation second only to succession as a key concern as they looked back over the past ten years and ahead to the next ten years (Hoover & Hoover, 2001; Merwe 2009) and the South African family business survey conducted by Pricewaterhouse Cooper (PwC, 2013), reported that, while handling conflict, dealing with the remuneration of family members can be “extremely divisive.” Walsh (2011) stressed that compensation should be made a top priority item for family business meetings.

It is important to research what would be regarded as fair compensation for family employees and the variables affecting the variance of such compensation. In the present research effort, the Fair Compensation of family employees is the dependent variable and Family Harmony, succession planning, fairness, outside advice and individual human capital are the independent variables. The chapter begins with the overall understanding of family-owned and managed businesses before analysing the dependent and independent variables.
Firstly, family-owned and managed businesses are defined and the unique characteristics are highlighted. A discussion on the nature and importance of family-owned and managed businesses will then follow. Finally, a critical analysis of all the variables will be discussed, where relationships between the dependent and independent variables and case study propositions will be proposed according to the literature.

2.2 DEFINING THE FAMILY-OWNED AND MANAGED BUSINESS

According to Carrasco-Hernandez & Sánchez-Marín (2007), there are three types of firms:

- Family-owned and managed: with ownership and management highly concentrated within the family, which wishes to remain firmly associated with the business in the future.
- Professionally managed family-owned: where management is in the hands of non-family professionals.
- Non-family: widespread ownership and managed by non-owners.

For the purpose of the present research effort, the focus will be on family-owned and managed businesses but first the family itself needs to be defined. The definition of “family” depends on the cultural background of the researcher and the purpose of the research (Pieper & Klein, 2007; Rothausen, 1999). The term ‘family’, narrowly defined, consists of the nuclear family (mother, father and possibly children) (Kraus, Harms & Fink, 2011; Pieper & Klein, 2007). In a broader definition, ‘family’ can also signify the extended family, which consists of a group of people that are related to the family e.g., by marriage and often consists of multiple generations (Kertzer, 1991; Kraus et al., 2011; Pieper & Klein, 2007; Stewart, 2003). Extending the biological definition of family, ‘non-biological families’ (Carsrud, 2006; Kraus et al., 2011) or ‘quasi-family’ (Karra et al., 2006; Kraus et al., 2011) consist of a group of people with a shared history, experience, emotional bonding and sets of common future goals (Kraus et al., 2011). Family members can include employees, management and owners and some
family members may have all three roles, some may only have one role (Alderson, 2015).

Astrachan & Shanker (2003) and Bjuggren et al. (2011) defined the family-owned businesses in three definitions:

- Broad definition: Requires some family participation and family control over the strategic direction of the business.
- Middle definition: Requires that the founder or descendants run the company and intend to keep it in the family.
- Narrowest definition: Requires more than one member of the owner’s family to have management responsibility and that multiple generations of the family are involved in the business.

According to Bjuggren et al., (2011), the European Commission (2009) recognises the following definition of family business: A firm, of any size, is a family business, if:

- The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children’s direct heirs.
- The majority of decision-making rights are indirect or direct.
- At least one representative of the family or kin is formally involved in the governance of the firm.
- Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 percent of the decision-making rights mandated by their share capital.

Dobson & Swift (2008) and Miller and Le Breton (2005:518) defined a family business as:

“a business, whether public or private, in which a family controls the largest block of shares or votes and has one or more of its members in key management positions.”
Dobson & Swift (2008) alone preferred to define a family business as comprising one of three distinct types, which can overlap:

- Businesses that are owned by members of the same family, typically with the family owning over half of the shares.
- Businesses controlled by members of the same family, even if the family is not the majority owner. In this case the family can lose control if the owners become unhappy with the performance of the business.
- Businesses in which the ownership and/or management pass from one generation to the next. This may be thought of as a “higher order” of family business.

In a 2014 South African family business survey, Pricewaterhouse Coopers Limited (PwC, 2014) stipulated that a business is a family business if:

- The majority of votes are held by the person who established or acquired the firm (or their spouses, parents, child, or child’s direct heirs);
- At least one representative of the family is involved in the management or administration of the firm; and
- In the case of a listed company, the person/s who established or acquired the firm (or their families) possess 25% of the right to vote through their share capital and there is at least one family member on the board of the company.

For the purpose of the present research effort, the definition of the family business provided by (PwC, 2014) will be used.

2.3 THE FAMILY BUSINESS “THREE-CIRCLE” MODEL

Researchers Tagiuri and Davis developed a three-circle model to represent the interactions that occur within family businesses (Parker, 2004; Tagiuri and Davis, 1982). The three-circle model of family business is a widely accepted approach to depicting the family business domain (Gersick, Lansberg, Desjardins, and Dunn, 1999; Gersick, Davis, Hampton, & Lansberg, 1997; Taguiri & Davis, 1992; Yu, Lumpkin, Sorenson, and Brigham, 2012). This model views family enterprise as a complex
system comprised of three overlapping subsystems: ownership, business, and family (Farrington, 2009; Gersick et al., 1997; Kraus et al., 2011; Parker, 2004; Van der Heyden, Blondel and Carlock, 2005; Yu et al., 2012). The three-circle-model of family, business, and ownership, creates a snapshot of any family business at any particular time (Lautz, Joachim & Naldi, 2015). Due to that, it is a valuable asset towards understanding the organisation itself (Gersick, et al., 1997; Lautz et al., 2015).

A family business system is comprised of a business or employee group, the owners of the business and the family that has ownership control of the business (Davis, 2007). The memberships of these three groups generally overlap (Davis, 2007). According to the three-circle model of family business (Cater & Justis, 2009; Gersick, Davis, Hampton, & Lansberg, 1997), there are seven subsections concerning their relation to the family business (see: Figure 2.1 & Table 2.1) (Cater & Justis, 2009). Any individual in a family business can be placed in one of the seven sectors that are formed by the overlapping circles of the subsystems (Farrington, 2009; Parker, 2004), and take over different roles, perspectives and responsibilities, depending on the circle they are in at the moment (Gersick et al., 1999; Kraus et al., 2011). In Figure 2.1, all owners will be within the top circle, all family members will be in the bottom left circle and all employees in the bottom right. An individual within a family firm can also occupy any and all of these segments simultaneously (Lautz et al., 2015). Each individual, whether he or she is a family member, a non-family manager, an entrepreneur, a next-generation owner, or a business unit manager, influences the family business subsystems in a particular manner (Pieper & Klein, 2007; Riordan & Riordan, 1993). Thus, the individual represents the basic level of analysis (Kast & Rosenzweig, 1992; Pieper & Klein, 2007).

![Figure 2.1: The Three-Circle Model](Source: Davis, 2007; Tagiuri & Davis, 1982)
Table 2.1: The Three-Circle Model: Researcher’s Own Interpretation in Tabular Format

<table>
<thead>
<tr>
<th>SUBSYSTEM</th>
<th>SUBSECTION</th>
<th>PART OF THE FAMILY</th>
<th>HAS OWNERSHIP</th>
<th>EMPLOYED BY THE FIRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAMILY</td>
<td>FAMILY MEMBERS</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>FAMILY/BUSINESS</td>
<td>FAMILY EMPLOYEE</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>BUSINESS</td>
<td>NON-FAMILY EMPLOYEES</td>
<td>NO</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>BUSINESS/OWNERSHIP</td>
<td>NON-FAMILY OWNER EMPLOYEES</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>FAMILY/BUSINESS/OWNERSHIP</td>
<td>FAMILY OWNER EMPLOYEES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>FAMILY/OWNERSHIP</td>
<td>FAMILY OWNERS</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>OWNERSHIP</td>
<td>NON-FAMILY NON-MANAGER OWNERS</td>
<td>NO</td>
<td>YES</td>
<td>NO</td>
</tr>
</tbody>
</table>

*Source: Researchers own construction adapted from Davis (2007); Farrington (2009) and Tagiuri & Davis (1982)*

The forces of interpersonal conflicts, role dilemmas, priorities and boundaries arising from different sectors will interact with each other when making family business decisions such as succession planning or dividend policy (Parker, 2004). The systemic nature of the family firm with the three spheres of family, business and ownership, creates many opportunities for injustice (Van der Heyden et al., 2005). Injustice in one sphere, or across two spheres, will typically have negative implications beyond these areas, ultimately threatening the viability of the entire family business system. (Van der Heyden et al., 2005). The business, family and ownership group will each have its own goals and distinct ways of treating their members, and each needs to be managed and governed in appropriate and distinct ways to achieve these ends (Davis, 2007). In the three-circle model, the three perspectives of subsystems are taken into account to explain how individuals in family business make decisions or develop strategies that fulfil the goals of each subsystem and the whole family business (Parker, 2004). In their “Open-Systems Approach” model, Pieper & Klein (2007) extended the ownership subsystem to include a management subsystem (which could be a subsystem on its
own). The ownership and/or management subsystems connect the family and the business subsystems of the family business system (Klein, Astrachan & Smyrnios, 2005; Pieper & Klein, 2007). The family provides the business with funds (through the ownership subsystem) and labour force (through the management subsystem) (Pieper & Klein, 2007). The business subsystem, in turn, provides the family with jobs, as well as financial and non-financial returns (Adams, Manners, Astrachan, & Mazzola, 2004; Pieper & Klein, 2007). The three-circle model is an excellent tool for understanding the dynamics at work in any family company (Yu et al., 2012).

2.4 UNIQUE CHARACTERISTICS OF FAMILY OWNED AND MANAGED BUSINESSES

What makes family business unique is the interaction of the family with business management and ownership regimes (Gersick, Davis, Hampton, & Lansberg, 1997; Taguiri & Davis, 1992; Yu et al., 2012). Family businesses link two societal institutions, family and firm, in cooperative ventures for mutual advantage (Van der Heyden et al., 2005). The interaction between family and business is mutually influencing (Danes et al., 2002; Pieper & Klein, 2007). Each institution defines social relations in terms of a unique set of values, norms, and principles; each has its own distinct rules of conduct (Lansberg, 1983) and creates a system potentially fraught with confusion and conflict (Adendorff, 2011; McCann, Hammon, Keyt & Fujiuchi, 2004). The success of a family firm would depend on effective management of the intersection between the family and the business (Kraus et al., 2011; Sharma, 2004). Table 2.2 shows comparisons between family and business characteristics.

<table>
<thead>
<tr>
<th>Family Characteristics</th>
<th>Business Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources doled out based on need</td>
<td>Resources awarded as a result of achievement</td>
</tr>
<tr>
<td>Emphasis placed on achieving &quot;equal&quot; treatment</td>
<td>Emphasis placed on achieving &quot;fair&quot; treatment</td>
</tr>
<tr>
<td>Warm and fuzzy success metrics (love, respect)</td>
<td>Hard, quantifiable success metrics</td>
</tr>
<tr>
<td>Relationships due to marriage and birth</td>
<td>Relationships as a result of choice</td>
</tr>
</tbody>
</table>

Table 2.2: Two Organizations, Two Different Worlds: Direct Comparison of Family and Business Characteristics
Family firms are unique regarding organisational characteristics and culture (Beck, Janssens, Debruyne, and Lommelen, 2011; Daily & Dollinger, 1992; Denison, Lief, & Ward, 2004; Sharma, Chrisman, & Chua, 1997; Zahra, Hayton, & Salvato, 2004). Family firms typically depict a complex, longstanding stakeholder structure that involves family members, top management and a board of directors (Mustakallio, Autio, & Zahra, 2002). According to Poza (2014) and Visser et al., (2014) a family business is a unique synthesis of ownership control by two or more members of a family or a partnership of families and there is a concern for family relationships. The owner-family’s members, with strategic influence on the management of the firm, whether by being active in management, by serving as advisors or board members, or by being active shareholders (Poza, 2014; Visser et al., 2014), usually play multiple roles in managing and governing the firm (Mustakallio, Autio, & Zahra, 2002; Tagiuri & Davis, 1996), thereby blurring the governance relationships (Mustakallio, Autio, & Zahra, 2002). Also, family members as managers often make the most important business decisions (Gallo & Sveen, 1991; Mustakallio, Autio, & Zahra, 2002). The emotional attachment that family members have to family firm ownership may detract from the firm’s focus on economic goals (Mustakallio, Autio, & Zahra, 2002). It is for the reason of detraction that a typical family firm violates almost all of the underlying assumptions of traditional governance theories (Mustakallio, Autio, & Zahra, 2002).

There is also the dream of continuity across generations (Poza, 2014; Visser et al., 2014), where the ownership stakes are often passed from one generation to the next within the family (Mustakallio, Autio, & Zahra, 2002; PwC, 2013). Sirmon and Hitt (2003) find that trans-generational outlook allows family firms to devote the proper time to cultivating the necessary relationships with societal stakeholders, allowing the firms to establish more effective relations with support organisations, such as banks, while maintaining legitimacy with other important constituencies and societal stakeholders (Lounsbury & Glynn, 2001; Zellweger & Nason, 2008). Generational transfer can either be a source of strength and longevity, or a structural weakness that can undermine an otherwise healthy business (PwC, 2013).
A family business is fundamentally different from the other forms of private economic organisations (Adendorff, 2011; Maas, 1999; Venter, 2003). Family firm researchers believe that family involvement makes a family firm distinct from a non-family firm (Chua et al., 2003; Kraus et al., 2011; Pieper & Klein, 2007). The key difference is that the affairs of a family business are closely and intricately intertwined with the personal financial affairs of the family and also with the power relationships, blood ties, emotional bonds and inheritance issues within that family (Adendorff, 2011; Astrachan & Astrachan, 1993; Connolly & Jay 1996:5; Sharma, Chrisman & Chua, 1997:2; Venter, 2003). Harvey (1999b) and Mustakallio, Autio, & Zahra (2002) observe that the key features of the family system that usually have the greatest influence on the operation of the firm are implicit, social ties among family members. The intersection of family and business lead to hard-to-duplicate capabilities that make family firms particularly suited for survival and growth (Kraus et al., 2011). Aldrich and Cliff, (2003); Haynes et al., (1999); Kraus et al., (2011) and Stewart (2003) argue that family firms acquire, bundle and leverage the resources differently than non-family firms.

A number of strengths and weaknesses of family businesses were identified:

2.4.1 Common Values

Members of the same family are likely to share the same values, ethos and beliefs on how things should be done, which gives the family business, an extra sense of purpose and pride and this might well translate, into a competitive advantage for the business (Dobson & Swift, 2008). A strength of family businesses is the reliability and pride associated with the business, since family businesses have the family name and reputation associated with the products and/or services, the business strives to increase the quality of the output and to maintain a good relationship with the firm’s partners (customers, suppliers, employees, community, etc.) (Cadbury, 2002; IFC, 2011).

2.4.2 Flexible Employment

Family businesses can offer flexible employment in particular in terms of job content (with tasks and responsibilities being widely shared between family members) and in
terms of hours to enable job sharing, part-time commitment and working from home (Dobson & Swift, 2008).

2.4.3 Commitment

The family, as the business owner, shows the highest dedication in seeing the business grow, prosper and get passed on to the next generations (Cadbury, 2002; IFC, 2011). The bond of loyalty towards the business and by extension, towards the family is what makes the family businesses different to other businesses, as family members are expected to show a level of loyalty and commitment, that far exceeds that expected of an employee and family members support the business in return for future business stability accumulated wealth and with an expectation of inheritance (Dobson & Swift, 2008). As a result, many family members identify with the company and are usually willing to work harder and reinvest part of the profits into the business to allow it to grow in the long term (Cadbury, 2002; IFC, 2011). Van der Heyden et al., (2005) however noted that the overlap of family and business systems creates a situation of substantial difficulty in implementation, or, more broadly, commitment.

2.4.4 Family Relationships

Close personal relationships between family members can be both a strength and weakness, depending on the situation, such as when family members fall out, due to failing to distinguish between family and business life and personal disagreements can translate into commercial disagreements, the closeness of such relationships may become a major weakness and source of problems within the business (Dobson & Swift, 2008).

2.4.5 Business Skills

Families in business make it a priority to pass their accumulated knowledge, experience and skills to the next generations (Cadbury, 2002; IFC, 2011). Many family members get immersed into the family business from a very young age (Cadbury, 2002; IFC, 2011). This increases the level of commitment and provides the family
members with the necessary tools to run the family business (Cadbury, 2002; IFC, 2011). The knowledge that one is building for future generations encourages long-term thinking which is necessary for growth and success, however the downside is the lack of business skills which may be a problem, especially when coupled with intergenerational disputes over strategy and succession (Dobson & Swift, 2008).

2.4.6 Complexity, informality and lack of discipline

Adding the family emotions and issues to the business increases the complexity of issues that these businesses have to deal with (Cadbury, 2002; IFC, 2011). Most families run the businesses themselves (at least during the first and second generations) and there is usually very little interest in setting clearly articulated business practices and procedures (Cadbury, 2002; IFC, 2011).

According to a survey conducted in South Africa by PwC (2014) the following findings were characteristics found to make family businesses unique in the South African context:

- Family businesses have a longer-term approach in decision-making than non-family businesses, as family businesses are more willing to wait for returns (PwC, 2014), although Van der Heyden et al., (2005) stipulated that the overlap of family and business creates a situation of substantial difficulty in decision-making.
- Family businesses have the ability to adapt quickly to changes in the economic environment and to make immediate decisions when risks and opportunities arise, without having to wade through miles of red tape, checks and procedures (PwC, 2014).
- Family businesses are more entrepreneurial than non-family businesses, a reason being the South African unemployment rate, which encourages families to be open to new thinking and ideas and to take risks, by starting a business in order to gain financial independence (PwC, 2014).
- Family business success is not only measured by growth, money and margins, but also by ensuring job satisfaction for the employees and family members, leaving
behind a legacy and to be remembered for the family and community contribution (PwC, 2014).

- Family businesses are notable for the strength of culture and values and the belief often grows stronger with time (PwC, 2014).
- Family businesses are able to succeed because of closer affinity to their customers and have a more personal relationship with customers in general, in other words family businesses are chosen precisely because of not being a multinational (PwC, 2014).

Wealth creation is the major goal for businesses, but in family firms, the situation could be different, because non-economic goals may also play a major role in the goal structure of family firms (Kraus et al., 2011; Olson, Zuiker, Danes, Stafford, Heck & Duncan, 2003; Stafford, Duncan, Danes & Winter, 1999; Ward, 1988). Profit maximization may have been inaccurately assumed to be the primary or even sole objective of a family business and that family firms often display a strong preference toward non-economic outcomes (Chrisman, Chua & Sharma, 2005; Chrisman, Chua, & Litz, 2004; Craig & Moores, 2005; Duh et al., 2009; Dunn, 1995; Gomez-Mejia, Takacs Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Lee & Rogoff, 1996; Westhead and Cowling, 1997; Westhead and Howorth, 2006; Zellweger & Nason, 2008). Family businesses are marginally less likely to see having defined commercial goals as an indicator of success (Evans, 2005). Family goals are often more important to the owners of family firms than to the owners of non-family firms, hence economic goals might be traded off for (non-economic) family goals (Kraus et al., 2011; Lee and Rogoff, 1996). Such unique non-economic goals include harmony, jobs for family members and family control (Zellweger & Nason, 2008). Altruism, fairness, justice and generosity have been investigated as some of the drivers for non-economic goals (Eaton, Yuan & Wu, 2002; Kraus et al., 2011; Lubatkin, Ling & Schulze, 2002; Schulze, Lubatkin, Dino & Buchholtz, 2001). The fact that family businesses do not have to constantly demonstrate profitability, means that the business can focus more on the people who drive financial performance such as, the employees, the customers, the suppliers, the community and the family (Evans, 2005).
2.5 THE IMPORTANCE OF FAMILY OWNED AND MANAGED BUSINESSES

Family firms are often said to be the originating form of business activity (Kraus et al., 2011; Wakefield, 1995) that dominate the economic landscape of most major economies in the world (Astrachan and Shanker, 2003; Heck and Stafford, 2001; Klein, 2000; Kraus et al., 2011; Morck and Yeung, 2003; Shanker and Astrachan, 1996). Family business is arguably the predominant form of business (Anderson & Reeb, 2003; Chrisman, Chua, & Litz, 2004; Maas, Merwe and Venter, 2005; Venter & Farrington, 2009; Yu, Lumpkin, Sorenson, and Brigham, 2012). In fact, many new ventures are founded with family involvement and through the allocation of a family’s financial and human resources (Chrisman, Chua and Litz, 2003; Kraus et al., 2011). Kraus et al., 2011 and Poutziouris, Smyrnios & Klein, (2006) call family firms, irrespective of scale, size, legal form, or industry, ‘the backbone of corporate life, across nations, remaining a cornerstone of socioeconomic development’.

Family businesses are amongst the largest and most successful businesses in the world (Lautz et al., 2015). The developed world has long recognised the core importance of family-owned business for overall economic performance and go out of the way, to aid and nurture the family-owned business sector (Africainvestor, 2010). The most conservative estimates put the proportion of all worldwide business enterprises owned or managed by families at between 65% and 90% (Adendorff, 2011; Gersick, Davis, McCollon & Lansberg, 1997:2; Sharma, Chrisman & Chua, 1997:233; Van der Merwe, 1999; Zimmerer & Scaborough, 2002:19; Venter, 2003:32). In several countries, family businesses form the majority of all businesses. The figures (supplied by Adendorff, 2011; IFERA, 2003) for various countries are: France (60%), Germany (60%), the Netherlands (74%), Portugal (70%), Belgium (70%), United Kingdom (70%), Spain (75%), Sweden (79%), Finland (80%), Greece (80%), Cyprus (80%), Italy (93%), Australia (75%) and the USA (95%). It was further added that family businesses hold a 40% share of GDP (gross domestic product) (Harveston, Davis, & Lyden, 2015; Lautz et al., 2015; Lindow, 2013; Strite, 1993) and 60% of the workforce involvement within the U.S. marketplace (Lautz et al., 2015; Lindow, 2013).

Recent academic literature has suggested financial outperformance of family firms compared to non-family firms (Anderson, Mansi, & Reeb, 2003; Evans, 2005; Kraus
et al., 2011; Villalonga & Amit, 2006; Zellweger & Nason, 2008, Zellweger, Fueglistaller, & Meister, 2007). The authors see family firms ahead in terms of corporate performance, claiming that families are better stewards of firm resources due to less managerial opportunism within the company (Anderson and Reeb, 2003; Kraus et al., 2011; Lester et al., 2006). Family businesses are recognised as an important resource for technological innovation and economic progress (Zahrani & Nikmaram, 2014).

The economic importance of family businesses for the economies of both the developed world and developing countries such as South Africa are well documented (Adendorff, 2011; Adendorff, Boshoff & Venter, 2008; Steier, 2001; Venter, 2003;). Family-owned businesses have historically played a colossal but curiously largely unacknowledged role in the development of the economies on the African continent (Africainvestor, 2010). Family businesses control a significant portion of Africa’s economy (Nsehe, 2014). While family businesses are quite common across the continent, only a handful of them enjoy longevity (Nsehe, 2014). The survival rate of most African family businesses beyond the founder’s generation is extremely low (Nsehe, 2014). Private equity groups have long seen African family-owned businesses as one of the continent’s red-hot sectors of economic activity, admired for self-discipline, well-run businesses, generally low levels of leverage and higher rate of return than most non-family-owned businesses (Africainvestor, 2010).

In South Africa, family-owned business accounts for around 65% of all business enterprises, slightly less than the global average and can vary from region to region, from sector to sector, ranging from 90% in agriculture to 40% in services (Africainvestor, 2010). In South Africa, family businesses account for 50% of economic growth (Fishman, 2009; Visser et al., 2014). Ackerman (2001: 325) and Merwe (2009) concur that approximately 80% of businesses in South Africa could be classified as family businesses and that they comprise 60% of the companies listed on the Johannesburg Stock Exchange. South Africa lays claim to a host of successful family businesses in varied fields, from retailing and mining, to fast food and health and wellness (KPMG, 2013). In South Africa, the number of family-owned businesses surpassed one million in 2006 as black economic empowerment began to alter the race profile of the South African business landscape (Africainvestor, 2010). The rapid
growth in family businesses in South Africa can be attributed to the rationalisation process taking place in many large organisations, as well as to a growing inability of the informal sector to create new jobs (Van der Merwe, Venter and Ellis, 2009; Visser et al., 2014).

South African family-owned businesses, in tandem with elsewhere in the world, generally outperform the non-family-owned rivals (Africainvestor, 2010). Family business owners in South Africa believe that family businesses play a vital role in the country’s economy (PwC, 2013). This includes job creation, supporting long-term employment and adding stability to a balanced economy (PwC, 2013). Unfortunately, the failure rate shows less than 33% survive to the second generation and less than 18% survive to the third generation (Africainvestor, 2010). Given the significant contribution that family-owned businesses make to the economies of the respective countries in Africa, one can only imagine the impact if the high failure rate could be reduced, as family-owned businesses are the genesis of capital and that’s as true in Africa as it is in America or Europe (Africainvestor, 2010).

2.6 CHALLENGES FACING FAMILY BUSINESSES

The life span of family firms are often relatively short, as only a limited number survive the transition to the second generation and hardly one-third into the third (Beckhard and Dyer, 1983; Kraus et al., 2011; Neubauer and Lank, 1998; Paisner, 1999; Shanker and Astrachan, 1996). It is estimated that 30% of family-owned businesses survive to the second generation of family members, while only 12% survive to the third generation, with a mere 3% surviving to the fourth generation and beyond (Byrd and Megginson, 2013; Lautz et al., 2015; Visser, Africa & Chiloane-tsoka, 2014; Woolridge, 2015). This happens for numerous reasons; such as the sale of the firm, bankruptcy, merger and acquisitions, as well as takeovers from external investors and/or banks in times of organisational crises (Lautz et al., 2015). Succession remains one of the most significant risks to the survival of the family business and is becoming even more challenging (PwC, 2014). Planning for succession is widely neglected in South Africa and abroad (PwC, 2014).
According to Eyber (2010) and Van Eeden and Venter (2007:8), one of the biggest threats to the growth, success and survival of any family business is the complexity of family relationships. Visser et al., (2014) cited family business relationships as a major challenge for family businesses. The problems family-owned businesses incur due to the interactions of the family and business entities are unique (Africainvestor, 2010; Parker, 2004). Some researchers conclude that overall corporate performance of family firms is worse than in non-family firms due to reasons such as the family’s desire for capital preservation, stability, and risk aversion (Kraus et al., 2011; Morck and Yeung, 2003). Researchers even find that family firms often experience slower growth as well as slower decision-making processes (Kraus et al., 2011; Meyer and Zucker, 1989). One reason for this might be that family firms have to deal with additional, namely, family issues (Kraus et al., 2011; Lester, Cannella & Miller, 2006; Paisner, 1999), which might be resource-consuming (Kraus et al., 2011).

Sensitive issues in the family business include salary differences, non-family member’s commitment and opportunities, disciplining relatives, or not hiring a child (Fishman, 2009; Visser et al., 2014). Compensation is at the heart of more family business concerns than any other topic except succession (Walsh, 2011). Remuneration can be extremely divisive, especially where there is a long established pay framework in place that does not adequately recognise the different contributions made by each family member (PwC, 2013). Setting the remuneration level for family members actively involved in the business is recognised in South Africa and abroad as one of the reasons for disagreements within the family business decisions (PwC, 2011). Since it is such a sensitive issue, most families do not do a very good job at coming up with a rational compensation system (Aronoff, Astrachan, & Ward, 2002: 137; Bork, Jaffe, Lane, Dashew & Heisler, 1996: 75; Merwe, 2009). The present study focuses on the issue of remuneration of family members employed by the family business.

Issues pertaining to family relationships are a threat that influences the growth, success and survival of family businesses (Visser et al., 2014). It is from conflict laden family relationships that many family issues emanate (Molly, Laveren and Deloof, 2010; Visser et al., 2014), while managing both the family and the business appears
to be a constant challenge facing family-business owners (Schuman, Stutz and Ward, 2010; Visser et al., 2014).

The following are current challenges faced by family businesses:

2.6.1 Market conditions

Competition and price pressure are seen as challenges to family businesses (PwC, 2014). Malagas (2003) and Venter & Farrington (2009) included market access, access to finance and suitable business premises as constraints to family businesses. There is a lack of knowledge, within family business, regarding external environmental influences and the impact on the family business (Maas and Diederichs, 2007; Visser et al., 2014). Family businesses experience external economic environmental challenges such as market conditions, which include a lack of confidence in government, policy uncertainty, exchange rate fluctuations, government policy and regulation (PwC, 2013; Visser et al., 2014) and the depreciating Rand currency (PwC, 2014).

2.6.2 Government policy and regulation

Malagas (2003) and Venter & Farrington (2009) noted legal and regulatory requirements and tax regulations as constraints to small businesses in South Africa. Family-business owners in South Africa agree that compliance with the regulatory environment affects them to such an extent that they become uncompetitive, while the financial incentives and assistance afforded to them are not sufficient (Visser et al., 2014). Furthermore, many family businesses do not have the expertise or financial resources to meet the regulatory compliance requirements (Brink, 2014; Visser et al., 2014).

B-BBEE (Broad-Based Black Economic Empowerment) is seen as a particular challenge to family businesses in South Africa, particularly with regard to the availability of suitably qualified empowerment partners and the importance of a good ‘fit’ between the family business culture and the culture of the empowerment partner (PwC, 2014; PwC, 2013; Visser et al., 2014).
2.6.3 Infrastructure

The challenges are further aggravated by infrastructure challenges (PwC, 2014). Malagas (2003) and Venter & Farrington (2009) stipulated that the quality of infrastructure, especially in poverty-stricken and rural areas, acted as constraints to small businesses in South Africa. External economic environmental challenges for family businesses include existing infrastructure such as electricity and e-tolling (PwC, 2013; Visser et al., 2014). The growth implications of South Africa’s electricity crisis are intensifying and there are fears of looming hikes in electricity tariffs (Bisseker, 2015). E-tolls are killing jobs and businesses, according to an opposition political party in South Africa that reported that a family-run transport company, which had been operating for more than 50 years, said e-tolls were costing the company an extra R5 000 a month (Fin24.com; 2014).

2.6.4 Management and governance structures

Kazimi, Moore, & Morris (2012) stipulated that many family businesses do not have family business planning and governance frameworks in place to deal with the future strategy of the business and families. Maas and Diederichs (2007) and Visser et al., (2014) identified that a lack of a sound system of business governance that is agreed upon and implemented by the family, is hampering the success and growth of family businesses in South Africa. A further concern is the level of family-business management skills, as the majority of heads of family businesses are not trained to manage the businesses successfully (Maas, 2014; Visser et al., 2014). Inappropriate management of family relationships is a weakness of family businesses (Eyber, 2010; Rwigema & Venter 2004:487) and the management of the family business is often more focused on managing family relationships than any other part of the business (Eyber, 2010; Van Eeden & Venter 2007:8). Human resource management issues that continually surface in family businesses are striking a balance between nepotism and meritocracy and managing privilege (Visser et al., 2014). Hiring and firing practices in the family business tend to be in the best interest of the family rather than the business (Fishman, 2009; Visser et al., 2014). Some family businesses do not focus solely on ‘business agendas’ (profit maximization), but rather place more emphasis on ‘family
agendas’ and broader ‘social agendas’ (Visser et al., 2014; Westhead, Wright and McElwee, 2011).

Many family businesses are responding by professionalising the way the businesses operate from systems and processes to corporate governance (PwC, 2014). The family businesses are often at a loss on what to do when competition comes along and invariably need outside help to professionalise and legitimise the business activities (Africainvestor, 2010). There remains a significant challenge which many have not yet identified and that is to professionalise the family as well as the business (PwC, 2014). South African families are discovering the respective roles as owners as being important to the success and legacy of the business, embracing the concept of ‘owned by family’ and ‘managed professionally’ (PwC, 2014). Malagas (2003) and Venter & Farrington (2009) and others noted that the problem was the acquisition of managerial expertise as a constraint on family businesses.

2.6.5 Succession

One of the major problems family businesses face is transfer of ownership and management to the next generation (Duh, Tominc, & Rebernik, 2009). Succession is widely recognized as “the most important issue that most family firms face” (Handler, 1994; Harveston et al., 2015). Africainvestor (2010) stipulated intergenerational succession to be a challenge for family businesses not faced by non-family businesses. Majority of family businesses have no formal succession plan (Maas and Diederichs, 2007; Visser et al., 2014). A lack of proper estate planning has an impact on the succession plan and ultimately on the business (SME Toolkit South Africa, 2014; Visser et al., 2014). The transference of the family ‘goodwill’ is identified as a family business challenge (HayGroup, 2014; Visser et al., 2014).

The most common discussion point for a family business often relates to the issue of succession (PwC, 2014). The founders may become preoccupied with planning managerial succession and at the same time trying to determine the appropriate balance of loyalty to family and placing the most skilled individuals into key positions in the business (PwC, 2014).
2.6.6 Skilled labour

Internal challenges for family businesses include a shortage of skilled labour (Visser \textit{et al.}, 2014). Malagas (2003) and Venter & Farrington (2009) claimed that the acquisition of skills was a constraint for family businesses. There may be a lack of talent and skills within the business if family members have been hired on the basis of their relation to the business owners rather than their capabilities (Eyber, 2010). Family businesses cited attracting the right skills or talent as one of the two foremost challenges in the next five years (PwC, 2014). The need to draw on the expertise of external talent equipped to lead family business through the uncertainties of significant change is undeniable (PwC, 2014). With the incorporation of external talent comes the need to develop and document formal processes and procedures that form the backbone of the businesses operations and provide it with the context and structure it needs to grow and adapt. (PwC, 2014).

2.6.7 The need to innovate

Recent years have seen a revolution in technology (Atchison, 2007). The skills possessed in family businesses are often the products of history, resulting in their becoming obsolete when major technological advancements are made and changes in the marketplace occur (Eyber, 2010; Rwigema & Venter 2004: 483). The speed of change continues to accelerate (PwC, 2014). PwC (2014) identified digital technology as one of the top three global trends that will affect family businesses. The need to continually innovate remains the most pressing internal issue for family businesses in 2014 (PwC, 2014). Africainvestor (2010) claimed rigidity in innovation to be an issue for family businesses not experienced by non-family businesses. Kazimi, Moore, & Morris, 2012 also added that changes in technological markets were challenges. Access to the appropriate resources and technology is no doubt a constraint for family businesses (Malagas, 2003; Venter & Farrington, 2009).

2.6.8 Other challenges

Other challenges include, cash flow issues (Visser \textit{et al.}, 2014), competition (Kazimi, Moore, & Morris, 2012; PwC, 2014), labour unrest (PwC, 2014), politics (Kazimi,
Moore, & Morris, 2012; PwC, 2014) and cost control (PwC, 2014; Visser et al., 2014). Maas (2014) and Visser et al., (2014) further added challenges such as those family members who are appointed without real concern for expertise; a lack of shared expectations; family conflicts not being addressed; repercussions of divorce that may lead to the destruction of the family business; and family members emigrating. Africainvestor (2010) noted family conflict, sibling rivalry, autocratic paternalistic cultures and nepotism as challenges that were faced by family businesses that are not encountered by non-family businesses. Kazimi, Moore, & Morris (2012) further added that key issues to be tackled include effective decision making across the family, management and ownership issues, conflict resolution, facilitating effective ownership of the business, balancing the involvement and performance management of family members with the relevant skill set and those required by the business whilst above all operating in the best interests of the business and family as a whole. Eyber (2010) and Nieman (2006: 41) attributed family business failure to factors such as conflict between family members, nepotism, tradition, a paternalistic/autocratic culture existing in the business, improper handover to the next generation, a lack of leadership, ineffective communication, while Jorissen, Laveren, Martens & Reheul (2003) and Venter & Farrington (2009) added emotional issues, sibling rivalry, confusing organisation, rigidity in innovation and resistance to change to the list.

The realities are tough for any business to face (PwC, 2014). The ability to react appropriately to the challenges can be even more difficult for family business which has traditionally been known to be risk averse and very calculating in their decision making due to the firm’s inherent objectives of providing for the long term, multi-generational prosperity of the family earning the family business the reputation for being 'patient capital' (PwC, 2014).

The research on social capital in family firms has tended to indicate that family firms have a relatively longer-term perspective compared to an often shorter-term and financial perspective in non-family firms, and this can give family businesses a potential advantage in surviving difficult economic periods and subsequently establishing platforms for future growth compared to non-family firms. (Leary, 2013)
2.7 THE DEPENDENT VARIABLE

2.7.1 Rewards, remuneration and compensation

Compensation is not so simply defined (Sturman et al., 2007). In order to understand the definition of compensation, one must understand the structure of rewards. According to Van der Westhuizen & Wessels (2011), rewards are either intrinsic or extrinsic (Van der Westhuizen & Wessels; 2011; Zobal, 1998), where intrinsic rewards are self-administered rewards that are associated with the job itself, such as the opportunity to perform meaningful work, experience variety and receive feedback on work results, so in other words, the personal pleasure gained from doing the job. On the other hand, Van der Westhuizen & Wessels (2011) further noted extrinsic rewards to include all those rewards an employee receives from sources other than the job itself, such as financial rewards (basic salary, bonuses, medical aid and vacation) and non-financial rewards (assigned parking, praise and social gatherings). The firm has no control over intrinsic rewards, but can control the nature and monetary costs of extrinsic rewards, which is intended to compensate employees, thereby giving the firm the power to influence the behaviour of employees (Van der Westhuizen & Wessels, 2011). A definition can now be derived. There are many definitions for compensation. Below are just a few.

According to Gagné & Forest (2008) and Martocchio (2001), compensation can be defined as:

“The rewards (monetary and non-monetary) that employees receive for performing their job.”

Geringer & Frayne (1990) and Ramlall, Maimani, & Diab (2011) gave the definition as:

“The monetary and non-monetary and direct and indirect forms of compensation that an organisation exchanges for the contributions of its employees’ performance and personal contributions.”
In South Africa, SARS (South African Revenue Services) (2013) defined remuneration for tax purposes as:

“Any amount of income which is paid/payable to any person whether in cash or otherwise (e.g. fringe benefit) and whether or not for services rendered. Remuneration will include: salary, fee, bonus, wage, gratuity, pension, leave encashment, emolument, voluntary award, commission, annuity, stipend, overtime, superannuation allowance, retirement allowance, lump sum benefit payment, director's remuneration, etc.”

Van der Westhuizen & Wessels (2011) stipulated the definition to be:

“The financial and non-financial extrinsic rewards provided by an employer for the time, skills, and effort made available by the employee in fulfilling job requirements aimed at achieving institutional objectives.”

For the purpose of the present study, the definition of Van der Westhuizen & Wessels (2011) will be used. Van der Westhuizen & Wessels (2011) noted that the terms compensation, reward, remuneration and pay are more or less equivalent concepts and for the purpose of the present study, will mean the same thing. It is also important to note that compensation and the corresponding categories defined above are not necessarily, standard across the literature (Zobal, 1998).

2.7.2 The Importance of Compensation in Business

Compensation systems have received close attention and the main reason for this concern is the role that pay policies play in influencing workers' behaviours (Madhani, 2014; Torre, Pelagatti, & Solari, 2015; Van der Westhuizen & Wessels, 2011) and organisational performance (Banker, Lee, Potter and Srinivasan, 1996; Becker & Gerhart, 1996; Torre et al., 2015; Ramlall et al., 2011; Shin, 2013; Shaw, Gupta & Delery, 2001). The compensation system specifies the terms of exchange between the organisation and the individual employee and the organisation and thereby defines the employment relationship (Madhani, 2014). Pay is a promising and largely untapped source of competitive advantage, because pay can reinforce behaviours that
best serve a company’s business strategy and thereby improve performance and profitability (Lawler, 1990; Ramlall et al., 2011). Pay is a strong communicator between an organisation and its employees and the success or failure of a pay system can ultimately have an effect on the overall success of the organisation (Hill, 1993; Madhani, 2009).

A compensation system influences the behaviour of employees and is intended to align individual actions with organisational goals (Madhani, 2014). Given the quest of organisations across the world to compete more effectively in the global economy, there is an urgent need to review current compensation practices in various economies and to determine how the practices align with enhancing organisations’ competitiveness (Ramlall et al., 2011). In the compensation system’s design and management, expresses the values and norms to which members of the organisation must conform and specifies the contributions expected from the members as well as the rewards that can expect to receive as a result of performance (Madhani, 2014). The effectiveness of the compensation system is partly a function of the fit between pay strategies and organisational strategies. (Balkin & Gomez-Mejia, 1990; Ramlall et al., 2011)

Compensation is a key element regarding human resources (Gagné & Forest 2008). Human resource policies, such as compensation practices, serve to assist organisations in securing a competitive advantage (Schultz et al., 2013). An effective compensation system can lead to organisational competitiveness, higher levels of profitability and productivity (Ramlall et al., 2011) and higher levels of employee motivation. (Appelbaum & Mackenzie, 1996; Burke & Hsieh, 2006; Lawler, 1995; Lawler, 1971; Madhani, 2009; Ramlall et al., 2011). Ample evidence exists to support a positive relationship between compensation and job satisfaction (Byars & Rue, 2006: 248; Danish & Usman, 2010: 163; Farrington et al., 2014; Rayton, 2006: 148; Yasir & Fawad, 2009: 19). Compensation and the way rewards are managed represent a powerful tool, for influencing culture (Appelbaum & Mackenzie, 1996; Madhani, 2014) and considering culture is also concerned with influencing employee behaviours and attitudes; the design and management of compensation provide a primary method of achieving control (Madhani, 2014). An organisation will be more effective as the alignment between the organisation’s business strategy and its compensation
systems is strengthened. (Schultz et al., 2013) Koss (2008) emphasized this alignment between compensation and strategy.

Compensation systems are capable of attracting (or repelling) the right kinds of people because they communicate so much about an organisation’s philosophy, values and practices (Madhani, 2014; Rynes 1987). A compensation system can help attract qualified applicants, retain skilled employees (Appelbaum & Mackenzie, 1996; Gomez-Mejia & Balkin 1992; Lawler, 2003; Milkovich & Newman 1993; Wright, McMahan & McWilliams, 1994; Ramlall et al., 2011) and maintain workforce stability (Gomez-Mejia & Balkin 1992; Lawler, 2003; Milkovich & Newman 1993; Wright, McMahan & McWilliams, 1994; Ramlall et al., 2011). Salaries top the list of measures family businesses use for retaining talent (PwC, 2011).

Stockholders, society in general, managers and employees all have a deep interest in compensation and although, the perspectives may differ among the respective stakeholder groups, the relative importance is extremely high, for example, from a society perspective, pay can be viewed as a measure of justice in ensuring men and women are paid on a relatively equal scale, while stockholders can view pay as a means to maximize investments in the company and managers may view pay as a major labour cost and hence, use pay to influence behaviours and attitudes, that will achieve organisational outcomes and lastly, employees may view pay as a reward or even an entitlement for work performed in the organisation (Ramlall et al., 2011). For employees, compensation is an important issue since pay is perceived to be an indication of the employee’s personal and market value to the organisation (Appelbaum & Mackenzie, 1996).

Compensation is at the heart of more family business concerns than any other topic except succession (Walsh, 2011). Remuneration can also, unsurprisingly, be extremely divisive, especially where there is a long established pay framework in place that does not adequately recognise the different contributions made by each family member (PwC, 2013). Rewards and compensation are a particularly sensitive matter among families in business together and play an important role in developing perception of fairness (Farrington, 2009). Aronoff and Ward (1993: 59) and Merwe (2009) highlighted the growing importance of family employee compensation as more
second and third generation heirs enter the family business. Van der Westhuizen & Wessels (2011) depicted the following as the objectives of compensation:

- Attracting the right quality applicants
- Retaining suitable employees
- Maintaining equity among employees
- Rewarding good performance and providing incentives for desired behaviour
- Maintaining cost-effectiveness
- Complying with legal requirements
- Providing for flexibility and administrative efficiency

2.7.3 Agency problems and compensation

Agency Theory is based on the idea that managers who are not owners will not watch over the affairs of a firm as diligently as owners managing the firm (Chua, Chrisman, & Sharma, 2003). When managers do not operate firms to maximize shareholder wealth, costly agency problems result (Elsaid, Davidson, & Benson, 2009). One solution is a compensation plan that links management’s compensation to the firm’s performance (Elsaid, Davidson, & Benson, 2009; Elsaid & Davidson, 2009). By definition, if owners and managers have perfectly matching interests, there cannot be a conflict of interest (Chua, Chrisman, & Sharma, 2003).

2.7.4 Compensation Systems

Compensation systems are very complex, involving different forms of pay with distinct characteristics (Milkovich & Newman, 2005; Sturman et al., 2007). Milkovich and Newman (2005) and Ramlall et al., (2011) noted that the objective of a compensation system is to translate the strategy into practice to foster efficiency, fairness, and compliance. While designing an appropriate compensation system, firms needed to consider the following:

- The system must enable the organisation to achieve the firm’s strategic objectives (Koss, 2008; Van der Westhuizen & Wessels, 2011).
• The system must be shaped to fit the institutions’ unique characteristics and environment (Van der Westhuizen & Wessels, 2011).

According to Gagné & Forest (2008), monetary compensation is divided into three categories: base pay that is fixed; pay adjustments and finally incentive pay, which is variable, while non-monetary rewards are fringe benefits, which are by law required or are discretionary.

2.7.4.1 Fixed compensation system

Fixed compensation tools are pre-set such as the traditional straight salary method of pay (Burke & Hsieh, 2006). Fixed pay is non-discretionary in nature and does not vary according to performance or results achieved (Madhani, 2009). Base pay or salary only plans may be appropriate where quotas are impossible to set and there is a complex multiple year sales cycle (Madhani, 2009).

2.7.4.2 Variable compensation system

The current interest in variable pay is based on the assumption that financial rewards provide strong incentives for employees to work harder, better or both (Tomar, 2011). Also known as ‘pay at risk’ (Madhani, 2009), variable pay schemes entail individual, group, and organisational level forms of remuneration (Burke & Hsieh, 2006; Madhani, 2009), all wage components that are contingent on the firm’s performance or the performance of units within the firm (Tomar, 2011), such as bonuses (Burke & Hsieh, 2006; Madhani, 2009; Tomar, 2011), incentives (Burke & Hsieh, 2006; Madhani, 2009), on-the-spot bonuses (Burke & Hsieh, 2006; Madhani, 2009), profit sharing (Burke & Hsieh, 2006; Madhani, 2009; Tomar, 2011), and annual bonuses and employee ownership plans (Tomar, 2011), individual workers’ achievements rewards (Tomar, 2011) and various other pay-for-performance schemes (Burke & Hsieh, 2006; Madhani, 2009). Recently, more emphasis has been on the use of variable compensation schemes, instead of fixed forms of pay (Burke & Hsieh, 2006; Greene, 2003; Marks, 2001) in order to increase employee productivity and thus firm performance (Burke & Hsieh, 2006). Variable pay ties individual revenue generation to the financial success of the firm (Madhani, 2009). Variable pay design can include
incentives for achievement based on company performance, group performance and/or individual performance (Madhani, 2009). Variable pay changes directly with the level of performance or results achieved (Madhani, 2009). Variable compensation is a one-time earning that must be re-established and re-earned each performance period (Madhani, 2009).

Variable pay can create both gains and losses to the firm, with gains including, higher future cash flows due to better performance and lower cost of capital, due to reduced operating leverage, market risk and thus cost of capital while the losses, include higher compensation costs, difficulty in attracting people in certain lower paying jobs, dissatisfaction with compensation packages by certain employees and higher turnover costs, with the losses eventually decreasing the firm’s future cash flows (Burke & Hsieh, 2006).

Madhani (2009) noted the significance of variable compensation:

- Creates a belief among employees that good performance will lead to higher pay.
- Minimizes the perceived negative consequences of performing well (fear that the performance bar will be raised).
- Creates conditions promoting positive outcomes other than pay that relates to good performance.
- Is viewed as a mechanism of aligning the interests of employees with those of the employer.

2.7.4.3 The pay mix

The choice between fixed and variable pay portions of a firm's compensation strategy affects the firm's operating leverage, market risk, cost of capital and cash flows (Burke & Hsieh, 2006). The rebalancing of fixed and variable pay in compensation structure offers human resource managers financial flexibility to deal with economic changes such as business cycles, market variability and salesforce performance (Madhani, 2009). In recent times, more emphasis has been laid on the use of variable compensation schemes instead of fixed forms of pay, mainly to enhance employee
productivity and thus overall firm performance (Madhani, 2009; Marks, 2001). There is likely an optimal balance between fixed and variable compensation components (Burke & Hsieh, 2006).

2.7.4.4 Lag, match and lead compensation policy

An organisation can lead, meet or lag the market (Koss, 2008). With lag policy, an organisation may choose to offer a compensation package that is valued less than packages offered for a similar job in the labour market, in other words, paying below market value (Koss, 2008; Van der Westhuizen & Wessels, 2011). Meet or match the market, is the most common compensation strategy and the level of competitiveness occurs, when an organisation’s compensation strategy is equal to the labour market for the same position and it is this pay philosophy, that makes the most sense for most organisations (Koss, 2008), in other words, paying at the average market rate (Van der Westhuizen & Wessels, 2011). The “lead the market” pay strategy is a total compensation package that is above the labour market for a similar position (Koss, 2008). A lead policy implies that the employer pays a higher rate than the firm’s competitors for comparable jobs (Van der Westhuizen & Wessels, 2011). Table 2.3 describes the advantages and disadvantages of lag, match and lead compensation policy choices. It should be noted that in family businesses, family members should be paid a competitive market-related salary for efforts done (Andrews, 2006; Aronoff et al., 1997: 43; Barrett, 2001: 19; Baskin, 2015; County, Journal & Gray, 2006; Farrington et al., 2014; Lansberg, 2001; Merwe et al., 2012; Merwe, 2009).

Table 2.3 – Lag, match and lead policy

<table>
<thead>
<tr>
<th>Compensation Policy</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lag – Pay lags the market</td>
<td>Lower costs means more competitive and money can be used for benefits.</td>
<td>Hard to attract employees, train for competitors and dissatisfied employees.</td>
</tr>
<tr>
<td>Match – Pay matches the market</td>
<td>Pay and cost matches competition and during good times, (financially) can easily share bonuses and short-term incentives.</td>
<td>May not be able to keep stars. Organizations may not be able to attract stars when labour market is tight.</td>
</tr>
</tbody>
</table>
2.7.4.5 Base pay

A large part of an individual’s direct compensation is often the base pay (Appelbaum & Mackenzie, 1996). Base pay is giving a fixed amount of pay (Gagné & Forest, 2008; Sturman et al., 2007) on a regular basis (hourly, weekly or monthly) for occupying a position in the organisation, regardless of performance (Gagné & Forest, 2008). Base pay is the amount of pay from which other elements of monetary and quasi-monetary compensation are derived (Amey & VanDerLinden, 2002). Base pay can be calculated through market pricing, job evaluation, and market comparisons (Gross, 1995; Zobal, 1998). The amount paid is often determined by job type, seniority, or rank (Gagné & Forest 2008). There are many ways to increase base pay including merit increases, cost of living adjustments, and increases due to skill, competency and/or knowledge acquisition (Zobal, 1998). Base pay is a direct measure of the value a company places on acquiring an individual and hence serves as an approximation of the worth of the specific human capital (Sturman et al., 2007).

2.7.4.6 Pay-for-performance

Pay-for-performance also refers to pay that is contingent upon actual performance, as opposed to an entitlement (Zobal, 1998). Pay-for-performance is giving a set monetary reward for a predefined performance unit, such as commissions or piece-rate (Gagné & Forest, 2008). Variable pay for performance is a method of paying employees for successful attainment of specific objectives (Madhani, 2009). Proponents of variable pay for performance systems claim that such systems improve employee motivation, engender a culture in which employees genuinely care about organisational effectiveness and tie an organisation’s labour costs to the firm’s ability to pay (Guthrie & Cunningham, 1992; Madhani, 2009). The underpinning of any pay-for-performance
system is the establishment of an accepted method of performance evaluation (Bevilacqua & Singh, 2009; Maloa & Rajah, 2012).

According to Koss (2008), the goals for a pay-for-performance system is:

- Motivate people to join the organisation.
- Motivate employees to perform at the top of the employee’s skill set.
- Motivate employees to stay.

2.7.4.7 Bonus

A bonus is giving an employee a set monetary reward for attaining a certain performance standard or quota (Gagné & Forest, 2008). The bonus is a single, one-off, lump-sum payment which can be in the form of cash or other creative monetary scheme, such as options (Appelbaum & Mackenzie, 1996). Cash recognition and bonuses are typically after-the-fact discretionary awards given for accomplishments, behaviours, and/or other related events (Zobal, 1998). Unlike a base pay raise, a bonus is not automatically received in subsequent years unless justified by levels of performance in those years (Appelbaum & Mackenzie, 1996).

2.7.4.8 Merit pay

Merit pay is the best pay system to use for a pay-for-performance base pay system (Koss, 2008). Merit pay is commonly defined as “pay for performance” as salary increases are based on the quality of work (Amey & VanDerLinden, 2002). Merit map is about increasing the base pay based on a yearly performance appraisal (Gagné & Forest, 2008; Koss, 2008). The pay increase is added to the base pay, usually as a percentage of base pay (Koss, 2008). Merit pay rewards productivity and excellence (Amey & VanDerLinden, 2002). When an employee’s job performance exceeds the prescribed acceptable performance level for the organisation, the related reward is called merit pay (Appelbaum & Mackenzie, 1996; Kanungo and Mendonca, 1992). Merit pay is most effective when employees believe performance is important and that management values commitment, but they also need the assurance that management is committed to fairness and respect (Risher, 2008). Merit pay can be paid in the form
of a bonus or as an addition to base pay; merit pay can be viewed as a reward for past performance (Appelbaum & Mackenzie, 1996; Kanungo and Mendonca, 1992). The criteria used to evaluate and award merit pay may create conflict, confusion, and distrust (Amey & VanDerLinden, 2002). Family employee compensation should be on merit (Koenig, 2000:37; Merwe, 2009).

2.7.4.9 Skill based pay

Increasing base pay based on skill or knowledge, competencies and acquisition (Gagné & Forest, 2008).

2.7.4.10 Gain sharing

Giving monetary reward (equality or equity based distribution to individuals) based on reaching a group based goal or quota (Gagné & Forest, 2008). Gain sharing plans pay out benefits based on productivity gains, typically at the unit or plant level (Zobal, 1998).

2.7.4.11 Profit sharing

Sharing the organisation's profit with the employees and the pay-out is based on a profitability target (Gagné & Forest, 2008). Profit sharing plans distribute a portion of company profits, usually annually (Zobal, 1998).

2.7.4.12 Shares and options

The reward is determined by performance of the organisation by giving the employees shares of the company, or the right to purchase shares at a fixed price (Gagné & Forest 2008).

2.7.4.13 Non-financial compensation

Non-financial compensation refers to any type of non-monetary award including parties, written recognition, and/or a simple thank you (ACA, 1995; Zobal, 1998). Non-
financial compensation can be awarded for a variety of reasons including the demonstration of a desired behaviour or the accomplishment of a particular goal (Zobal, 1998).

A compensation strategy should be designed to both fulfil employee aspirations and balance the employer’s need to manage total remuneration costs (Tomar, 2011). According to Madhani (2014) the way organisations design compensation plans and pay employees do not only depend on the firm’s own preferences for the compensation plans but also depends on the various extrinsic factors such as:

- The nature of industry in which the firm operates in
- The financial performance of the organisation
- The size of the organisation
- Counter-cyclical hiring practices (Madhani, 2011)
- Various life cycle stages such as the business life cycle (Madhani, 2010)
- Organisational life cycle (Madhani, 2010)
- Product life cycle (Madhani, 2011)

And intrinsic factors (Madhani, 2014) such as:
- Career life cycle stages of employees (Madhani, 2013)
- Organisation Culture

Madhani (2014) further stipulated that the behaviour of employees toward compensation plan depends on many factors such as:

- The perceived fairness of the compensation
- The job responsibility of employees
- Culture of the organisation

Van der Westhuizen & Wessels (2011) stipulate the following policy areas that need to be addressed by firms when establishing a compensation system:

- Setting the pay level below, above or at prevailing market rates.
- Setting the degree to which the firm will strive for internal equity.
- The role of performance-related rewards (incentives) and what type of incentives to use.
- The level of extent that market rate pressures can distort the salary structure.
- The salary structure to use.
- The amount of freedom given to managers to influence the salaries of staff.
- The best reward mix of basic pay, benefits and incentives.
- The degree enforcing of pay secrecy.
- The degree of limiting information available to employees about the compensation system.

Table 2.4 was constructed and compiled to show a number of situations where either a fixed or variable compensation system would be the preferred proportion of the pay mix. The table is based on a number of works from different sources.

Table 2.4: When to choose the right compensation system and why

<table>
<thead>
<tr>
<th>Situation / Objective / Strategy</th>
<th>Preferred Compensation System</th>
<th>Reason</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period of stability</td>
<td>Fixed</td>
<td>Magnify revenue growth</td>
<td>Madhani, 2014</td>
</tr>
<tr>
<td>Period of uncertainty and volatility</td>
<td>Variable</td>
<td>Manage environmental shocks</td>
<td>Madhani, 2014</td>
</tr>
<tr>
<td>Increase employee performance and motivation</td>
<td>Variable</td>
<td>Incentive effect on employee behaviour</td>
<td>Madhani, 2009; Financial Executive, 1999; Burke &amp; Hsieh, 2006; Greene, 2003; Marks, 2001</td>
</tr>
<tr>
<td>Hierarchical culture or clan culture</td>
<td>Fixed</td>
<td>Preference in the reduction of ambiguity</td>
<td>Madhani, 2014</td>
</tr>
<tr>
<td>Adhocracy or market culture</td>
<td>Variable</td>
<td>External orientation; emphasis is on individual results</td>
<td>Madhani, 2014</td>
</tr>
<tr>
<td>Reduce operating leverage</td>
<td>Variable</td>
<td>For consistent, predictable returns and low risk profile</td>
<td>Risher, 2008; Burke &amp; Hsieh, 2006</td>
</tr>
<tr>
<td>Attract or retain talent</td>
<td>Variable</td>
<td>Talent preference for variable pay “differentiation”</td>
<td>The Economic Times, 2012</td>
</tr>
<tr>
<td>-------------------------</td>
<td>----------</td>
<td>---------------------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Reduction in low income bracket employee turnover</td>
<td>Fixed</td>
<td>Employee preference for fixed pay</td>
<td>Madhani, 2009; Caroli &amp; Garcia-Penalosa, 2002</td>
</tr>
<tr>
<td>Geographical area weak market demand</td>
<td>Fixed</td>
<td>Attract or retain employees</td>
<td>Madhani, 2009</td>
</tr>
<tr>
<td>Reduce older and risk adverse employee turnover</td>
<td>Fixed</td>
<td>Reduce employee turnover costs</td>
<td>Madhani, 2009; Waldman, Kelly, Arora &amp; Smith, 2004; Burke &amp; Hsieh, 2006; Greene, 2003</td>
</tr>
<tr>
<td>Start-up and decline stages of organisational life cycle</td>
<td>Variable</td>
<td>External uncertainties, the need to market new products, high business risk and focus on the firm’s survival.</td>
<td>Madhani, 2010</td>
</tr>
<tr>
<td>Growth and maturity stages of organisational life cycle</td>
<td>Fixed</td>
<td>Moderate business risk, stable environment, firm can handle higher leverage, resulting in more income.</td>
<td>Madhani, 2010</td>
</tr>
<tr>
<td>Introduction stage of product life cycle</td>
<td>Variable</td>
<td>Vital stage for salespeople to persuade customers regarding new product.</td>
<td>Madhani, 2011</td>
</tr>
<tr>
<td>Growth stage of product life cycle</td>
<td>Fixed</td>
<td>Increasing complexity in terms of the selling task, coordination, markets and geographic dispersion.</td>
<td>Madhani, 2011</td>
</tr>
</tbody>
</table>
### Maturity stage of product life cycle
- **Fixed**
- Increased share of market knowledge and the complexity of the selling job also increases.
- Madhani, 2011

### Decline stage of product life cycle
- **Variable**
- Minimize increased business risk.
- Madhani, 2011

*Source: Researcher’s own construct.*

#### 2.7.5 Factors affecting Compensation

Compensation is a discretionary concept and the determinants of compensation may not necessarily be the same for all organisations, but rather the nature of the business and the number of employees per organisation and would suggest, that the type and size of a company should be taken into consideration, when studying the extent to which the determinants are predictors of employee compensation in an organisation. (Maloa & Rajah, 2012).

The labour market has to be seen as a social institution where powers (of capitalists vs workers, management vs workers, racial and gender discrimination and the organisational or administrative imperatives of the internal labour market) all act in concert to determine the wage that people receive in the labour market (Mgobozi, 2004). A labour market meets the supply and demand for labour services (Amey & VanDerLinden, 2002; Lewis, 1996). Basic economics of supply and demand affect employee compensation (Koss, 2008). An excess of labour drives income down; conversely, salaries rise when too few persons are available (Amey & VanDerLinden, 2002). There are a variety of factors in the supply of and demand for labour as well as factors outside the marketplace, that create a plethora of wage rates that vary over time (Atchison, 2007).

Past research has identified the following factors that create a disparity in compensation:
2.7.5.1 Variety of workers

Supply factors, such as, the scarcity of skilled labour can give rise to differentials in wages and salaries (Birdsall, Ross & Sabot, 1995; Hossain, Haque, & Haque, 2015). Other factors include labour market elements such as the demographics of the employee force (Appelbaum & Mackenzie, 1996; Hossain, Haque, & Haque, 2015; Pytliková, 2013), the significance of employee’s skills and the supply and demand situation in relation to critical skills (Appelbaum & Mackenzie, 1996). The difference in the skills levels of employee segments are considered when determining what affects pay levels (Maloa & Rajah, 2012; Van Zyl, 2010). All workers do not have the same skills, such as, education or motivation, hence differ in productivity, with the differences in education, experience, ability and motivation also influencing the person’s performance on the job, which is then rewarded differentially by the organisation (Atchison, 2007). Employer’s in South Africa argue that employee remuneration gaps are, in the main, the result of the shortages of more highly skilled employees in the workplace and differences in labour productivity levels between the different employee segments (Maloa & Rajah, 2012).

2.7.5.2 Variety of Jobs

All jobs are not the same and only some workers can fill some jobs, but when the balance is towards a few workers per job, wages rise and vice-versa (Atchison, 2007). Organisations can offer compensating differentials to workers who perform less appealing assignments (Atchison, 2007).

Labour markets vary greatly in the degree, to which the labour markets are open or closed and some require few or general skills and are relatively open, as many workers have the skills to perform general skills (Atchison, 2007). Other positions require complex skills and training to qualify and therefore have closed labour markets (Atchison, 2007). Organisations vary in the degree to which the jobs offered are open to the “outside” (Atchison, 2007; Van der Westhuizen & Wessels, 2011).
2.7.5.3 Industry

Industries pay differing amounts for skills depending on the skill’s usefulness to each industry (Atchison, 2007). Highly competitive industries, such as soft goods manufacturing, pay only the wage required in response to changing conditions in their labour market. Less competitive industries, such as hard-goods manufacturing, typically pay somewhat more than the minimum required by the labour market (Appelbaum & Mackenzie, 1996).

Other important factors regarding industry include the location of facilities, working conditions and the status of the output produced by the particular industry (Atchison, 2007) and the cyclical nature of industry, high turnover, innovators, entrepreneurial and traditional (Appelbaum & Mackenzie, 1996). From a macro and external in many organisations the internal pay structure and salary increase plans are heavily influenced by the actions of other companies (Giancola; 2009; Maloa & Rajah, 2012), with the pay levels and practices of competitors considered (Appelbaum & Mackenzie, 1996).

The most basic differentiation in industry is between agriculture, manufacturing and services (Atchison, 2007). As the economy moves toward services, the wage dispersion widens and there’s a smaller group of middle-income jobs (Atchison, 2007). High-wage industries tend to be capital intensive industries because labour would be a lower overall cost in the industry and are likely populated by large firms that are more likely to be profitable and have highly developed and bureaucratic internal labour markets (Atchison, 2007).

2.7.5.4 Regulation

Government’s place restrictions (such as minimum wages) on labour markets for non-economic reasons (Atchison, 2007). Koss (2008) noted legal constraints that regulates wages, hours and recordkeeping. The Labour Relations Act 66 of 1995 in South Africa is one of many government legislative requirements that affect compensation (Van der Westhuizen & Wessels, 2011).
2.7.5.5 Discrimination

Organisations sometimes discriminate and thus do not hire the “best” workers (Atchison, 2007). Gender identity, family situation and health are factors that can cause a disparity in compensation (Hossain, Haque, & Haque, 2015; Pytlíková, 2013). Although unacceptable, there is still concern about the economic status of different groups in society (Appelbaum & Mackenzie, 1996). The most obvious example is the lower economic status of females compared with that of males (Appelbaum & Mackenzie, 1996). The wage differential between male and female individuals is seen as a variable based on the works of Blinder (1973); Hossain, Haque, & Haque (2015) and Oaxaca (1973). Gender inequality seems to be a consequence of the fact that males and females are not equally represented, in various occupations and the male-dominated occupations are compensated, at higher rates than are female-dominated occupations (Appelbaum & Mackenzie, 1996). In the South African context, Mgobozi (2004) noted racial discrimination as a cause of wage differentials.

2.7.5.6 Unions and Socio-political Environment.

This is about the power of organised labour (Appelbaum & Mackenzie, 1996). Amey & VanDerLinden (2002) and Van der Westhuizen & Wessels (2011) refer to collective bargaining agreements that can determine a range of salaries. Unions distort wage rates to the benefit of the members by means of strike, restriction of the supply of workers, increase in demand for union-made products and political action and they attempt to raise wages (Atchison, 2007). For unionized organisations, pay issues are a mandatory bargaining issue that must be negotiated (Koss, 2008). In South Africa, labour unions, in particular, are of the opinion that remuneration gaps are expanding and that the situation constitutes a major threat to job creation and the fair distribution of income in the workplace and the economy as a whole (Maloa & Rajah, 2012).

2.7.5.7 Technology

Technology and education are creating changing needs for both the supply and demand for labour (Atchison, 2007). New technology creates change, particularly in the types and number of jobs, needed to produce the organisation’s output and such
technology revolutions, can also disrupt the demand side of the labour market and make workers obsolete (Atchison, 2007).

2.7.5.8 Economic Environment

The level of uncertainty in the business or economic environment, in which a particular employer operates, is an important aspect when considering significant determinants of employee compensation (Maloa & Rajah, 2012; Van Zyl, 2010). This includes the influence of the business cycle (Appelbaum & Mackenzie, 1996), recessions, inflation, level of unemployment and competitiveness in the product markets (Van der Westhuizen & Wessels, 2011). Economic and market circumstances at the time of hiring affects salary levels over one’s career, since much depends on base salary (Amey & VanDerLinden, 2002).

2.7.5.9 Employee Characteristics / Employee Behaviour characteristics

Boyd and Salamin (2001) and Maloa & Rajah (2012) assert that base salary could be viewed as being determined by individual characteristics (gender, age, hierarchical position). Other characteristics include education (Appelbaum & Mackenzie, 1996; Hossain, Haque, & Haque, 2015; Mincer, 1974), experience (Amey & VanDerLinden, 2002; Appelbaum & Mackenzie, 1996; Hossain, Haque, & Haque, 2015; Mincer, 1974), tenure (Hossain, Haque, & Haque, 2015; Mincer, 1974), seniority, qualifications (Appelbaum & Mackenzie, 1996), knowledge and skills (Maloa & Rajah, 2012). Increasing education should result in higher wages for the worker who obtains the education, hence the greater the difference in wages between a high school graduate and a college graduate, the more likely the worker is to obtain higher education (Atchison, 2007). A country with limited wage dispersion could be expected to have a lower percentage of young people going on to college than a country with wide wage dispersion (Atchison, 2007).

Hossain, Haque, & Haque (2015) and Pytlíková (2013) also noted psychological traits and appearance characteristics that gave reason for differences in salaries and wages. Behaviour characteristics such as performance, absenteeism and turnover all contribute to wage differential (Appelbaum & Mackenzie, 1996). Employee
compensation can be explained by agency theory whereby the size of the reward offered may be linked to the level of complexity (and associated transactional cost to principals [the firm]) in monitoring the agent’s behaviour (employee behaviour) (Maloa & Rajah, 2012; Perkins and White; 2008). Gomez-Mejia et al., (2010) and Maloa & Rajah (2012) contend that some practitioners still believe that employee compensation is mostly determined by job performance. Hence in practice, where a certain employee will be positioned in terms of salary depends on a number of factors of which the most common are previous experience, company tenure and assessed job performance (Amuso & Knopping 2008; Graham-Brown 2008; Grote 2008; Niven 2008; Hellerman & Kochanski 2008; Maloa & Rajah, 2012; Wilson & Malanowski 2008).

2.7.5.10 Job Characteristics

Occupation is a key variable used to explain wage differentials (Hossain, Haque, & Haque, 2015). Job characteristics were noted by Appelbaum & Mackenzie (1996); Hossain, Haque, & Haque (2015) and Pytlíková (2013) to be factors causing differences in wages. Job characteristics take into account the mental requirements (problem solving), physical requirements, skill requirements, responsibility/accountability, working conditions, level of public contact and the effort required to carry out the work (Appelbaum & Mackenzie, 1996). The most important determinants of the market value of a job have been found to lie in the functional area in which the work is performed (Maloa & Rajah, 2012). Job family/job function, job grade (Maloa & Rajah, 2012), requirements in terms of the average skill of employees (Van der Westhuizen & Wessels, 2011), the perceived value of the job and job history (Maloa & Rajah 2012; Riggio, 2009) were all reported determinants of employee compensation.

2.7.5.11 Enterprise Characteristics

Hossain, Haque, & Haque (2015); Maloa & Rajah (2012); Pytlíková (2013) and Van Zyl (2010) stipulated employer characteristics as a reason for wage differential. The list includes culture (management style) (Appelbaum & Mackenzie, 1996; Van der Westhuizen & Wessels, 2011), organisational structure, objectives, policies and strategies, technology, size, profitability, ability to pay (Appelbaum & Mackenzie, 1996; Koss, 2008), competitive labour strategy (lead or lag), salary compression (Appelbaum
& Mackenzie, 1996), strategy, ability to pay and values (Van der Westhuizen & Wessels, 2011). Employee compensation is also influenced by whether the organisation is a public company or a private company (Amey & VanDerLinden, 2002; Maloa & Rajah, 2012).

Balkin (2008) and Maloa & Rajah (2012) argued that it is impossible to explain the observed differences in pay level and compensation without examining the role of institutional forces, such as mimetic isomorphism (practices of peer organisations), normative isomorphism (norms that develop in professions that receive similar training) and coercive isomorphism (corporate governance system, practices and regulations). The taller the organisational structure, the higher the earnings of top executives (Gomez-Mejia et al., 2010; Maloa & Rajah, 2012).

2.7.5.12 Location

Bhattarais (2000) and Hossain, Haque, & Haque (2015) noted ‘region’ as a variable which caused wage differentials due to differences in the location of work. Costs aren’t the same for organisations or workers in all locations and on top of that, neither organisations nor workers are mobile and able to move to each other freely, because such movement costs money and in addition, neither side has perfect information about the labour market, which results in compensating differentials paid based on location (Atchison, 2007). Workers performing almost identical work, that requires the same skills and who are organised by the same union in the same geographical area can receive a rate of pay that differs markedly from one employer to the next (Maloa & Rajah, 2012), with a sixty per cent difference not been uncommon (Gomez-Mejia, Beronne & Franco-Santos, 2010; Maloa & Rajah, 2012).

Table 2.5 shows the wage inequality factors of both the U.S. and Europe. There is a larger wage differential (wage inequality) in the U.S. than that of Europe for the reasons depicted in Table 5 (Atchison, 2007).
Table 2.5 – Comparing Wage Inequality Factors of the U.S. and Europe

<table>
<thead>
<tr>
<th>U.S. Wage Inequality (Atchison, 2007)</th>
<th>Europe Wage Inequality (Atchison, 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demand factors</strong></td>
<td><strong>Demand factors</strong></td>
</tr>
<tr>
<td><em>Skill-based technology</em> – The type of worker required specialised skills for advanced production processes.</td>
<td><em>High wages</em> – High wages paid to low-level workers because of minimum wages and high-wage floors created by unions.</td>
</tr>
<tr>
<td><em>International trade</em> – Importing goods have reduced the demand for low-skilled workers.</td>
<td><strong>Supply factors</strong></td>
</tr>
<tr>
<td><em>Offshoring</em> – Outsourcing has lowered the demand for backroom functions and lowered wages.</td>
<td><em>Skilled workers</em> - Supply of skilled workers kept up with the demand for workers, so wages did not rise significantly against the lower-level workers.</td>
</tr>
<tr>
<td><em>Growth of services</em> - The growth of services and the decline of manufacturing, forcing workers to develop new skills.</td>
<td><em>Skill-based technology</em> - Used the new technology to improve the productivity of low-level workers.</td>
</tr>
<tr>
<td><strong>Supply factors</strong></td>
<td><strong>Institutional factors</strong></td>
</tr>
<tr>
<td><em>Baby boom</em> - Size of age cohorts has had major effects on the size of the workforce.</td>
<td><em>Unions</em> - Unions represent a larger percentage of European workers, than U.S. workers and can expect there to be less variance in wages. In Europe, the unions are more centralized and deal with employers in an aggregate fashion, creating national wage structures.</td>
</tr>
<tr>
<td><em>Women</em> - Female-dominated occupations have become crowded, depressing wages.</td>
<td><em>Minimum wage</em> - Minimum salary rates have been adjusted more often with changes in the cost of living and the minimum wage has little effect because unions set wage floors.</td>
</tr>
<tr>
<td><em>Welfare reform</em> - Movement to encourage welfare recipients to work increased the supply of low-skilled workers.</td>
<td><strong>Institutional factors</strong></td>
</tr>
<tr>
<td><em>Immigration</em> - Criteria for entrance to the United States have changed and lowered immigrant’s skill level.</td>
<td><em>Minimum wage</em> – declined in relative to cost of living.</td>
</tr>
<tr>
<td><em>College education</em> - Americans have become more educated by going to college.</td>
<td><em>De-unionisation</em> - Membership decline resulted in a decline in real wages.</td>
</tr>
<tr>
<td><strong>Institutional factors</strong></td>
<td></td>
</tr>
<tr>
<td><em>Minimum wage</em> – declined in relative to cost of living.</td>
<td></td>
</tr>
<tr>
<td><em>De-unionisation</em> - Membership decline resulted in a decline in real wages.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researchers own construction adapted from Atchison, 2007.
It is fact that South Africa is one of the most unequal countries in the world, with having a Gini coefficient of 0.7 recorded in 2008 (Mail & Guardian, 2012). According to Crotty and Bonorchis (2006) and Maloa & Rajah (2012), vast income inequalities have always been a characteristic of the South African economy. Mgobozi (2004) stipulated the following factors determining the differences in wages (wage inequality) in the South African labour market to be:

- Different markets of segmented labour force occupationally
- The differences in education
- Racial discrimination
- Migrant labour
- Regional disparities in income generation
- Family and social background
- Gender inequalities
- The existence of a monopolistic and oligopolistic capitalist industrial and market structure with managerial goals of controlling work, the workforce and outcomes in the labour market.
- The state and its legal framework which impacts on contractual regulation of the labour market.

Maloa & Rajah (2012) and Van Zyl (2010) contend that there is currently an important general debate in South Africa (among employer organisations, labour unions, politicians and such like) on the size and fairness of perceived employee remuneration gaps between the different employment levels in organisations.

2.7.5.13 Equity

Employee compensation is seen as a product of many factors within an organisation and one of the determinants has been an emphasis on equity (Maloa & Rajah, 2012). Equity relates to the perception of fairness in the distribution of rewards (Van der Westhuizen & Wessels, 2011). The method by which individuals determine the fairness of inputs to outcomes, such as what constitutes fair compensation for a given task, or a fair effort for a given compensation, is referred to as equity theory (Adams
1963; Eyber, 2010). Individuals evaluate the fairness of the situation (Adams, 1963; Shin, 2013; Torre et al., 2015) and motivation is affected (Gomez-Mejia et al., 2010; Maloa & Rajah, 2012), by assessing the ratio of their inputs into their work (ability, effort, and job performance) and the outcomes (pay, benefits, and working conditions) and comparing their ratio to others’ ratio of inputs and outcomes (Adams, 1963; Shin, 2013; Gomez-Mejia et al., 2010; Maloa & Rajah, 2012; Torre et al., 2015). Consequently, from a motivational perspective, the organisation must provide rewards that are proportionate to individual inputs (Maloa & Rajah, 2012). If an individual's ratio is lower than the ratios of others, the individual is underpaid; and if it is higher, the individual is overpaid (Shin, 2013).

According to Charles (2006: 88) and Eyber (2010), equitable and equal are two different concepts. Equitable refers to the extent to which each family member or employee is satisfied with the division of authority and responsibility in the family business or non-family business (Charles 2006: 88: Eyber, 2010), whereas equal implies that the family members or employees share the responsibilities and authority of the family business or non-family business equally (Eyber, 2010). Inequity creates tension or dissonance in the person perceiving it, motivating that person to reduce inequity (Adams, 1963; Shin, 2013). An individual’s outlook of inputs relative to compensation will therefore determine whether the situation is equitable or not (Eyber, 2010; Foley & Powell 1997: 42). Equity theory assigns a great emphasis to the inputs (e.g. skills, effort, productivity) that individuals put into the job in order to determine whether or not inequity related issues arise (Torre et al., 2015). There are six possible methods of reducing inequity (Adams, 1963; Shin, 2013):

- Altering inputs
- Altering outcomes
- Psychologically distorting one’s own inputs or outcomes
- Taking action to change inputs or outcomes of the others used for comparison
- Changing the comparison other (the referent)
- Leaving the position
Carrell and Dittrich (1978) and Torre et al. (2015) stipulated that in the design of compensation systems, equity theory research identified three main areas of concern:

- A compensation system is defined as equitable if ‘employees perceive a fair, just, or equitable return for what the employee contributes to the job’.
- Equity theory includes the concept of ‘social comparison’, that is, the process developed by employees ‘to determine what their equitable return should be after comparing their inputs (skill, education, effort, etc.) and outcomes (pay, promotion, job status, etc.) with those of their co-workers (comparison person)’.
- Equity theory assumes that if employees perceive the compensation system as inequitable, ‘they will seek to reduce inequity by cognitive distortion of inputs and/or outcomes, by directly altering inputs and/or outcomes, or by leaving the organisation’.

Equity theory clearly predicts that individuals make comparisons between the individual's own input/output ratios and that of other persons, however, what ‘input’ and ‘output’ are is often hard to determine (Torre et al., 2015). There are several ways in which individuals may choose referents for comparisons (Sweeney and McFarlin, 2005; Torre et al., 2015) such as external, internal pay referents (Torre et al., 2015) and individual (procedural) (Van der Westhuizen & Wessels, 2011).

External equity refers to the employee’s perception of being treated in the same way as employees in the same job but at a competing organisation, while internal equity refers to the employee’s perception of being treated in the same way as employees within a focal organisation (Werner and Mero, 1999; Torre et al., 2015). Individual procedural equity is concerned with the extent to which an employee’s compensation is reflective of the employee’s contribution and the fairness with which pay changes such as raises made (Van der Westhuizen & Wessels, 2011). Regarding compensation, external equity is the extent to which the firm’s pay rate for a given job matches the prevailing rate for that job in the external market (Fitzpatrick & McMullen, 2008; Maloa & Rajah, 2012; Van der Westhuizen & Wessels, 2011). External equity was reported to be a determinant of employee compensation (Maloa & Rajah, 2012). For internal equity, the comparison may occur with employees in the same job
(employee equity) or at the same organisational level (horizontal or lateral equity), or employees at a different organisational level (vertical equity) (Bloom, 1999; Torre et al., 2015; Trevor, Reilly and Gerhart, 2012; Werner and Mero, 1999). From a compensation point of view, internal equity deals with comparisons of rewards across different jobs in the same firm and addresses the relative worth of different positions in the same firm (Van der Westhuizen & Wessels, 2011).

Individual (procedural) equity is concerned with the extent to which an employee's compensation is reflective of his or her contribution and the fairness with which pay changes such as raises are made (Van der Westhuizen & Wessels, 2011).

### 2.7.6 Fair Compensation for Family Employees

The present study is about factors influencing fair compensation received by family employees. Questions about remunerating family employees can become increasingly complex and unmanageable as a family business grows and passes from generation to generation (Merwe, 2009). Remuneration was revealed in a survey to be one of the main causes of conflict in family businesses (Evans, 2005). Disagreements within family businesses were found to be decisions about setting the remuneration level for family members actively involved in the business (PwC, 2011). Family businesses by nature have circumstances that can create complicated compensation decisions and even when discussed, fairness regarding compensation can still be problematic (Compensation in a family-owned business: What's fair? Farrington, 2009). Since family business compensation is such a sensitive issue, most families do not do a very good job at coming up with a rational compensation system (Aronoff et al., 2002: 137; Bork, Jaffe, Lane, Dashew & Heisler, 1996: 75; Merwe, 2009). Developing a compensation strategy for a family business can be challenging but is essential (Walsh, 2011). Family employee compensation needn't be a thorny issue as the trick is to have a compensation strategy which is consistent, fair and open (Merwe, 2009). Resentment and conflict tend to occur when, fairness is missing (Buchholz et al., 2000: 262; Merwe, 2009).
Walsh (2011) noted questions such as the following are common regarding family business compensation:

- What exactly constitutes a family members’ compensation (i.e., housing, use of recreational property and vehicles, travel, conferences/conventions, education costs, the promise of future ownership, etc.)?
- Should all family members be paid equally?
- Should family members of the same age or with the same number of years’ experience in the family business be paid equally?
- Are salaries based on what family members could earn doing the same job somewhere else?
- Are salaries scaled and based on the roles and responsibilities of each family member?
- Are there bonuses? If so, how are they determined?
- Are salaries on the low side since other benefits are provided?
- Are salaries on the high side to reflect the family members’ family business commitment?

What is important is the perception of fairness of the compensation received (Farrington et al., 2014). A major issue regarding fairness in family businesses is that of achieving a balanced compensation system between family employees (Aronoff & Ward, 1993: 59; Merwe et al., 2012; Spector, 2001: 9). Family business compensation practices often create problems when family members are compensated according to age and/or gender (Buchholz, Crane & Nager, 2000: 262; Merwe et al., 2012) and not on merit (Jaffe, 1991: 199; Loeb, 2001: 59; Merwe et al., 2012). Aronoff, Astrachan and Ward (2002: 425); Brooks (2001: 37) ; Merwe et al., (2012) and (Merwe, 2009) believe that a compensation policy has no foundation unless job descriptions indicating the work roles and responsibilities have been prepared in sufficient detail to serve as a means of structuring wage classifications and rating performance. Accomplishments, workload and contributions are not necessarily equal and being equal as owners does not imply being equally entitled to the same compensation as managers (Farrington, 2009; Lansberg, 2001). If there is disproportion in linking contribution with compensation, feelings of equity cannot be upheld (Eyber, 2010; Kets...
de Vries 1993), and tensions and conflicts are bound to arise (Eyber, 2010; Lansberg 2001; Stavrou 1995). Family members will perceive fairness to exist in the family business when each family member does his or her fair share of work given his or her compensation; when compensation is perceived as fair for the work that the family member does; when family members are compensated according to their contribution to the family business and not according to age and/or gender; and when external stakeholders treat family members involved in the business equally (Merwe et al., 2012). Family business owners thus need to ensure that the compensation practices are fair to both family and non-family employees and fair in terms of position, education and work experience (Farrington et al., 2014).

The most important issue regarding family compensation is that a compensation policy is adopted, recorded, communicated and followed (Merwe, 2009; Rawls, 1999:57). An open and objective process for determining current and future compensation should be formally established, understood, and accepted by all parties (Compensation in a family-owned business: What's fair? n.d.; Farrington, 2009). According to Walsh (2011) a family business best practice regarding compensation for family members is to, establish a compensation philosophy/strategy for family members that is fair and representative of the value of the work performed. Koenig (2000: 37) and Merwe (2009) noted that one best practice that family businesses would do well to adopt is merit rewards. Fahed-Sreih and Djoundourian (2006: 231) and Farrington (2009) find that the predominant mode of compensation among family businesses is that of equal payments to all family employees. The equal payment mode reflects on the intention to keep family relations amicable and to preserve equality in the family, stemming from the concept of fairness, but the equality principle does not always mean fairness (Farrington, 2009), particularly when different family members have different competencies and different qualifications (County et al., 2006; Farrington, 2009). In some firms, for example, all family members are paid the same, regardless of the role they play (PwC, 2013). All employees, including family members, should be paid a competitive market-related salary for efforts done (Andrews, 2006; Aronoff et al., 1997: 43; Barrett, 2001: 19; Baskin, 2015; County et al., 2006; Farrington et al., 2014; Lansberg, 2001; Merwe et al., 2012; Merwe, 2009). The market value compensation system is designed to enhance the longevity of the family business, and reduce the
conflicts, both intra-family and intra-business that often exist due to compensation factors (Aronoff & Ward, 1993: 59; Merwe 2009).

Baskin (2015) stipulated that the family compensation policy should clearly outline key guidelines:

- Any advantage given to family members working in the business will be seen by employees as family socialism superseding free-market capitalism.
- Family employees will be compensated in the same manner as non-family employees, period.
- Compensation levels will be determined by fair market value analysis.
- Family employees are expected to live within their financial means and not encumber themselves with excessive debt or rely on special disbursements for their living expenses.
- Only compensation that is part of an existing employment contract will be provided through the company.

Family employee compensation, therefore, should be fair (Brockhaus, 2001: 23; McClure, 2001: 41; Merwe, 2009), on merit (Koenig, 2000:37; Merwe, 2009), market-based (Andrews, 2006; Barrett, 2001: 19; County et al., 2006; Lane, Dashew, Bork, Paul & Jaffe, 2001: 14; Merwe, 2009), linked to actual work performance and value-adding (Brockhaus, 2001: 23; Merwe, 2009), linked to the amount of responsibility (Brockhaus, 2001: 23; Merwe, 2009), put in writing (Merwe, 2009; Rawls, 1999: 57 Ward, 2004: 78) and communicated to all stakeholders (Buchholz et al., 2000: 262; Merwe, 2009). The existing instrument is known as family employee compensation in the present study (Merwe, 2009).

2.7.7 Measuring Fair Family Employee Compensation

To measure the dependent factor Fair Family Employee Compensation, a ten-item measuring instrument was developed. The instrument was based on the literature of Farrington (2009) and Merwe (2009), with all the items of Farrington (2009) modified, while one of the Merwe (2009) items was divided into two items. Three of Farrington
(2009) and six of Merwe, (2009) items were used. A tenth item was created based on the literature of Aronoff et al., (1997: 43); Barrett (2001: 19); Baskin (2015); Farrington et al., (2014); Lansberg (2001); Merwe et al., (2012) and Merwe (2009) regarding competitive market-related salaries. The items of Farrington (2009) measured the fairness of compensation for family employees in the family business (existing instrument with a Cronbach alpha of 0.745). The items of Merwe (2009) measured family employee compensation (existing instrument with a Cronbach alpha of 0.905). The ten items were then consolidated to form the measuring instrument: Fair Family Employee Compensation (FCOM).

<table>
<thead>
<tr>
<th>FCOM 1</th>
<th>Family members are compensated according to their contribution to the business.</th>
</tr>
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<tbody>
<tr>
<td>FCOM 2</td>
<td>There is a direct link between work performance and compensation.</td>
</tr>
<tr>
<td>FCOM 3</td>
<td>There is a direct link between the amount of responsibility and compensation in the family business.</td>
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<tr>
<td>FCOM 4</td>
<td>Family members in the family business are compensated at levels consistent with the standards of the industry.</td>
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<tr>
<td>FCOM 5</td>
<td>The compensation to individual family members is reasonable compared to the salaries of other family members.</td>
</tr>
<tr>
<td>FCOM 6</td>
<td>Given their compensation each family member hired by the family business does his or her fair share of the work in family business.</td>
</tr>
<tr>
<td>FCOM 7</td>
<td>In the family business each family member hired by the family business is compensated fairly for the work that they do.</td>
</tr>
<tr>
<td>FCOM 8</td>
<td>In the family business rewards for family employees are based on merit.</td>
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<tr>
<td>FCOM 9</td>
<td>Family members are compensated not according to age or gender.</td>
</tr>
<tr>
<td>FCOM 10</td>
<td>Family members are paid a competitive market-related salary/wage for their efforts in the family business.</td>
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2.8 INDEPENDENT VARIABLES

2.8.1 Human capital

According to Danes, Lee, Stafford and Heck (2008) and Visser et al., (2014), families and businesses provide resources for the entrepreneurial endeavours of family members in the form of social capital, human capital and assets, including both financial and physical capital. The human capital of a firm is said to be “the knowledge, abilities and skills of its employees denotes a critical resource of a firm’s capacities representing a potential organisational source of competitive advantage” (Coff, 2002; Leonard-Barton, 1992 and Schulz, E., Chowdhury, S. and Van De Voort, D., 2013: 423). Schulz, et al., (2013) and Snell & Dean (1992) further stipulated that the “capital” is the skills and knowledge, accumulated by employees at a cost, because employees need education and work experience to grow the “capital”. Becker (1962, 1964); Mani (2013) and Sardeshmukh & Corbett (2011) compared the “cost” of human capital to an investment that enhances employees’ chances of qualifying for a job, via training, education, ability, experience, hard work, effort, and productivity. The investment is a decision made, in hope of making more money in the future and can be calculated, by comparing one’s current salary to the net present value of the better future salary once one has completed the additional education and work experience to attain the future salary (Mani, 2013).

Mani (2013) explained that from the firm’s view point, human capital equated to all the firm’s employees’ education, experience, hard work, motivation, and ability. Argote, (1999); Schulz, et al., (2013) and Wellman & Frank (2001) further added that the firm’s human capital could be considered a collective resource made up of the independent individual’s human capital. Schulz, et al., (2013) then claimed that individuals possessed human capital. From the individuals, namely employees’, point of view, human capital was the qualification brought to the job (Mani, 2013). According to Schulz et al., (2013) and Schultz (1960) human capital theory proclaimed that individuals possess knowledge, skills, and abilities that represent distinctive firm resources holding economic value to organisations.
There are a number of definitions for human capital. Sturman, Walsh, and Cheramie (2007: 290) and Unger, Rauch, Frese and Rosenbusch (2011) defined human capital as “the knowledge and skills held by individuals obtained through their education, training and experience”. Mackey, Molloy and Morris (2014: 401) and Molloy & Ployhart (2012) stipulated the definition of human capital to be “an individual’s embodied knowledge, skills, abilities and other characteristics that firms can put to productive use”, while Bae & Patterson (2013: 56) gave the definition as “knowledge, skills, capacity etc., owned by an employee which could be measured by school education, job training, job, language ability and the possession of certification, etc.”

A wider definition of human capital can include social capital (Peng, Sun and Markóczy, 2015). Cabello-Medina et al., (2011) argued that high levels of social capital can improve the skills and capabilities of an employee’s human capital. Burt (1997) and De Jong (2015: 6) defined social capital as “an asset inherent to social relationships and networks”. Social capital includes the interrelations between and among family members (Visser et al., 2014). Social capital allows someone to gain benefit from a social network or social structure (De Jong, 2015 and Coleman, 1990). An executive’s social capital or social status and network ties are valuable to firms which are shown in the compensation levels (Sturman et al., 2007; Belliveau et al., 1996; Seibert, Kraimer, & Liden, 2001). All these definitions refer to certain attributes of the individual. Education and experience are attributes regarded as worker attributes or human capital endowments (Ang, Slaughter and Yee, 2002; Becker and Murphy, 2000; Becker, 1975; Mincer, 1970). According to human capital theory difference in compensation shows the differences in human capital endowments (worker attributes) among employees (Ang et al., 2002).

An executive human capital contains imitation barriers because to attain the endowments requires, learning by doing and the endowments are largely tacit (Castanias & Helfat, 1991; Sturman et al., 2007). McEvily & Chakravarthy, (2002) and Sturman et al., (2007) further added that complexity and uniqueness were also responsible for the imitation barriers of executives’ human capital. A CEO’s particular human capital comprises of expertise, experience, knowledge, reputation, and skills (Haynes and Hillman, 2010: 1146; Peng et al., 2015). The executives’ human capital is developed through work experiences, every so often over the course of a career (Sturman et al., 2007). A CEO’s social capital is defined as “a resource that is
entrenched in a CEO’s network relationships such as political ties” (Peng et al., 2015: 120; Peng and Luo, 2000). An executive’s social capital can include information such as personal contacts (Sturman et al., 2007; Belliveau, O’Reilly, & Wade, 1996).

For the purpose of the treatise, human capital will be referred to as an individual's human capital, more specifically family employees.

2.8.1.1 The importance of human capital

Becker (1962, 1964) and Sardeshmukh & Corbett (2011) stipulated that a lot of the job-related skills and knowledge comes from the investment in time and resources in human capital. Human capital has been noted to be most important asset to the firm (Kuhnen & Oyer, 2012; Frye, 2004) and is considered a source of competitive advantage to the firm (Coff, 2002; Leonard-Barton, 1992; Schulz, et al., 2013). Human capital is a distinctive resource of the firm that holds economic value (Schultz, 1960; Schulz, et al., 2013), while human capital can be viewed as a critical resource for the success in entrepreneurial firms (Florin et al., 2003; Pfeffer, 1994; Sexton and Upton, 1985; Unger et al., 2011). This is due to the fact that human capital is intangible (Becker, 1962; De Jong, 2015; Hitt, Bierman, Shimizu, & Kochhar, 2001; Pennings, Lee and Van Witteloostuijn, 1998; Sturman et al., 2007). The intangibility makes it difficult for competitors to replicate which is highly important for the growth and survival of firms (De Jong, 2015; Pennings et al., 1998). Hitt et al., (2001); McEvily & Chakravarthy (2002) and Sturman et al., (2007) further claimed that because human capital was complex and had a high degree of specificity added to the difficulty to imitate. The degree that human capital is heterogeneous and immobile will determine the amount of contribution made to the firm’s sustainable competitive advantage (Sturman et al., 2007; Barney, 1991). An entrepreneur's human capital has been associated with firm entry, performance, and exit (Bates, 1990; Bosma, van Praag, Thurik & de Wit, 2004; Gimeno, Folta, Cooper, & Woo, 1997; Sardeshmukh & Corbett, 2011; Shane, 2008).

Firms with superior human capital endowments can plan better and solve problems (De Jong, 2015; Florin, Lubatkin and Schultz, 2003), have better capabilities of dealing with unexpected environmental elements (De Jong, 2015; Snell and Dean, 1992;
Youndt, Snell, Dean and Lepak, 1996) and are endlessly finding new ways to increase customer benefits (Chandler and Hanks, 1998; De Jong, 2015). Human capital can affect the future because of the continuously increasing knowledge-intensive happenings in the work environment (Bosma et al., 2004; Honig, 2001; Pennings et al., 1998; Sonnentag and Frese, 2002; Unger et al., 2011).

Previous empirical studies showed that a firm’s performance was directly determined by human capital endowments (De Jong, 2015; Dimov & Shepherd, 2005; Sardeshmukh & Corbett, 2011), hence contributing to the firm’s performance and advantage (Becker, 1962; Hitt et al., 2001; Sturman et al., 2007). Firms that have higher levels of human capital experience superior firm performance (Kor and Leblebici, 2005; Schulz, et al., 2013; Sels De Winne, Delmotte, Maes, Faems, and Forrier, 2006). Schulz, et al., (2013) and Snell & Dean (1992) stipulated that human capital fuelled productivity. Human capital also contributes to firm growth (Cooper, Gimeno-Gascon, & Woo, 1994; Sardeshmukh & Corbett, 2011) and the discovery of opportunities (Corbett, 2007; Davidsson & Honig, 2003) Sardeshmukh & Corbett, 2011). Improved firm performance is resulted from the increased productivity that employees have due to job experience that is attributed to the employees’ individual human capital (Finkelstein & Hambrick, 1996; Pennings et al., 1998; Schulz, et al., 2013) and hence the firm’s profitability (Bae & Patterson, 2013; Barrett & O’Connell, 2001; Bartel, 2000; Black & Lynch, 1995; Bishop, 1996; Sels et al., 2006). It can be deduced that human capital is related to success (Bosma et al., 2004; Brueederl et al., 1992; Cassar, 2006; Cooper et al., 1994; Dyke et al., 1992; Unger et al., 2011; Van der Sluis et al., 2005).

Human capital is important to employees because the labour market rewards employees for obtaining more human capital, with access to better jobs, higher incomes and greater incentives to remain in the current job (Maloa and Rajah, 2012; Ng and Feldman, 2010). Mani (2013) added that human capital fosters an employee career advancement. Human capital is responsible for building the employees’ capacity to achieve a sustainable competitive advantage within the firm (Bae & Patterson, 2013). As human capital becomes more important to firms, power is transferred from the top to the lower levels, because employees will have leverage due to individual human capital endowments, which may impact the employees’
compensation contract (Uygur, 2013). For top management, human capital could be considered an important determinant of CEO compensation (Peng et al., 2015; Combs and Skill, 2003; Becker, 1972).

With reference to family businesses, the successor lacking the right human capital in the form of business skills is a core reason for preventing successful succession occurring (De Massis, Chua, & Chrisman, 2008; Sardeshmukh & Corbett, 2011) and hence the continuity of family firms (Sardeshmukh & Corbett, 2011). Also experience and human capital specific to the family business adds to entrepreneurial self-efficacy (Sardeshmukh & Corbett, 2011).

### 2.8.1.2 Forms of human capital

Human capital theories distinguish between general skills like education and experience and specific skills that are connected to a firm or job (Gathmann & Schönberg, 2007). Not all human capital is shaped equal and not all skills and knowledge are related in all contexts, as there is a distinction between general and specific human capital (Sardeshmukh & Corbett, 2011). Mincer (1970) and Schulz, et al. (2013) noted the two forms of human capital to be general and firm-specific human capital, with Schulz, et al., (2013) expanding firm-specific human capital into task-specific and non-task-specific human capital.

Sturman et al., (2007) explained the concept of the forms of human capital by means of a human capital specificity continuum which ranged from firm-specific to general human capital. Human capital specificity refers to the degree to which an individual’s knowledge, skills, and experience are so rare or unique that above average “organisational rents” are generated for the firm (Hatch & Dyer, 2004; Hitt et al., 2001; Sturman et al., 2007; Wang & Barney, 2006). Firms will value executives who possess human capital that is high in specificity (Coff, 1997; Hatch & Dyer, 2004; Sturman et al., 2007; Wang & Barney, 2006).

Looking at the one extreme of the specificity continuum, known as firm-specific human capital, individuals develop knowledge and skills that are unique to a particular firm
(Sturman et al., 2007), hence firm-specific human capital improves the productive capabilities of employees which is only valuable to the employees’ current employer (Schulz, et al., 2013). Firm-specific human capital allows an individual to acquire skills that are uniquely relevant in a specific firm and may not have general applicability or transferability outside the firm’s context (Sardeshmukh & Corbett, 2011). Family firm–specific human capital is developed through training and experience within the family firm (Sardeshmukh & Corbett, 2011). The specific human capital developed through experience in the family business, provides the successor with detailed knowledge of the industry and the business (Sardeshmukh & Corbett, 2011). Firm-specific human capital increases with longer firm tenure as employees become more skilled and knowledgeable in performing tasks related to the firm’s operations (Becker, 1975; Schulz, et al., 2013). The growth of the salaries of employees with tenure is due to an employee share of investments in firm-specific skills (Mithas & Krishnan, 2008). Firm-specific human capital is often entrenched in the social ties in the family business and greater experience in the firm allows the family business successor a better understanding of the social forces at work within the context (Sardeshmukh & Corbett, 2011). Regarding top management, highly specific human capital loses value when executives move between firms because of the lack of transferability (Castanias & Helfat, 2001; Harris & Helfat, 1997; Sturman et al., 2007). Specific human capital is important for family businesses since, intergenerational coaching involves the transfer of family firm–specific human capital to the successor (Sardeshmukh & Corbett, 2011). Examples of family-specific capital include knowledge, goodwill and brand or name loyalty (Laband and Lentz, 1983; Sardeshmukh & Corbett, 2011).

As mentioned earlier firm-specific human capital is expanded into task-specific and non-task-specific human capital (Balmaceda, 2006; Schulz, et al., 2013). Task-specific human capital refers to experiences that are related to the tasks being executed on the current job (Gibbons & Waldman, 2006; Pil & Leana, 2009; Schulz, et al., 2013; Thiele, 2007; Unger et al., 2011) and includes work experience accumulated in prior jobs in the same firm (Chowdhury & Schulz, 2008; Schulz, et al., 2013). Entrepreneurs with high task-related human capital have superior knowledge of customers, suppliers, products, and services within the context of the firm (Gimeno et al., 1997; Unger et al., 2011). Task-specific experience improves job-specific abilities and know-how (Gibbons & Waldman, 2006; Schulz, et al., 2013). Examples include owner
experience, start-up experience, industry experience and entrepreneurial knowledge (Unger et al., 2011). Task-specific human capital is different from general skills because it is valuable only in jobs that require skills similar to the current one (Gathmann & Schönberg, 2007). Tchernis (2010) further noted that job-specific skills are approximated by the number of years of seniority at the current firm. Skills accumulated in a job are specific when the skills are only productive in the job which places a related value on a combination of tasks (Gathmann & Schönberg, 2007; Lazear, 2003). Task-specific human capital, like firm-specific human capital has a very low transferability amongst jobs in the same firm and hence has a distinctive value to the employees’ current job, as job changes contain new tasks, responsibilities, and technologies for the employees (Schulz, et al., 2013). Human capital accumulated through the employee’s former job that is not applicable to the current job is known as non-task-specific human capital (Schulz, et al., 2013), which is transferable amongst jobs in the same firm (Gathmann & Schonberg, 2007; Schulz, et al., 2013).

Non-task-specific human capital entails work experience on tasks that are unrelated to or suitable for the current job (Schulz, et al., 2013). Examples are general education and employment experience (Unger et al., 2011). Non-task-specific human capital is therefore “company-specific knowledge, including an employee’s accumulated knowledge about a firm’s policies and procedures, culture, formal and informal reporting relationships, and organizational systems” (Groysberg, Sant, & Abrahams, 2008; Schulz, et al., 2013: 426). Employees who remain and work at a specific firm for many years can accumulate both task-specific and non-task-specific human capital (Clement et al., 2007; Gibbons & Waldman, 2006; Schulz, et al., 2013).

At the other extreme on the specificity continuum is general human capital, representing a set of skills transferable across firms (Sardeshmukh & Corbett, 2011; Tchernis, 2010), that expands an employee’s productive capability, which is useful to many firms and is attained through education (Sardeshmukh & Corbett, 2011; Schulz, et al., 2013) and general experience (Schulz, et al., 2013; Tchernis, 2010), that is transferable between firms (Schulz, et al., 2013; Sturman et al., 2007; Tchernis, 2010). In other words, general or generic human capital is knowledge and skills that generate value or rents for any firm (Bailey & Helfat, 2003; Sturman et al., 2007). From a manager’s perspective, general human capital refers to general managerial
approaches such as motivating staff, planning budgets, or working on a team that would be of value in any firm. Top management executives may possess generic skills, such as leadership, planning, and decision-making skills, that are not unique to any particular firm but to all firms (Castanias & Helfat, 1991; Sturman et al., 2007). In the family business general human capital of a successor is developed through education and work experience outside the family business (Sardeshmukh & Corbett, 2011). Acquiring general human capital by working outside the family business may allow the successor to develop a range of skills and behaviours (Datta, Guthrie, & Wright, 2005; Sardeshmukh & Corbett, 2011), which are needed for opportunity identification in order to grow the family business (Sardeshmukh & Corbett, 2011).

The specificity of human capital can be viewed as falling along the specificity continuum, ranging from purely firm specific to purely generic (Castanias & Helfat, 2001; Sturman et al., 2007). As transferability increases along the continuum from specific to general, so specificity decreases (Harris & Helfat, 1997; Sturman et al., 2007). Along the specificity continuum, between the two extremes lays human capital that is more transferable than the highly specific knowledge of firm-specific human capital but is more specific than general human capital (Sturman et al., 2007). The human capital found between the two extremes would be “skills in both narrowly and broadly defined industries, as well as skills in closely related and less closely related industries” (Castanias & Helfat, 2001: 663; Sturman et al., 2007). Moving off the firm-specific human capital extreme point along the continuum towards general human capital, although still specific in its nature, takes on some transferability (Sturman et al., 2007). It is along the continuum where executives may possess highly specific information such as trade secrets, customer lists, strategic plans, and knowledge of specific production processes that are valuable and transferable only to a firm’s direct competitors (Blake, 1960; Sturman et al., 2007). Stone (2002) and Sturman et al., (2007) also noted business plans, upcoming projects, past projects, and market knowledge as examples of knowledge are specific but transferable, but are useful to direct competitors. With regards to social capital, competitors may be interested in an executives’ social capital, which include personal contacts (Belliveau, O’Reilly, & Wade, 1996; Sturman et al., 2007), network ties and social status (Belliveau et al., 1996; Seibert, Kraimer, & Liden, 2001; Sturman et al., 2007). Lastly, negative knowledge such as negative trade secrets (Stone, 2002; Sturman et al., 2007) and
discovered dead ends, pitfalls, and faulty processes (Hamler, 2000; Sturman \textit{et al.}, 2007), would also be useful to competitors. All these examples of specific yet transferable knowledge have potential value to other firms, making the highly specific human capital rare and potentially valuable and transferability allows the human capital to be useful to another firm (Sturman \textit{et al.}, 2007). Sturman \textit{et al.}, (2007) deduced that this form of human capital (transferable yet specific) is likely to have the highest value to a limited number of other firms, such a firm’s direct competitors.

Castanias and Helfat (1991, 2001) and Sturman \textit{et al.}, (2007) argued for the existence of industry-related human capital. Industry-related human capital refers to knowledge and skills that are only relevant within a firm’s specific industry (Castanias & Helfat, 1991, 2001; Sturman \textit{et al.}, 2007). Industry-related knowledge represents a wide range of human capital that is somewhat specific and somewhat transferable (Sturman \textit{et al.}, 2007). An example of industry-related human capital is an executive’s experience negotiating with unions representing all workers of a particular industry, whose experience of dealing with the unions could be of value to many firms in the respective industry (Sturman \textit{et al.}, 2007).

Greater specificity (and thereby rarity) in human capital has more value to firms that benefit from firm-specific human capital, while lower specificity (therefore less uniqueness) is of less value to the same firms (Sturman \textit{et al.}, 2007). More specificity is linked with lesser transferability, making highly specific human capital of value to fewer firms, while less specific human capital will have value, to a greater number of firms, than specific human capital (Sturman \textit{et al.}, 2007). When executives change firms, the firm-specific capital loses value (Clement, Koonce, & Lopez, 2007; Schulz, \textit{et al.}, 2013; Sturman \textit{et al.}, 2007); when executives move around the industry from a competitor to a non-competitor, specific parts of the human capital loses value and when executives move outside the industry, all but the general parts of the human capital loses value (Sturman \textit{et al.}, 2007).

2.8.1.3 Measurements of human capital

Education and work experience are measurements for human capital (Becker, 1972; Harris and Helfat, 1997; Peng \textit{et al.}, 2015; Reuber and Fischer, 1994; Sturman \textit{et al.},
2007; Unger et al., 2011) and are variables of human capital (Becker, 1962, 1964; Mani 2013; Sardeshmukh & Corbett, 2011; Unger et al., 2011). Education and work experience are seen as an investment in human capital (Unger et al., 2011). An employee’s human capital involves the productive capabilities put into force by education and experience (Becker, 1964; Black & Boal, 1994; Hitt et al., 2001; Schulz, et al., 2013). Employees with superior levels of human capital will generate necessary firm results because education and experience that fuels efficiency and innovation in an employees’ work performance (Pfeffer, 1994; Schulz, et al., 2013). It must be noted that Unger et al., (2011) argued that the investment of education and work experience did not necessarily lead to the outcomes of knowledge and skills that would contribute to an individual succeeding (Gagné, 1985; Quiñones, Ford and Teachout, 1995; Reuber and Fischer, 1994; Unger et al., 2011). The transformation of education and work experience into knowledge and skill that would contribute to an individual’s success, depended on variables (Keith and Frese, 2005; Unger et al., 2011) such as an individual’s reflective orientation (Kolb, 1984; Unger et al., 2011) and metacognitive activities (Ford, Smith, Weissbein, Gully and Salas, 1998; Unger et al., 2011).

Education is a significant indication of the abilities and skills of young adults (Boone and Van Witteloostuijn, 1999; De Jong 2015; Gächter, Herrmann and Thöni, 2004; Fan, 2008). Education teaches employees ideas and general skills that can be useful to the majority of business contexts (Sardeshmukh & Corbett, 2011). Bae & Patterson (2013); Becker (1975) and Schultz (1961) further claimed that education adds to the improvement of an employee performance.

Sardeshmukh & Corbett (2011) noted that education was important for a successor of a family business, as education provided the successor with the following:

- Analytical skills and abilities for decision making
- Grasping management concepts and applying the concepts to practise
- Exposure to new ideas
- Trends in management and technology
- Improved skills
• Gained legitimacy in the family business
• The will to pursue novel initiatives

With regards to work experience, a sufficiently motivated employee who obtains work experience by working in a specific firm will become more productive to the firm (Hanoch, 1967; Schultz, 1960; Schulz, et al., 2013).

A lot of current studies show that job experience has a positive effect on individual employee’s performance (Bae & Patterson, 2013; DuBois & McKe, 1994; Van Scotter & Motowildlo, 1996; Tesluk & Jacobs, 1998). Job experience includes current firm experience (employment tenure), position experience (experience in current job at present employer and prior employers) and prior industry experience (time employed in present employer’s industry prior to joining present employer) (Mackey et al., 2014). Experience can be expanded into two parts: general experience that is valuable across all firms and firm-specific experience (tenure or seniority) that is valuable only at a particular firm (Mithas & Krishnan, 2008).

Executives with international experience tend to be in high demand, because unlike the locals, executives with international experience possess valuable, rare, and hard-to-imitate skills and experiences that may allow their firms to successfully compete in market competition (Peng et al., 2015; Barney, 2001).

Family business experience can be seen as a de facto business education (Krueger, 2007; Sardeshmukh & Corbett, 2011). For the successor in a family business, developmental experiences can develop important competencies (Sardeshmukh & Corbett, 2011; Vallejo, 2009) and distinctive knowledge specific to the perspective of what successors need to do (Bjuggren & Sund, 2002, 2005; Royer, Simons, Boyd, & Rafferty, 2008; Sardeshmukh & Corbett, 2011), grow the successor’s entrepreneur self-efficacy (Sardeshmukh & Corbett, 2011).
2.8.1.4 Human capital and compensation

The human capital factors of education, tenure and experience are line with the Human Capital Earnings Function (HCEF), stating a positive relationship with individual earnings (Hossain et al., 2015; Mincer, 1974). Human capital theory was initially established to approximate an employees' income distribution from investments made in human capital (Becker, 1964; Mincer, 1958; Unger et al., 2011). Compensation is greater when skills are successfully matched to a firm's productive resources, in other words when the “right” human capital finds the “right” firm (Mackey et al., 2014). Scarce and valuable human capital is knowledge, skills, and abilities persistently in short supply relative to firm demand (Mackey et al., 2014; Barney, 1986; Rosen, 1983) and managers with scarce human capital earn higher compensation than managers without scarce human capital because the market rewards such capital (Mackey et al., 2014). Therefore, human resource departments in firms can use compensation to motivate employees to attain higher levels of human capital (Milkovich & Milkovich, 2004; Schulz, et al., 2013). On the other hand, firms may apply higher compensation to retain employees with greater human capital (Krueger & Summers, 1988; Schulz, et al., 2013).

The theory of human capital, which states that education must result in increased benefits to the worker and that these benefits must both pay back the expenses of education and yield a rate of return at least as high as alternative investments in time and money would have achieved and the worker must be able to earn more from the education and this amount must provide enough income over time, to exceed what the worker would have made by working the whole time (Atchison, 2007). From an employee’s view point, human capital relates to the qualifications brought to the job and expectations for compensation are based on the qualifications (Mani 2013). Mani (2013) further stipulated that employees assume high correlations between compensation and levels of education, which may lead to employees enduring extra years of education to qualify and enter a better job with a greater income stream. Bae & Patterson (2013); Becker (1975) and Schultz (1961) argued that education contributes to the enhancement of employees’ performance and is a structural process where employees’ performance enhancement leads to an increase in the firm’s productivity and hence greater compensation. The results of having education is an
increase in compensation for individual employees (Bae & Patterson, 2013; Ang et al., 2002). Hence, the higher the employees’ education level, the greater the compensation (Bae & Patterson, 2013; Baker, 1997; Becker & Lindsay, 1994; Mani 2013; Martin and Torres, 2000; Blundell, Dearden and Sianesi, 2004; Card, 2000; Chevalier, Harmon, Walker, Zhu 2004; Schulz, et al., 2013; Topel, 1991). The positive correlation of education and compensation had been supported by studies conducted by Mani (2013) and Schulz, et al., (2013) whereby both researchers concluded from the results of the studies that the more education an employee was found to have had a significant positive relationship with compensation. One of the reasons for the wage differential in South Africa is the differences in education emphasized in human capital skills of workers (Mgobozi, 2004).

Employees assume that there are high correlations between compensation and years of experience (Mani 2013). Accordingly, employee compensation increases with longer firm tenure as employees accumulate experience in the current job and other jobs in the firm (Parent, 2002; Schulz, et al., 2013). Human capital theory provides an explanation for the differences in the compensation of workers on the account of work experience because the theory considers investments in experience an important part of human capital that generates productive capacity (Mithas & Krishnan, 2008). Job experience, being regarded as the length of service, is used as a criterion for an employee’s compensation level (Bae & Patterson, 2013; Medoff & Abraham 1981). Longer work experience warrants higher compensation (Ang et al., 2002).

General human capital which includes the level of education is associated with higher compensation (Baker, 1997; E. Becker & Lindsay, 1994; Schulz, et al., 2013; Topel, 1991). The labour markets determine the compensation for general human capital acquisition because of the transferability across firms, hence general human capital turns an employee into a commodity, since the employee can move across firms with ease and command market wages (Brickley, Smith, and Zimmerman, 2003; Schulz, et al., 2013). Firms hoping to keep employees with general human capital would have to match the wage rate offered. (Klass & McClendon, 1996; Schulz, et al., 2013). Mackey et al., (2014) noted that top managers with more general human capital which may include education and experience, earn higher compensation than do managers with less.
Employees who achieve high levels of firm-specific human capital will receive greater compensation from firms who require valued skills and experience (Becker, 1964; Schulz, et al., 2013). Firms afford higher compensation to reward employees for the time and effort essential to accumulate important firm-specific experience attained from holding positions within the firm (Baker, 1997; Pfeffer, 1994; Schulz, et al., 2013). Moving along the specificity continuum, as human capital becomes more specific, there are forces at work both increasing and decreasing the market value, as more specificity makes the market value less for many firms, but the market value would increase for a specific firm that requires human capital of high specificity (Sturman et al., 2007). Results from a study conducted revealed that highly specific human capital that is restricted in transferability is worth the most in terms of executive compensation (Sturman et al., 2007) and valued more than general or industry-specific human capital (Castanias & Helfat, 1991, 2001; Sturman et al., 2007). Firm-specific human capital by all means has no market value, because of lack of transferability and therefore employees will not be motivated to attain higher specific human capital without some sort of incentive (Alchian & Demsetz, 1972; Sturman et al., 2007; Wang & Barney, 2006; Williamson, 1985). A study showed that firms will pay a premium for highly specific human capital considered valuable to similar firms, when executives leave a firm move to other similar firms (Sturman et al., 2007). The compensation premium from similar firms acts as an incentive for an executive to acquire a higher level of highly specific human capital (Sturman et al., 2007).

From another perspective, due to knowledge depreciation, which is the rate that current knowledge within the firm becomes less valuable, firms are willing to pay a premium to acquire new knowledge coming from outside, as employees from outside may have more varied experiences across different contexts than someone who worked only at one firm (Mithas & Krishnan, 2008). Transferable forms of human capital are valued differently depending on the degree of specificity (Bailey & Helfat, 2003; Harris & Helfat, 1997; Parent, 2000; Sturman et al., 2007). Competitors would pay a premium for highly specific human capital that an employee can bring to the firm over generic human capital that could be useful (Sturman et al., 2007). Firms operating in different industries would only value the most general human capital such as general management skills, leadership abilities, which are not rare human capital endowments (Sturman et al., 2007). With a particular focus at the executive level, research suggests
that hiring firms, especially competitors, value the transferable component of executives’ human capital and the value is revealed in the compensation offered to lure executives to join the firm (Combs & Skill, 2003; Gardner, 2005; Harris & Helfat, 1997; Sturman et al., 2007; Wezel, Cattani, & Pennings, 2006) and hence firms would provide greater compensation to executives who have higher levels of transferable human capital (Harris & Helfat, 1997; Sturman et al., 2007). General human capital would be offered lower premium to executives changing firms (Sturman et al., 2007).

A firm’s productivity-focused strategy may determine which form of human capital is the most valued and hence compensated the highest (Schulz, et al., 2013). The relationship between the forms of human capital and compensation, contrast due to how each form of human capital contributes to firm productivity, a notion supported by marginal revenue product theory (Schulz, et al., 2013). To increase productivity, a firm must entice employees to acquire more general and task-specific human capital, because general and task-specific human capital are directly related to the current job of an employee and hence the productivity of the firm (Schulz, et al., 2013). In order to entice the employees, the firm offers higher compensation for higher levels of general and task-specific human capital (Schulz, et al., 2013). Greater levels of general human capital improve an employee’s ability to execute difficult and intricate tasks, making the employees more efficient and more capable than employees with less general human capital, which is why firms reward employees for higher levels of general human capital, with higher compensation (Becker, 1975; Schulz, et al., 2013). Task-specific and non-task-specific human capital enhances an employee’s impact on firm productivity differently to general human capital (Schulz, et al., 2013). An employee with broad experience in a previous job will have less productive capacity in the current job within the same firm (Harris, Kacmar, & Carlson, 2006; Schulz, et al., 2013). Experience from specific tasks in the previous job will only make an employee in the new job productive to the extent that the new job makes use of the previous job’s specific tasks (Harris et al., 2006; Lazear, 2003; Schulz, et al., 2013). Most of the human capital gained in the previous job will be not be used in the new job (Marchent, 1989; Schulz, et al., 2013; Singley & Anderson, 1989). Hence productivity of the firm would increase from an employee’s task-specific experience attained in the current job over many years of non-task-specific experience in the previous job (Clement et al., 2007; Schulz, et al., 2013). Since non-task capital is not applicable to
the current job only, investment in non-task capital will not increase firm productivity and hence there is no reason for the firm to offer more compensation in this regard (Schulz, et al., 2013). Firms wanting to increase productivity would reward task-specific human capital over non-task-specific human capital, thereby associating compensation with task-specific human capital instead of non-task-specific human capital (Schulz, et al., 2013). Let that be said, results from a study conducted by Schulz, et al., (2013), showed that both task-specific and non-task-specific human capital was associated with higher employee compensation.

Experience and education are signals to organisations about employees’ levels of knowledge and skills and the labour market rewards employees for acquiring more human capital with access to better jobs, higher earnings and greater incentives to remain in their jobs (Maloa & Rajah 2012; Ng & Feldman 2010).

2.8.1.5 Measuring human capital

One existing instruments with having a three item scale (with a Cronbach alpha of 0.706) were used, to measure Human Capital (HC) based on the literature of Eyber (2010). The wording on all the items was modified.

| HC 1 | The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business. |
| HC 2 | The family members have the appropriate business experience that enables them to contribute to the functioning of the family business. |
| HC 3 | Family members are competent in performing their tasks in the family business. |

2.8.1.6 The case study proposition

The higher the employees’ education level, the greater the compensation (Bae & Patterson, 2013; Baker, 1997; Becker & Lindsay, 1994; Mani 2013; Martin and Torres, 2000; Blundell, Dearden and Sianesi, 2004; Card, 2000; Chevalier, Harmon, Walker, Zhu 2004; Schulz, et al., 2013; Topel, 1991). Employee compensation increases with
longer firm tenure as employees accumulate experience in the current job and other jobs in the firm (Parent, 2002; Schulz, et al., 2013). Based on the relationship between education, work experience and compensation, it is proposed that:

| P 1 | Human Capital will positively affect Fair Family Employee Compensation. |

2.8.2 Outside Advice

2.8.2.1 The definition and importance of outside advisors

Nicholson, Shepherd, & Woods (2009) defined an outside/external business advisor as the following:

“An external business advisor is an individual or company that is not directly involved in the operations or ownership of your business, and provides knowledge, advice and/or support for issues relating to your business.”

Advisory committees remain vital for family businesses to succeed (Diederichs, 2014; Visser et al., 2014). Business advice is particularly important to small and medium enterprises (SMEs), as the use of an external advisor has been linked to financial growth of SMEs (Bennett & Robson, 1999a). External advisors are often seen to play an essential role in the growth and sustainability of small and medium sized enterprises (Barbera & Hasso, 2013; Gibb, 2000; Robson & Bennett, 2000). Previous research on advisors had revealed that external advisors, advisory boards and internal advisors are important resources for family firms (Astrachan & McMillian, 2006; Kaye & Hamilton, 2004; LaChapelle & Barnes, 1998; Reddrop & Mapunda, 2015; Strike 2013; Strike, 2012). External business advice has been highlighted by many as crucial to firm performance (Barbera & Hasso, 2013; Chrisman, Chua, Sharma, & Yoder, 2009; Chrisman & McMullan, 2004; Gibb, 2000; Lussier, 1995; Lussier & Halabi, 2010; Lussier & Pfeifer, 2002). Family firms require the services of business advisors (Nicholson, Shepherd & Woods, 2009). In the family business world, advisors commonly engage in strategy formulation, planning, succession and conflict resolution (Strike, 2013; Strike, 2012).
For the purpose of the present study, the variable “outside advice” refers to the extent to which family businesses make use of expert outside advice in assisting with advising the family and family business on compensation issues.

2.8.2.2 Outside advisors and the family business

Family businesses often make use of external consultants and outside advice from economists, fiscal experts, accountants, commerce experts, jurists and industrial psychologists, to assist the board of directors or to assist the business as an alternative structure to the formal board of directors (Adendorff, 2011). The blending of family and business means that these firms could potentially benefit not only from engaging external business advisors to offer the traditional “hard” advisory services such as accountancy and law, but also “soft” services from psychology and counselling backgrounds such as mediation and conflict resolution (Nicholson, Shepherd, & Woods, 2009). Family Consulting (seeking assistance from outside advisers to resolve family problems) is a method for resolving a wide array of family problems, including those that arise from a family’s involvement in the business (Chua, Chrisman, & Sharma, 2003). Family firm advisors have expertise and skills that can significantly contribute to the long-term success of family-owned and/or family-managed enterprises (Reay, Pearson, & Gibb Dyer, 2013). As do many companies, family firms may use advisors to obtain expertise, additional perspectives, or other types of input that the family business owners and/or managers are not able to provide (Naldi, Chirico, Kellermanns, & Campopiano, 2015).

Due to the overlap of family, business, and ownership (Naldi et al., 2015; Tagiuri & Davis, 1996), family firms' need for advisory assistance is unique (Naldi et al., 2015; Nicholson, Shepherd, & Woods, 2009; Strike, 2012; Upton, Vinton, Seaman, & Moore, 1993). Advisors serving family firms face challenges that are different from those addressed by other advisors (Davis, Dibrell, Craig, & Green, 2013; Naldi et al., 2015), since the advisors have to work at the interface of family, business, and ownership (Naldi et al., 2015). A major challenge that advisors face in family firms is to understand the needs of family members within the overlapping family and business systems (Mathieu et al., 2010; Naldi et al., 2015).
In family businesses, added complexities often arise due to the combined aim of maintaining and developing both the business itself and family relations (Leary, 2013; Strike, 2013). The advising process differs in family firms as advisors must navigate themselves through overlapping family and business systems that result in intersecting personal and business conflicts (Bork et al., 1996; Strike, 2013), increased cognitive challenges, long-term emotional needs, and complex interrelationships with conflicting stakeholder interests (Gersick et al., 1997; Jaffe & Lane, 2004; Strike, 2013). In a similar way to non-family companies use of external management consultants; it is often the mainly independent voice and support of trusted advisers to family firms that can provide the necessary frameworks and tools to resolve issues (Leary, 2013; Strike, 2013).

What differentiates family business advisors from the non-family firm counterparts is how the advisors factor emotions into working with family business clients (Strike 2013). Proper attunement to a business family’s ability to deal with challenging emotional issues, together with the willingness and desire to do so, constitute the unshakable foundation on which family business consulting engagements stand or fall (Strike, 2013). It takes a combination of empirical data, self-knowledge, psychological insight, intellectual rigour, empathy, daring and discipline. (Strike, 2013; Vago, 2006). Authors have identified fundamental differences between family and non-family firms that have implications for the advising process, how advisors intervene and what advising tools are utilised in the family business in particular (see Table 2.6; Upton, Vinton, Seaman & Moore, 1993; Strike, 2013).

<table>
<thead>
<tr>
<th>Nature</th>
<th>Family firm</th>
<th>Non-family firm</th>
<th>Implications for family firm advisors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Emotional</td>
<td>Rational</td>
<td>Need to be concerned with and manage emotions of family members.</td>
</tr>
<tr>
<td>Membership</td>
<td>Involuntary</td>
<td>Voluntary</td>
<td>Need to balance family dynamics and conflicts as members cannot simply walk away.</td>
</tr>
</tbody>
</table>

Table 2.6: Differences in family and non-family firms
### Table

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Based on norms of loyalty and reciprocity.</th>
<th>Based on contribution to the firm</th>
<th>Need to approach issues in a nonjudgmental manner and recognize different means of assessment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orientation</td>
<td>Inwardly oriented to protect, nurture, and develop members.</td>
<td>Profit oriented</td>
<td>Advising context is more personal and is not simply about firm effectiveness and efficiency.</td>
</tr>
<tr>
<td>Penchant to change</td>
<td>Views change as a threat to safety and security for family.</td>
<td>Views change as an opportunity for growth and advancement.</td>
<td>Need to balance immediate change needs of firm and long-term emotional needs of family.</td>
</tr>
</tbody>
</table>

*Source: Researchers own construction adapted from Strike, 2013.*

### 2.8.2.3 The role of outside advisors

While advisors are important for any type of company, family firms’ distinctive character calls for specific advising needs and specific advising skills (Naldi et al., 2015). Many advisors offer specialty services particularly designed to deliver appropriate and helpful advice and support for different types of family enterprise (Reay et al., 2013). Such expertise may be provided by a range of professionals, including (but not limited to) attorneys, accountants, family business consultants, family office directors, family philanthropy managers, financial services advisors, management consultants, psychologists, and family therapists (Reay et al., 2013). By using an external advisor, SMEs may mitigate the deficiencies the firms face due to a lack of internal resources (Barbera & Hasso, 2013; Bennett & Robson, 2003). For family firms, this issue is of elevated importance as the firms often exhibit certain characteristics that affect the need for external advice and the family aspect may increase the complexity of the advisor engagement (Barbera & Hasso, 2013).

Family member advisors devote significant efforts to build “a group of talented, motivated and loyal employees” to guarantee the firm’s prosperity over time (Miller et al., 2008, Naldi et al., 2015). The advisors may encourage family owners and managers to “build enduring networks and associations with clients and other suppliers of valuable resources,” reinforcing the company’s market share (Miller et al., 2008, Naldi et al., 2015) and enhancing performance by leveraging family firm specific
assets (Naldi et al., 2015). The firms also use external consultants whose professional advice may facilitate the succession planning process (Chaganti, Chaganti, and Malone, 1991; Harveston et al., 2015). When conflict is so severe and intractable that it threatens the effective operation of the business, engaging professional consultants who specialise in family firms may be necessary (Alderson, 2015). In the case of dysfunctional interpersonal conflict, a family business consultant could utilize a psychologist or marriage and family therapist to work through the issues (Alderson, 2015).

The Leary (2013) and Reay et al., (2013) review of the role of family firm advisors identifies four important themes arising from analyses of such roles and these are linked to relationships, socio-emotional wealth, variety and impact.

### 2.8.2.3.1 Impact

Advisors can have a positive impact on firm performance (Leary, 2013; Reay et al 2013) and family dynamics (Kaye 2005; Leary, 2013) by building trust and resolving conflict (Leary, 2013). Areas of particular importance include the integration of family members into the business and the issues surrounding leadership succession (Leary, 2013). Clearly, employing an external advisor for a specific task or to provide guidance on particular issues can be expected to add value as it would perhaps otherwise not be requested (Leary, 2013).

### 2.8.2.3.2 Relationships

A successful advisory role is often dependent on forming a good relationship with the client (Leary, 2013). It is also important to make a distinction between good and effective relationships, where the former can infer amiability and the latter a focus on professionalism and impact, all of which are possible in the right circumstances (Leary, 2013). This suggests that both the character, including an empathetic nature (Davis, Dibrell, Craig & Green, 2013; Leary, 2013) and skill-set of a family business advisor can be at similar levels of importance depending on the issue at stake (Leary, 2013). In some cases, the advisor may achieve what has been coined a Most Trusted Advisor status (Leary, 2013; Strike 2013) where the advisor may become progressively more
involved in the intimate family dealings of the firm as well as in matters relating to its performance (Leary, 2013). As members of the owner family, family firm advisors are concerned about the firm “because it is part of their collective patrimony and is often the main asset of the family” (Arregle, Hitt, Simron, & Very, 2007; Naldi et al., 2015) and therefore act as stewards toward the firm (Naldi et al., 2015).

2.8.2.3.3 Variety

Organisations of all sizes and types often use advisors or consultants to offer specific expertise or new perspectives (Leary, 2013). The same is true of family firms who use many different types of advisors and consultants for many different aspects of the firm’s activities and typically the advisors fit into four groups: Legal advisors, financial advisors, behavioural advisors and management advisors (Leary, 2013; Reay et al., 2013). Some family-business advisors specialise in providing advice on primarily externally-related issues such as marketing and sales, while others focus on internal matters such as management skills and teamwork and some offer support on issues that cover the full spectrum of external trends and internal complexities such as strategy and business development (Leary, 2013). Barbera & Hasso (2013) and Goederham et al., (2004) find that when SMEs are faced with serious competition, firms often use the firm’s accountant’s advice to try to attain a competitive advantage. Furthermore, Barbera & Hasso (2013) and Carey (2005) find that accountants also provide advice on marketing and sales decisions, which potentially increase sales growth. Lawyers help with succession planning, conflict resolution, transfer of ownership and/or with the dissolution of family businesses (Kaye & Hamilton, 2004).

2.8.2.3.4 Socio-emotional wealth

The socio-emotional wealth of a family firm embodies the non-financial aspects of the firm that contribute towards the needs of the family and may include, for example, the preservation of the original aims and values of the family founders, the development of family reputation or the recognition of the family for philanthropic purposes (Berrone, Cruz and Gomez-Mejia, 2013; Leary, 2013).
2.8.2.4 Types of advisors

The advisors are grouped under three general categories: formal advisors, informal advisors, and family firm boards (Strike, 2012). Family firms need not only a high range of expertise, but also a great number of advisors: accountants, attorneys, family office consultants, financial services advisors, management consultants, family philanthropy managers, psychologists and family therapists (Naldi et al., 2015; Reay et al., 2013).

2.8.2.4.1 Formal advisors

Formal advisors are those hired by the family or firm and may be external to the firm or hold an internal position (Strike, 2012). Drawing from Tagiuri and Davis’s (1982) three-circle model (Strike, 2012), advisors may work in one or more of the three systems, see Figure 2.2 (Strike, 2012).

Barbera & Hasso (2013) stipulated the need for external advisors:

- The human capital available in family firms is often restricted by the choice to give family members preference in recruitment (Sirmon & Hitt, 2003).
- A less diversified workforce as family employees may not hold all the necessary skills and knowledge needed within the firm (Schulze, Lubatkin, Dino, & Buchholtz, 2001).
Family members may hold better firm-specific knowledge, but outside applicants may hold better general business knowledge and bring outside perspectives and expertise.

An external resource can in a way become internalised by embedding that resource within the family firm, making it a potential source of competitive advantage.

The family firm can make use of an external accountant, as an example, which holds explicit knowledge regarding accounting standards and processes, as well as the tacit knowledge to apply the knowledge in the business world (Barbera & Hasso, 2013; Everaert, Sarens, & Rommel, 2007). Such tacit knowledge can be a valuable resource as it takes a considerable amount of time to attain (Barbera & Hasso, 2013). By retaining the services of the external accountant, the family firm may possibly fill a key resource gap (Barbera & Hasso, 2013). Gurd & Thomas (2012) stipulated five roles for the external accounting advisor, which are set out below:

- Diagnosis (Bork et al., 1996; Hutcheson, 2000), refers to when the external financial adviser plays a part in a frank assessment of historical financial performance and future scenario planning.
- Cash management (Hutcheson, 1999), refers cash management issues such as liquidity as liquidity is an important concern in family business with advice being required from both the family and the business perspective.
- Corporate finance (Hutcheson, 1999), refers to the external adviser providing significant support in analysing expansion plans, acquisition targets and divestments and in addition the advisors can advise on the best forms of external finance.
- Succession planning (Michel, 1999; Hutcheson, 1999), noting that this role could be supported by human resource advisers, lawyers and general business advisers, however there are usually important financial issues, including longer-term financial plans and taxation implications, which need to be factored into the succession planning process (Karofsky and Mills, 1995).
- Remuneration advice (Jaffe and Lane, 1997), it must be argued that this may involve setting policy to ensure that employment and remuneration are linked to
performance rather than family membership or ownership positions (Bork et al.,
1996; Jaffe and Lane, 1997; Marer, 2000) and unless sound remuneration policies
are in place neither the family member, nor the firm, will achieve the desired
outcomes.

2.8.2.4.2 Informal advisors

Informal advisors are those not formally engaged with the family or firm. Found within
and outside the family, they include trust catalysts (LaChapelle & Barnes, 1998; Strike,
2012), spouses (Gillis-Donovan & Monyihan-Bradt, 1990; Strike, 2012), and mentors
(Boyd, Upton, & Wircenski, 1999; Strike, 2012). Building on Boyd, Upton, and
Wircenski (1999) and Naldi et al., 2015 work, family member advisors comprise those
members of the owner family who are not employed in the business, but provide advice
or guidance to the business on a formal or informal basis. Since family firms are often
reluctant to provide non-family members access to information (Chua, Chrisman, &
Sharma, 2003; Naldi et al., 2015; Ward, 1997), family firms often rely on members of
the owner family as advisors (Fiegener, 2010; Naldi et al., 2015).

Family owners may also seek advice from other family firms (Lester & Cannella, 2006;
Strike, 2012), peer advisors (Lank & Thomassen, 1991; Pare-Julien, 2006; Strike,
2012), or informal networks, relatives, and friends (Strike, 2012; Yan & Sorenson,
2006) who have experience that is relevant to their unique situation (Strike, 2012).

2.8.2.4.3 Family firm boards

Family firm boards are a valuable source of advice (Alderfer, 1988; Corbetta & Salvato,
2004; Strike, 2012; Ward, 1988). Family firm boards may consist of either a board of
directors or an advisory board (Strike, 2012). The advisory board is a group of
experienced and respected individuals that many family businesses form when the
firm’s own boards of directors remain only composed of family members and company
senior managers (IFC, 2011). Boards of directors have a legal standing, voting rights
and provide formal oversight, whereas advisory boards do not have such a standing
or rights and are primarily used to provide advice (Strike, 2012; Tillman, 1988). The
advisory board is created to compensate for shortcomings of the board of directors
without the family diluting any control over decision-making or being required to share information with outsiders (IFC, 2011). Through both advisory boards and boards of directors, family firms gain the benefits of multiple advisors with diverse expertise (Strike, 2012). Boards provide counsel regarding strategy, planning, firm performance, compensation, family conflicts, and succession (Heidrick, 1988; Poza, Johnson, & Alfred, 1998; Schipani & Siedel, 1988; Strike, 2012).

2.8.2.5 The most trusted advisor

There often exists, either within or external to the firm, advisors who are not brought in as advisors or consultants per se but who act in an ongoing trusted advising capacity (Marcus, 1983; Strike 2013); hold the role of family business accountant, lawyer, or tax advisor (Nicholson, Shepherd, & Woods, 2010; Strike, 2013) who have access to private financial information that overlaps both the family and the firm; they may oversee the family office, providing counsel on both business and family matters (Junge, 2006; Strike 2013); or they may retain a seat on the family’s advisory board or board of directors (Lester & Cannella, 2006; Strike, 2013). While the goal of many advisors is to complete the project and end the engagement with the client, trusted advisors are often life long and are deeply embedded within the family (Strike, 2013). Strike (2013) notes the contributions of the most trusted advisor:

- To facilitate an environment where family members could develop the necessary skills to work with one another.
- Providing independent objective advice.
- Facilitates the decision-making processes so family members could operate as a group.

Among the various types of advisors available to SMEs, accountants are more likely to hold the role of the most trusted advisor (Barbera & Hasso, 2013; Berry, Sweeting & Goto, 2006).
2.8.2.6 Choosing the right advisor

When choosing the right advisor the family business needs to consider the following:

- Look at the characteristics (personal traits) of the advisor (Strike, 2012)
- Look at the competencies (specific skills and expertise) of the advisor (Strike, 2012)
- Establish criteria (Mathieu, Strassler & Pearl, 2010; Strike, 2012)
- Determine what issues and gaps that need to be solved (Mathieu, Strassler & Pearl, 2010; Strike, 2012)
- Define the benchmarks (Mathieu, Strassler & Pearl, 2010; Strike, 2012)
- Choosing via the word of mouth is a common method but can result in getting an advisor that does not fit the business (Strike, 2012)
- Choosing via referrals, advisors are selected based on personal references and integrity (Hamilton, 1992; Strike, 2012)
- Advisors for board membership are frequently suggested by other board members (Horan, 2003; Mathile, 1988; Strike, 2012).

2.8.2.7 The process of advising

There is a need to attend to both process and content in order to concurrently manage the conflict between the practical immediate needs of the firm and the longer term emotional needs of the family (Koiranen, 2003; Metzger, 1988; Strike, 2012). The following is the process of advising (Strike, 2012): The contracting phase consists of the initial contact to determine expectations, issues, approach, fit and a contract that defines the project (Gersick et al., 1997; Lane, 1989; Strike, 2012). During the assessment phase, advisors gather information through interviews, gain an understanding of the firm, governance and family, establish trust and develop insights into the problem (Gersick et al., 1997; Strike, 2012). In the planned change and implementation phase, advisors organise and share findings with the family firm members, develop recommendations, and initiate a course of action (Hilburt-Davis & Dyer, 2003; Strike, 2012). The evaluation and maintenance phase is ongoing (Strike, 2012).
2.8.2.8 Outside Advice and Compensation

2.8.2.8.1 Measuring outside advice

In the present study, a three item instrument was constructed from a five-item existing instrument, derived from the literature of Adendorff (2011); Neubeauser and Lank (1998); Sharma (1997) and Upton et al., (2001) (has a Cronbach-alpha of 0.823), with the wording of two items were modified. The instrument is called outside advice (OA) and is meant to measure whether family firms utilise outside advice, particularly for compensation issues.

<table>
<thead>
<tr>
<th>OA 1</th>
<th>There are outside consultants advising the family business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>OA 2</td>
<td>When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.</td>
</tr>
<tr>
<td>OA 3</td>
<td>When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be.</td>
</tr>
</tbody>
</table>

2.8.2.8.2 The case study proposition

Outside advisors must be aware of both, process and content, deal with complex emotions, manage family and business conflicts and balance conflicting stakeholder interests (Gersick, Davis, Hampton, & Lansberg, 1997; Hilburt-Davis & Dyer, 2003; Jaffe & Lane, 2004; Naldi et al., 2015 Strike, 2013). When conflict is so severe and intractable that it threatens the effective operation of the business, engaging professional consultants who specialize in family firms may be necessary (Alderson, 2015). Since compensation is one of the causes of family business conflict (Evans, 2005) and remuneration advice is one of the roles of an external advisor (Gurd & Thomas, 2012), it is proposed that when a family business utilises outside advice, fair family employee compensation can be achieved:

| P 2  | Outside Advice will positively affect Fair Family Employee Compensation. |
2. 8.3 Succession Planning

2.8.3.1 Defining Succession Planning

Davis (1968) and Harveston et al., (2015) noted in the context of family business, succession involves the transference of leadership for the purposes of continuing family ownership. Succession planning was defined as (Barnett & Davis, 2008; Garman & Glawe, 2004, p. 120):

“A structured process involving the identification and preparation of a potential successor to assume a new role”

Succession Planning is a process where firms plan for the future transfer of ownership and occurs when the firm owner wishes to exit from the firm nevertheless wants the business to continue, with the motive to transfer ownership of the firm to any of the family members rather than shutting down the business altogether (Mutunga & Gachunga, 2013). Succession within the family is only one among many possibilities, although research suggests that the majority of family enterprise leaders want to retain family control past the leader’s tenure (Astrachan, Allen and Spinelli, 2002; Astrachan, Klein and Smyrnios, 2002; Donckels and Lambrecht, 1999; Duh et al., 2009). Except where otherwise specified, the term succession refers to situations where both the incumbent who relinquishes managerial control and the successor who takes it over are family members (i.e., related by blood or by law) (De Massis et al., 2008). As a comprehensive definition, succession planning can be defined as (Mehrabani & Mohamad, 2011; Sambrook, 2005):

“An attempt to have a plan for the right number and quality of key position employees, including managers to cover retirements, promotions, serious illnesses, death or any new job, which may be created in the future of the organisation’s plans.”
2.8.3.2 Importance of succession planning

Succession is widely recognised as the most important issue that most family firms face (Evans, 2005; Handler, 1994; Harveston et al., 2015; Ibrahim, Soufani, & Lam, 2001). For a family business to outlive the founder, the business must experience succession (Harveston et al., 2015). Researchers have long stressed the importance of succession planning in ensuring the continuity and prosperity of a business (Brockhaus, 2004; Christensen, 1953; Motwani, 2006; Ward, 1987; Ward, 2000). Succession planning is critical to family business sustenance but is often marred by tensions and postponements (Gilding et al., 2015). Succession constitutes the central issue that must be addressed in order for the family business to survive and be passed on through generations (Applegate, 1994; Harveston et al., 2015). A failure to appropriately prepare for succession has been cited as a major impediment to survival (Beckhard and Dyer, 1983; Handler, 1988; Harveston et al., 2015). Thus, it is not surprising that management succession is the most important concern of family business leaders (Chua, Chrisman, & Sharma, 2003; De Massis et al., 2008) and why succession planning, remains vital for family businesses to succeed (Diederichs, 2014; Visser et al., 2014). A proper succession process affords family firms the opportunity to select effective leaders who are capable of rejuvenating the business (Ibrahim, Soufani, & Lam, 2001; Ibrahim, McGuire, Ismail, & Dumas, 1999; Ward, 1987).

One of the human resource tools which can help the current and future needs of organisations, is succession planning (Mehrabani & Mohamad, 2011). Succession planning is a helpful approach to find the appropriate people who are needed for leadership positions or other key positions in the organisations (Collins, 2001; Mehrabani & Mohamad, 2011). Succession planning systems are intended to help organisations manage the talent pipeline (Barnett & Davis, 2008). Succession planning is used as an essential and strategic tool for the organisations to attract, develop and retain talent in the workforce (Mehrabani & Mohamad, 2011; Ready & Conger, 2007).
The main objectives of succession planning are (Mehrabani & Mohamad, 2011):

- Developing people to increase their managerial power.
- Recognising high potential employees and providing them with a developmental opportunity.
- Reducing the time needed to fill management positions.
- Attracting and maintaining individuals who are highly competent.

The most comprehensive succession planning systems accomplish two things (Barnett & Davis, 2008):

- Provide the processes and structures for identifying and understanding the leadership talent in the organisation.
- Emphasize and facilitate ongoing learning and development for the organisation’s most talented leaders.

### 2.8.3.3 Problems faced in succession planning

In the family firm, the intimate connection between family and business is considered natural and compatible (Davis, 1968; Harveston et al., 2015) and the connection extends to succession across generations, which, although natural, can be a difficult process (Harveston et al., 2015 Farquhar, 1989; Vancil, 1987). Succession planning appears to be left to chance by many family-owned firms (Leon-Guerrero, McCann III & Haley, 1998; Mandl, 2004; Motwani, 2006; Rue and Ibrahim, 1996). Research results show that successions are often not planned in due time (Bjuggren and Sund, 2001; Duh et al., 2009; Sharma, Chrisman & Chua, 2003). The succession process should be initiated very early in the offspring’s life (Davis, 1968; Ibrahim, Soufani, & Lam, 2001; Stavrou, 1999; Ward, 1987). Those who fail to plan, plan to fail and the resulting conflicts and tensions from poorly planned and executed handovers can and often do, at best result in the erosion of significant value for the family and at worst precipitate the demise of the entire company (PwC, 2014). The neglect of succession planning is due to emotions generated by the process, since incumbents are forced to face mortality and makes other family members confront the need for change
(Beckhard and Dyer, 1983; Dyer, 1986; Lansberg, 1988; Le Breton-Miller, Miller & Steier, 2004; Motwani, 2006; Sten, 2004). Family succession can be a highly emotional and contentious issue, which can lead to major rifts within the family and the business as participants choose sides (Harveston et al., 2015). South African family businesses generally do not engage in succession planning (Visser et al., 2014), with the majority of family businesses not having a formal succession plan (Maas and Diederichs, 2007; Visser et al., 2014). Leadership transition in either ownership or business management is a critical challenge for all business systems and is particularly so in family firms (Van der Heyden et al., 2005). Three kinds of problems are generally linked to the preparation of business transfers (Duh et al., 2009; EC, 2002):

- Psychological and emotional problems (Duh et al., 2009; Kets de Vries, 1993; Morris, Williams, Allen & Avila, 1997; Bjuggren and Sund, 2001; Sharma et al., 2001; Dyck, Mauws, Starke & Mischke, 2002).
- The complexity of the succession process and the fact that the owner-manager has no (or limited) experience with, or knowledge about, handling this situation (Duh et al., 2009; Morris et al., 1997; Dyck et al., 2002; Malinen, 2004).
- National legislation, in particular company law, taxation and administrative formalities (Bjuggren and Sund, 2001; Duh et al., 2009).

2.8.3.4 First-generation and succeeding generation family firms

Table 7 was compiled based on the literature of Beck et al., (2011) and describes differences between first-generation family firms and succeeding generation family firms. From the table it can be deduced that as a family business moves from the first generation to succeeding generations, so the management style becomes more professional, decision making decentralises, there is more formalisation, a lot emphasis is placed on growth and higher risk taking by the new owners and managers occurs. Explanations on the different aspects are given in table 2.7.
Table 2.7: Differentiation between first-generation family firms and succeeding generation family firms

<table>
<thead>
<tr>
<th>Ownership structure and management</th>
<th>First-generation firm</th>
<th>Succeeding generation firms</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>First and founding generation</td>
<td>Family members of second or later generations</td>
<td>Beck et al., (2011)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management style</th>
<th>First and founding generation</th>
<th>Succeeding generation firms</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paternalistic, informal and subjective</td>
<td>Professional</td>
<td>Beck et al., (2011); McConaughy and Philips (1999); Dyer (1988)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Decision making</th>
<th>First and founding generation</th>
<th>Succeeding generation firms</th>
<th>Authors</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Degree of professionalism and formalisation</th>
<th>First and founding generation</th>
<th>Succeeding generation firms</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>High - face different challenges in maintaining and enhancing the business</td>
<td>Beck et al., (2011); Gersick et al., (1997); McConaughy and Philips (1999); Sonfield &amp; Lussier (2004)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk taking</th>
<th>First and founding generation</th>
<th>Succeeding generation firms</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-averse: founder’s desire to keep the business within the family and to maintain family wealth</td>
<td>More risk-taking: need to push for new ways to do things to move beyond the legacy of the previous generation</td>
<td>Beck et al., (2011); Kellermanns &amp; Eddleston (2006); Kepner (1991); Handler (1992); Sharma et al., 1997; Kraus et al., 2011</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Orientation</th>
<th>First and founding generation</th>
<th>Succeeding generation firms</th>
<th>Authors</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Growth</th>
<th>First and founding generation</th>
<th>Succeeding generation firms</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater emphasize: ensure the firm’s survival</td>
<td></td>
<td>Beck et al., (2011); McConaughy and Philips (1999); Kellermanns,</td>
<td></td>
</tr>
</tbody>
</table>
The basic Three-Stage model (See: Table 2.8.) summarises the family business life cycle as: the Founder(s) Stage; the Sibling Partnership Stage and the Cousin Confederation Stage (IFC, 2011; Ward 1991). The table shows as the firm moves from one generation to the next, how ownership and governance issues take fold. It must be noted that succession is a dominant shareholder issue in both stage 1 and stage 2.

Table 2.8: Three-stage model

<table>
<thead>
<tr>
<th>Ownership Stage</th>
<th>Characteristics</th>
<th>Dominant Shareholder Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1: The Founder(s)</td>
<td>Ownership with founder(s).</td>
<td>• Leadership transition</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Succession</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Estate planning</td>
</tr>
<tr>
<td>Stage 2: The Sibling Partnership</td>
<td>Management and ownership have been transferred to the children of the founder(s).</td>
<td>• Maintaining teamwork and harmony</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sustaining family ownership • Succession</td>
</tr>
<tr>
<td>Stage 3: The Cousin Confederation</td>
<td>Complex as more family members are directly or indirectly involved in the business, including children of the siblings, cousins and in-laws.</td>
<td>• Allocation of corporate capital: dividends, debt, and profit levels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Shareholder liquidity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Family conflict resolution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Family participation and role • Family vision and mission</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Family linkage with the business</td>
</tr>
</tbody>
</table>

Source: Researchers own construction adapted from IFC, 2011; Ward, 1991.

2.8.3.5 Succession planning process

2.8.3.5.1 The founder / incumbent

Founders of family firms are entrepreneurs, having perceived an opportunity through the creation of a new firm (Aldrich and Cliff, 2003; Kraus et al., 2011). The incumbent is the person who holds the top management position in a family business and who must relinquish that position before another family member can take over (De Massis
et al., 2008). Incumbents are often unable to let go of the business or nurture and train the incumbent’s children to take the incumbents place (Gilding et al., 2015). Family-business founders find it difficult to give up decision-making authority to family members, especially to children and grandchildren (Katz and Green, 2014; Visser et al., 2014).

Owners/founders may resist succession planning because:

- The owner feels threatened, perhaps, by the fear of losing control (Harveston et al., 2015).
- Founder’s strong sense of attachment to the business (Ibrahim, Soufani, & Lam, 2001).
- Fear of retirement and death (Ibrahim, Soufani, & Lam, 2001).
- Lack of other interests (Ibrahim, Soufani, & Lam, 2001).
- The desire to avoid the preferential treatment of children (Harveston et al., 2015).
- A loss of identity and power in the firm that may also result in loss of stature within the community (Harveston et al., 2015).

By implication, the incumbent may place individual self-interest above familial goals (Gilding et al., 2015).

2.8.3.5.2 The successor

The successor is any family member who could assume managerial control of a family business when the incumbent steps down (De Massis et al., 2008). Fishman (2009) and Visser et al., (2014) argue that the appropriate successor needs to have a passion for the business, the aptitude to run it, a vision for future business growth and development and an empathetic personality (Visser et al., 2014). It is suggested that offspring competence (Ibrahim, Soufani, & Lam, 2001; Lansberg & Astrachan, 1994), as well as personality traits of the offspring (Goldberg & Wooldridge, 1993; Ibrahim, Soufani, & Lam, 2001), are critical attributes that influence the choice of a successor in family firms (Ibrahim, Soufani, & Lam, 2001).
### 2.8.3.5.3 Succession planning process

The succession process is the actions, events and developments that affect the transfer of managerial control from one family member to another (De Massis et al., 2008; Sharma, Chrisman, Pablo & Chua, 2001). The succession process in family-owned firms involves numerous participants (Motwani, 2006). Included is the process that occurs between the times when the dominant coalition in the family business forms the intention for succession, to the time when the incumbent relinquishes managerial control (De Massis et al., 2008). The dominant coalition could be a single individual, as is often the case in a founder-controlled family business, or many individuals, as might be the case in sibling partnerships or cousin consortiums (De Massis et al., 2008; Gersick, Davis, Hampton, & Lansberg, 1997). For the succession process to unfold smoothly, key participants must come to feel comfortable with one another (Motwani, 2006).

Succession is triggered by (Bjuggren & Sund, 2001; Duh et al., 2009; EC, 2002):

- The owner-manager’s retirement.
- Personal decisions (early retirement, change of profession, interests, or change in the family situation, etc.).
- A changing competitive environment (changing markets, new products, etc.).
- Incidents (divorce, illness, etc.).

Researchers tend to agree that succession is more a process than an event of transferring ownership and management control to a successor (Duh et al., 2009). Good succession planning should be designed to meet the needs of the organisation, particularly what it needs to implement the firm’s strategy effectively (Barnett & Davis, 2008). Implementing the succession process is an important mechanism in providing the family business with identity, stability and continuity (Harveston et al., 2015). Succession in family firms includes the dynamics that precede and lead up to the actual transition, as well as the aftermath of the transition and the implications for the various involved people (Morris et al., 1996). Succession planning systems should be designed to be simple, flexible, and amenable to continuous improvement (Barnett &
Davis, 2008; Conger & Fulmer, 2003). The people involved can include family members both in and out of the firm, non-family employees, the founder owner, customers, suppliers and so forth (Morris et al., 1996).

The succession process has three specific steps, with the first step being the preparation of the offspring for the leadership roles at an early age before joining the family business (Ibrahim, Soufani, & Lam, 2001), the second step integrating the offspring into the family business in various roles (Ibrahim, Soufani, & Lam, 2001) and the last step assuming the leadership role in the family business (Ibrahim, Soufani, & Lam, 2001; Handler, 1994; Poutziouris & Chittenden, 1996; Stavrou, 1999).

Handler (1994) and Longenecker and Schoen (1978, 1975) noted the stage model for the succession process, which includes 7 stages of which 3 stages take place before the successor enters the business:

- The pre-business stage, where the successor may be only passively aware of some facets of the organisation.
- The introductory stage, where the successor may be exposed by family members to jargon and organisation members although he or she has not worked even on a part-time basis in the business.
- The introductory-functional stage, where the successor works as a part-time employee.
- The functional stage, where the successor enters the organisation as a full-time member.
- The advanced functional stage, where the successor assumes managerial responsibilities.
- The early succession stage, where the successor assumes the presidency.
- The mature succession stage where the successor becomes the “de facto leader” of the organisation.

The following are elements identified by a number of authors that would be included in a succession plan:
- Identifying the pool of potential successors (Christensen, 1953; Harveston et al., 2015).
- Designating of the successor (Christensen, 1953; Harveston et al., 2015).
- Notifying the successor designate and other management leaders (Christensen, 1953; Harveston et al., 2015).

2.8.3.6 Factors Affecting Succession in Family Businesses

2.8.3.6.1 Manager characteristics

Harveston et al., (2015) and Pfeffer (1983) argued that managerial succession is influenced by the demographic composition of organisational leaders.

2.8.3.6.2 Preparation level of heirs

The extent to which heirs have the requisite business skills, managerial capabilities, knowledge of company operations and attitudinal predisposition to handle the running of the business (Morris et al., 1996). The family leader needs to feel comfortable with the critical factors such as attributes of their successors, including skills and qualifications (Drozdow & Carroll, 1997; Motwani, 2006). The decision-making ability of the successor, the successor’s commitment to the business and interpersonal skills were noted important successor attributes (Dutta, 1997; Motwani, 2006; Sharma and Rao, 2000).

2.8.3.6.3 The successor

Factors that influence the offspring’s intention to join and take over the leadership role in family firms are factors such as the offspring life stage (Davis & Tagiuri, 1989; Ibrahim, Soufani, & Lam, 2001; Ward, 1987) as well as the gender and birth order (Handler, 1991; Goldberg & Wooldridge, 1993; Ibrahim, Soufani, & Lam, 2001; Lansberg, 1991). The successor could initiate the succession process, exerting pressure on the founder to relinquish power and control to the successor so as to take
over the leadership of the business, which can be seen as a rebellious form of succession (Lucky et al., 2011; Miller, Steier, & Breton-Miller 2003).

2.8.3.6.4 The founder

A lack of succession planning can be attributed to the founder (Ibrahim, Soufani, & Lam, 2001; Kets de Vries, 1993). This could be because the founder’s strong sense of attachment to the business, fear of retirement and death and lack of other interests (Dyer, 1986; Handler, 1990; Ibrahim, Soufani, & Lam, 2001; Lansberg, 1991; Levinson, 1971; Seymour, 1993). From another perspective, when the founder is the major influential, the founder may initiate the succession process, pressurising the potential successor to succeed the founder even when the potential successor is not ready or interested, thus can be seen as a conservative approach to succession (Lucky et al., 2011; Miller et al., 2003).

2.8.3.6.5 Age of incumbent

As the owner ages, his or her awareness of the need to prepare for the inevitable transition of ownership and control increases and along with it, the need for succession planning (Harveston et al., 2015).

2.8.3.6.6 Relationships among family and business members

This concerns trust and communication among family members and the potentially dysfunctional outcomes of sibling rivalries and/or failure to accommodate one another and the refusal of the head of the family business to let go, or to share power in incrementally increasing degrees, as well as his/her resentments of heirs (Morris et al., 1996).

2.8.3.6.7 Education

To the extent that planning for organisational succession is innovative and represents the current owner’s willingness to reduce his/her commitment to controlling the
organisation, then the relationship between the owner’s level of education and the extent of succession planning should be positive (Harveston et al., 2015).

2.8.3.6.8 Planning and control activities

Morris et al., (1996) noted the following to be considered: succession planning, tax planning, the use of outside board, the use of family business consultants/advisors and the creation of a family council.

2.8.3.6.9 Financial stake

It is expected that as an owner’s income and financial stake increase, so too will his or her willingness to engage in succession planning (Harveston et al., 2015).

2.8.3.6.10 Organisational characteristics

It is expected that there is a positive relation between the size of the organisation and the preparations for succession (Harveston et al., 2015).

2.8.3.6.11 Formality

Prior findings suggest that increased formality has a positive effect on the comprehensiveness of the succession-planning process in family businesses (Harveston et al., 2015).

2.8.3.6.12 Capital

The more accessible capital becomes and the greater the reliance on internal sources of capital, such as the family, then the more extensive the firm’s succession planning (Harveston et al., 2015).
2.8.3.6.13 External Variables

Morris et al., (1996) noted external variables influencing transition success, such as market demand conditions, the state of the economy, buy-out offers from potential suitors and financial pressures from lenders and other resource suppliers.

2.8.3.6.13.1 Factors preventing succession

Chrisman, Pablo, and Chua (2001) and Gilding et al., 2015 stipulated that the incumbents’ “inability to let go” is the single most cited barrier to effective family business succession. There might be many barriers and difficulties, which would delay the process and slow it down (Mehrabani & Mohamad, 2011). When family business succession has been prevented it means that, although there is both an intention for succession and a potential successor at the beginning of the succession process, either the intention or a potential family successor no longer exist at the end of the process, but it does not mean that the succession process has failed (De Massis et al., 2008). The following are factors that are responsible for preventing succession:

2.8.3.6.13.2 Individual factors

Problems occur due to factors that operate at the individual level (De Massis et al., 2008; Kets de Vries, 1985; Kets de Vries & Miller, 1984; Levinson, 1971) with the individuals being the successor and the incumbent (De Massis et al., 2008).

2.8.3.6.13.3 Relation factors

Bad interpersonal relationships are the cause of potential conflicts that obstruct succession (De Massis et al., 2008; Kepner, 1983; Lansberg, 1983; Rosenblatt, de Mik, Anderson, & Johnson, 1985). Bad relations preventing succession can occur amongst family members or between family and non-family members (De Massis et al., 2008).
2.8.3.6.13.4 Financial factors

Financial factors may play a role in preventing succession (De Massis et al., 2008; Parrini, 2000) and this includes factors related to limitations in the internal financial resources of the family business and the opportunity costs of obtaining external financing (De Massis et al., 2008).

2.8.3.6.13.5 Context factors

Includes factors associated with changes in the economic environment in which the family business operates (De Massis et al., 2008; Mehrabani & Mohamad, 2011).

2.8.3.6.13.6 Process factors

Since process factors deal with preparing the successor, evaluating the successor and communicating with the family firm’s key stakeholders, can exacerbate or ameliorate the individual and relation factors that might prevent succession (De Massis et al., 2008).

2.8.3.6.13.7 Other factors

Other obstacles to succession planning include organisational culture and strategy (Mehrabani & Mohamad, 2011).

2.8.3.6.14 The Incumbent’s Motives and Succession Planning

Lansberg (1988: 120) expressed it neatly, “Succession planning means making the preparations necessary to ensure harmony of the family and the continuity of the enterprise through the next generation” (Gilding et al., 2015). An incumbent leader’s succession plan is driven by two main motives, business continuity across generations and family harmony (Gilding et al., 2015). Table 2.9 was compiled based on the literature of Gilding et al., (2015) and others. The purpose of the table was to describe different succession and firm outcomes as a result of two incumbent motives, family harmony and family business continuity. From the table it can be seen that from a
succession point of view, it is ideal when the motives of the incumbent are to achieve family harmony and have the desire to continue the business, which ultimately leads to a formalised succession plan. This is not always the case as incumbent motives may differ from family business to family business. In the case where there is a weak or no motive to achieve family harmony and business continuity, it results in no succession plan and the business imploding. Whether a succession plan will occur in a family business or not can be attributed to the motives of the incumbent as seen in Table 2.9. It can be deduced that a formalised success plan will occur when an incumbent’s motives are to achieve family harmony and have the desire for family business continuity. All other combinations of motives are not ideal for a formalised succession plan and can result in the business imploding or been sold off. As according to Gilding et al., (2015), the normative dynamic (what ought to be, not always the case though) motives for family business succession planning should be business continuity across generations and family harmony.

Table 2.9: Succession and firm outcomes with different family motives

<table>
<thead>
<tr>
<th>Motives</th>
<th>Initiative/outcome</th>
<th>Description</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong family harmony, strong</td>
<td>Institutionalisation, professionalization of succession planning (Ideal for succession).</td>
<td>The incumbent aims to develop a formal succession plan with clear and stable rules for family and business.</td>
<td>Gilding et al., (2015); Aronoff, 1998; Jaffe &amp; Lane (2004); Neubauer &amp; Lank (1998); Potts, Schoen, Loeb, &amp; Hulme (2001)</td>
</tr>
<tr>
<td>family business continuity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weak family harmony, strong family</td>
<td>Imposition of a succession settlement -The incumbents will to control the business extends to deciding the successors, based on the incumbent’s perception of what will be best suited for family business continuity.</td>
<td>The incumbent plans for succession in the manner that he/she deems best to ensure continuity even if it comes at the cost of family harmony.</td>
<td>Gilding et al., (2015); Sharma, Chrisman, &amp; Chua (1996)</td>
</tr>
<tr>
<td>business continuity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong family harmony, weak</td>
<td>Individualisation -The incumbent may opt for Deinstitutionalisation of family and rise of individualism, where</td>
<td></td>
<td>Gilding et al., (2015);</td>
</tr>
<tr>
<td>family business continuity</td>
<td>business liquidation and amicable division of assets.</td>
<td>individual freedom is more valued.</td>
<td>Jaffe and Lane (2004)</td>
</tr>
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<td>---------------------------</td>
<td>-------------------------------------------------------</td>
<td>-----------------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Weak family harmony, weak family business continuity</td>
<td>Implosion of business - due to lack of competent successor or lack of willingness on part of the incumbent to relinquish control or family feuds that do not permit timely and systematic succession planning.</td>
<td>The incumbent is not motivated to plan for succession, which is often postponed. This may be due to the incumbent's inability to 'let-go,' or absence of competent / prepared successors or family rivalries.</td>
<td>Gilding et al., (2015); Sharma, Chrisman, Pablo &amp; Chua (2001); De Massis, Chua, &amp; Chrisman (2008);</td>
</tr>
</tbody>
</table>

Source: Researchers own construction adapted from Gilding et al., 2015.

2.8.3.7 Compensation in Firms and Successors

In Table 10, the context of CEO succession and compensation determination in firms is analysed. Table 10 was compiled based on the literature of Elsaid, Davidson, & Wang (2011) and Elsaid & Davidson (2009). The table describes how CEO compensation is determined in firms during CEO succession. In a CEO succession, the negotiated compensation amount and structure depends on the relative bargaining power between the Board of the firm and the candidate (Elsaid, Davidson, & Wang, 2011). A candidate that has a strong bargaining position may be able to construct the new contract to be less risky towards a fixed salary (Elsaid & Davidson, 2009). A powerful, active and independent board will be more likely to have a strong bargaining position and will negotiate for increased pay performance sensitivity (variable pay) (Elsaid & Davidson, 2009). From the table it can be seen that whoever holds the greater bargaining power, the successor or the board, will determine the successor’s compensation in a firm. An inside successor is a candidate that already works in the firm where as an outside successor is a candidate that is brought in.

The CEO succession process within small family-owned firms is quite different from that of large firms, since in larger corporations the date at which the CEO is replaced is usually agreed upon in advance and is controlled by the Board of Directors (Motwani, 2006) plus the frequency of succession is greater in larger firms in part,
because these companies themselves produce a larger number of possible successors (Gorden & Rosen, 1981; Motwani, 2006). In a typical small or medium sized family-owned firm, there is unlikely to be any consensus on when succession is going to take place and the number of family successors is limited to the number of family members (Motwani, 2006).

Table 2.10: Compensation determination for CEO’s during succession in firms

<table>
<thead>
<tr>
<th>The successor has greater bargaining power over the board regarding compensation determination</th>
<th>Inside successor</th>
<th>Outside successor</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increases when other job alternatives are attractive</td>
<td>• Stronger than inside candidate if the outside candidates’ current pay is greater</td>
<td>Elsaid, Davidson, &amp; Wang (2011); Elsaid &amp; Davidson (2009)</td>
<td></td>
</tr>
<tr>
<td>• Increases in a relay succession, as the board will place great value on one successor, the designate heir</td>
<td>• Increases when the outside candidate possesses general managerial skills that are more important than the firm-specific skills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• A smaller proportion of pay-at-risk and relatively greater proportion of salary</td>
<td>• A smaller proportion of pay-at-risk and relatively greater proportion of salary</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The board has greater bargaining power over the successor regarding compensation determination</th>
<th>Inside successor</th>
<th>Outside successor</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increases when there are many inside candidates (horse race)</td>
<td>• Stronger than inside candidate when the outside candidate is perceived to be riskier (board unfamiliar with outside candidate)</td>
<td>Elsaid, Davidson, &amp; Wang (2011); Zhang &amp; Rajagopalan (2003), (2006); Elsaid &amp; Davidson (2009)</td>
<td></td>
</tr>
<tr>
<td>• Increases when there is considerable commonality within the candidates</td>
<td>• Greater proportion of pay-at-risk and smaller proportion of salary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Greater proportion of pay-at-risk and smaller proportion of salary</td>
<td></td>
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<table>
<thead>
<tr>
<th>Degree of change wanted in business</th>
<th>Inside successor</th>
<th>Outside successor</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>The inside candidate is chosen on the basis of maintaining the status quo, therefore compensation</td>
<td>Choosing the outside candidate means the board wants change, which gives an opportunity to redesign</td>
<td>Elsaid &amp; Davidson (2009)</td>
<td></td>
</tr>
</tbody>
</table>
2.8.3.8 Measuring Succession Planning

An existing seven-item instrument (with a Cronbach-alpha of 0.881) based on the literature of Adendorff (2011); Neubauer and Lank (1998); Sharma (1997) and Lansberg & Astrachan (1994), was used for the present study, whereby only five items were used and one of the items was modified, in order to measure succession planning amongst South African family businesses.

| SP 1 | The person who will take over this business when the current owner/manager retires has already been identified. |
| SP 2 | The person who will take over this business when the current owner/manager retires is being prepared for his/her role. |
| SP 3 | There is a proper succession plan in place for this business which includes what the successor’s compensation will be. |
| SP 4 | Replacing the current owner/manager with a successor will be done in good time. |
| SP 5 | The identity of the successor to current owner/manager has been communicated to all concerned. |

2.8.3.9 The Case Study Proposition

Researchers have long stressed the importance of succession planning in ensuring the continuity and prosperity of a business (Brockhaus, 2004; Christensen, 1953; Motwani, 2006; Ward, 1987; Ward, 2000). Compensation is at the heart of more family business concerns than any other topic except succession (Walsh, 2011). Remuneration can also, unsurprisingly, be extremely divisive, especially where there is a long established pay framework in place that does not adequately recognise the different contributions made by each family member (PwC, 2013). As a successor
must be paid compensation, ultimately a succession plan would incorporate decisions regarding compensation. It is proposed that:

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<td>Succession Planning will positively affect Fair Family Employee compensation.</td>
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</tbody>
</table>

### 2.8.4 Fairness

#### 2.8.4.1 Definition

Fairness is defined as (Kidwell, Kellermanns, & Eddleston, 2012; McLean Parks, 1997: 115):

> “Expectations shaped by comparing what occurs (or is expected to occur) against reciprocity norm.”

#### 2.8.4.2 The nature of fairness

Fairness is a multifaceted part of any business or personal relationship (Eybers, 2010). Family businesses link two societal institutions, family and firm, in cooperative ventures for mutual advantage and in these ventures; conflicts unavoidably arise, about the appropriate distribution of the advantages gained, and about the principles that should govern the resolution of those conflicts (Van der Heyden et al., 2005). The arguments in most family businesses do not concern money, but rather a perception of real or imagined injustices (Eybers 2010; Getz, Carlsen and Morrison, 2004). A key difficulty is that perceptions of fairness and justice differ across family and firm (Van der Heyden et al., 2005). Kets de Vries (1996) and Merwe, Venter & Farrington (2012) point out that no family relationship will ever be perfect, because feelings of being treated unjustly will always be present among family members. According to Eybers (2010) and Maas & Diederichs (2007), every person in a family business must handle business issues fairly. All family members must have the same idea regarding the use of fairness to all proceedings (Eybers, 2010). It is a common assumption in most families that all children should be treated equally and parents often work desperately to be even-handed with the children to avoid even the appearance of favouritism.
(Merwe et al., 2012). When it comes to a family enterprise, treating the children equally becomes impossible owing to the different talents, strengths, ambitions, and life stages (Merwe et al., 2012; Rivers, 2005).

Reviews of the literature have tended to describe justice as the perceived fairness of decision events (Colquitt & Rodell, 2015; Colquitt, 2012; Cropanzano & Greenberg, 1997; Greenberg, 2010). The definitional tradition illustrates that the terms justice and fairness tend to be used interchangeably in the literature (Colquitt & Rodell, 2015). It is argued that justice and fairness refer to related but distinct concepts (Colquitt & Rodell, in press; Cugueró-Escotet & Rosanas, 2013; Goldman & Cropanzano, 2015). After all, more and more scholars are operationalising justice and fairness as separate constructs in their models (Ambrose & Schminke, 2009; Colquitt & Rodell 2015; Choi, 2008; Kim & Leung, 2007; Rodell & Colquitt, 2009).

Justice should refer to whether one adheres to certain rules or standards, while fairness should refer to how one responds to perceptions of these rules (and rule compliance) (Goldman & Cropanzano, 2015). So, “justice” denotes conduct and events in the work environment that is morally required and involves normative standards, in particular, whether rules of appropriate conduct are followed and obeyed, whereas “fairness” denotes an evaluative judgment and subjective assessment or evaluation of the events as implemented, as to whether this conduct is morally praise worthy (Goldman & Cropanzano, 2015). Fairness can be described as adhering to the “rules”, treating everyone the same without favouritism, treating others as you’d like to be treated, being considerate of others’ needs, providing equal opportunity, and creating a level playing field for everyone (Badaracco, 1997; Eybers, 2010). A “just” procedure, for instance, might provide voice, but voice may or may not be viewed as “fair” depending upon the individual and the situation (Goldman & Cropanzano, 2015). Ambrose & Schminke (2009) and Tornblom and Vermunt (1999: 51) argued that individuals consider fairness as a Gestalt, that the components of fairness “are meaningful only in relation to the overall fairness of the situation”.

Thus, justice is defined as the perceived adherence to rules that reflect appropriateness in decision contexts (Colquitt & Rodell, 2015). The rules are procedural (Colquitt & Rodell, 2015; Leventhal, 1980; Thibaut & Walker, 1975),
distributive (Adams, 1965; Leventhal, 1976), interpersonal (Bies & Moag, 1986; Colquitt & Rodell, 2015; Greenberg, 1993), and informational concepts (Bies & Moag, 1986; Colquitt & Rodell, 2015; Greenberg, 1993). Fairness, in turn, is defined as a global perception of appropriateness (Colquitt & Rodell, 2015).

Family members will perceive fairness to exist in the family business when each family member does his or her fair share of work given their compensation; when compensation is perceived as fair for the work that the family member does; when family members are compensated according to their contribution to the family business and not according to age and/or gender; and when external stakeholders treat family members involved in the business equally (Merwe et al., 2012). In the present study, fairness refers to the degree to which the working arrangement between the family employees is considered to be fair in terms of workload, compensation, status and family responsibilities (Eybers, 2010).

2.8.4.3 The importance of fairness

Values, such as fairness, remain vital for family businesses to succeed (Diederichs, 2014; Visser et al., 2014). There is a large volume of anecdotal evidence that posits the importance of fairness among family members in family businesses (Aronoff, Astrachan, Mendoza & Ward, 1997: 43; Eybers 2010; Farrington 2009; Gersick, Davis, McCollom Hampton & Lansberg, 1997: 67; Lansberg, 1999: 132; Ward, 2004: 67, 68, 96). According to Farrington et al., (2014) and Spector (2008), fairness plays a major role in the behaviours and reactions of people towards work. What drives behaviour is an overall sense of fairness (Ambrose & Schminke, 2009. Lind, 2001b). Individuals are astute observers of the fairness with which co-workers are treated and that such perceptions help to shape the individual’s attitude and behaviour (Dunford, Jackson, Boss, Tay, & Boss, 2014). A perception of inequity will result in disequilibrium and corrective behaviour (Eybers 2010).

Wherever fair process prevails, trust, commitment and harmony soon follow (Greenberg, 1990; Van der Heyden et al., 2005). It was proposed that employees develop greater trust in their organisation when the firm treats the employees fairly (Dunford et al., 2014; Lavelle and colleagues, 2007). Individuals are most likely to trust
and cooperate freely with organisational systems regardless of whether the individual wins or loses by participating when fair process is observed (Van der Heyden et al., 2005). Conversely, grave and prolonged violations of fair process were shown to at best generate a form of passive resistance and at worst a form of negative behaviour motivated by a desire to practice sometimes very destructive forms of retributive justice (Van der Heyden et al., 2005). Fair procedures allow individuals to accurately foretell the organisations’ actions (Cropanzano, Byrne, Bobocel and Rupp, 2001; Dunford et al., 2014). Fair process in business organisations offers the potential for substantial performance gains, as more voices applied to clearer agendas can generate improved solutions (Van der Heyden et al., 2005). Improved performance resulting from fair process practices validates these practices, leading stakeholders to demand even more procedural justice in the future (Van der Heyden et al., 2005).

Cowie (2007), Eybers, 2010 and Merwe et al., 2012 stipulated that there is a positive relationship between workload fairness and perceived success. Danes, Zuiker, Kean and Arbuthnot (1999) and Eybers (2010) recognise unfair workloads in family businesses as producing the highest levels of tension in family relationships. Fair treatment is important to employees because they risk exploitation when they affiliate and cooperate with organisations (Dunford et al., 2014; Lind, 2001). Fairness perceptions are relevant for businesses because workers who perceive salaries as unfair are more likely to suffer in terms of health, more likely to work inefficiently and may engage in counterproductive behaviour (Heimann, Mullet and Bonnefon, 2014). Heimann et al., (2014) and Shaw and Gupta (2001) found the perception of unfair pay to be associated with depression, somatic complaints, and decreased life satisfaction in a cross-sectional study of US-based organisations. Cowherd and Levine (1992) and Heimann et al., (2014) have shown that increased pay inequity between employees and management accounted for lower product quality in a sample of 102 corporations. Furthermore, workers who perceived their wages as unfair and developed episodic envy towards managers were found to exhibit higher levels of interpersonal counterproductive behaviour (Cohen-Charash and Muller, 2007; Heimann et al., 2014).

It was reported that there is a positive relationship between fairness and satisfaction with work and family relationships between sibling partnerships (Farrington, 2009;
A study found that both procedural and distributive justice perceptions were positively related to autonomous work motivation (Gagné, Be´rube´, & Donia, 2007; Gagné & Forest, 2008), with Gagné & Forest (2008) further stating that fairness as an important predictor of autonomous work motivation. In an empirical study of strategic decision making in transnational corporations, it was found that subsidiary managers who believed their company’s processes to be fair displayed a higher level of trust in, and commitment to, the organisation (Kim and Mauborgne, 1991, 1997, 1998; Van der Heyden et al., 2005). This in turn engendered the managers’ active cooperation in implementing these decisions, typically improving performance, while conversely, when managers viewed decision-making processes as unfair, they “hoarded ideas and dragged their feet” (Van der Heyden et al., 2005). A lack of fairness in terms of workload and corresponding compensation is often cited as a reason why non-family members are hesitant to accept employment in family businesses (Farrington et al., 2014; Maas, Van der Merwe & Venter, 2005). Feelings of inequity arise among non-family employees when family members are favoured in terms of compensation (Farrington et al., 2014; Gedajlovic, Carney, Chrisman & Kellermanns, 2011) and serious problems can arise when family members are paid more than nonfamily members in similar positions (Farrington et al., 2014; Veale, n.d.).

An environment of fairness, according to fair process theory, improves both the performance of the family firm and the members’ satisfaction with it (Van der Heyden et al., 2005). Another positive result of fairness is that the family firm is better able to attract next-generation family members, as well as qualified non-family managers or shareholders (Van der Heyden et al., 2005). Altruism, fairness, justice and generosity have been investigated as some of the drivers for non-economic goals of family businesses (Eaton et al., 2002; Kraus et al., 2011; Lubatkin et al., 2002; Schulze et al., 2001).

2.8.4.4 Justice Considerations

Global strategy formulation and implementation, managerial dispute resolution, compensation, layoffs and gender-biased pay inequalities are examples of issues that have been rendered, in some cases, less conflictual through the implementation of organisational justice concepts (Van der Heyden et al., 2005). Organisational justice
is widely viewed as a multidimensional construct consisting of distinct sub dimensions (Cohen-Charash & Spector, 2001; Colquitt, 2001; Dunford et al., 2014), including distributive, procedural, informational and interpersonal justice (Ambrose & Schminke 2009; Cohen-Charash & Spector, 2001; Colquitt et al., 2013: 200; Colquitt, 2001; Colquitt, Conlon, Wesson, Porter, & Ng, 2001; Dunford et al., 2014; Torre et al., 2015). Justice perceptions can originate from various sources such as organisations, supervisors or co-workers. Employees may feel that they are treated fairly by co-workers and supervisors but unfairly by their organisation (Dunford et al., 2014; Lavelle et al., 2007; Rupp & Cropanzano, 2002).

Various theoretical models have been proposed to explain why people care about justice and how justice influences cooperative behaviour (Dunford et al., 2014; Rupp, 2011). Cropanzano et al., (2001); Dunford et al., (2014) and Rupp, Shao, Thornton and Skarlicki (2013) identify three distinct yet complimentary motives for caring about organisational justice: instrumental, relational, and deontic.

2.8.4.4.1 Instrumental motives

Instrumental models of justice assert that employees have self-interested (economic) reasons for caring about justice (Cropanzano et al., 2001; Dunford et al., 2014; Tyler, 1987). When facing conflict, employees prefer fair procedures and policies because such procedures and policies improve the likelihood that employees will experience favourable outcomes for themselves (Dunford et al., 2014; Thibaut & Walker, 1978).

2.8.4.4.2 Relational motives.

Relational models argue that employees have nonfinancial reasons for caring about justice (Dunford et al., 2014; Rupp et al., 2013; Tyler & Lind, 1992). Social exchange variables are considered to play a central role in employee responses to organisational justice (Colquitt, Scott, Rodell, Long, Zapata, Conlon and Wesson, 2013; Dunford et al., 2014) because of a general need for belonging, particularly to organisations that have a favourable social identity (Aguilera, Rupp, Williams and Ganapathi , 2007; Dunford et al., 2014; Rupp et al., 2006; Rupp et al., 2013).
2.8.4.4.3 Deontic motives.

Deontic models of justice (Dunford et al., 2014; Folger, 1998, 2001) provide an additional non-economic explanation for why employees care about justice, asserting that employees care because of universally held moral expectations that organisations will treat everyone fairly (Dunford et al., 2014; Rupp et al., 2013). Perceptions of morality are key causal mechanisms in explaining employee reactions to perceived injustice (Dunford et al., 2014; Folger, 2001).

Lansberg (1989) and Van der Heyden et al., (2005) recognised justice in family firms as messy and complicated. Members in the family business system have different perceptions of entitlement that, if unfulfilled, will generate feelings of injustice (Lansberg, 1989; Van der Heyden et al., 2005). Lansberg, 1989 and Van der Heyden et al., (2005) stipulated that there are three forms of justice: distributive justice concerns the allocation of resources and hardships among members; procedural justice, which is the determination of the actors involved in making particular decisions and retributive justice, which deals with punishment of members violating particular norms. Heimann et al., 2014 and Kpanake and Mullet (2011) added restorative justice, a special compensation for hazardous working conditions or accidents at work, to the list. Colquitt et al., (2013: 200) and Torre et al., (2015) mentioned interpersonal and informational justice as part of the justice dimensions.

2.8.4.4.4 Distributive Justice

Distributive justice refers to the perceived fairness of decision outcomes relative to contributions (Adams, 1965; Colquitt et al., 2013: 200; Gagné & Forest, 2008; Leventhal, 1976; Torre et al., 2015), especially the degree to which outcomes are equitable (Colquitt et al., 2013: 200; Torre et al., 2015). Lansberg (1989) and Van der Heyden et al., (2005) gave the definition “distributive justice concerns the allocation of resources and hardships among members”. Distributive justice theory relates to the socially fair allocation of goods in society. It is therefore primarily concerned with outcomes (Eatwell et al., 2008; Heimann et al., 2014; Rawls, 1971).
Needs is only one of the principles one can apply in determining outcomes, albeit a key one inside families (Van der Heyden et al., 2005). Equity and equality are the other two principles commonly invoked when applying distributive justice (Baldridge & Schulze, 1999; Van der Heyden et al., 2005). The difficulty of any application of distributive justice to the family business system is that family, shareholders, and employees will judge the fairness of particular outcomes with very different criteria (respectively, need, equality, and merit) (Van der Heyden et al., 2005).

2.8.4.4.5 Procedural Justice

Procedural justice refers to the perceived fairness of processes used to arrive at outcome decisions (Byrne & Cropanzano, 2001; Colquitt et al., 2013: 200; Dunford et al., 2014; Gagné & Forest, 2008; Lansberg, 1989; Leventhal, 1980; Thibault & Walker, 1975; Torre et al., 2015; Van der Heyden et al., 2005) and the degree to which the processes are consistent, accurate, unbiased, and open to voice and input (Colquitt et al., 2013: 200; Torre et al., 2015). Another definition deduced was procedural justice relates to the transparency and fairness of the decision making process (Heimann et al., 2014; Thibaut and Walker 1975; Lind and Tyler 1988). Judgments of procedural justice are influenced by two important factors: the adequacy with which formal decision-making procedures are explained and the interpersonal treatment people receive from decision makers (Greenberg & McCarty, 1990). If a procedure can be found that embodies the moral ideals of justice, then justice amounts to correctly applying this procedure; its outcomes will be just and perceived as such (Rawls, 1971; Van der Heyden et al., 2005).

Procedural justice draws on the question of who determines the remuneration received and how that person determines it (Heimann et al., 2014; Murphy 1999). Folger and Konovsky (1998) and Heimann et al., (2014) have shown that procedural justice can moderate perceptions of pay rise decisions. People perceive remunerations established by clear rules as more acceptable (Heimann et al., 2014).

Resolutions to the issues faced by distributive justice regarding family business may come from principles of procedural justice, namely, from the degree of fairness of the process applied to resolving contradictory claims from various stakeholders in the
family business system (Van der Heyden et al., 2005). Sustained violations of fair process are at the root of many family conflicts (Van der Heyden et al., 2005). One solution lies in turning from “outcome-based” justice to “process-based” justice (Van der Heyden et al., 2005). Conflicts generated by the interface of family shareholding and business interests should benefit from an effective application of fair process principles (Van der Heyden et al., 2005). Family business needs to be careful not to allow fair process practices to become mechanical, without a deep commitment; because fair processes may then be perceived as utilitarian and ultimately lead to an authoritarian leadership style, leaving a culture of cynicism and resentment in the family business (Van der Heyden et al., 2005).

2.8.4.4.6 Retributive and Restorative Justice

Retributive justice is the amount of the bonus that must be proportional to the burden imposed by the effort expended (Heimann et al., 2014). The role of retributive justice is to compensate for the restriction of individual freedom suffered by executives (Heimann et al., 2014). Company workers often receive a “thirteenth month’s” salary (Heimann et al., 2014). Restorative justice (sometimes called reparative justice) refers to the needs of victims and offenders and is probably the oldest ethical principle applied in the field of remuneration: The history of compensation for physical injury began shortly after the advent of written history itself (Guyton, 1999; Heimann et al., 2014).

2.8.4.4.7 Interpersonal and Informational Justice

Interpersonal and informational justice reflect the perceived fairness of the enactment and implementation of decisions, with the former reflecting the respectfulness and propriety of communications and the latter reflecting the truthfulness and adequacy of explanations (Colquitt et al., 2013: 200; Torre et al., 2015).

2.8.4.5 Fairness and Compensation in the Family Businesses

Gagné & Forest (2008) and Lawler (2000) heavily emphasise the need to reward employees according to the value brought to the organisation, considering an
organisation’s profits from an employee’s performance and should share the success with that employee. Moreover, it is only fair to pay the best employee substantially more than the poorest performer (Gagné & Forest, 2008).

From a distributive justice perspective, it makes sense to focus on workers' knowledge of relative pay levels, because this information forms the basis of the metric for determining pay fairness (Greenberg & McCarty, 1990). With regards to procedural justice, it appears equally important to consider the manner in which pay is determined (Greenberg & McCarty, 1990). The questions of how payment distributions are derived are likely to have profound effects on perceived fair payment independent of what those distributions are (Greenberg & McCarty, 1990).

A major issue regarding fairness in family businesses is that of achieving a balanced compensation system between family employees (Aronoff & Ward, 1993: 59; Merwe et al., 2012; Spector, 2001: 9). Ayres (1996) and Van der Heyden et al., (2005) stipulated that “need” is indeed a proper principle for allocation of resources (both financial and emotional) inside the family circle. The family is an institution that is geared toward meeting the needs of its members, typically those of the young ones first, then the aging ones (Van der Heyden et al., 2005). In a normal business, the principle of resource allocation is equity based on performance and merit, and not, as in the family, based on needs (Van der Heyden et al., 2005). An example is when managers and their teams may be allocated more resources, because they are seen as meriting this allocation more than the less successful peers (Van der Heyden et al., 2005).

The method by which individuals determine the fairness of inputs to outcomes, such as what constitutes fair compensation for a given task, or a fair effort for a given compensation, is referred to as equity theory (Adams, 1963; Eybers, 2010). In equity theory (Adams, 1965; Heimann et al., 2014) people largely evaluate the fairness of someone’s pay through comparisons with referent others. According to Charles (2006: 88) and Eybers (2010), equitable and equal are two different concepts. Equitable refers to the extent to which each partner is satisfied with the division of authority and responsibility in the family business (Charles 2006:88; Eybers, 2010); whereas equal implies that the partners share the responsibilities and authority of the family business.
equally (Eybers, 2010). Family business compensation practices often create problems when family members are compensated according to age and/or gender (Buchholz, Crane & Nager, 2000: 262; Merwe et al., 2012) and not on merit (Jaffe, 1991: 199; Loeb, 2001: 59; Merwe et al., 2012). An individual’s outlook of inputs relative to compensation will therefore determine whether the situation is equitable or not (Eybers, 2010; Foley & Powell, 1997: 42). People expect that rewards will be proportionate to the costs incurred and the efforts spent earning those rewards (Eybers, 2010; Robbins, 2003). If there is disproportion in linking contribution with compensation, feelings of equity cannot be upheld (Eybers, 2010; Kets de Vries, 1993) and tensions and conflicts are bound to arise (Eybers 2010; Lansberg, 2001; Stavrou, 1995).

2.8.4.6 Measuring Fairness

A general measure of fairness may allow organisations to assess fairness more parsimoniously and, consequently, to understand better its relation to other important outcomes (Ambrose & Schminke, 2009). The overall justice scale is a direct measure of fairness; that is, it is a measure that asks respondents directly how fair something is (Ambrose & Schminke, 2009). Research had clarified the distinction between justice and fairness (Colquitt & Shaw, 2005; Goldman & Cropanzano, 2015). Adherence to rules of justice should promote fairness perceptions (Goldman & Cropanzano, 2015). Ambrose and Schminke (2009) and Goldman & Cropanzano (2015) found evidence for this causal model. Therefore, it was deduced by Colquitt and Rodell (in press: 5) and Goldman & Cropanzano (2015) that justice was the perceived adherence to rules that reflect appropriateness in decision contexts and fairness was defined as a global perception of appropriateness. Existing justice and fairness scales can be easily tailored to the context in question, but the context introduces a new rule that captures some unique aspect of appropriateness (Colquitt & Rodell, 2015). Contexts used in past research have been: selection, performance evaluation, training, compensation, dispute, separation, and change contexts (Colquitt & Rodell, 2015; Colquitt & Greenberg, 2003).
2.8.4.6.1 Overall fairness

Ambrose & Schminke (2009) and Lind (2001a) suggested overall justice represents an individual's global evaluation of the fairness of his or her experiences and consequently, it should be assessed by items focusing on the individual's personal experiences (Overall, how fairly treated am I?). Overall fairness is a single scale that focuses on a global perception of appropriateness (Ambrose & Schminke, 2009; Choi, 2008; Colquitt, Long, Rodell, & Halvorsen-Ganepola, in press; Colquitt & Rodell, 2015; Kim & Leung, 2007; Masterson, 2001; Rodell & Colquitt, 2009; Zapata-Phelan, Colquitt, Scott, & Livingston, 2009). For example, overall fairness scales include items like, “Overall, I’m treated fairly by my organisation” (Ambrose & Schminke, 2009; Colquitt & Rodell, 2015), “My supervisor is a fair person” (Choi, 2008; Colquitt & Rodell, 2015). Overall fairness scales are easily convertible between supervisor and organisational foci (Colquitt & Rodell, 2015).

2.8.4.6.2 Faceted Fairness

Faceted fairness is where justice dimensional distinctions are examined but items focus on global perceptions of appropriateness (Colquitt & Rodell, 2015). Colquitt & Rodell (2015) Rupp and Cropanzano (2002) reported a measure of procedural (a justice dimension) fairness that could be easily converted between supervisor and organisation foci, which included “I can count on [my supervisor] to have fair policies,” and “[The organisation’s] procedures and guidelines are fair.” As another example, Blader and Tyler (2003) and Colquitt & Rodell (2015) introduced a measure of distributive (a justice dimension) fairness that asked “How fairly are resources (e.g., salary, bonuses, etc.) allocated among employees where you work?” and “Overall, how fair is the salary you receive at work?” Blader and Tyler (2003) and Colquitt & Rodell (2015) further introduced procedural scales, but included both fairness items (“The rules and procedures are equally fair to everyone”).

To measure the independent factor Fairness, a five-item instrument was developed. The measuring instrument construct was based on the literature (Ambrose & Schminke, 2009; Colquitt & Rodell, 2015) and with minor changes to the wording of
all the items, one of Ambrose & Schminke (2009) and Colquitt & Rodell (2015) and four of Blader and Tyler (2003) and Colquitt & Rodell (2015) items were used.

<table>
<thead>
<tr>
<th>FAIR 1</th>
<th>Overall, family members are treated fairly by the family business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAIR 2</td>
<td>It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.</td>
</tr>
<tr>
<td>FAIR 3</td>
<td>Overall, the salary family members receive in the family business is fair.</td>
</tr>
<tr>
<td>FAIR 4</td>
<td>The rules are equally fair to everyone in the family business.</td>
</tr>
<tr>
<td>FAIR 5</td>
<td>The procedures followed are equally fair to everyone in the family business.</td>
</tr>
</tbody>
</table>

2.8.4.7 The case study proposition

In equity theory (Adams, 1965; Heimann et al., 2014), people largely evaluate the fairness of someone’s pay through comparisons with referent others. Different viewpoints on fairness lead to conflict among family members (Kidwell, Kellermanns, & Eddleston, 2012; Taylor & Norris, 2000). A major issue regarding fairness in family businesses is that of achieving a balanced compensation system between family employees (Aronoff & Ward, 1993; Merwe et al., 2012; Spector, 2001). Fairness problems often arise when the “least” valuable family members tend to receive more support and resources than the more deserving members (Kidwell, Kellermanns, & Eddleston, 2012; Van den Berghe & Carchon, 2003). The governing fairness norm in the firm is merit and an employee’s rewards are determined by competence in achieving the organisation’s firm goals (Kidwell, Kellermanns, & Eddleston, 2012; Lansberg, 1983). An environment of fairness, according to fair process theory, improves both the performance of the family firm and the members’ satisfaction with it (Van der Heyden et al., 2005). A family firm that is fair will compensate family employees based on fairness. It is proposed that:

| P 4 | Fairness in the family business will positively affect Fair Family Employee Compensation. |
2.8.5 Family Harmony

2.8.5.1 Family harmony

There is a lack of studies on organisational harmony in family businesses (Ruiz Jiménez et al., 2013). The optimal functioning of an organisation requires the harmonious coexistence of all its members (Ruiz Jiménez, Vallejo Martos, & Martínez Jiménez, 2013). The absence of harmony has negative consequences for the management and development of a business (Neubauer & Lank, 1998; Maas et al., 2005; Ruiz Jiménez et al., 2013).

Adendorff (2011) and Bernardus (1997) indicate that most people consider family harmony as the most important aspect of their lives. The importance of family harmony for optimal company performance and development is sufficiently recognised (DeNoble et al., 2007; Ruiz Jiménez et al., 2013). Adendorff (2011); Malone (1989) and Venter (2002) indicated that there is a positive relationship between perceived family harmony and continuity planning; therefore, there is a greater possibility that business continuity will be planned if the extent of family harmony is considerable. Gilding et al. (2015) and Malone (1989) stipulated that “the degree of family harmony” is routinely understood as an “encompassing and critical factor” in family business continuity, or a “dependent variable” and following this logic, family business continuity automatically implies family harmony. A mixture of two realities in family businesses (an objective view of the company and the emotional perspective of the family) is intrinsically different and this contrast could potentially create a system that undermines harmony (Adendorff et al., 2008; Ruiz Jiménez et al., 2013). Eybers (2010) and Gersick et al., (1997) state that in order to guarantee family harmony and the success of the family business, it is important to have a general understanding of the nature of the relationship between the family and the business.

According to Carlock & Ward (2001) and Ellis (2007) all families experience relationship problems. Family relationships affect the business and business relationships in turn affect the family (Ellis, 2007; Voeller, Fairburn & Thompson, 2002). To survive and be successful, family members need to nurture the personal relationships with one another (Ellis, 2007; Swart, 2005); in other words, the family is
a social structure that needs to live in harmony (Ruiz Jiménez et al., 2013). Eybers (2010) and Hess (2006) suggest that family business leaders must not only lead and manage the business toward success, but also lead and manage the family’s relationship to the business in support of family harmony. Ellis (2007) and Kets de Vries (1996) point out that no family relationship will ever be perfect, as feelings of being treated unjustly will always be present. Relationships between family and non-family members influence the maintenance of an adequate level of harmony (Graves & Thomas, 2008; De Massis et al., 2008; Lambrecht & Lievens, 2008; Ruiz Jiménez et al., 2013; Venter et al., 2005). The level of harmony in relationships is important because of the potential threat posed to employee welfare, teamwork and, consequently, organisational performance (Leung, 2008; Ruiz Jiménez et al., 2013).

Norms of family harmony help to focus the efforts of family members on the success of the firm, reinforcing the idea of a team-based ethical climate in which family members cooperate with one another (Kidwell, Kellermanns, & Eddleston, 2012). Accordingly, members of a harmonious family feel vested in and responsible for, each other’s welfare and by extension, the members come to take on an internal obligation and commitment to the firm (Kidwell, Kellermanns, & Eddleston, 2012). Harmony is especially important in organisational relationships in a family business because the family is the cornerstone of these companies (Ruiz Jiménez et al., 2013).

A high level of trust, mutual support, mutual respect, care about each other’s well-being, closeness of family members and a willingness to acknowledge others’ achievements should ensure harmonious family relationships (Ellis, 2007; Handler, 1989; Neubauer and Lank, 1998; Seymore, 1993). The need for harmony refers to the feeling of stability that the family provides for each of its members and which arises from the everyday interaction between family members generating principles and values that ensure good relations (Ruiz Jiménez et al., 2013). A firm that lacks family harmony or fails to extend the harmony to the business domain may be embroiled in conflicts and quarrels that distract the firm from effective operation (Kidwell, Kellermanns, & Eddleston, 2012; Kets de Vries, 1993). Some factors that companies should consider to maintain harmonious relationships include (Ruiz Jiménez et al., 2013):
• Trust is crucial in a company and enables cooperation, encourages relationships and facilitates effective response to a crisis.

• The organisational structure should be designed in such a way that creates a climate or working atmosphere that encourages people to develop their full potential, while enabling them to fulfil themselves in their work.

• The organisational structure has to abandon the classic structures derived from the principles of hierarchy and authority and look towards a group structure with common objectives based on participation, collaboration and mutual support to help eliminate conflicts (Overvold, 1987).

Eybers (2010) and Zwick and Jurinski (1999) refer to family harmony as a common goal of family business owners as the owners aspire to create an environment that will encourage family harmony. Important determinants for the generation of greater levels of harmony in a company (Ruiz Jiménez et al., 2013):

• Participation in the organisation.
• Trust.
• Work climate.

Ruiz Jiménez et al. (2013) and Venter et al., (2009) stipulate that a family business without family harmony would suffer serious problems. A lack of harmony can lead to (Ruiz Jiménez et al., 2013):

• Significant financial losses through high rates of absenteeism, sick leave and time wasted on emotional conflicts.
• Major problems at the time of succession and progressively diminishing the chances of continuity.
• The firm struggling to be profitable (Maas et al., 2005).
• A business that lacks the support of the family and will disappear.
• A limit to the funds available for investment.
2.8.5.2 Family conflict

Conflict seems to be a prominent characteristic of family business (Sorenson, 1999). As a family firm increases in age and the number of family employees and owners, as well as in wealth, conflict increases due to differences in goals and strategy and commonly, interpersonal conflict is caused by rivalry among family members (Alderson, 2015). When the numbers of family members increase within an organisation, the volume of dysfunctional interpersonal conflict also increases (Alderson, 2015; Kets de Vries, 1993). Conflicts in family firms often arise from role ambiguities surrounding promotions, succession and entry into the firm (Harvey & Evans, 1994; Kidwell, Kellermanns, & Eddlestone; Sundaramurthy, 2008). The potential for conflict in family businesses can be greater than for many non-family businesses (Ellis, 2007; Swart, 2005). A primary difference between family and non-family businesses is that family businesses are concerned about both business and family outcomes (Dunn, 1995; Sorenson, 1999). According to Astrachan & McMillan (2003) and Ellis (2007), the reason for this heightened potential for conflict is the overlap between the family and business sub-systems. Since family businesses are more prone to conflict than non-family businesses, the ability to manage conflict in a family business is crucial (Ellis, 2007; Ibrahim & Ellis, 2004). Managing conflict is important to the success of a family business (Dyer, 1986; Kaye, 1991; Sorenson, 1999; Ward, 1987). The inclusion of family in a business makes resolving conflict unique in a variety of ways (Sorenson, 1999):

- Family adds complexity to conflict.
- Family norms for resolving conflict set the tone for conflict management norms in the business (Dyer, 1986), as the owner of the business usually establishes norms for interaction in the business (Sonnenfield & Spence, 1989).
- The dynamics of power in family businesses are unique, since in most family businesses, family members have access to key information and retain decision authority (Dyer, 1986).

Family businesses, regardless of size, have unique complexities, issues and problems that non-family-owned enterprises do not encounter, such as, sibling rivalry, non-
working family members, divorce, substance abuse problems, interpersonal conflict, incompetent family employees and multi-generational succession issues that encompass ever-expanding generations of family members (Alderson, 2015). Cohn (1992) and Ellis (2007) assert that healthy families and family businesses effectively manage conflict by developing mechanisms to resolve disputes. According to Bork (1993) and Ellis (2007), many people have the misperception that the measure of the successful or healthy family is the lack of conflict. According to Ellis (2007) and Kickham (2004), it is often the family’s capability to manage and resolve conflict that determines the family’s maturity and emotional health. Three basic types of conflict may operate in all types of organisations (Kidwell, Kellermanns, & Eddleston, 2012):

- Task
- Process
- Relationship

Task conflict is associated with goals, strategies, and the discussion of differing strategies (Alderson, 2015). Process conflict is associated with how work should be accomplished, the proper utilization of personnel and how much responsibility should be given to each member (Alderson, 2015; Jehn, 1997). Relationship conflict has been found to interfere with work efforts and to lessen cohesion and goodwill (Jehn, 1997; Kidwell, Kellermanns, & Eddleston, 2012). The most destructive type of conflict is relationship conflict (Alderson, 2015). Relationship conflict can occur in the family firm because of the family’s dominant presence, a lack of formal means to handle conflict, interests between the family and the business that are not aligned and disagreements over equity and succession (Danes, Zuiker, Kean & Arbuthnot, 1999; Harvey & Evans, 1994; Kellermanns, & Eddleston, 2012). Perceived family harmony norms, may be related to instances of relationship conflict in family firms (Kellermanns, & Eddleston, 2012). The following items are likely areas of family businesses to witness conflict (Alderson, 2015):

- Generational
- Succession
- Destructive entitlement
• Gender conflict
• In-laws
• Triangulation (third party influence)
• Estate planning

**Compensation and owner benefits** - The two methods of family employee remuneration and reward, payroll and dividends, should be separated (Alderson, 2015). To avoid compensation issues, pay ranges for various jobs in the business should be decided by benchmarking current rates within the marketplace, since with this manner, compensation is perceived as fair (Alderson, 2015).

Poor communication is a common problem in family businesses (Alderson, 2015; Ellis, 2007; Ibrahim & Ellis, 2004) and the absence of adequate channels of communication is a profound source of family conflict (Ellis, 2007; Friedman, 1998). Conflict is usually expressed in communication and behavioural problems (Alderson, 2015; Hilburt-Davis and Dyer, 2003). As a result, the family's ability to resolve its differences is obstructed by its conflict and communication patterns and poor communication skills (Bork, Jaffe, Lane, Dashew and Heisler, 1996; Ellis, 2007). Ellis (2007) and Maas, Van der Merwe & Venter (2005) argue that effective communication provides the basis for sound family relationships as well as conflict resolution. Without effective communication, the business will not likely succeed to the next generation (Alderson, 2015). Note that good communication does not eliminate conflict, but communication certainly contributes to managing a business effectively and to ensuring that the business does not become overemotional and destructive (Astrachan and McMillan, 2003; Ellis, 2007). Sorenson (1999) noted strategies to deal with conflict in family business:

- **Competition** is when owner authority is used to settle disputes and is what most family businesses use (Dean, 1992; Dyer, 1986), but is not likely to fully address the many issues of business and family.
- **Accommodation**, which is based on high concern for others and low concern for self, contributes to good relationships and cohesiveness (Seymour, 1993).
- **Collaboration**, which is not yielding to others’ concerns, but is an active search for “win-win” solutions.
- **Compromise**, which is an unsatisfactory but acceptable solution for all parties.
Avoidance, which is the failure to address conflicts.

Although families may show wide variation in levels of conflict, cooperation and beliefs (Heck 2004; Kidwell, Kellermanns, & Eddleston, 2012), some family firms clearly rely on devotion to each other and norms of agreement rather than norms of conflict (Corbetta & Salvato 2004; Greenwood 2003; Kidwell, Kellermanns, & Eddleston, 2012).

2.8.5.3 Measuring family harmony

To measure family harmony, an existing eight item instrument (with a Cronbach alpha of 0.93) was used based on the literature of Ellis (2007). Only six items were used. No items were modified.

| FH 1        | The family members care about each other's wellbeing.          |
| FH 2        | The family members respect each other.                          |
| FH 3        | The family members support each other.                          |
| FH 4        | The family members trust each other.                            |
| FH 5        | The family members understand each other's views.               |
| FH 6        | The family members listen to each other's opinions.             |

2.8.5.4 The Case Study Proposition

A high level of trust, mutual support, mutual respect, care about each other's well-being, closeness of family members and a willingness to acknowledge others’ achievements should ensure harmonious family relationships (Ellis, 2007; Handler, 1989; Neubauer and Lank, 1998; Seymore, 1993). The need for harmony refers to the feeling of stability that the family provides for each of its members and which arises from the everyday interaction between family members generating principles and values that ensure good relations (Ruiz Jiménez et al., 2013). With harmonious relationships, family members would want all family employees to be compensated in
a way that is in the family employees' best interest and well being. Under these ideals it is proposed that:

| P 5 | Family Harmony in the family business will positively affect Fair Family Employee Compensation. |

### 2.9 CONCLUSION

Chapter Two provided in-depth literature in the areas that are relevant to the primary research question depicted in Chapter One. The literature touched on family businesses aspects, the propositions: Human Capital, Outside Advice, Succession Planning, Fairness, Family Harmony and the dependent variable: Fair Family Employee Compensation. A definition was provided for each variable and other aspects such as the variable's importance to business were discussed. The measuring instrument constructs for each variable were also derived.

Chapter Three focuses on the research design and methodology selected for the study to address the research problem. The researcher describes the sample, the method of data collection and analysis, as well as the design and administration of the semi-structured interviews.
CHAPTER THREE:
RESEARCH METHODOLOGY

3.1 INTRODUCTION

In Chapter Three, the researcher deduces the research methodology used to determine the proposed factors that influence *The Perceived Success of Fair Family Employee Compensation*. Research is defined as “a systematic and methodical process of inquiry and investigation with a view of increasing knowledge” (Collis & Hussey, 2014). Collis & Hussey (2014) further defined a methodology as “an approach to the process of research encompassing a body of methods.”

In Chapter Two the existing literature of variables proposed to influence the dependent variable as well as the dependent variable was analysed, within a general and family business context. Chapter Three, indicated the research paradigm undertaken and research methodology used to answer the primary research question indicated in Chapter One. Secondary sources were consulted for the literature review and regarding the primary sources, an explanatory multiple-case study approach was adopted. With the use of measuring instrument constructs and semi-structured interviews collecting the data, the presence of each variable in each case study was determined using pattern matching. Literal replication was utilised to decide whether there was sufficient evidence, that the propositions could be generalised to the broader theory.

Denzin and Lincoln (1998) and Yilmaz (2013) suggested that four basic issues structure the design of a research study:

- Which paradigm or worldview will inform the study design?
- Who or what will be studied?
- Which research strategies will be used?
- Which research methods or tools will be used to collect and analyse data?
The intention of Chapter Three is to answer the above questions presented by Denzin and Lincoln (1998) and Yilmaz (2013).

3.2 THE PARADIGM OF THE RESEARCH

Collis & Hussey (2014) noted the two main paradigms that exist, positivism and interpretivism. Positivism is a paradigm that originated in the natural sciences and rests on the assumption that, social reality is singular and objective and is not affected by the act of investigating it; hence the research involves a deductive process with a view to providing explanatory theories to understand social phenomena (Collis & Hussey, 2014). On the other hand, interpretivism is a paradigm that emerged in response to criticisms of positivism and rests on the assumption that social reality is in our minds and is subjective and multiple, therefore social reality is affected by the act of investigating it, hence the research involves an inductive process with a view to providing interpretive understanding of social phenomena within a particular context (Collis & Hussey, 2014).

Table 3.1 shows the terms used to describe approaches within the two main paradigms.

<table>
<thead>
<tr>
<th>Positivism</th>
<th>Interpretivism</th>
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</thead>
<tbody>
<tr>
<td>Quantitative</td>
<td>Qualitative</td>
</tr>
<tr>
<td>Objective</td>
<td>Subjective</td>
</tr>
<tr>
<td>Scientific</td>
<td>Humanist</td>
</tr>
<tr>
<td>Traditionalist</td>
<td>Phenomenological</td>
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</table>

The present research effort adopted the interpretivist paradigm because the intention of the research is to investigate processes, the context, interpretation, meaning or understanding through inductive reasoning (Yilmaz, 2013). The aim is to describe and understand the phenomenon studied by capturing and communicating participants’ experiences in their own words via observation and interview and what is emphasised is the examination of the context that influences people’s actions or interactions and the meaning that people ascribe to their experiences (Yilmaz, 2013).
Therefore the research methodology approach of the present research effort will entail Qualitative Research which is defined as “an emergent, inductive, interpretive and naturalistic approach to the study of people, cases, phenomena, social situations and processes in their natural settings in order to reveal in descriptive terms the meanings that people attach to their experiences of the world” (Creswell, 2007; Denzin & Lincoln, 1998, 2005; Miles & Huberman, 1994; Patton, 2002; Yilmaz, 2013).

3.3 CASE STUDY RESEARCH METHOD

Collis & Hussey (2014) noted that case studies are categorised as a methodology used by interpretivists. Yin (2012) defined a case study as an “empirical inquiry about a contemporary phenomenon (e.g., a “case”), set within its real-world context, especially when the boundaries between phenomenon and context are not clearly evident.”

Case studies allow for confirmatory (deductive) as well as explanatory (inductive) findings (Baškarada; 2014; Hyde, 2000; Yin, 2009), can be based on single or multiple cases and can include qualitative and/or quantitative data (Baškarada; 2014; Gerring, 2004). According to Yin (2012) at least three situations create relevant opportunities for applying the case study method as a research method:

- Case studies are pertinent when research addresses either a descriptive question such as: “What is happening or has happened?” or an explanatory question: “How or why did something happen?”
- By emphasizing the study of a phenomenon within its real-world context, the case study method favours the collection of data in natural settings, compared with relying on “derived” data.
- The case study method is commonly used in conducting evaluations.

Table 3.2 shows the different types of case studies and is described when a researcher would utilise each method.
Table 3.2: Types of case studies

<table>
<thead>
<tr>
<th>Type of case study</th>
<th>When to use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Descriptive</td>
<td>Where the objective is restricted to describing current practice.</td>
</tr>
<tr>
<td>Exploratory</td>
<td>Conducted where there are few theories or a deficient body of knowledge.</td>
</tr>
<tr>
<td>Opportunist</td>
<td>Where the opportunity to examine a phenomenon arises because the researcher has access to a particular business, person or other case.</td>
</tr>
<tr>
<td>Comparative / Multiple</td>
<td>When there are multiple - case studies.</td>
</tr>
<tr>
<td>Illustrative</td>
<td>Where research attempts to illustrate new and possibly innovative practices adopted by particular companies.</td>
</tr>
<tr>
<td>Experimental</td>
<td>Where the research examines the difficulties in implementing new procedures and techniques in an organisation and evaluating the benefits.</td>
</tr>
<tr>
<td>Explanatory</td>
<td>When existing theory is used to understand and explain what is happening.</td>
</tr>
</tbody>
</table>

Source: Researchers own construction adapted from Collis & Hussey, 2014.

3.3.1 Multiple-case study approach

Multiple-case designs are preferred (Rowley, 2002). A multiple-case study approach is the adequate research strategy when how and why questions are being posed, when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real-life context (Cooper & Geurts, 2000; Yin, 1994). Multiple-case study design enables replication (by the use of more than one case) to independently confirm emerging constructs and identify complementary aspects of the phenomenon under investigation by analysing within and across settings (Anderson, Leahy, DelValle, Sherman & Tansey, 2014; Baxter & Jack, 2008). The multiple-case study design is usually more difficult to implement than a single case design, but the ensuing data can provide greater confidence in the research findings data (Baškarada, 2014; Eisenhardt & Graebner, 2007; Yin, 2012). The more cases being investigated, the greater confidence or certainty in a study’s findings and the fewer the cases results in less confidence or certainty (Rowley, 2002; Yin, 2012).
Cases need to be carefully selected so that they either produce similar results (literal replication), or produce contrasting results but for predictable reasons (theoretical replication) (Baškarada, 2014; Rowley, 2002). Multiple-case design might call for two or more cases that deliberately tried to test the conditions under which the same findings might be replicated, or alternatively, the multiple cases might include deliberately contrasting cases (Yin, 2012). If multiple - cases lead to contradictory results, the preliminary theory should be revised and tested with another set of cases (Baškarada, 2014; Yin, 2009). If two or more cases are shown to support the same theory, replication can be claimed (Rowley, 2002).

The benefits of the multiple-case study method include representativeness, robustness and allow for replication in data collection across sites, which can be beneficial in understanding the issue under investigation (Anderson et. al., 2014). Investigators of multiple-case studies might think that a cross-case analysis would largely consist of a simple tally (e.g., “Five cases supported the proposition, but two did not”) as the way of arriving at a cross-case conclusion, however, the numbers in any such tally are likely to be too small and undistinguished to support such a conclusion with any confidence (Yin, 2012).

3.3.2 Research method adopted

The present research effort adopted the explanatory multiple - case study research method as a means of empirical investigation and analysis. Explanatory case studies would be used if you were seeking to answer a question that sought to explain the presumed causal links in real-life interventions that are too complex for the survey or experimental strategies (Baxter & Jack, 2008). In evaluation language, the explanations would link program implementation with program effects (Baxter & Jack, 2008; Yin, 2003). The present research effort and primary question is about determining the causal links effects that the proposed variables Human Capital, Outside Advice, Succession Planning, Fairness and Family Harmony have on The Perceived Success of Fair Family Employee Compensation in South African family businesses. Multiple - cases will be investigated where literal replication will be applied to the study, in order to attain evidence supporting the initial set of propositions,
or evidence rejecting the propositions. Section 3.4 will entail designing the explanatory multiple case study research.

### 3.4 MULTIPLE CASE STUDY RESEARCH DESIGN

The design stage focuses on defining the unit of analysis and the likely cases to be studied, developing theory/propositions and identifying issues underlying the anticipated study, identifying the case study design (single, multiple, holistic, embedded) and developing procedures to maintain case study quality (Baškarada, 2014; Yin, 2009). Table 3.3 depicts five aspects that provide a basic foundation for a case study design to achieve credibility, according to Baxter & Jack (2008) and Russell, Gregory, Ploeg, DiCenso, & Guyatt (2005). Each aspect is bolded on the above row, with the evidence provided on the row below that ensures the aspect has being attained. Table 3.3 can be seen as a case study research method credibility check list. Aspect Three on Table 3.3 indicated that a criterion sample strategy was used. A criterion sample strategy according to Patton (1990) and Shakir (2002) is where the cases are picked because they meet some predetermined criterion. In the present research effort, the cases were chosen based on the criteria that each case met the definition of a family business and that such businesses had to be located in South Africa. The embedded unit of analysis also had to be a family employee at executive or management level.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Description with answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ensure that the case study research question is clearly written, propositions (if appropriate to the case study type) are provided and the question is substantiated. Provided in Chapter One, sections 1.3 and 1.4; section</td>
</tr>
<tr>
<td>2</td>
<td>Ensure that the case study design is appropriate for the research question. Explanatory multiple - case study research method, see: section 3.3.2.</td>
</tr>
<tr>
<td>3</td>
<td>Ensure that purposeful sampling strategies appropriate for case study have been applied. Embedded multiple - case study – eight family managers representing eight family businesses across South Africa. Criterion sample strategy used.</td>
</tr>
<tr>
<td>4</td>
<td>Ensure that data are collected and managed systematically.</td>
</tr>
</tbody>
</table>
Semi-structured interviews, captured on a voice recording device and the primary was data stored on interview transcripts, see: Annexure A.

Ensure that the data are analysed correctly.

Pattern matching was used to link the primary data to existing literature in order to determine whether a variable was present in each case, see: section 3.6.2; Chapter Four, Tables 4.2, 4.3 and 4.4. An analytical generalisation was made about the propositions by applying literal replication to the multiple-case studies, see: Chapter Four, Table 4.5.


3.4.1 Case study questions

Research design logically links the research questions to the research conclusions through the steps undertaken during data collection and data analysis (Baškarada, 2014). Explanatory case studies are used when existing theory is used to understand and explain what is happening (Collis & Hussey, 2014).

The present research effort investigated multiple-case studies, which included eight family businesses across South Africa in order to develop a proposed model on the proposed variables that determine The Perceived Success of Fair Family Employee Compensation by consulting existing literature and empirically investigating the eight cases by means of semi-structured interviews, with the family managers of the respective family business. In order to address the proposed research questions and objectives, the following investigative research questions were used in the relevant embedded units of analysis:

3.4.1.1 Embedded Units:

3.4.1.1.1 Embedded Unit One of Case Study One: Mixshelf Group (Pty) Limited

Interview One was conducted on the 29 October 2015 with part-owner, of Mixshelf Group (Pty) Limited, Dennis Tucker at the respondent’s home in Port Elizabeth in South Africa. Mixshelf (Pty) Limited is based in Port Elizabeth and owns a number of supermarkets and liquor stores. Mixshelf (Pty) Limited operates in The Fast Moving
Consumer Goods (FMCG) Industry of South Africa, whose core business can be considered fast moving consumer goods. The business employs approximately three hundred people, of which five are family employees. The business is considered a family business as more than fifty percent of the shares are owned by the family; there are family members in management positions and there are potential family member successors. The family business had reached the second generation.

3.4.1.1.2 Embedded Unit One of Case Study Two: Van Loveren Vineyards (Pty) Limited

Interview Two was conducted on 4 November 2015 with the CEO of Van Loveren Vineyards (Pty) Limited, Phillip Retief at the head office of the business, just outside Robertson in South Africa. Van Loveren Vineyards (Pty) Limited operates in both The Agriculture and Liquor Industries of South Africa and the core business is the production of wines and wines sales. The company employs approximately two hundred people, with four being family employees. According to the website of the business, “Van Loveren is South Africa's biggest family-owned winery”. Van Loveren Vineyards (Pty) Limited is considered a family business as the Van Loveren family hold more than fifty percent of the company shares; the four family employees are in management positions and there are potential family member successors. Van Loveren Vineyards (Pty) Limited had reached the third generation.

3.4.1.1.3 Embedded Unit One of Case Study Three: Edward Snell & Company (Pty) Limited

Interview Three was conducted on 4 November 2015 with the Managing Director of Edward Snell & Company (Pty) Limited, Iain Hooper at a hotel in Cape Town, in South Africa. The company is based in Durban in South Africa, operates in The Liquor Industry of South Africa and specialises in the wholesale and distribution of wines and spirits. “The company is the third largest alcohol spirit beverage business in South Africa producing, warehousing, distributing and selling its own brands as well as those of a number of major international brand owners” according to the website (Edward Snell, n.d).
About two hundred and ninety people are employed by the business of which two are family employees, both at executive level. “Edward Snell & Co. Ltd was established in 1848. It is presently the largest family-owned wine and spirit merchant in South Africa” (Edward Snell, n.d.). Edward Snell & Company (Pty) Limited is considered a family business as the family holds more than fifty percent of the company shares. Iain Hooper noted regarding the question of family member succession: “quite a difficult one to answer because the next generation is still quite young, so not immediately; I would be very surprised, it’s highly unlikely that the next managing director would be a family member”; (see: Annexure A, Interview Three). The business had reached the fourth generation, but was sold during the 1950s and was bought back in 1980. If 1980 is taken as a starting point, then the business had only reached the second generation.

3.4.1.1.4 Embedded Unit One of Case Study Four: Fischer and Company (Pty) Limited.

Interview Four was conducted on 5 November 2015 with the Managing Director of Fischer and Company (Pty) Limited, Peter Moser at Fischer’s in Greenacres Shopping Centre in Port Elizabeth, South Africa. The head office is located in Port Elizabeth and the business operates in The Jewellery Industry of South Africa. The core business of the company is jewellery manufacturing and retail. Fischer and Company (Pty) Limited employs thirty five people and five of the employees are family employees. The business is regarded as a family business, because more than fifty percent of the company shares are owned by the family; there are family members in management positions and there are potential family successors. The business had reached the third generation.

3.4.1.1.5 Embedded Unit One of Case Study Five: Oom Cola’s Tavern (Pty) Limited

Interview Five occurred on 6 November 2015, with the manager of Oom Cola’s Tavern (Pty) Limited, Mandisi Gqulane, at the head office of the researcher in Port Elizabeth. The business is located in Zwide, Port Elizabeth, South Africa and forms part of The Leisure and Hospitality Industry of South Africa. Oom Cola’s Tavern (Pty) Limited focuses on on-premises consumption of food and liquor. The business employs six
full-time employees, but with part-time employees the business employs eight. Four of the employees are family employees. Oom Cola’s Tavern (Pty) Limited is regarded as a family business as the family owns more than fifty percent of the company shares; there are family members in management positions and there are potential family member successors. The business reached the second generation.

3.4.1.1.6 Embedded Unit One of Case Study Six: Blunden Coach Tours (Pty) Limited

Interview Six was conducted on 9 November 2015 with the CEO of Blunden Coach Tours (Pty) Limited, Shawn Blunden at the head office of the company in Port Elizabeth, South Africa. The company operates in The Leisure and Hospitality Industry of South Africa. “Proudly servicing the Eastern Cape for more than 42 years, Blunden Coach Tours provides a professional, cost-effective solution to most travel and tourism requirements. We have a variety of affordable, reliable coaches, with C.O.F. (Certificate of fitness) and fully licensed to hire for all occasions. Our fleet consists of; Luxury Coaches, Minibuses, Standard Buses, Runabouts and Executive Chauffeurs” (Blunden, 2015). The business has about one hundred and ten employees, of which two are family employees. Blunden Coach Tours (Pty) Limited is regarded as a family business as the family own more than fifty percent of the company shares; there are family members in management positions and there are potential family member successors. The business had reached the third generation.

3.4.1.1.7 Embedded Unit One of Case Study Seven: Kloppers (Pty) Limited

Interview Seven occurred on 9 November 2015 with one of the directors of Kloppers (Pty) Limited, Leon Klopper at the Port Elizabeth branch in South Africa. The head office of the company is located in Bloemfontein, South Africa and is part of The Consumer Appliances Industry of South Africa. Kloppers (Pty) Limited focuses on general retail which includes appliances, electronics, outdoors, sports, home & kitchenware, DIY and garden and luggage and bags consumer goods. The approximate number of employees hired by Kloppers (Pty) Limited is five hundred employees, with six being family employees. The company is regarded as a family business as the family owns more than fifty percent of the company shares. There are
also family members in management positions and there are potential family member successors. The business had reached the second generation.

3.4.1.1.8 Embedded Unit One of Case Study Eight: Cicognini Properties (Pty) Limited

Interview Eight was conducted on 13 November 2015 with the Director of Cicognini Properties (Pty) Limited, Dante Cicognini at the business head office in Port Elizabeth, South Africa. Cicognini Properties (Pty) Limited falls under The Construction and Property Industry of South Africa, with the core business being property investment. The firm employs approximately one hundred employees and three of the employees are considered family employees. Cicognini Properties (Pty) Limited is regarded as a family business because the family owns more than fifty percent of the company shares; there are family members in management positions and there are potential family member successors. The business had reached the second generation.

3.4.1.2 Interview questions

The following questions were asked during the semi-structured interviews involving the embedded units of Case Studies One to Eight (the same questionnaire was used for all the case studies):

- What is your name?
- What is your position in the business?
- What is the name of the business you represent?
- What generation business is the family business?
- What city/town is home to the head office of the business?
- What industry is the business part of?
- Roughly how many employees are employed by the business?
- Roughly how many family members actively work in the business and get paid compensation by the business?
- Do you regard the business as a family business?
- What is the core business activity of this business?
• Does the family hold fifty percent or more ownership of the business? If not, roughly what is the percentage family ownership?
• Are there any family members in management positions in the business?
• Are there any potential family member successors to take over the business one day?
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated according to their contribution to the business.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between work performance and compensation.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between the amount of responsibility and compensation in the family business.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members in the family business are compensated at levels consistent with the standards of the industry.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The compensation to individual family members is reasonable compared to the salaries of other family members.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Given their compensation each family member hired by the family business does their fair share of the work in the family business.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business each family member hired by the family business is compensated fairly for the work that they do.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business rewards for family employees are based on merit.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated not according to age or gender.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are paid a competitive market-related salary/wage for their efforts in the family business.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the appropriate business experience that enables them to contribute to the functioning of the family business.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are competent in performing their tasks in the family business.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There are outside consultants advising the family business.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires has already been identified.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires is being prepared for his or her role.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a proper succession plan in place for this business which includes what the successor’s compensation will be.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Replacing the current owner/manager with a successor will be done in good time.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, family members are treated fairly by the family business.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, the salary family members receive in the family business is fair.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The rules are equally fair to everyone in the family business.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The procedures followed are equally fair to everyone in the family business.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members care about each other’s well-being.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members respect each other.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members support each other.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members trust each other.
• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members understand each other’s views.

• Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members listen to each other’s opinions.

• Is there anything you would like to add regarding compensation and the family business?

3.4.2 Case study propositions

Propositions may come from the literature, personal/professional experience, theories and/or generalisations based on empirical data (Baxter & Jack, 2008). Deciding on which propositions apply to the cases under study and which are intended to be generalised to a broader population is critical (Baškarada, 2014; Gerring, 2004). Cases do not represent a sample but rather are generalisable to theoretical propositions and not to populations (Cooper & Geurts, 2000). Each proposition serves to focus the data collection, determine direction and scope of the study and together the propositions form the foundation for a conceptual structure/framework (Baxter & Jack, 2008; Miles & Huberman, 1994; Stake, 1995). A summary of the present research effort propositions is provided in Chapter One, section 1.4.

If all of the cases turn out as predicted then there is strong evidence for the initial set of propositions, however, if the cases reveal a variety of different outcomes, it may be necessary to revisit the propositions and consider conducting further research (Baškarada, 2014; Rowley, 2002).

3.4.3 Unit of analysis

The unit of analysis defines whether the case is an event, a process, an individual, a group, or an organisation (Baškarada, 2014; GAO, 1990; Yin, 2009). The researcher was required to decide whether the case study would consist of a single or multiple cases and to choose either the case to be holistic or to have embedded subcases.
within an overall holistic case (Yin, 2012). If the research was limited to a single organisation, it would entail embedded, single-case study (Yin, 2012). If the research consisted of two or more organisations in the same manner, it would entail an embedded, multiple-case study (Yin, 2012).

Since the research effort is about determining the causal links that effects the proposed variables Human Capital, Outside Advice, Succession Planning, Fairness and Family Harmony have on The Perceived Success of Fair Family Employee Compensation in South African family businesses, the empirical investigation consisted of eight case studies, each with a single embedded unit of analysis, in the form of the following interviewees: Mixshelf Group (Pty) Limited Partner, Van Loveren Vineyards (Pty) Limited CEO, Edward Snell & Company (Pty) Limited Managing Director, Fischer and Company (Pty) Limited Managing Director, Oom Cola’s Tavern (Pty) Limited Manager, Blunden Coach Tours (Pty) Limited CEO, Kloppers (Pty) Limited Director and Cicognini Properties (Pty) Limited Director. The present research effort therefore adopted an embedded unit, multiple-case study design approach where the emphasis was placed on the eight interviews conducted.

Figure 3.1 shows the eight case studies and respective embedded units. To determine whether the propositions influence the dependent variable, primary data was matched with the literature in order to determine the presence of the variables in each case and then replication logic across the cases was applied to see if there was enough evidence supporting the propositions.
Figure 3.1: Multiple-case studies and embedded units of analysis design

Source: Researcher’s Own Construction adapted from Yin, 2012.
The quality of any empirical studies, including case studies, depends on construct validity, internal validity, external validity and reliability (Baškarada, 2014; Edmonds & Kennedy, 2012), these will be discussed in the next section.

3.4.3.1 Validity

3.4.3.1.1 Construct validity

Construct validity deals with concept operationalisation (Baškarada, 2014). Operationalisation is the process of defining a concept through a set of attributes/variables in order to make it measurable through empirical observations (Baškarada, 2014; Loseke, 2012). Construct validity is concerned with exposing and reducing subjectivity, by linking data collection questions and measures to research questions and propositions (Rowley, 2002).

Employing multiple sources of evidence can contribute to construct validity by providing multiple measures of the same phenomenon (Baškarada, 2014; Rowley, 2002; Yin 2009). Designing the case study so that the chain of evidence is maintained should allow reviewers to trace from conclusions back to the initial research questions or from questions to the conclusions (Baškarada, 2014; Rowley, 2002; Sarker & Lee, 1998; Yin 2009). The corrections made through reviews by key informants may enhance the accuracy of the case study as well as identify a range of competing perspectives (Baškarada, 2014; Rowley, 2002; Yin 2009).

In the present research effort, construct validity was enhanced by investigating and collecting primary data from multiple-case studies. Furthermore, there is a chain of evidence that starts with the research questions in Chapter One, with Chapter Five indicating how the research questions consisted of measuring instruments used to measure the presence of the variables in each case, interview transcripts in Annexure A where the primary data is stored, Chapter Four depicting how the final outcomes were derived from the primary and secondary data and lastly Chapter Five stipulating the conclusions derived. Corrections to the research were made by experts in the field.
3.4.3.1.2 Internal validity

Internal validity, which is concerned with justifying causal relationships, only applies to explanatory and not to descriptive or exploratory case studies (Baškarada, 2014; GAO, 1990). The use of methodological and data source triangulation (including cross-case comparisons) can lead to increased internal validity (Baškarada, 2014; GAO, 1990). It has also been argued that pattern matching may be used to enhance the internal validity, whereby, involving qualitative but logical deduction (Baškarada, 2014; Lee, 1989), an empirically based pattern is logically compared against a predicted pattern (Baškarada, 2014; Yin, 2009; Rowley, 2002). The present research effort adopted pattern matching as a method of analysis which enhanced internal validity.

3.4.3.1.3 External validity

External validity deals with the problem of knowing whether the findings are generalisable to other cases (Baškarada, 2014; Rowley, 2002). Case studies are generalisable to theoretical propositions and not to populations (Baškarada, 2014). Generalisation is based on the replication logic (Rowley, 2002). In this sense, the case study, like an experiment, does not represent a sample and the investigator’s goal is to expand and generalise theories and not to enumerate frequencies (Baškarada, 2014; Yin, 2009). In order to enhance external validity, replication logic in multiple case studies should be used (Rowley, 2002). The use of case study protocol can also enhance external validity (Rowley, 2002). The present study adopted replication logic as a method of determining the generalising of the propositions, which enhanced external validity.

3.4.3.2 Reliability

Reliability is concerned with demonstrating that the same results can be obtained by repeating the data collection procedure (Baškarada, 2014). The case study protocol contributes to the reliability by standardising the investigation (Baškarada, 2014). As such, the use of a case study database enhances the reliability of the study (Baškarada, 2014; Rowley, 2002; Baxter & Jack, 2008). A case study database including notes, key documents, tabular materials, narratives, photographs, and audio
files can be stored in a database for easy retrieval at a later date (Baxter & Jack, 2008). All primary data was captured on a voice recording device and was inputted on to an interview transcript per case study embedded unit. The respondents were contacted to clarify any misinterpretations from the interviews.

3.5 DATA COLLECTION

Relevant data may be collected through documents, archival records, interviews, direct observations, and physical artefacts (Baškarada, 2014; Yin, 2009). Any interested reader should be able to link the conclusions presented in the case study report to the underlying analyses, the supporting evidence, the case study protocol and the original research questions (Baškarada, 2014).

A case study database allows investigators to develop an audit trail from data collection, through analysis, to final conclusions and may include interview transcripts, investigator notes, documentary evidence and preliminary analyses (Baškarada, 2014).

3.5.1 The sample

Yin (2012) proposed the question “How many cases should be included in a multiple-case study?” and was answered with “the more cases, the greater confidence or certainty in a study’s findings and the fewer the cases, the less confidence or certainty” (Yin, 2012). According to Shakir (2002) and Yin (1994) the initial decision regarding a satisfactory number of cases is between six to eight for a theoretical replication and three to four for a literal replication.

The present research effort used a criterion sample strategy. A criterion sample strategy according to Patton (1990) and Shakir (2002) is where the case study samples are picked because the cases meet some predetermined criterion. The samples were chosen based on the criteria that each case met the definition of a family business and that such businesses had to be located in South Africa. The respondent to be interviewed also had to be a family employee at executive or management level.
The data was collected from eight family managers of eight family businesses across South Africa.

3.5.2 Interviews

Interviews are guided conversations that are usually one of the most important sources of case study evidence (Baškarada, 2014; Yin, 2009). Interviews can be structured, semi-structured or unstructured (Baškarada, 2014). Semi-structured interviews, or focused interviews (Baškarada, 2014; Dane, 2010), can be more flexible and allow the researcher to better understand the perspective of the interviewees (Baškarada, 2014; Daymon & Holloway, 2002). In semi-structured interviews, a researcher is able to refocus the questions, or prompt for more information, if something interesting or novel emerges (Baškarada, 2014). Using recording devices is a matter of personal preference (Baškarada, 2014). Any clarifications should be followed up with the interviewees as soon as possible (Baškarada, 2014).

The present research effort adopted the semi-structured interview technique and captured the data using a voice recording device.

3.6 THE LOGIC LINKING THE DATA TO THE PROPOSITION

The logic linking the data to the propositions should also ensure the correct type and amount of relevant information is collected (Baškarada, 2014).

3.6.1 Measuring instruments

The research questions were adopted from measuring instrument constructs as shown on Table 3.4. To see how the instruments were derived, see: Chapter One, Table 1.3. The research questions are depicted on the interview transcripts as interview questions, in order to measure the presence of the variables in each case study. Determination of the presence of a variable in a case study is discussed in section 3.6.2.
Table 3.4: Research questions and measuring instruments

<table>
<thead>
<tr>
<th>Variable</th>
<th>Research questions / Interview responses (Chapter Four)</th>
<th>Measuring instrument construct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>4.4.1.1 – 4.4.1.3</td>
<td>Human Capital (HC)</td>
</tr>
<tr>
<td>Outside Advice</td>
<td>4.4.1.4 – 4.4.1.6</td>
<td>Outside Advice (OA)</td>
</tr>
<tr>
<td>Succession Planning</td>
<td>4.4.1.7 – 4.4.1.11</td>
<td>Succession Planning (SP)</td>
</tr>
<tr>
<td>Fairness</td>
<td>4.4.1.12 – 4.4.1.16</td>
<td>Fairness (FAIR)</td>
</tr>
<tr>
<td>Family Harmony</td>
<td>4.4.1.17 – 4.4.1.22</td>
<td>Family Harmony (FH)</td>
</tr>
<tr>
<td>Fair Family Employee</td>
<td>4.4.1.23 – 4.4.1.32</td>
<td>Fair Family Employee Compensation (FCOM)</td>
</tr>
</tbody>
</table>

Source: Researcher’s Own Construction, 2015.

3.6.2 Pattern matching

A pattern matching logic would later enable one to compare an empirically based pattern (based on the data collected) with the predicted one (Yin, 2012). Since all research is based on theory, the theoretical foundations of the study should be clearly articulated (Baškarada, 2014; Flynn, Sakakibara, Schroeder, Bates, & Flynn, 1990). In case study research, pattern matching techniques are designed to enhance the rigour of the study; if the empirically-found patterns match the predicted ones, the findings can contribute to and strengthen the internal validity of the study and result in the confirmation of the hypotheses/propositions (Almutairi, Gardner, & McCarthy, 2014; Yin, 2009). In contrast, if the predicted and experienced patterns do not match, the researcher must examine alternative explanations for the findings (Almutairi et. al., 2014).

In the present research effort, pattern matching was used to match the primary data from the interviews with the literature, thereby determining whether a variable was present in the case study of focus. In order to determine the presence of each variable in each case study, the pattern matching framework for condition propositions and variables adapted from Hak & Dul (2009) was applied, where the necessary condition propositions for independent variable design was implemented, because the primary data indicated that the dependent variable was present in all the case studies and so, the expected pattern consisted of checking whether the independent variables were
present in each case study. For more on the pattern matching framework, see: Chapter Four, section 4.5.

3.6.3 Replication logic

When the study involves more than one case, the strategy for case selection changes because the focus shifts from that being the purpose of the study is to the issue of external validity of the case inquiry (Shakir, 2002). Multiple-case design may work well in situations where there are several similar cases that can provide pathways for replication and comparison (Raeburn, Schmied, Hungerford, & Cleary, 2015; Stake, 2013). The rationale behind replication logic is that patterns and connections, if they correspond to predictions from a pre-determined set of theoretical propositions, established across somewhat independent cases, will lead to more robust, authentic and transferable findings (Grünbaum, 2007).

External validation, in terms of the limited generalisability of the findings can be established through the replication logic of the multiple case study design (Creswell, 1994; Shakir, 2002; Yin, 1994). While statistical generalisation is achieved when results from a correct sample are generalised to a larger universe, analytical generalisation (case studies rely on analytical generalisation) is the generalisation of a particular set of results to some broader theory (Shakir, 2002; Yin, 1994).

In a direct replication (also known as literal replication), the single cases would be predicted to arrive at similar results (Yin, 2012). In a theoretical replication, each single case’s ultimate disposition also would have been predicted beforehand, but each case might have been predicted to produce a varying or even contrasting result, based on the preconceived propositions (Yin, 2012). If multiple cases lead to contradictory results, the preliminary theory should be revised and tested with another set of cases (Baškarada, 2014; Yin, 2009).

The present research effort applied the literal replication technique in order to generalise the proposition results of the empirical analysis.
3.7 CONCLUSION

Chapter Three provided a complete overview of the research methodology used in the present research effort. An explanatory multiple-case study research approach was adopted as the most suitable means to conduct the empirical analysis in order to answer the primary research question indicated in Chapter One. The design took the form of multiple-case studies with single embedded units of analysis and data was collected using semi-structured interviews with various family managers of various South African family businesses. All the case study’s interview questions were derived, as well as the validity and reliability of the research. Finally, pattern matching and replication logic techniques were discussed as means to analyse the data. Chapter Four contains the comprehensive feedback and analysis of the collected data.
CHAPTER FOUR:
DATA FINDINGS AND ANALYSIS

4.1 INTRODUCTION

Chapter one introduced the problem to be solved, the reason for the present research effort in the first place. In Chapter Two, the literature review, the propositions that were considered to have an influence on the dependent variable were discussed comprehensively. In Chapter Three, the research methodology and design were clarified and how the data collected from the interviews, was linked to the propositions. In Chapter Four, the present chapter, the researcher reported the results from the empirical findings (interviews) and covered research questions RQ1 to RQ32 (see: Chapter One, Table 1.1) and accomplished research objective six (see: Chapter One, section 1.3). The primary research problem (see: Chapter One, section 1.3) was specified as follows:

To determine variables that affects The Perceived Success of Fair Family Employee Compensation in South African family businesses.

The dependent variable was identified as The Perceived Success of Fair Family Employee Compensation in family businesses located in South Africa and the independent variables were identified as: Human Capital, Outside Advice, Succession Planning, Fairness and Family Harmony.

Vital to the research effort was the methodology used to correlate the data from the interviews to the propositions. Pattern matching was adopted for all the eight case studies. The research questions are derived from the items of the measuring instrument constructs, used to measure the variables. In the present chapter, the researcher reported the empirical findings and correlated the findings with the literature (measuring instruments), in order to provide the answers to the propositions, from the family managers of family businesses consulted.
4.2 DESCRIPTIVE ANALYSIS OF EMBEDDED UNITS

As depicted in Chapter Three, the present study’s case studies made use of the embedded unit, multiple case study design approach where the emphasis was on the eight semi-structured interviews conducted with one interview per case study with a family manager from each business. The semi-structured interviews took place between October and November 2015 and were recorded on a voice recording device and transcribed by a third party and the researcher for increased reliability. Any incident where there was distortion on the voice recording device and certain words could not be understood or interpreted with one hundred percent certainty, resulted in the respondent being contacted to clarify any issues.

All the interviews conducted were semi-structured interviews. The embedded units (see: Chapter Three, Figure 3.1) were defined as follows:

4.2.1 Embedded unit one of case study one

<table>
<thead>
<tr>
<th>Name of respondent:</th>
<th>Dennis Tucker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent’s position at business:</td>
<td>Part-owner</td>
</tr>
<tr>
<td>Name of family business:</td>
<td>Mixshelf Group (Pty) Limited.</td>
</tr>
<tr>
<td>Generation of family business:</td>
<td>Second</td>
</tr>
<tr>
<td>Head office:</td>
<td>Port Elizabeth</td>
</tr>
<tr>
<td>Industry:</td>
<td>Fast moving consumer goods (FMCG)</td>
</tr>
<tr>
<td>Approximate number of employees</td>
<td>300</td>
</tr>
<tr>
<td>Number of family employees</td>
<td>5</td>
</tr>
<tr>
<td>Interview date and place</td>
<td>29 October 2015; Port Elizabeth</td>
</tr>
</tbody>
</table>

4.2.2 Embedded unit one of case study two

<table>
<thead>
<tr>
<th>Name of respondent:</th>
<th>Phillip Retief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent’s position at business:</td>
<td>CEO</td>
</tr>
<tr>
<td>Name of family business:</td>
<td>Van Loveren Vineyards (Pty) Limited.</td>
</tr>
<tr>
<td>Generation of family business:</td>
<td>Third</td>
</tr>
<tr>
<td>Head office:</td>
<td>Robertson</td>
</tr>
<tr>
<td>Industry:</td>
<td>Agriculture and Liquor</td>
</tr>
<tr>
<td>Approximate number of employees</td>
<td>200</td>
</tr>
<tr>
<td>Number of family employees</td>
<td>4</td>
</tr>
<tr>
<td>Interview date and place</td>
<td>4 November 2015; Robertson</td>
</tr>
</tbody>
</table>
4.2.3 Embedded unit one of case study three

<table>
<thead>
<tr>
<th>Name of respondent:</th>
<th>Iain Hooper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent’s position at business:</td>
<td>Managing Director (MD)</td>
</tr>
<tr>
<td>Name of family business:</td>
<td>Edward Snell &amp; Company (Pty) Limited.</td>
</tr>
<tr>
<td>Generation of family business:</td>
<td>Second or Fourth (depends on date)</td>
</tr>
<tr>
<td>Head office:</td>
<td>Durban</td>
</tr>
<tr>
<td>Industry:</td>
<td>Liquor (Beverage)</td>
</tr>
<tr>
<td>Approximate number of employees</td>
<td>290</td>
</tr>
<tr>
<td>Number of family employees</td>
<td>2</td>
</tr>
<tr>
<td>Interview date and place</td>
<td>4 November 2015; Cape Town</td>
</tr>
</tbody>
</table>

4.2.4 Embedded unit one of case study four

<table>
<thead>
<tr>
<th>Name of respondent:</th>
<th>Peter Moser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent’s position at business:</td>
<td>Managing Director (MD)</td>
</tr>
<tr>
<td>Name of family business:</td>
<td>Fischer and Company (Pty) Limited.</td>
</tr>
<tr>
<td>Generation of family business:</td>
<td>Third</td>
</tr>
<tr>
<td>Head office:</td>
<td>Port Elizabeth</td>
</tr>
<tr>
<td>Industry:</td>
<td>Jewellery</td>
</tr>
<tr>
<td>Approximate number of employees</td>
<td>35</td>
</tr>
<tr>
<td>Number of family employees</td>
<td>5</td>
</tr>
<tr>
<td>Interview date and place</td>
<td>5 November 2015; Port Elizabeth</td>
</tr>
</tbody>
</table>

4.2.5 Embedded unit one of case study five

<table>
<thead>
<tr>
<th>Name of respondent:</th>
<th>Mandisi Gqulane</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent’s position at business:</td>
<td>Manager</td>
</tr>
<tr>
<td>Name of family business:</td>
<td>Oom Cola’s Tavern (PTY) Limited.</td>
</tr>
<tr>
<td>Generation of family business:</td>
<td>Second</td>
</tr>
<tr>
<td>Head office:</td>
<td>Port Elizabeth</td>
</tr>
<tr>
<td>Industry:</td>
<td>Leisure and Hospitality</td>
</tr>
<tr>
<td>Approximate number of employees</td>
<td>6 part-time; 8 full-time</td>
</tr>
<tr>
<td>Number of family employees</td>
<td>4</td>
</tr>
<tr>
<td>Interview date and place</td>
<td>6 November 2015; Port Elizabeth</td>
</tr>
</tbody>
</table>

4.2.6 Embedded unit one of case study six

<table>
<thead>
<tr>
<th>Name of respondent:</th>
<th>Shawn Blunden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent’s position at business:</td>
<td>CEO</td>
</tr>
<tr>
<td>Name of family business:</td>
<td>Blunden Coach Tours (Pty) Limited.</td>
</tr>
<tr>
<td>Generation of family business:</td>
<td>Third</td>
</tr>
<tr>
<td>Head office:</td>
<td>Port Elizabeth</td>
</tr>
<tr>
<td>Industry:</td>
<td>Leisure and Hospitality</td>
</tr>
<tr>
<td>Approximate number of employees</td>
<td>113</td>
</tr>
<tr>
<td>Number of family employees</td>
<td>2</td>
</tr>
<tr>
<td>Interview date and place</td>
<td>9 November 2015; Port Elizabeth</td>
</tr>
</tbody>
</table>

### 4.2.7 Embedded unit one of case study seven

| Name of respondent: | Leon Klopper |
| Respondent’s position at business: | Director |
| Name of family business: | Kloppers (Pty) Limited. |
| Generation of family business: | Second |
| Head office: | Bloemfontein |
| Industry: | Consumer Appliances |
| Approximate number of employees | 500 |
| Number of family employees | 6 |
| Interview date and place | 9 November 2015; Port Elizabeth |

### 4.2.8 Embedded unit one of case study eight

| Name of respondent: | Dante Cicognini |
| Respondent’s position at business: | Director |
| Name of family business: | Cicognini Properties (Pty) Limited. |
| Generation of family business: | Second |
| Head office: | Port Elizabeth |
| Industry: | Construction and Property |
| Approximate number of employees | 100 |
| Number of family employees | 3 |
| Interview date, time and place | 13 November 2015; Port Elizabeth |

### 4.3 FAMILY BUSINESS CATEGORY CRITERIA

In order to conduct the interviews, the case study needed to meet the criteria of the definition of a family business. In a 2014 South African family business survey (PwC, 2014) stipulated that a business is a family business if:

- The majority of votes are held by the person who established or acquired the firm (or their spouses, parents, child, or child’s direct heirs);
- At least one representative of the family is involved in the management or administration of the firm; and
• In the case of a listed company, the person/s who established or acquired the firm (or their families) possess 25% of the right to vote through their share capital and there is at least one family member on the board of the company.

All the case studies met the criteria to be categorised as a family business (see: interview responses to interview questions 12 and 13 under the demographics section, in the interview transcripts in Annexure A).

4.4 QUALITATIVE FINDINGS

In order to address the research problem, the following primary research question was formulated:

What effects do the factors Human Capital, Outside Advice, Succession Planning, Fairness and Family Harmony have on The Perceived Success of Fair Family Employee Compensation in South African family businesses?

Table 4.1 indicates which research questions reflect the measuring instruments of the variables been measured. The research questions were derived from the statements that measure the variables. Respondents were asked whether they agreed or disagreed with the statement and were given the opportunity to elaborate on the choice of their response. The transcribed interview responses per embedded unit of analysis of each case study are organised under the related research questions and then by means of pattern matching; the data was correlated with the literature (measuring instruments) in Tables 4.3 and 4.4.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Research questions / Interview responses</th>
<th>Measuring instrument construct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>4.4.1.1 – 4.4.1.3</td>
<td>Human Capital (HC)</td>
</tr>
<tr>
<td>Outside Advice</td>
<td>4.4.1.4 – 4.4.1.6</td>
<td>Outside Advice (OA)</td>
</tr>
<tr>
<td>Succession Planning</td>
<td>4.4.1.7 – 4.4.1.11</td>
<td>Succession Planning (SP)</td>
</tr>
<tr>
<td>Fairness</td>
<td>4.4.1.12 – 4.4.1.16</td>
<td>Fairness (FAIR)</td>
</tr>
<tr>
<td>Family Harmony</td>
<td>4.4.1.17 – 4.4.1.22</td>
<td>Family Harmony (FH)</td>
</tr>
</tbody>
</table>
4.4.1 Interview Responses to Research Questions

4.4.1.1 Research question RQ1: Do the family members have the qualifications (education) that enables them to contribute to the effective functioning of the family business?

*Embedded Unit One, Case Study One:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Two:*
Respondent: “Yes, they do.”

*Embedded Unit One, Case Study Three:*
Respondent: “Yes, I agree.”

*Embedded Unit One, Case Study Four:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Five:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Six:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Seven:*
Respondent: “I agree ok, but also with some, I think I know where this is going to.”

Researcher: “Was there anything you wanted to add to the first one?”
Respondent: “No, I thought there was something else coming in. So just read the first question again, I thought I was thinking.”

Researcher: “Ok, HC1, The family members have qualifications i.e, education that enables them to contribute to the effective functioning of the family business.”
Respondent: “Ok, it used to be like that and we stopped that. We are all equally now paid and remunerated and the guys with degrees or qualifications into business were paid more than the other guys.”

Researcher: “But it’s no longer like that?”
Respondent: “No, it’s no longer like that.”
Researcher: “So you’ve all chosen whether you have a degree or not, you get paid the same?”
Researcher: “Ok.”
Respondent: “Is that more or less, does that answer that thing then?”
Researcher: “Yes, I’m very happy with that.”

Embedded Unit One, Case Study Eight:
Respondent: “Yes.”

4.4.1.2 Research question RQ2: Do the family members have the appropriate business experience that enables them to contribute to the functioning of the family business?

Embedded Unit One, Case Study One:
Respondent: “Yes.”
Embedded Unit One, Case Study Two:
Respondent: “We all, gain our business experience in the family business barring myself. I was an audit clerk for three years, so yes we do have the experience now, but we used the business to gain that experience. The next generation will definitely have to gain experience outside the business before they join.”
Embedded Unit One, Case Study Three:
Respondent: “Yes, I agree.”
Embedded Unit One, Case Study Four:
Respondent: “Yes.”
Embedded Unit One, Case Study Five:
Respondent: “Yes, they do.”
Embedded Unit One, Case Study Six:
Respondent: “Yes.”
Embedded Unit One, Case Study Seven:
Respondent: “Agreed.”
Embedded Unit One, Case Study Eight:
Respondent: “Yes.”
4.4.1.3 Research question RQ3: Are the family members competent in performing their tasks in the family business?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “Yes they are, but if there are concerns of competency, it’s very difficult to address in the family business, because it’s always some kind of emotional link to it so you can’t manage or treat a fellow director or a senior family member one hundred percent the same as an employee; there is a difference in approach.”

Embedded Unit One, Case Study Three:
Respondent: “I hope so, being one of them.”

Embedded Unit One, Case Study Four:
Respondent: “Yes.”

Embedded Unit One, Case Study Five:
Respondent: “Yes, they are.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “Agree.”

Embedded Unit One, Case Study Eight:
Respondent: “Very much so.”

4.4.1.4 Research question RQ4: Are there outside consultants advising the family business?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “Yes, there are at different levels of operations, strategically as well, so yes.”

Embedded Unit One, Case Study Three:
Respondent: “Yes, there are.”

Embedded Unit One, Case Study Four:
Respondent: “Other than the auditors, I would say no.”

Embedded Unit One, Case Study Five:
Respondent: “Besides the lawyer there’s none.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “I must answer, disagree or agree?”
Researcher: “Yes.”
Respondent: “I, disagree.”
Researcher: “Ok.”

Embedded Unit One, Case Study Eight:
Respondent: “Yes there are.”
Researcher. “Ok.”
Respondent: “Do you want an example?”
Researcher. “You can elaborate.”
Respondent: “Example would be possibly our accountants and then quantity surveyors, quantifying the sums before expanding.”

4.4.1.5 Research question RQ5: When needed, does the family business draw on the expertise of professional outside advisors, to resolve conflict regarding family member compensation?

Embedded Unit One, Case Study One:
Respondent: “No.”

Embedded Unit One, Case Study Two:
Respondent: “We were fortunate that we have never had conflict, we’ve had differences but we’ve never had conflict, so we have never had to resort to outside advice, to consult us on that.”

Embedded Unit One, Case Study Three:
Respondent: “No, it hasn’t been necessary so.”

Embedded Unit One, Case Study Four:
Respondent: “No.”

Embedded Unit One, Case Study Five:
Respondent: “Thinking outside of the lawyer, there’s none, it’s just the lawyer.”
Researcher: “Has the lawyer ever been involved in compensation issues?”
Respondent: “Not at this stage no.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “I, disagree.”

Embedded Unit One, Case Study Eight:
Respondent: “Yes, but that’s never happened.”
Researcher: “And if it happened?”
Respondent: “It would.”

4.4.1.6 Research question RQ6: When needed, does the family business draw on outside expertise, to assist with determining what family employee compensation should entail and be?

Embedded Unit One, Case Study One:
Respondent: “No.”

Embedded Unit One, Case Study Two:
Respondent: “Yes we have done that for bench marking, but again, we haven’t formally used that, as part of our remuneration packages, no.”

Embedded Unit One, Case Study Three:
Respondent: “Yes, most certainly, again would you like me to elaborate on the agree and the and the not agree statement?
Researcher: “Whatever you want to.”
Respondent: “We have contracted the services initially of a company called PE Corporate Services survey and more recently we use a service called REMchannel. Now REMchannel gather a whole lot of data from members, that contribute their data into this pool, where you can bench mark positions in the organisation, against other companies of similar size or the industry. Obviously in our case it’s difficult to look at say the beverage sector and compare it to our size, because on the supply side, there are not that many businesses of our size, so we then open up the survey to other businesses of our size, but in the FMCG, so we found that it’s hugely useful tool but consultancy, that have advised us on remuneration.”

Embedded Unit One, Case Study Four:
Respondent: “No.”

Embedded Unit One, Case Study Five:
Respondent: “No.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “I, disagree.”

Embedded Unit One, Case Study Eight:
Respondent: “Well, as I said to you, we haven’t had any issues with it before so.”
Researcher: “But would you call on outside advisors to help you just to determine what it should be?”
Respondent: “Absolutely, yes and that would probably be our accountant.”

4.4.1.7 Research question RQ7: Has the person who will take over the family business when the current owner/manager retires already been identified?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “No, we have identified the risk and we have identified the reality, but we haven’t identified a succession individual.”
Researcher: “Alright.”
Respondent: “This stage there’s nobody in the family, in terms of the next generation that’s capable yet, being inexperienced or young, so if it has to happen now we would have to bring an outsider in.”

Embedded Unit One, Case Study Three:
Respondent: “No.”

Embedded Unit One, Case Study Four:
Respondent: “Yes.”

Embedded Unit One, Case Study Five:
Respondent: “Yes, yes.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Embedded Unit One, Case Study Eight:
Respondent: “I, disagree.”

Embedded Unit One, Case Study Eight:
Respondent: “Yes.”

4.4.1.8 Research question RQ8: Is the person who will take over the family business when the current owner/manager retires being prepared for their role?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “No.”

Embedded Unit One, Case Study Three:
Respondent: “No.”
Respondent: “You want to know, ok we have just had kids, they going take over one day, what do we do? Yes and it’s like a frame work. Ok, this method is going to work so we must put our kids through varsity and they must go and work in a firm for three years outside the business or whatever, that’s what I’m sort of looking to find out you know.”

Embedded Unit One, Case Study Four:
Respondent: “Yes.”

Embedded Unit One, Case Study Five:
Respondent: “I could say so, yes.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “I disagree.”

Embedded Unit One, Case Study Eight:
Respondent: “Yes.”
4.4.1.9 Research question RQ9: Is there a proper succession plan in place for the family business which includes what the successor's compensation will be?

**Embedded Unit One, Case Study One:**
Respondent: “No.”
Researcher: “Ok.”
Respondent: “As, as far as compensation is concerned, no.”

**Embedded Unit One, Case Study Two:**
Respondent: “Yes, a successor’s compensation will certainly be addressed; there is a process in place, but the only reality is we haven’t identified a person; there certainly is a process in place; there’s a lot of ideas on the table; there are certain individuals within the organisation, that can go into the senior positions, but nobody to take over the role of a CEO.”

**Embedded Unit One, Case Study Three:**
Respondent: “There is a proper succession plan; it does have gaps in it and where there’s a gap, the gap merely states that we would look to the outside and no, there’s no compensation linked to our succession plan in process at this stage.”

**Embedded Unit One, Case Study Four:**
Respondent: “No.”
Respondent: “With the succession plan, I hesitated to answer the one part about the succession plan, mainly because there is a daughter in the business, but she’s not part of the succession plan which is often the case.”

**Embedded Unit One, Case Study Five:**
Respondent: “Can you please refresh it again?”
Researcher: “There is a proper succession plan in place for this business which includes what the successor’s compensation will be; the person that will take over, you got to plan what their compensation is going to be.”
Respondent: “There is a succession plan but does not include what the compensation is going to be.”

**Embedded Unit One, Case Study Six:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Seven:**
Respondent: “I, disagree.”

**Embedded Unit One, Case Study Eight:**
Respondent: “Yes.”

4.4.1.10 Research question RQ10: Will replacing the current owner/manager with a successor be done in good time?

**Embedded Unit One, Case Study One:**
Respondent: “It will yes.”

**Embedded Unit One, Case Study Two:**
Respondent: “Yes, otherwise I will be working till the age of your dad.”

**Embedded Unit One, Case Study Three:**
Respondent: “Yes, it will be done in good time, but that time has not been determined.”

**Embedded Unit One, Case Study Four:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Five:**
Respondent: “Yes it will.”

**Embedded Unit One, Case Study Six:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Seven:**
Respondent: “I agree.”

**Embedded Unit One, Case Study Eight:**
Respondent: “Yes.”

4.4.1.11 Research question RQ11: Has the identity of the successor to the current owner/manager been communicated to all concerned?

**Embedded Unit One, Case Study One:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Two:**
Respondent: “Not to the successor because there’s nobody but the board and the family understands the process of what we are trying to achieve.”

**Embedded Unit One, Case Study Three:**
Respondent: “Not applicable cause he hasn’t been identified.”

**Embedded Unit One, Case Study Four:**
Respondent: “It hasn’t been communicated but has been assumed. We’ve got two directors that are sons and they will take over.”

Embedded Unit One, Case Study Five:
Respondent: “Yes it has.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “The successor?”
Researcher: “Yes, so the identity, so who the person is going to be.”
Respondent: “Ok, I agree.”

Embedded Unit One, Case Study Eight:
Respondent: “No.”
Researcher: “Ok.”
Respondent: “Only, the directors know who the successors are and one of the successors, would be a director.”
Researcher: “Ok.”
Respondent: “A current director.”

4.4.1.12 Research question RQ12: Overall, are family members treated fairly by the family business?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “Yes they are.”

Embedded Unit One, Case Study Three:
Respondent: “Yes.”

Embedded Unit One, Case Study Four:
Respondent: “Yes.”
Respondent: “There is a daughter in the business, but she’s not part of the succession plan which is often the case, that’s the part that would be a little unfair but they will be compensated in other ways.”

Embedded Unit One, Case Study Five:
Respondent: “Yes they are.”
Embedded Unit One, Case Study Six:
Respondent: “Yes.”
Respondent: “Family members, they got to be treated as everybody else got to be treated.”
Respondent: “Family members who are expecting more than what they are actually due and that’s where the problems creep in.”

Embedded Unit One, Case Study Seven:
Respondent: “I agree.”

Embedded Unit One, Case Study Eight:
Respondent: “Very much so.”

4.4.1.13 Research question RQ13: Is it fair how resources (e.g., salary, bonuses, etc.) are allocated amongst employees in the family business?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “Family member employees, or all employees?”
Researcher: “All employees.”
Respondent: “Yes, I believe so, I know that big corporate individuals one day said, I think, one hundred thousand people work for him and not one out of those hundred thousand ever told him that he earns enough, so employees will probably never be completely happy, but we do definitely create a friendly environment to achieve in here.”

Embedded Unit One, Case Study Three:
Respondent: “Yes.”

Embedded Unit One, Case Study Four:
Respondent: “Yes.”

Embedded Unit One, Case Study Five:
Respondent: “Yes, they are.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “I agree.”
4.4.1.14 Research question RQ14: Overall, is the salary the family members receive in the family business fair?

*Embedded Unit One, Case Study One:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Two:*
Respondent: “Yes, it is fair.”

*Embedded Unit One, Case Study Three:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Four:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Five:*
Respondent: “Yes it is.”
Respondent: “On the compensation fact, there isn’t much I can add, It’s based on fairness.”

*Embedded Unit One, Case Study Six:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Seven:*
Respondent: “I agree.”

*Embedded Unit One, Case Study Eight:*
Respondent: “Yes.”

4.4.1.15 Research question RQ15: Are the rules equally fair to everyone in the family business?

*Embedded Unit One, Case Study One:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Two:*
Respondent: “Family members get free benefits that other employees would not be part of, yes.”
Researcher: “Ok.”
Respondent: “That refers to housing and vehicles ‘for example’ yes.”

**Embedded Unit One, Case Study Three:**
Respondent: “Yes.”
Respondent: “Fact is like you said your business is professionalized and you work as if it’s a normal business.”

**Embedded Unit One, Case Study Four:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Five:**
Respondent: “Yes, they are.”

**Embedded Unit One, Case Study Six:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Seven:**
Respondent: “Agree.”

**Embedded Unit One, Case Study Eight:**
Respondent: “Yes.”

4.4.1.16 Research question RQ16: Are the procedures followed, equally fair to everyone in the family business?

**Embedded Unit One, Case Study One**
Respondent: “Yes.”

**Embedded Unit One, Case Study Two:**
Respondent: “In terms of the remuneration it is equally fair, family members obviously are shareholders, so they reap the rewards of capital or dividends, where the rest of the employees would share in profit share and bonuses.”
Researcher: “Ok.”
Respondent: “That’s always debatable if it’s sufficient or not.”

**Embedded Unit One, Case Study Three:**
Respondent: “Yes, agree.”
Respondent: “I just think it leads to a healthy dynamic between me and the six other members of my team where it’s complete transparency.”

**Embedded Unit One, Case Study Four:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Five:**
4.4.1.17 Research question RQ17: Do the family members care about each other’s well-being?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “Yes absolutely we do.”

Embedded Unit One, Case Study Three:
Respondent: “Yes, I agree.”

Embedded Unit One, Case Study Four:
Respondent: “Yes.”

Embedded Unit One, Case Study Five:
Respondent: “Yes, they do.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “I agree.”

Embedded Unit One, Case Study Eight:
Respondent: “Very much so.”

4.4.1.18 Research question RQ18: Do the family members respect each other?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “Yes, we do.”

Embedded Unit One, Case Study Three:
Respondent: “Yes, most certainly.”

**Embedded Unit One, Case Study Four:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Five:**
Respondent: “Yes, they do.”

**Embedded Unit One, Case Study Six:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Seven:**
Respondent: “I agree.”

**Embedded Unit One, Case Study Eight:**
Respondent: “Yes.”

4.4.1.19 Research question RQ19: Do the family members support each other?

**Embedded Unit One, Case Study One:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Two:**
Respondent: “Yes we do. We got different circles of friends, our social environments are different, but we certainly support each other yes.”

**Embedded Unit One, Case Study Three:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Four:**
Respondent: “Yes.”

Respondent: “We are very close as family, we not only work together but we socialise together.”

**Embedded Unit One, Case Study Five:**
Respondent: “Yes, we do.”

**Embedded Unit One, Case Study Six:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Seven:**
Respondent: “Agree.”

**Embedded Unit One, Case Study Eight:**
Respondent: “Yes.”
4.4.1.20 Research question RQ20: Do the family members trust each other?

*Embedded Unit One, Case Study One:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Two:*
Respondent: “Yes, we do.”

*Embedded Unit One, Case Study Three:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Four:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Five:*
Respondent: “Yes, they do.”

*Embedded Unit One, Case Study Six:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Seven:*
Respondent: “Agree.”

*Embedded Unit One, Case Study Eight:*
Respondent: “Yes, very much so.”

4.4.1.21 Research question RQ21: Do the family members understand each other’s views?

*Embedded Unit One, Case Study One:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Two:*
Respondent: “We do as family members, worked together in a business for fifteen years, if you don’t after fifteen years understand the point of views of different individuals and we are significantly different individuals, which is sometimes good, you wouldn’t be doing the right thing, so we do understand each other yes.”

*Embedded Unit One, Case Study Three:*
Respondent: “Yes, understand, but may not always necessarily agree with them, but understand, yes agreed.”

*Embedded Unit One, Case Study Four:*
Respondent: “Yes.”
*Embedded Unit One, Case Study Five:*  
Respondent: “Yes they do.”

*Embedded Unit One, Case Study Six:*  
Respondent: “Yes.”

*Embedded Unit One, Case Study Seven:*  
Respondent: “Agree.”

*Embedded Unit One, Case Study Eight:*  
Respondent: “Yes.”

4.4.1.22 Research question RQ22: Do the family members listen to each other’s opinions?

*Embedded Unit One, Case Study One:*  
Respondent: “Yes.”

*Embedded Unit One, Case Study Two:*  
Respondent: “Yes, we do. We, we absolutely do. I think over time it took time, the fact that I’m the CEO and not the oldest, took time to grow on the two others that are older than I, but that’s all been because it was never pushed, it was never fast tracked, it was much easier to grow into it. I think if my dad and uncles from the previous generation pushed an individual to be the CEO from day one, ten, twelve, fifteen years ago it would have created some animosity, but it actually just happened and the responsibilities grew and so it worked out well.”

*Embedded Unit One, Case Study Three:*  
Respondent: “Yes I agree.”

*Embedded Unit One, Case Study Four:*  
Respondent: “Most of the time.”

*Embedded Unit One, Case Study Five:*  
Respondent: “Yes we do.”

*Embedded Unit One, Case Study Six:*  
Respondent: “Yes.”

*Embedded Unit One, Case Study Seven:*  
Respondent: “Agree.”

*Embedded Unit One, Case Study Eight:*  
Respondent: “Yes.”
Researcher: “Ok.”
Respondent: “There are sometimes that you view, varying on opinions but you know I’m covered by two sisters, with their feet on the ground, so usually they have a issue with my with my variables, but im the go getter so we all work, work in harmony.”

4.4.1.23 Research question RQ23: Are family members compensated according to their contribution to the business?

*Embedded Unit One, Case Study One:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Two:*
Respondent: “Yes and no and I will elaborate on that. Third generation business, we all started at a fairly young age, the business was in its infancy. We took over from my dad and uncle; they were equally compensated out of profit share and we studied, the four current directors we mention now, senior managers, we are in different sections of the business, varying from production to cellar master, to CEO of finance and when we finished our varsities it was best thing for the business at that stage and for goodwill within the group to have been compensated on the same level. Over time; obviously things have developed, fifteen years later now, some of us have grown more in the business than others and only as of two years ago, the CEO’s receiving a senior compensation versus the other directors. So obviously dividend that’s equal, but in term of compensation for the first time now there is a, there is a difference. What we have in place for the next generation is that it will be at an arm’s length basis so children that join the business in the future will be appointed within positions and that position will have certain remuneration, locked into it yes. So I see this transition phase, in our case it was a bit of give and take and you can argue that over time you maybe didn’t earn what you should have but, it was in the best interest of the business at that stage.”

*Embedded Unit One, Case Study Three:*
Respondent: “Yes, true, agree.”
Respondent: “Basically your compensation like you said earlier is based on.”

*Embedded Unit One, Case Study Four:*
Respondent: “Yes.”

Embedded Unit One, Case Study Five:

Respondent: “Yes.”

Respondent: “It’s also based on how much the person brings into the business, how much business the person brings into the business.”

Respondent: “We have sisters who are not involved in the business, we compensate them but we won’t compensate them the same rate as those who are in the business.”

Embedded Unit One, Case Study Six:

Respondent: “Yes.”

Embedded Unit One, Case Study Seven:

Respondent: “I don’t agree.”

Researcher: “Ok.”

Respondent: “Family members are?”

Researcher: “Compensated according to their contribution to the family business.”

Respondent: “Meaning that some could get more and some could get less?”

Researcher: “According to what they contribute, so if I work five days a week and you work seven days a week, you get paid.”

Respondent: “No.”

Researcher: “So you, disagree, or you?”

Respondent: “Yes, we all get the same let’s put it that way. I don’t know where the questions are going to, but I don’t.”

Researcher: “Just answer each one independently.”

Respondent: “Yeah, but we all work the same hours, we all.”

Researcher: “Get paid the same?”

Respondent: “The same, so what does that mean, agree or disagree?”

Researcher: “Yes, agree.”

Respondent: “Ok.”

Embedded Unit One, Case Study Eight:

Respondent: “Yes.”

Respondent: “I think for anybody that works for or is involved in a family business, for your example, it’s very difficult to define a line, where who does what and gets more for doing what, that’s the reason we are all on the same basis.”

Respondent: “We are equal in salary as well and the reason behind that, is my father is the originator of our family business, who decided that, that’s the way it will be and
that’s the way it will stay and it was part of his will, so even though I believe that I could be doing more than my sisters are doing I’m quite happy to work for the cause and I think it’s very important when it comes to a family business. The reason behind it is, because it brings animosity and the one gets more than the other and the other believes more they are doing more than the other and if you are all in the same playing field and you’ve had a family business you need it to be sustainable and the only way to do it is to have everybody in line.”

Researcher: “And would you apply the principle to your kids?”
Respondent: “Very much so.”
Researcher: “So everyone will be getting equal throughout the generations?”
Respondent: “Yes.”
Researcher: “Do you feel that the amount you contribute is the same as every other family member?”
Respondent: “It varies from month to month, you know. If the properties are full then, I don’t contribute as much because I’m not doing half of my duties, but in the current market I contribute far more because much of my time is spent out in the field, finding tenants and getting properties.”

4.4.1.24 Research question RQ24: Is there a direct link between work performance and compensation?

*Embedded Unit One, Case Study One:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Two:*
Respondent: “Yes, there is now and will certainly be more so in the future.”

*Embedded Unit One, Case Study Three:*
Respondent: “I agree.”

*Embedded Unit One, Case Study Four:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Five:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Six:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Seven:*

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Respondent: “Agree.”

Embedded Unit One, Case Study Eight:
Respondent: “Yes.”

4.4.1.25 Research question RQ25: Is there a direct link between the amount of responsibility and compensation in the family business?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “Same answer, same story, it wasn’t like that but it is like that now yes.”

Embedded Unit One, Case Study Three:
Respondent: “I agree.”

Embedded Unit One, Case Study Four:
Respondent: “Yes.”

Embedded Unit One, Case Study Five:
Respondent: “No it’s equal.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “Agree.”

Embedded Unit One, Case Study Eight:
Respondent: “Yes.”

4.4.1.26 Research question RQ26: Are family members in the family business compensated at levels consistent with the standards of the industry?

Embedded Unit One, Case Study One:
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “Probably not, in terms of direct remuneration, cash or salaries, but in terms of free benefits, yes. Me being on a farm with other benefits yes, if you add it all up it’s really close yes.”

Embedded Unit One, Case Study Three:
Respondent: “I agree. Just to add there, there’s absolutely no difference at all between whether the person is a family member or a non-family member, it becomes irrelevant.”

Embedded Unit One, Case Study Four:
Respondent: “Yes.”

Embedded Unit One, Case Study Five:
Respondent: “Yes.”

Embedded Unit One, Case Study Six:
Respondent: “That’s correct.”

Embedded Unit One, Case Study Seven:
Respondent: “Of? Read it again.”
Researcher: “Compensated at levels consistent with the standards of the industry.”
Respondent: “Of family businesses or the industry?”
Researcher: “The industry.”
Respondent: “I disagree, it’s less.”
Researcher: “Ok, alright, anything else you would like to say?”
Respondent: “Just because we are such a lot of people involved. We are a group of six cutting the cake.”
Researcher: “Ok.”
Respondent: “Or sharing it.”

Embedded Unit One, Case Study Eight:
Respondent: “No.”
Researcher: “Ok.”
Respondent: “Do you, do you want me to elaborate?”
Researcher: “You can elaborate.”
Respondent: “We generally take our money in dividends, those are annual dividends and they are based on property performances in separate companies. Most of our salaries are quite low and the reason being is for cash flow reasons, we are not big borrowers.”

4.4.1.27 Research question RQ27: Is the compensation of individual family members reasonable compared to the salaries of other family members?

Embedded Unit One, Case Study One:
Respondent: “Within the business?”
Researcher: “Yes.”
Respondent: “Yes.”

Embedded Unit One, Case Study Two:
Respondent: “Yes.”

Embedded Unit One, Case Study Three:
Respondent: “Yes compensation of individual family members relative to each other is fair. For your info it's also fair relative to non-family members, i.e. family or no family, there is fairness and benchmarking to market related compensation.”
Respondent: “I’m very happy that the difference between the managing director’s pay and the other senior executive’s pay is quite a narrow band against other FMCG businesses of our size.”

Embedded Unit One, Case Study Four:
Respondent: “Compare with, sorry read that again.”
Researcher: “Ok, the compensation to individual family members is reasonable compared to the salaries of other family members.”
Respondent: “Yes.”

Embedded Unit One, Case Study Five:
Respondent: “I could say so yes.”

Embedded Unit One, Case Study Six:
Respondent: “That’s right.”

Embedded Unit One, Case Study Seven:
Respondent: “Yes, I agree.”
Respondent: “As I said in the beginning in my father’s time, the first generation, to him it was qualifications and when we started, the sons started, it was a new business, we decided it’s an equal share.”

Embedded Unit One, Case Study Eight:
Respondent: “Yes.”

4.4.1 28 Research question RQ28: Given their compensation, does each family member hired by the family business do their fair share of the work in the family business?

Embedded Unit One, Case Study One:
Respondent: “Yes.”
**Embedded Unit One, Case Study Two:**
Respondent: “Yes we try as a CEO, we have evolved as a business, for quite a few years we were level in decision making, if we go back to when the four directors took over, it was 1999 and for the first seven years, we were very much equal. In 2006 we restructured and I became the CEO and that’s when we slowly but surely moved away from a family business to a more corporate structure where the responsibilities are defined yes.”

**Embedded Unit One, Case Study Three:**
Respondent: “I agree.”

**Embedded Unit One, Case Study Four:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Five:**
Respondent: “Yes, yes.”

**Embedded Unit One, Case Study Six:**
Respondent: “That’s right.”

**Embedded Unit One, Case Study Seven:**
Respondent: “Agree.”

**Embedded Unit One, Case Study Eight:**
Respondent: “Yes.”

4.4.1. 29 Research question RQ29: In the family business is each family member hired by the family business compensated fairly for the work that they do?

**Embedded Unit One, Case Study One:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Two:**
Respondent: “Probably not. Again for the same reason I think we have adjusted that now and some other individuals in our positions might have argued differently than us and said that some are over-compensated and others under-compensated, but we all see it, as part of the growth of the business and part of giving something back to maintain, what’s the right word, goodwill.”

**Embedded Unit One, Case Study Three:**
Respondent: “Yes, I agree.”

**Embedded Unit One, Case Study Four:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Five:**
Respondent: “Yes.”

**Embedded Unit One, Case Study Six:**
Respondent: “That’s right.”
Respondent: “It’s got to be fair.”

**Embedded Unit One, Case Study Seven:**
Respondent: “Agree.”

**Embedded Unit One, Case Study Eight:**
Respondent: “Yes the reason I stalled there is we are not only a family business, we are also the oldest partnership in property in Port Elizabeth, with another family business and I just feel we take the Rands for both businesses too much.”
Researcher: “Ok.”
Respondent: “And so we land up doing a lot of work for our partners.”
Researcher: “So you don’t think it’s fair?”
Respondent: “Not really, well to be honest no.”

4.4.1.30 Research question RQ30: In the family business are rewards for family employees based on merit?

**Embedded Unit One, Case Study One:**
Respondent: “Yes, yes.”

**Embedded Unit One, Case Study Two:**
Respondent: “We don’t have performance appraisals no.”
Researcher: “Ok.”
Respondent: “Maybe just on that point, I as CEO have suggested that, but the rest of the directors and families didn’t want to go through the process.”

**Embedded Unit One, Case Study Three:**
Respondent: “Most definitely agreed.”

**Embedded Unit One, Case Study Four:**
Respondent: “Partially so yes.”
Researcher: “Ok, do you want to elaborate on that?”
Respondent: “I think that, you know, look they get paid for their performance, but then we also actually give bonuses which would not happen if they were not family members; that would be purely to split the tax burden, you might say.”

Embedded Unit One, Case Study Five:
Respondent: “Yes.”

Embedded Unit One, Case Study Six:
Respondent: “Yes.”

Embedded Unit One, Case Study Seven:
Respondent: “Agree.”

Embedded Unit One, Case Study Eight:
Respondent: “Yes.”

4.4.1.31 Research question RQ31: Are family members compensated according to age or gender?

Embedded Unit One, Case Study One:
Respondent: “No, well yes.”

Embedded Unit One, Case Study Two:
Respondent: “No, not at the moment, in the past right in the beginning we were compensated according to age, but not anymore.”

Embedded Unit One, Case Study Three:
Respondent: “No, they are not, so yes I agree.”

Embedded Unit One, Case Study Four:
Respondent: “No.”

Embedded Unit One, Case Study Five:
Respondent: “Yes they are not.”

Embedded Unit One, Case Study Six:
Respondent: “Not according to age and gender, yes.”

Embedded Unit One, Case Study Seven:
Respondent: “Agree.”

Embedded Unit One, Case Study Eight:
Respondent: “No.”
4.4.1.32 Research question RQ32: Are family members paid a competitive market-related salary/wage for their efforts in the family business?

*Embedded Unit One, Case Study One:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Two:*
Respondent: “Yes.”

Researcher: “Ok, great.”

Respondent: “You can link it to the previous answer, on that topic.”

*Embedded Unit One, Case Study Three:*
Respondent: “I agree, can I just mention bearing in mind there are only two of us in the business?”

Researcher: “Ok.”

Respondent: “So it’s me at an executive level and it’s Dave who, I don’t know if you know but your dad, Nico knows him very well, he’s our chairman.”

Researcher: “Ok.”

Respondent: “So, it’s only two of us. So I’m speaking on behalf, on behalf of two people.”

Researcher: “That’s fine.”

Respondent: “I’m very happy with what I get paid, I believe it’s close to the market.”

*Embedded Unit One, Case Study Four:*
Respondent: “Yes.”

*Embedded Unit One, Case Study Five:*
Respondent: “Yes, they are.”

*Embedded Unit One, Case Study Six:*
Respondent: “Yes.”

Respondent: “Compensation, you got to pay what is market related.”

*Embedded Unit One, Case Study Seven:*
Respondent: “Agree, but, then the other one should also be agree, the one where I said I disagree.”

Researcher: Ok so you agree with the fact that they get paid according to their contribution?”

Respondent: “Yes.”

Researcher: “And it is all market related?”
Respondent: “Yes.”

**Embedded Unit One, Case Study Eight:**

Respondent: “I would say it’s a bit low but as I explained earlier.”
Researcher: “Yes.”
Respondent: “It’s cash flow.”
Researcher: “So you wouldn’t say its market related?”
Respondent: “No.”
Researcher: “It’s below market?”
Respondent: “It’s below market.”

### 4.5 Pattern Matching

Pattern matching is regarded as the most desirable analytic strategy in case study research (Hak & Dul, 2009; Yin, 1984). A pattern is any arrangement of objects or entities and the term “arrangement” indicates that a pattern is non-random (Hak & Dul, 2009). Pattern matching techniques subsequently identify and compare the patterns evident in the data against one or several hypothesised patterns that the analyst has developed through familiarity with the field (Almutairi, Gardner, & McCarthy, 2014; Swanborn, 2010; Yin, 2009). In other words, an empirically based pattern is logically compared against a predicted pattern (Baškarada, 2013; Yin, 2009). Relevant data may be collected through interviews and pattern matching can be used to analyse the case study evidence (Baškarada; 2014; Yin, 2009).

The task of the researcher is to specify whichever single variable or multiple dependent variables represent the relevant outcomes based on a priori proposition derived from theory, the literature, or the researcher’s experience (Almutairi et al., 2014). Hak & Dul (2009) and Yin (1984) stipulated that pattern matching in dependent variables design should be such that the hypothesis is disconfirmed, even if only one variable of the pattern does not behave as predicted, while for the independent variables design, one should formulate different expected patterns of independent variables, each based on a different and mutually exclusive competing theory and that the concern of the case study, would be to determine which of the competing patterns, has the biggest overlap with the observed pattern.
Table 4.3, shows the collected data, from the interviews, relating to the propositions P1 to P5 with the respective embedded units (case studies). The interview questions that provide positive correlations with the propositions are highlighted for each embedded unit in Table 4.3 (Column Three) and positive correlations with the dependent variable highlighted in each embedded unit in Table 4.4 (Column Three). The propositions and dependent variable were measured by constructed measuring instruments, derived from previously used instruments and literature (see: Chapter One, Table 1.3). The statements used in the interviews that reflect the research questions were items that made up the different measuring instruments of each variable. If the respondents answer subsequently agreed with the statement (instrument item), the research question was recorded on Table 4.3 and 4.4 (Column Three) as pattern matching between the literature and the interview data. A number of items make up each instrument, whereby the presence of the variable is considered positive (variable is present) only when more than fifty percent of the items were matched with the responses of the interview. If the data had correlated with at only fifty percent of the items or below, the variable’s presence in the case study was considered non-significant.

Table 4.2 shows the framework for the application of different pattern matching tests, depending on the type of case study selected, whereby X represents a conditional proposition or independent variable and Y represents the outcome or dependent variable. The necessary condition proposition test for independent variable design was applied to the present research, because it was observed from data gathered in the interviews that outcome “Y”, The Perceived Success of Fair Family Employee Compensation, the dependent variable, was present in all eight case studies, which is depicted in Table 4.4. Hence, the case studies selected are case studies where outcome “Y” is present (see: Table 4.2).

In Table 4.3 and 4.4 (Column Three), the research questions (representing the interview questions) that provide positive correlations with the propositions and dependent variable respectively are highlighted per embedded unit.
Table 4.2: Pattern matching framework – condition propositions and variables

<table>
<thead>
<tr>
<th>Test</th>
<th>Case Study selection where</th>
<th>Expected pattern</th>
<th>Pattern matching</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable Design</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Necessary condition proposition</strong></td>
<td>Condition X is absent</td>
<td>Outcome Y is absent</td>
<td>Consists of checking whether outcome Y is absent in the observed pattern</td>
</tr>
<tr>
<td><strong>Sufficient condition proposition</strong></td>
<td>Condition X is present</td>
<td>Outcome Y is present</td>
<td>Consists of checking whether outcome Y is present in the observed pattern</td>
</tr>
<tr>
<td><strong>Independent Variable Design</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Necessary condition proposition</strong></td>
<td>Outcome Y is present</td>
<td>Condition X is present</td>
<td>Consists of checking what the value of X is in the observed pattern</td>
</tr>
<tr>
<td><strong>Sufficient condition proposition</strong></td>
<td>Outcome Y is absent</td>
<td>Condition X is absent</td>
<td>Consists of checking what the value of X is in the observed pattern</td>
</tr>
</tbody>
</table>

Source: Researchers Own Construction adapted from Hak & Dul, 2009.

Table 4.3: Linking the data to the proposition

<table>
<thead>
<tr>
<th>PROPOSITION</th>
<th>EMBEDDED UNIT</th>
<th>Research Questions (4.4.1.)</th>
</tr>
</thead>
</table>
| **P1: Human Capital**  
(Research Questions 1 to 3) | one of case study one | 1, 2, 3 (positive) |
| | one of case study two | 1, 2, 3 (positive) |
| | one of case study three | 1, 2, 3 (positive) |
| | one of case study four | 1, 2, 3 (positive) |
| | one of case study five | 1, 2, 3 (positive) |
| | one of case study six | 1, 2, 3 (positive) |
| | one of case study seven | 1, 2, 3 (positive) |
| | one of case study eight | 1, 2, 3 (positive) |
| **P2: Outside Advice**  
(Research Questions 4 to 6) | one of case study one | 4 (non-significant) |
<p>| | one of case study two | 4, 6 (positive) |
| | one of case study three | 4, 6 (positive) |
| | one of case study four | 4 (non-significant) |</p>
<table>
<thead>
<tr>
<th>DEPENDENT VARIABLE</th>
<th>EMBEDDED UNIT</th>
<th>Research Questions (4.4.1.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fair Family Employee Compensation</strong></td>
<td>one of case study one</td>
<td>23, 24, 25, 26, 27, 28, 29, 30, 31, 32 (positive)</td>
</tr>
<tr>
<td>(Research Questions 23 – 32)</td>
<td>one of case study two</td>
<td>23, 24, 25, 26, 27, 28, 31, 32 (positive)</td>
</tr>
<tr>
<td></td>
<td>one of case study three</td>
<td>23, 24, 25, 26, 27, 28, 30, 31, 32 (positive)</td>
</tr>
</tbody>
</table>
4.6 LITERAL REPLICATION AND GENERALISATION

The pattern matching in section 4.5 correlated the primary data collected from the interviews and (matched the data) with the literature (measuring instruments) in order to determine which variables were present in the various case studies. In order to make a generalisation about the pattern matching results regarding the eight case studies, the present research effort adopted the literal replication approach. In a direct replication (also known as literal replication), the single cases would be predicted to arrive at similar results (Yin, 2012). In a theoretical replication, each single case’s ultimate disposition also would have been predicted beforehand, but each case might have been predicted to produce a varying or even contrasting result, based on the preconceived propositions (Yin, 2012). Literal replication was applied to the present research effort, as the eight case studies were family businesses in South Africa and were predicted to arrive at similar results. If a theoretical replication approach was adopted, then the sample of case studies would have for example included both family and non-family businesses, of which it is expected that contrasting results would occur from the two types of businesses.

Multiple-case design might call for two or more cases that deliberately tried to test the conditions under which the same findings might be replicated, or alternatively, the multiple-cases might include deliberately contrasting cases (Yin, 2012). If multiple-cases lead to contradictory results, the preliminary theory should be revised and tested with another set of cases (Baškarada, 2014; Yin, 2009). Table 4.5 summarises the pattern matching outcomes of all the case studies regarding the presence of the

<table>
<thead>
<tr>
<th>one of case study</th>
<th>23, 24, 25, 26, 27, 28, 29, 30, 31, 32 (positive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>four</td>
<td></td>
</tr>
<tr>
<td>five</td>
<td>23, 24, 26, 27, 28, 29, 30, 31, 32 (positive)</td>
</tr>
<tr>
<td>six</td>
<td>23, 24, 25, 26, 27, 28, 29, 30, 31, 32 (positive)</td>
</tr>
<tr>
<td>seven</td>
<td>24, 25, 27, 28, 29, 30, 31, 32 (positive)</td>
</tr>
<tr>
<td>eight</td>
<td>24, 25, 27, 28, 30, 31 (positive)</td>
</tr>
</tbody>
</table>

*Source: Researchers Own Construction, 2015*
propositions (independent variables) and the presence of the dependent variable in each single case study. If all of the cases turn out as predicted then there is strong evidence for the initial set of propositions, however, if the cases reveal a variety of different outcomes, it may be necessary to revisit the propositions and consider conducting further research (Baškarada, 2014; Rowley, 2002). Table 4.5 shows that The Perceived Success of Fair Family Employee Compensation was present in all eight cases. Table 4.5 further shows contradictory results occurred with the variables Outside Advice (present in four out of eight cases) and Succession Planning (present in five out of eight cases). Hence, by using the literal replication logic, there is insufficient evidence that the propositions Outside Advice and Succession Planning need to be present in order for there to be The Perceived Success of Fair Family Employee Compensation present. Therefore the proposed influence that Outside Advice and Succession Planning have on The Perceived Success of Fair Family Employee Compensation is considered non-significant.

The variables Human Capital, Fairness and Family Harmony were present in all eight cases and by using literal replication logic, there was sufficient evidence that the presence of the three propositions is required for the presence of The Perceived Success of Fair Family Employee Compensation. Therefore the proposed influence that Human Capital, Fairness and Family Harmony have on The Perceived Success of Fair Family Employee Compensation is considered positive. It must be noted that there is no evidence suggesting that the propositions cause the dependent variable to occur or vice versa.

So what do these results mean? Can the results be generalised to a broader population of family businesses? The answer is no. Case studies are generalisable to theoretical propositions and not to populations (Baškarada, 2014). Generalisation is based on the replication logic (Rowley, 2002). Accordingly, the method of generalisation is “analytic generalisation” and not “statistical generalisation” (Cooper & Geurts 2000). In statistical generalisation, inferences are made about a population on the basis of empirical data collected about a sample (Cooper & Geurts 2000). Cases do not represent a “sample”: They are generalisable to theoretical propositions and not to populations (Cooper & Geurts 2000).
So the results from the literal replication technique indicates in the present research effort, that there is enough evidence suggesting the propositions Human Capital, Fairness and Family Harmony positively affect The Perceived Success of Fair Family Employee Compensation, but this result is generalised to the broader theory and not to a population of family businesses. The fact that the results from the replication technique suggested there was insufficient evidence that Outside Advice and Succession Planning positively influence The Perceived Success of Fair Family Employee Compensation is an indication that the preliminary theory of the two propositions should be revised and tested with another set of cases.

Table 4.5: Literal replication

<table>
<thead>
<tr>
<th>Case Study</th>
<th>The presence of: the independent variables</th>
<th>dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Human Capital</td>
<td>Outside Advice</td>
</tr>
<tr>
<td>1</td>
<td>positive</td>
<td>non-significant</td>
</tr>
<tr>
<td>2</td>
<td>positive</td>
<td>positive</td>
</tr>
<tr>
<td>3</td>
<td>positive</td>
<td>positive</td>
</tr>
<tr>
<td>4</td>
<td>positive</td>
<td>non-significant</td>
</tr>
<tr>
<td>5</td>
<td>positive</td>
<td>non-significant</td>
</tr>
<tr>
<td>6</td>
<td>positive</td>
<td>positive</td>
</tr>
<tr>
<td>7</td>
<td>positive</td>
<td>non-significant</td>
</tr>
<tr>
<td>8</td>
<td>positive</td>
<td>positive</td>
</tr>
</tbody>
</table>

| Literal Replication | Positive (Present in all the cases) | Non-Significant (Present in four out of eight cases) | Non-Significant (Present in five out of eight cases) | Positive (Present in all the cases) | Positive (Present in all the cases) | Positive (Present in all the cases) |

Source: Researchers Own Construction, 2015.
4.7 CONCLUSION

The purpose of Chapter Four was about correlating the data of the interviews, with the propositions and dependent variable using pattern matching. The results from the pattern matching were analysed using literal replication in order to generalise the results. Chapter Five will elaborate on a summary of the problem and the findings of the research. Chapter Five will include conclusions and limitations to the study. Chapter Five finishes with recommendations on dealing with the variables that positively influence The Perceived Success of Fair Family Employee Compensation as well as recommendations for future studies.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

Chapter Five addresses research objective seven. Chapter Four entailed applying the research questions to practice by interviewing eight family managers from various family businesses across South Africa, where the primary data collected, was correlated to the literature, in order to determine the influence of the five proposed independent variables on The Perceived Success of Fair Family Employee Compensation. Chapter Five provides a more detailed interpretation and evaluation of the Chapter Four pattern matching and literal replication analysis. Chapter Five begins with the summary of the treatise and the proceeding sections provide answers to the research questions and findings of the research in order to deduce a valid conclusion. Chapter Five ends with the implications of the results of the research, limitations of the study and recommendations for future research.

5.2 SUMMARY OF THE RESEARCH

It is estimated that 30% of family-owned businesses survive to the second generation of family members, while only 12% survive to the third generation, with a mere 3% surviving to the fourth generation and beyond (Byrd and Megginson, 2013; Lautz et al., 2015; Visser, Africa & Chiloane-tsoka, 2014; Woolridge, 2015). Astrachan & MacMillan (2003) and Merwe (2007) claimed that conflict played a significant role in the demise of many family businesses. Compensation is at the heart of more family business concerns than any other topic except succession (Walsh, 2011). Remuneration was revealed in a survey to be one of the main causes of conflict in family businesses (Evans, 2005). Remuneration can unsurprisingly, be extremely divisive, especially where there is a long established pay framework in place that does not adequately recognise the different contributions made by each family member (PwC, 2013).
Resentment and conflict tend to occur when, fairness is missing (Buchholz et al., 2000: 262; Merwe, 2009). A major issue regarding fairness in family businesses is that of achieving a balanced compensation system between family employees (Aronoff & Ward, 1993: 59; Merwe et al., 2012; Spector, 2001). What is important is the perception of fairness of the compensation received (Farrington et al., 2014). Wherever fair process prevails, trust, commitment and harmony soon follow (Greenberg, 1990; Van der Heyden et al., 2005).

The main research problem of the present study (see: Chapter One, section 1.3) was developed as follows:

**To determine variables that affect The Perceived Success of Fair Family Employee Compensation in South African family businesses.**

To solve the research problem, the following research question was derived:

**What effects do the factors Human Capital, Outside Advice, Succession Planning, Fairness and Family Harmony have on The Perceived Success of Fair Family Employee Compensation in South African family businesses?**

The dependent variable was identified, as The Perceived Success of Fair Family Employee Compensation in South African family businesses and the dependent variables proposed was Human Capital, Outside Advice, Succession Planning, Fairness, and Family Harmony. The pattern matching analysis (see: Chapter Four, section 4.5) showed the presence of the dependent and independent variables in the case studies. Table 5.1 provides a summary of the research objectives attained in different chapters of the treatise. All research objectives were completed.

<table>
<thead>
<tr>
<th>1</th>
<th>To investigate the criteria for a business to be categorised as a family business, in South Africa, derived from the literature.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covered in: Chapter One and Two, sections 1.8.3 and 2.2 respectively – consulted existing literature.</td>
<td></td>
</tr>
</tbody>
</table>
|   | To investigate the family, business and ownership dynamics of family businesses by referring to the literature.  
   | Covered in: Chapter Two, section 2.3 respectively – consulted existing literature. |
|---|---|
| 3 | To investigate all aspects of compensation including fair family employee compensation by referring to the literature.  
   | Covered in: Chapter Two, sections 2.7 respectively – consulted existing literature. |
| 4 | To investigate the independent variables Human Capital, Outside Advice, Succession Planning, Fairness and Family Harmony that are proposed to have a relationship with Fair Family Employee Compensation from the literature.  
   | Covered in: Chapter Two, sections 2.8 respectively – consulted existing literature. |
| 5 | To construct a proposed theoretical model that will describe the relationships between the chosen variables that are proposed to impact Fair Family Employee Compensation.  
   | Covered in: Chapter One, section 1.4 – Researcher’s own construction |
| 6 | To investigate and test the proposed theoretical model, by conducting interviews with family managers from various South African family business case studies and using pattern matching to link the data gathered, with the literature, for validity of the proposed model.  
   | Covered in: Chapter Four – Empirical investigation |
| 7 | To discuss the results and interpretations of the research and to make suitable recommendations based on the results.  
   | Covered in: Chapter Five - consulted existing literature and empirical findings of Chapter Four |

5.3 CONCLUSION FROM THE RESEARCH METHODOLOGY

For the purpose of the present study, the interpretivist paradigm was used, whereby the explanatory multiple-case study methodology was applied. The cases consisted of eight family businesses located across South Africa. To test the independent variable propositions and dependent variables, semi-structured interviews were conducted with family managers of the various family businesses. The interviews were conducted by the researcher. Each family manager represented the only embedded unit of analysis within each of the eight case studies, within the context of the family businesses operating in South Africa. The primary data was analysed using pattern matching to correlate the data with the literature in order to test the presence of the variables in each of the case studies. Literal replication was used to determine which propositions could be generalised to the broader theory.
To certify validity of the present study, primary data in the interviews were captured on a voice recording device during the interviews. The respondents were contacted to clarify any misinterpretations of the data. The data was captured word for word in the interview transcripts (see: Annexure A). Comparisons were made between the results of the embedded units. To ensure reliability of the present study, the interview schedule was assessed by an expert in the field and was tested with a work colleague of the researcher. The variables were measured in the interviews by means of measuring instrument constructs derived from existing instruments and literature with some of the instrument items being modified (see: Chapter One, Table 1.3).

The results of the empirical investigation of the eight case studies are illustrated in Figure 5.1, where the correlations between the dependent and proposed independent variables are depicted. It must be noted that the positive influences depict the results where there were no literal replication contradictions among the eight case studies regarding the specific proposition or independent variable. The results from all the cases showed that the proposals of Human Capital, Fairness and Family Harmony positively influenced the dependent variable, as the three variables were present in all the case studies and can be generalised to the broader theory. The case studies were divided on the influence of Outside Advice and Succession Planning and because of the literal replication technique, the two variables cannot be generalised to the broader theory and therefore are considered to have a non-significant influence on The Perceived Success of Fair Family Employee Compensation. The non-significant influence indicates that the preliminary theory on Outside Advice and Succession Planning should be revised and tested with another set of cases.
5.4 INTERPRETATIONS OF THE RESEARCH PROBLEM AND QUESTIONS WITH CONCLUSIONS

The main research problem was about deducing independent variables influencing the dependent variable. The independent variables were selected and approved by experts in the field from the NMMU to test against the dependent variable. In order to solve the main research problem, secondary research questions had to be answered, considering the secondary research questions represented each of the measuring
instrument’s items. A summary is provided on Table 5.2, where it is indicated which research questions are applicable to which variables. Below Table 5.2, answers are provided to the research questions and contain a discussion of the findings presented in Figure 5.1, with the interpretations and recommendations for each finding.

### 5.4.1 Secondary Research Questions Answered

<table>
<thead>
<tr>
<th>Variable</th>
<th>Research questions / Interview responses</th>
<th>Measuring instrument construct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>4.4.1.1 – 4.4.1.3</td>
<td>Human Capital (HC)</td>
</tr>
<tr>
<td>Outside Advice</td>
<td>4.4.1.4 – 4.4.1.6</td>
<td>Outside Advice (OA)</td>
</tr>
<tr>
<td>Succession Planning</td>
<td>4.4.1.7 – 4.4.1.11</td>
<td>Succession Planning (SP)</td>
</tr>
<tr>
<td>Fairness</td>
<td>4.4.1.12 – 4.4.1.16</td>
<td>Fairness (FAIR)</td>
</tr>
<tr>
<td>Family Harmony</td>
<td>4.4.1.17 – 4.4.1.22</td>
<td>Family Harmony (FH)</td>
</tr>
<tr>
<td>Fair Family Employee</td>
<td>4.4.1.23 – 4.4.1.32</td>
<td>Fair Family Employee Compensation (FCOM)</td>
</tr>
</tbody>
</table>

Source: Researcher’s Own Construction, 2015.

#### 5.4.1.1 Research questions 4.4.1.1 – 4.4.1.3

Human Capital was measured by research questions 4.4.1.1 – 4.4.1.3 as shown on Table 5.2. The primary data from all eight case studies correlated with the literature of Mackey, Molloy and Morris (2014: 401), Molloy & Ployhart (2012), Sturman, Walsh, and Cheramie (2007) and Unger, Rauch, Frese and Rosenbusch (2011), who stipulated that Human Capital was present when employees had the qualification, experience and skills that firms could put to productive use. The primary data indicated that the variable Human Capital was present in all the case studies interviewed. Using the literal replication technique, there was sufficient evidence that the proposition Human Capital has a positive influence on the dependent variable and can be generalised to the broader theory.

For question 4.4.1.1 (Embedded One, Case study Seven), the response revealed that ambiguity may exist in the Human Capital measuring instrument construct. The statements measures whether the necessary qualifications, work experience and skills
needed for the functioning of the family business is present in the business, rather than the actual levels that exist in the business. By all means, not all job positions require university or college degrees and hence the instrument only measures the presence of Human Capital and not what form (see: Chapter Two, section 2.8.1) of Human Capital is present. The limitation of this ambiguity is that it is unclear from the research whether a form such as specific human capital, or level such as a university degree can influence The Fair Family Employee Compensation.

5.4.1.2 Research questions 4.4.1.4 – 4.4.1.6

Outside Advice was measured by research questions 4.4.1.1 – 4.4.1.3 as shown on Table 5.2. The primary data indicated that the variable Outside Advice was present in four out of the eight case studies interviewed (Table 4.3, Chapter Four). Using the literal replication technique, there was insufficient evidence that the proposition Outside Advice has a positive influence on the dependent variable and therefore is considered non-significant and cannot be generalised to the broader theory, hence is an indication that the preliminary theory should be revised and tested with another set of cases.

Despite the fact that seven out of the eight case studies made use of outside advisors, such as accountants and lawyers which correlated with the literature of Adendorff, (2011), Nicholson, Shepherd, & Woods (2009), Reay et al., (2013), only two out of the eight cases made use of outside advisors to resolve conflict regarding family employee compensation issues, which did not correlate with the literature of Strike (2013), who claimed that family businesses made use of advisors for conflict resolution, although two of cases claimed it had not been necessary to seek Outside Advice and another claiming if conflict had to occur, they would seek external advice. Three out of eight of the case studies made, or would make use, of an outside advisor to assist in determining what family employee compensation should entail, the only three cases that correlated with the literature of Bork et al., (1996), Gurd & Thomas (2012), Jaffe and Lane (1997) and Marer (2000), who stipulated that one of the roles of an outside advisor is to assist in setting compensation policy. Regarding two out of the three case studies that made use of outside advisors for determining family employee compensation, Phillip Retief from Van Loveren (Pty) Limited (Case Study Two) noted
that Outside Advice was useful for benchmarking compensation, while Iain Hooper claimed Edward Snell & Company (Pty) Limited (Case Study Three) made use of a company called PE Corporate Services (Pty) Limited and the REMchannel service from PricewaterhouseCoopers (Pty) Limited, as a consultancy for compensation.

5.4.1.3 Research questions 4.4.1.7 – 4.4.1.11

Succession Planning was measured by research questions 4.4.1.7 – 4.4.1.11 as shown on Table 5.2. The primary data indicated that the variable Succession Planning was present in five out of the eight case studies interviewed. Using the literal replication technique, there was insufficient evidence that the proposition, Succession Planning has a positive influence on the dependent variable and therefore is considered non-significant and cannot be generalised to the broader theory, hence is an indication that the preliminary theory should be revised and tested with another set of cases. Five out of the eight case studies had identified a successor and were preparing the successor to assume the new role, which correlated with the literature of Barnett & Davis (2008) and Garman & Glawe (2004), regarding the presence of the Succession Planning process. Only two out of the five cases with succession plans had a succession plan that determined what the successor's compensation would be.

5.4.1.4 Research questions 4.4.1.12 – 4.4.1.16

Fairness was measured by research questions 4.4.1.12 – 4.4.1.16 as shown on Table 5.2. The primary data from all eight case studies revealed that the variable Fairness was present in all the case studies and the data correlated with the literature of Colquitt & Rodell (2015), who stipulated that Fairness is a global perception of appropriateness, the literature of Badaracco (1997) and Eybers (2010) which indicated that Fairness is about being treated the same and fairly and everyone adhering to the rules, the literature of Merwe et al., (2012) that stated that Fairness depends on whether compensation is perceived as fair by family members and the literature of Adams 1963 & Eybers 2010 in which individuals determine the Fairness of inputs to outcomes, such as what constitutes fair compensation for a given task, or a fair effort for a given compensation and lastly the literature of Byrne & Cropanzano (2001), Colquitt et al., (2013), Dunford et al., (2014), Gagné & Forest (2008), Lansberg (1989),
Leventhal (1980), Thibault & Walker, (1975), Torre et al., (2015) and Van der Heyden et al., (2005) who claimed that Fairness depended on the perception of processes used to arrive at outcome decisions. Using the literal replication technique, there was sufficient evidence that the proposition Fairness has a positive influence on the dependent variable and can be generalised to the broader theory.

**5.4.1.5 Research questions 4.4.1.17 – 4.4.1.22**

Family Harmony was measured by research questions 4.4.1.17 – 4.4.1.22 as shown on Table 5.2. The primary data showed that the variable Family Harmony was present in all eight cases. Using the literal replication technique, there was sufficient evidence that the proposition Family Harmony has a positive influence on the dependent variable and can be generalised to the broader theory. The data of all eight case studies correlated with the literature of Ellis (2007), Handler (1989), Neubauer and Lank (1998) and Seymore (1993) that a high level of trust, mutual support, mutual respect, care about each other’s well-being and a willingness to acknowledge others’ achievements should ensure harmonious family relationships.

**5.4.1.6 Research questions 4.4.1.23 – 4.4.1.32**

The Perceived Success of Fair Family Employee Compensation was measured by research questions 4.4.1.23 – 4.4.1.32 as shown on Table 5.2. [The dependent variable The Perceived Success of Fair Family Employee Compensation] was present in all eight case studies according to the primary data, of which the data of all eight cases correlated with the literature of Merwe et al., (2012) that stipulated that family members should do their fair share of work given their compensation and family members should be compensated according to their contribution to the family business and not according to age and/or gender and with the literature of Brockhaus (2001) and Merwe (2009) stating that a family employee’s compensation should be linked to work performance and lastly the literature of Merwe (2009) deducing that the compensation of individual family members should be reasonable when compared to other family members. The data of seven out of the eight case studies correlated with the literature of Jaffe (1991), Loeb (2001) and Merwe et al., (2012) that family employee compensation should be based on merit and the literature of Brockhaus,
(2001) and Merwe (2009) that family compensation should be linked to responsibility and finally the literature of Andrews (2006), Aronoff et al., (1997), Barrett (2001), Baskin (2015) County et al., (2006), Farrington et al., (2014), Lansberg (2001), Merwe et al., (2012) and Merwe (2009) that family employee compensation should be market related. The data of six out of the eight case studies correlated with the literature of Merwe (2009) that claimed that family employees should be compensated at levels consistent with the standards of the industry and the literature of Farrington et al., (2014) that compensation should be fair for family employees.

Both the Edward Snell & Company (Pty) Limited and Van Loveren Vineyards (Pty) Limited cases noted being professional or moving towards a corporate structure respectively (see: Chapter Four, section 4.4.1.28, Embedded unit One, Case Study Two and question 4.6 in interview eight in the interview transcripts under Annexure A) as a determining factor of family employee compensation, with the respondent of the Edward Snell & Company (Pty) Limited case adding that “Just to add there, there’s absolutely no difference at all between whether the person is a family member or a non-family member.”

In the Oom Cola’s Tavern (Pty) Limited case, the respondent noted that compensation should be “based on fairness and it’s also based on the amount the person brings into the business and how much business the family member brings into the business” (see: the question 4.6 in interview five in the interview transcripts under Annexure A).

The respondent of Fischer and Company (Pty) Limited mentioned that one of the family employees, the daughter was not part of the succession plan, which the respondent felt could be perceived as unfair but claimed that the daughter would be compensated in other ways (see: question 46 in interview four in the interview transcripts under Annexure A)

In the Blunden Coach Tours (Pty) Limited case, the respondent stressed that “it’s got to be market related and it’s got to be fair, not because family members are family members, they got to be treated as everybody else has got to be treated” (see: question 46 in interview six in the interview transcripts under Annexure A)
Contradictions were identified in the primary data gathered from Leon Klopper from Kloppers (Pty) Limited and Dante Cicognini from Cicognini Properties (Pty) Limited. Despite both cases having the dependent variable present as deduced by the measuring instrument, the two respondents stipulated during the interviews that the family employees received equal compensation in their respective businesses (see: Chapter Four, section 4.4.1.23, Embedded unit One, Case Study Seven and question 46 in interview eight in the interview transcripts under Annexure A). This entails that all family employees, in order to meet the criteria of receiving Fair Family Employee Compensation, would have to behave in a homogenous manner by identically contributing and performing, having identical responsibilities and doing identical share of work, which is not possible. The contradiction in the primary data gathered from Kloppers (Pty) Limited case would change to a non-significant correlation (from a positive correlation) to the literature, as the data in this case would only correlate with five out of the ten items measuring Fair Family Employee Compensation. The same can be said for Dante Cicognini from Cicognini Properties (Pty) Limited, whereby the contradiction would change the primary data correlation to the literature from a positive correlation to a non-significant correlation, resulting in the variable actually been absent from the case study, as the primary data would only correlate with three out of the ten items measuring Fair Family Employee Compensation.

It is unclear why there was the contradiction in the primary data and no further investigation was done, as the researcher was unable to schedule additional interviews with the two case studies. One answer for the Kloppers (Pty) Limited case is that the perception of contribution, performance, responsibilities and share of work can differ from case study to case study. It was mentioned by the respondent in the Kloppers (Pty) Limited case (see: question 46 in interview seven in the interview transcripts under Annexure A) that “we all decided it’s equal share,” and “we all work equally hard,” which could entail that the family employees of Kloppers (Pty) Limited all truly believe they work equally hard and therefore deserve equal compensation, which in its right can be considered fair compensation.

Regarding the contradiction in the Cicognini Properties (Pty) Limited case, in the interview (see: question 46 in interview eight in the interview transcripts under Annexure A) the respondent stated that “it’s very difficult to define a line where, who
does what and gets more for doing what, that’s the reason we are all on the same basis,” and “my father is the originator of our family business who decided that that’s the way it will be and that’s the way it will stay and it was part of his will,” and “in the property business, we all have our own departments.” When the researcher asked whether the respondent contributed the same as the other family members and made reference to the respondent’s response in section 4.4.1.23 in Chapter Four, the answer from the respondent was “It varies from month to month, you know, if the properties are full then, I don’t contribute as much because I’m not doing half of my duties.” Like the Kloppers (Pty) Limited case, the contradiction in the Cicognini Properties (Pty) Limited case could be attributed to the perception that the family employees have about contribution and that the family employees all truly believe they all add equal value in some way and are prepared to accept equal compensation, which, like the Kloppers (Pty) Limited case, can be considered fair compensation.

In addition, both the Kloppers (Pty) Limited and Cicognini Properties (Pty) Limited cases cited “non-financial goals,” as a reason for equal compensation (see: question 46 in interviews seven and eight in the interview transcripts under Annexure A). Non-financial goals play a major role in the goal structure of family businesses according to the literature of Kraus et al., (2011), Olson, Zuiker, Danes, Stafford, Heck & Duncan (2003), Stafford, Duncan, Danes & Winter (1999) and Ward (1988). More information on non-financial goals and family business can be found in Chapter Two, section 2.4.

5.4.2 Human Capital

Human Capital is the knowledge and skills held by individuals obtained through their education, training and experience (Unger, Rauch, Frese and Rosenbusch, 2011). Human Capital was identified to be present in all the case studies and can be considered a crucial variable, as determined by literal replication, in ensuring Fair Family Employee Compensation. From a research perspective it is recommended for future research that another measuring instrument be used, in order to measure the forms of Human Capital (see: Chapter Two, section 2.8.1) rather than just the presence of Human Capital, to avoid the ambiguity cited in section 5.3.1.1. The importance of Human Capital to a business is presented in Chapter Two, section 2.8.1.
A recommendation for family businesses is to prepare all family members from a young age, in terms of education, work experience and skills. The family members who foresee themselves joining the family business must have absolute clarification on the educational, work experience and skills requirements for the different job positions available to them in the family business, in order for them to decide and plan at a young age on the career path. In essence, there should be no difference between a non-family employee and family employee taking the position, noting that both should meet the job requirements and the more qualified candidate should attain the position. Also, family members with different competencies must be put into positions that maximize the utilisation of such competencies. Incompetent family members should naturally seek to attain the necessary competencies that will contribute to the family business as with any business.

It is recommended that family members first attain work experience outside the family business, where family members have the opportunity to prove themselves and would also be able to convey valuable transferable knowledge (see: Chapter Two, section 2.8.1) when finally joining the family business.

Job requirements in terms of education, work experience and skills must be applied without exception to all family members to ensure Fairness. To avoid compensation issues, pay ranges for various jobs in the business should be decided by benchmarking current rates within the marketplace (Alderson, 2015). In this manner, compensation is perceived as fair (Alderson, 2015). In other words, compensation for the job position should be industry and market-related. Therefore it can be deducted that:

*There is a positive relationship between Human Capital and The Perceived Success of Fair Family Employee Compensation in South African family businesses.*

### 5.4.3 Outside Advice

For the purpose of the present research, Outside Advice refers to an external individual or company that provides advice on family employee compensation issues. Outside Advice was present in four of the eight cases and using literal replication logic
can be deduced to have a non-significant influence on the dependent variable. From a researcher perspective, it is recommended that that the preliminary theory be revised and tested with another set of cases. As a recommendation to family businesses, the option of Outside Advice should not be ignored, as the importance of the variable to business is noted in Chapter Two, section 2.8.2, therefore it can be deduced that:

**There is a non-significant relationship between Outside Advice and The Perceived Success of Fair Family Employee Compensation in South African family businesses.**

### 5.4.4 Succession Planning

Succession Planning is a structured process involving the identification and preparation of a potential successor to assume a new role (Barnett & Davis, 2008; Garman & Glawe, 2004). For the purpose of the present study, compensation determination is included in the succession planning process. Succession Planning was identified to be present in five out of eight of the case studies and using literal replication logic can be deduced to have a non-significant influence on the dependent variable. The importance of Succession Planning to business is noted in Chapter Two, section 2.8.3. The results from the empirical analysis (see: Chapter Four, Table 4.3) indicated that while the majority of the cases had succession plans in place, only three of the cases had included what the successor’s compensation would entail.

From a researcher perspective, it is recommended that that the preliminary theory be revised and tested with another set of cases. A recommendation for family businesses is to formulate a succession plan as soon as there is known to be a potential successor. A further recommendation for family businesses would be to include the elements of what the successor’s compensation would be. This would include what the starting salary is when the successor assumes the new role and what benefits are included. It is important that the processes used to determine the compensation are fair and transparent (Heimann *et al.*, 2014; Thibaut and Walker 1975; Lind and Tyler 1988). People perceive remuneration established by clear rules as more acceptable (Heimann *et al.*, 2014). A successor’s future new role would include job characteristic requirements such as education, work experience, skills and any other forms of required Human Capital. A position should be given to the best qualified candidate for
the job with the compensation being industry and market-related. Therefore it can be deduced that:

There is a non-significant relationship between Succession Planning and The Perceived Success of Fair Family Employee Compensation in South African family businesses.

5.4.5 Fairness

In the present research effort, Fairness means the perception of how a firm rewards employees, how a firm treats employees and how the firm’s procedures is followed and rules apply to all the employees. Fairness was identified to be present in all the case studies and can be considered a crucial variable, as determined by literal replication, in ensuring Fair Family Employee Compensation. The importance of Fairness in business is depicted in Chapter Two, section 2.8.4.

Members in the family business system have different perceptions of entitlement that, if unfulfilled, will generate feelings of injustice (Lansberg, 1989; Van der Heyden et al., 2005). Lansberg, (1989) and Van der Heyden et al., (2005) stipulated that there are three forms of justice: distributive justice that concerns the allocation of resources and hardships among members; procedural justice, which is the determination of the actors involved in making particular decisions and retributive justice, which deals with the punishment of members violating particular norms. Fairness refers to the degree to which the working arrangement between the family employees is considered to be fair in terms of workload, compensation, status and family responsibilities (Eybers, 2010).

Sustained violations of fair process are at the root of many family conflicts (Van der Heyden et al., 2005). One solution lies in turning from “outcome-based” justice to “process-based” justice (Van der Heyden et al., 2005). A recommendation for family businesses is that the processes used to arrive at outcome decisions, such as compensation determination, should be consistent, accurate, unbiased and open to voice and input (Colquitt et al., 2013: 200; Torre et al., 2015). Decision making processes should also be transparent (Heimann et al., 2014; Thibaut and Walker
1975; Lind and Tyler 1988). How decisions are enacted and communicated should be done in a respectful manner, while implementation of decisions should be explained (Colquitt et al., 2013: 200; Torre et al., 2015). The rules of the business and punishment for the violation of the rules should be applied equally to all family employees. Therefore it can be deduced that:

There is a positive relationship between Fairness and The Perceived Success of Fair Family Employee Compensation in South African family businesses.

5.4.6 Family Harmony

Family harmony is harmonious family relationships, where there is a high level of trust, mutual support, mutual respect, caring about each other's well-being, closeness of family members and a willingness to acknowledge others' achievements (Ellis, 2007; Handler, 1989; Neubauer and Lank, 1998; Seymour, 1993). Family Harmony was identified to be present in all the case studies and can be considered a crucial variable, as determined by literal replication, in ensuring Fair Family Employee Compensation.

Recommendations for family businesses to improve family relationships is to form a family forum which is an excellent communication improvement tool to prevent conflict from becoming a full-blooded argument and to end existing differences of opinion, however small or insignificant they may seem (Ellis, 2007). Aspects such as the vision of the family and the business, communication enhancement among all family members, their individual dreams and needs, conflict management, corporate governance in the business, performance measurement, the compensation of family members and succession and ownership planning are all urgent and weighty issues to put on the table for discussion (Ellis, 2007). The family forum usually meets for one or two days at a family gathering in relaxed surroundings, away from day-to-day work and home activities at a place where everyone is on an equal footing (Ellis, 2007). The family forum should focus on those aspects that are important for the continued survival of the family business including family as well as business matters, but it is preferable not to discuss sensitive issues (Ellis, 2007). The aim is to build mutual trust and respect and the family should realise that the family forum, is there for all family
members and is not a place for one family member to impose their views on others (Ellis, 2007).

A further recommendation is to facilitate an environment where siblings and cousins, already from a young age, can learn to trust each other, support each other, respect each other, care about each other’s well-being, become close and show willingness to acknowledge others’ achievements. In other words, family members should be more than just family members, but should be the greatest of friends. Therefore it can be deduced that:

There is a positive relationship between Family Harmony and The Perceived Success of Fair Family Employee Compensation in South African family businesses.

5.5 THE DEPENDENT VARIABLE: THE PERCEIVED SUCCESS OF FAIR FAMILY EMPLOYEE COMPENSATION

Fair Family Employee Compensation is family employee compensation that is determined by a family employee’s contribution, linked to work performance, linked to the amount of responsibility, is consistent with the standards of the industry, is reasonable when compared to the salaries of other family employees, not based on gender or age (Merwe, 2009), based on the fair share of work of the family employee and merit, is perceived as fair, (Farrington, 2009) and is competitive market-related (Aronoff et al., 1997: 43; Barrett, 2001: 19; Baskin, 2015; Farrington et al., 2014; Lansberg, 2001; Merwe et al., 2012 and Merwe, 2009). The dependent variable was present in all eight case studies.

5.5.1 The influences between the variables

Section 5.5.1 uses existing literature to describe scenarios of influence that the independent variables have on the dependent variable as illustrated on Figure 5.1. In addition, scenarios of influence that the dependent variable has on the independent variables and the influences the independent variables have on each other will be provided. The only variables considered are those that had positive influences as illustrated on Figure 5.1.
5.5.1.1 Human Capital influence on Compensation

Compensation is influenced by employee characteristics such as education (Appelbaum & Mackenzie, 1996; Hossain, Haque, & Haque, 2015; Mincer, 1974), experience (Amey & VanDerLinden, 2002; Appelbaum & Mackenzie, 1996; Hossain, Haque, & Haque, 2015; Mincer, 1974), tenure (Hossain, Haque, & Haque, 2015; Mincer, 1974), seniority, qualifications (Appelbaum & Mackenzie, 1996), knowledge and skills (Maloa & Rajah, 2012). Compensation is greater when skills are successfully matched to a firm’s productive resources, in other words when the “right” Human Capital finds the “right” firm (Mackey et al., 2014). Hence, the higher the employee’s education level, the greater the compensation (Bae & Patterson, 2013; Baker, 1997; Becker & Lindsay, 1994; Mani 2013; Martin and Torres, 2000; Blundell, Dearden and Sianesi, 2004; Card, 2000; Chevalier, Harmon, Walker, Zhu 2004; Schulz, et al., 2013; Topel, 1991). Accordingly, employee compensation increases with longer firm tenure as employees accumulate experience in the current job and other jobs in the firm (Parent, 2002; Schulz, et al., 2013). Longer work experience warrants higher compensation (Ang et al., 2002).

5.5.1.2 Compensation influence on Human Capital

Mani (2013) stipulated that employees assume high correlations between compensation and levels of education, which may lead to employees enduring extra years of education to qualify and enter a better job with a greater income stream.

5.5.1.3 Fairness influence on Compensation

According to Walsh (2011) a family business best practice regarding compensation for family members is, to establish a compensation philosophy/strategy for family members that is fair and representative of the value of the work performed.

5.5.1.4 Compensation influence on Fairness

The method by which individuals determine the Fairness of inputs to outcomes, such as what constitutes fair compensation for a given task, or a fair effort for a given
compensation, is referred to as equity theory (Adams, 1963; Eybers, 2010). In equity theory (Adams, 1965; Heimann et al., 2014), people largely evaluate the Fairness of someone’s pay through comparisons with referent others.

5.5.1.5 Family Harmony influence on Compensation

A high level of trust, mutual support, mutual respect, care about each other's well-being, closeness of family members and a willingness to acknowledge others' achievements should ensure harmonious family relationships (Ellis, 2007; Handler, 1989; Neubauer and Lank, 1998; Seymore, 1993). Hairudinor (2014) deduced that financial compensation gives an impact on the psychological well-being of the employees since it is influenced by financial pressures. Considering harmonious family relationships includes caring about each other's well-being and compensation impacts the psychological well-being of the employees, it can be depicted that in order for there to be Family Harmony, the family would need to determine compensation that attributes to a family member's well-being.

5.5.1.6 Compensation influence on Family Harmony

Compensation is an issue in any business (Merwe, 2009; Spector, 2001) and it is no different in family-owned businesses where emotions are amplified and the stakes are high (Merwe, 2009). According to a number of family business researchers, there was no greater foundation of family business problems than a family business compensation strategy (PwC, 2013; Lane, & Pfiffner, 2008: 32; Merwe, 2007; Dashew & Heisler, 1996).

5.5.1.7 Fairness influence on Family Harmony

Merwe et al., (2012) stipulated that family members would perceive Fairness to exist in the family business when compensation is perceived to be fair and that such perceived fairness would bring about Family Harmony and family business continuity.
5.5.1.8 Family Harmony influence on Fairness

Contemporary spouses tend to share their emotions and decision roles to maintain harmony (Su, Zhou, Zhou & Li, 2007). Such behavioural dynamics are mediated by spousal cognitions/emotions, which lead to adaptive spousal decision behaviours (Su, Zhou, Zhou & Li, 2007). Spouses who perceive Fairness (unfairness) in ongoing family purchase decision processes may evoke satisfaction (resentment) and take action in subsequent decisions to restore Fairness (Su, Zhou, Zhou & Li, 2007).

5.5.1.9 Family Harmony influence on Human Capital

King (1982) investigated whether family investments in each partner’s Human Capital are conditional by the risk of divorce (marital disharmony). King (1982) found that because of the interest of at least one spouse in hedging against the possibility of divorce, the couple will be led to consider Human Capital investments that pay low, or even negative returns.

5.5.1.10 Human Capital influence on Family Harmony

Family businesses, regardless of size, have unique complexities, issues and problems that non-family-owned enterprises do not encounter, such as incompetent family employees (Alderson, 2015).

5.5.1.11 Human Capital influence on Fairness

Viswesvaran & Ones (2004) deduced how individual differences relate to the importance placed on different determinants of personnel selection system - Fairness. It was noted that there was a moderate positive relationship between general mental ability and importance of content-based variables of the personnel selection system (Viswesvaran & Ones, 2004).
5.5.1.12 Fairness influence on Human Capital

The researcher was unable to find literature that could describe a scenario of influence of Fairness in a business that may have, on the stock of Human Capital.

5.6 LIMITATIONS OF THE PRESENT RESEARCH EFFORT

The following list indicates a list of limitations the researcher identified in the study:

5.6.1 Population generalisation

The overall results of the eight case studies cannot be used to represent the family business population of South Africa or family businesses in general. Case studies do not aim to generalise to populations (statistical generalisation) (Baškarada; 2014; Yin, 2009). Accordingly, the method of generalisation is “analytic generalisation” and not “statistical generalisation” (Cooper & Geurts 2000). In statistical generalisation, inferences are made about a population on the basis of empirical data collected about a sample (Cooper & Geurts 2000). Cases do not represent a “sample”: They are generalisable to theoretical propositions and not to populations (Cooper & Geurts 2000).

5.6.2 Interview pitfalls

The pitfalls of an interview are issues such as the misinterpretation/misunderstanding of questions and answers (perhaps due to personal prejudices or convictions), leading/loaded questions and interjecting comments that can bias the response, listening only to what is easy to understand and making assumptions about what the interviewee may answer based on prior responses (Barker, 1971; Baškarada; 2014). Interviewees may be biased, have poor recall or poor articulation (Baškarada; 2014).
5.6.3 Measuring instruments

The measuring instruments were constructed from existing instruments and literature. The Cronbach-Alphas of the new constructs are unknown and it is unclear how reliable the constructed instruments are in measuring the variables.

5.6.4 Causation and correlation

The results do not determine what variable causes the other variable to occur. There is also no statistical evidence of the correlation of the variables. The positive relationships indicated in the study is just an indication that both variables (independent and dependent) were measured to be present in a case study by means of pattern matching. So in other words, the so called symptoms of the variables were present, based on the measuring instrument, but there was no empirical evidence suggesting that the variables were linked to each other or caused each other.

5.6.5 Different perspectives

The interviews only collected primary data from one source in each case study. This entails only one perspective on all the variables from each case study. Although only one perspective is required in order to determine whether the business utilises Outside Advice and whether the firm has a succession plan, perspectives may differ amongst the family members on other variables such as Fairness and Family Harmony which are subject to perception and personal experience. Views of individuals from all relevant sections of the organisation should be obtained and the views of more senior officials should not be given greater weight than views of less highly placed persons (Baškarada; 2014; Eisenhardt & Graebner, 2007; GAO, 1990).

5.7 RECOMMENDATIONS FOR FUTURE RESEARCH

It is recommended by the researcher that there is a great amount of future research potential on the model illustrated on Figure 5.1. Some potential research tips are listed below:
• Quantitative analyses (hypothesis testing) of the model illustrated on Figure 5.1.
• A framework on how to establish family harmony and fairness in the family businesses.
• Including professionalization as a sixth variable to test on the model illustrated on Figure 5.1.
• The preliminary theory of Outside Advice and Succession Planning be revised and tested with another set of cases.

5.8 GENERAL CONCLUDING REMARKS

Chapter Five addressed the present research effort research questions and research objective seven, while the research findings in the context of the study were interpreted and evaluated through the utilisation of both the primary data, which had been pattern matched with the literature in order to determine the presence of the propositions in all the case studies and literal replication had been used to generalise the outcome to the broader theory. The present research effort was then summarised and the findings were interpreted against the background of the original research problem and research objectives. Sections 5.4, 5.5, 5.6 and 5.7 underlined the implications of the research results and presented specific recommendations with regards to future research opportunities in the field of the study.

Figure 5.1 illustrates a number of variables that are proposed to positively influence The Perceived Success of Fair Family Employee Compensation in South African family businesses and variables that have a non-significant influence. The model proposed in Figure 5.1 could be utilised by family businesses in order to help achieve fair compensation for family members in the family business. With family members receiving fair compensation, could hopefully reduce conflict within the family business and ultimately result in strengthening family business continuity.
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Annexure 1: Questionnaire

Dear Respondent

In conjunction with the Business School of the Nelson Mandela Metropolitan University, I am currently conducting a research project on: Variables affecting family employee remuneration in South African family businesses.

The purpose of the research is to develop propositions about independent factors that will positively affect fair family employee compensation in a family business. The objective of the research is to see whether the proposed factors do in fact positively contribute to fair family employee compensation and I wish to obtain meaningful results so your co-operation is of particular importance.

The interview should not take more than 1 hour of your time. Kindly note your anonymity is assured and all responses will be treated in the strictest confidence. You will receive a copy of the results and we trust this will provide you with useful information for your own business environment.

Thank you for your willingness to contribute to the success of this important research project.

Yours faithfully

Towards the fulfilment of a Masters Treatise presented by:
Lesvokli Nicholas Pitsiladi
203044681
VARIABLES AFFECTING FAMILY EMPLOYEE REMUNERATION IN SOUTH AFRICAN BUSINESSES.

Instructions

Dear interview participant.

Thank you for your willingness to contribute to the success of this important research project. To ensure full accuracy of the interview results I would like you to respond to the statements as honestly as possible and keep the answers short and simple.

Please note:

- You do not need to respond to anything you do not want to. In such a situation could you please respond by saying “no comment”.
- Also if you feel that there is information that you are revealing that you do not want disclosed in the treatise (thesis) please do not hesitate to notify me.

DEMOGRAPHICS INFORMATION

1. What is your name?
2. What is the name of the business you represent?
3. Do you regard the business a family business?
4. What is the core business activity of this business?
5. Roughly how many employees are employed by the business?
6. What industry is the business part of?
7. What city/town is home to the head office of the business?
8. What is your position in the business?
9. Does the family hold 50% and more of the ownership of the business? If not, what is the rough percentage family ownership?
10. Are there any family members in management positions in the business?
11. Roughly how many family members actively work in the business and get paid compensation by the business?
12. Are there any potential family member successors to take over the business one day?

13. What generation business is the family business?

**FACTOR ANALYSIS**

I will start off with providing a definition of the factor for your understanding, followed by the statements.

Please indicate whether you Agree or Disagree with the statement and if you are willing to, to please support your answer with a short explanation why. Remember to please keep answers short and to the point, thank you.

For the purpose of the listening device, I will read the statement code first before the statement.

**DEFINING COMPENSATION**

“Any amount of income which is paid/payable to any person in cash or non-cash benefits. Compensation will include: salary, fee, bonus, wage, gratuity, pension, leave encashment, emolument, voluntary award, commission, annuity, stipend, overtime, superannuation allowance, retirement allowance, lump sum benefit payment, director's remuneration, etc.”

**STATEMENTS**

<table>
<thead>
<tr>
<th>FCOM 1</th>
<th>Family members are compensated according to their contribution to the business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCOM 2</td>
<td>There is a direct link between work performance and compensation.</td>
</tr>
<tr>
<td>FCOM 3</td>
<td>There is a direct link between the amount of responsibility and compensation in the family business.</td>
</tr>
<tr>
<td>FCOM 4</td>
<td>Family members in the family business are compensated at levels consistent with the standards of the industry.</td>
</tr>
<tr>
<td>FCOM 5</td>
<td>The compensation to individual family members is reasonable compared to the salaries of other family members.</td>
</tr>
</tbody>
</table>
Given their compensation each family member hired by the family business does their fair share of the work in the family business.

In the family business each family member hired by the family business is compensated fairly for the work that they do.

In the family business rewards for family employees are based on merit.

Family members are compensated not according to age or gender.

Family members are paid a competitive market-related salary/wage for their efforts in the family business.

DEFINING HUMAN CAPITAL

“The knowledge and skills held by individuals obtained through their education, training and experience.”

STATEMENTS

The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business.

The family members have the appropriate business experience that enables them to contribute to the functioning of the family business.

Family members are competent in performing their tasks in the family business.

DEFINING OUTSIDE ADVICE

“An external business advisor is an individual or company that is not directly involved in the operations or ownership of the business and provides knowledge, advice and/or support for issues relating to the business.”
STATEMENTS

<table>
<thead>
<tr>
<th>OA 1</th>
<th>There are outside consultants advising the family business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>OA 2</td>
<td>When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.</td>
</tr>
<tr>
<td>OA 3</td>
<td>When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be.</td>
</tr>
</tbody>
</table>

DEFINING SUCCESSION PLANNING

“A process in the business whereby a potential successor to take over the business is identified and is then prepared to assume the successor’s new role.”

STATEMENTS

<table>
<thead>
<tr>
<th>SP 1</th>
<th>The person who will take over this business when the current owner/manager retires has already been identified.</th>
</tr>
</thead>
<tbody>
<tr>
<td>SP 2</td>
<td>The person who will take over this business when the current owner/manager retires is being prepared for their role.</td>
</tr>
<tr>
<td>SP 3</td>
<td>There is a proper succession plan in place for this business which includes what the successor’s compensation will be.</td>
</tr>
<tr>
<td>SP 4</td>
<td>Replacing the current owner/manager with a successor will be done in good time.</td>
</tr>
<tr>
<td>SP 5</td>
<td>The identity of the successor to the current owner/manager has been communicated to all concerned.</td>
</tr>
</tbody>
</table>

DEFINING FAIRNESS

“The perception of how a firm rewards employees, how a firm treats employees and how the firm’s procedures and rules apply to all the employees when comparing the perception to what is expected.”
Overall, family members are treated fairly by the family business.

It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.

Overall, the salary family members receive in the family business is fair.

The rules are equally fair to everyone in the family business.

The procedures followed are equally fair to everyone in the family business.

DEFINING FAMILY HARMONY

"Where there is a high level of trust, mutual support, mutual respect, caring about each other's well-being, closeness of family members and a willingness to acknowledge others' achievements."

The family members care about each other's well-being.

The family members respect each other.

The family members support each other.

The family members trust each other.

The family members understand each other's views.

The family members listen to each other's opinions.

Lastly, is there anything else you would like add regarding compensation in your business?

THANK YOU FOR YOUR TIME!
ANNEXURE A: Interview questions and responses

INTERVIEW ONE
Embedded Unit One of Case Study One: Mixshelf Group (Pty) Limited

1. What is your name?
   Respondent: “Dennis Tucker.”

2. What is your position in the business?
   Respondent: “Part-owner.”

3. What is the name of the business you represent?
   Respondent: “Mixshelf Group (Pty) Limited.”

4. What generation business is the family business?
   Respondent: “Second.”

5. What city/town is home to the head office of the business?
   Respondent: “Port Elizabeth.”

6. What industry is the business part of?
   Respondent: “Fast moving consumer goods (FMCG).”

7. Roughly, how many employees are employed by the business?
   Respondent: “Three hundred.”

8. Roughly, how many family members actively work in the business and get paid compensation by the business?
   Respondent: “Five.”

9. Do you regard the business a family business?
   Respondent: “I do yes.”

10. What is the core business activity of this business?
    Respondent: “Fast moving consumer goods, both supermarket and liquor stores.”

11. Does the family hold fifty percent or more ownership of the business? If not, roughly what is the percentage family ownership?
    Respondent: “Yes.”

12. Are there any family members in management positions in the business?
    Respondent: “Yes.”
14. Are there any potential family member successors to take over the business one day?
   
   Respondent: “Yes.”

15. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated according to their contribution to the business.
   
   Respondent: “Yes.”

16. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between work performance and compensation.
   
   Respondent: “Yes.”

17. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between the amount of responsibility and compensation in the family business.
   
   Respondent: “Yes.”

18. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members in the family business are compensated at levels consistent with the standards of the industry.
   
   Respondent: “Yes.”

19. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The compensation to individual family members is reasonable compared to the salaries of other family members.
   
   Respondent: “Within the business?”
   
   Researcher: “Yes.”
   
   Respondent: “Yes.”

20. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Given their compensation each family member hired by the family business does their fair share of the work in the family business.
   
   Respondent: “Yes.”

21. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business each family
member hired by the family business is compensated fairly for the work that
they do.

Respondent: “Yes.”

22. Please state whether you agree or disagree with the following statement and
at your discretion explain why you say so: In the family business rewards
for family employees are based on merit.

Respondent: “Yes, yes.”

23. Please state whether you agree or disagree with the following statement and
at your discretion explain why you say so: Family members are
compensated not according to age or gender.

Respondent: “No, well yes.”

24. Please state whether you agree or disagree with the following statement and
at your discretion explain why you say so: Family members are paid a
competitive market-related salary/wage for their efforts in the family
business.

Respondent: “Yes.”

25. Please state whether you agree or disagree with the following statement and
at your discretion explain why you say so: The family members have the
qualifications (education) that enable them to contribute to the effective
functioning of the family business.

Respondent: “Yes.”

26. Please state whether you agree or disagree with the following statement and
at your discretion explain why you say so: The family members have the
appropriate business experience that enables them to contribute to the
functioning of the family business.

Respondent: “Yes.”

27. Please state whether you agree or disagree with the following statement and
at your discretion explain why you say so: Family members are competent
in performing their tasks in the family business.

Respondent: “Yes.”

28. Please state whether you agree or disagree with the following statement and
at your discretion explain why you say so: There are outside consultants
advising the family business.

Respondent: “Yes.”
29. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.

   Respondent: “No.”

30. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be.

   Respondent: “No.”

31. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires has already been identified.

   Respondent: “Yes.”

32. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires is being prepared for their role.

   Respondent: “Yes.”

33. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a proper succession plan in place for this business which includes what the successor’s compensation will be.

   Respondent: “No.”

   Researcher: “Ok.”

   Respondent: “As, as far as compensation is concerned, no.”

34. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Replacing the current owner/manager with a successor will be done in good time.

   Respondent: “It will yes.”
35. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.
Respondent: “Yes.”

36. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, family members are treated fairly by the family business.
Respondent: “Yes.”

37. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.
Respondent: “Yes.”

38. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, the salary family members receive in the family business is fair.
Respondent: “Yes.”

39. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The rules are equally fair to everyone in the family business.
Respondent: “Yes.”

40. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The procedures followed are equally fair to everyone in the family business.
Respondent: “Yes.”

41. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members care about each other’s well-being.
Respondent: “Yes.”

42. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members respect each other.
Respondent: “Yes.”
43. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members support each other.
   
   Respondent: “Yes.”

44. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members trust each other.
   
   Respondent: “Yes.”

45. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members understand each other's views.
   
   Respondent: “Yes.”

46. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members listen to each other's opinions.
   
   Respondent: “Yes.”

47. Is there anything you would like to add regarding compensation and the family business?
   
   Respondent: “No.”

INTERVIEW TWO
Embedded Unit One of Case Study Two: Van Loveren Vineyards (Pty) Limited

1. What is your name?
   
   Respondent: “Phillip Retief.”

2. What is your position in the business?
   
   Respondent: “CEO.”

3. What is the name of the business you represent?
   
   Respondent: “Van Loveren Vineyards (Pty) Limited.”

4. What generation business is the family business?
   
   Respondent: “Third.”

5. What city/town is home to the head office of the business?
   
   Respondent: “Robertson.”
6. What industry is the business part of?
   Respondent: “Agriculture and Liquor.”

7. Roughly, how many employees are employed by the business?
   Respondent: “Two hundred.”

8. Roughly, how many family members actively work in the business and get paid compensation by the business?
   Respondent: “Four.”

9. Do you regard the business a family business?
   Respondent: “Absolutely.”

10. What is the core business activity of this business?
    Respondent: “Farming, wine production and wine sales.”

11. Does the family hold fifty percent or more ownership of the business? If not, roughly what is the percentage family ownership?
    Respondent: “Yes.”

12. Are there any family members in management positions in the business?
    Respondent: “Yes, there are four.”

13. Are there any potential family member successors to take over the business one day?
    Respondent: “Yes there are successors, they are offspring, some of them are eight years old now some are twenty one studying, time will tell. We have put a policy in place so, yes most probably but, there’s still a lot of water that needs to run in the sea.”

14. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated according to their contribution to the business.
    Respondent: “Yes and no and I will elaborate on that. Third generation business, we all started at a fairly young age, the business was in its infant shoes. We took over from my dad and uncle, they were equally compensated out of profit share and we studied, the four current directors we mention now, senior managers, we are in different sections of the business, varying from production to cellar master, to CEO of finance and when we finished our varsities it was best thing for the business at that stage and for goodwill within the group to have been compensated on the same level. Over time obviously things have developed, fifteen years later now, some of us have grown more in the business than others and only as of two
years ago, the CEO’s receiving a senior compensation versus the other directors. So obviously dividends that’s equal, but in term of compensation for the first time now there is a difference. What we have in place for the next generation is that it will be at an arm’s length basis so spite children that join the business in the future will be appointed within positions and that position will have certain remuneration, locked into it yes. So I see this transition phase, in our case it was a bit of give and take and you can argue that over time you maybe didn’t earn what you should have but, it was in the best interest of the business at that stage.”

15. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between work performance and compensation.
Respondent: “Yes, there is now and will certainly be more so in the future.”

16. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between the amount of responsibility and compensation in the family business.
Respondent: “Same answer, same story, it wasn't like that but it is like that now yes.”

17. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members in the family business are compensated at levels consistent with the standards of the industry.
Respondent: “Probably not, in terms of direct remuneration, cash or salaries, but in terms of free benefits, yes. Me being on a farm with other benefits yes, if you add it all up it’s really close yes.”

18. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The compensation to individual family members is reasonable compared to the salaries of other family members.
Respondent: “Yes.”

19. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Given their compensation each family member hired by the family business does their fair share of the work in the family business.
Respondent: “Yes we try as a CEO, we have evolved as a business, for quite a few years we were level in decision making, if we go back to when the four directors took over, it was 1999 and for the first seven years, we were very much equal. In 2006 we restructured and I became the CEO and that’s when we slowly but surely moved away from a family business to a more corporate structure where the responsibilities are defined yes.”

20. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business each family member hired by the family business is compensated fairly for the work that they do.

Respondent: “Probably not. Again for the same reason I think we have adjusted that now and some other individuals in our positions might have argued differently than us and said that some are over-compensated and others under-compensated, but we all see it, as part of the growth of the business and part of giving something back to maintain, what’s the right word, goodwill.”

21. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business rewards for family employees are based on merit.

Respondent: “We don’t have performance appraisals no.”

Researcher: “Ok.”

Respondent: “Maybe just on that point, I as CEO have suggested that, but the rest of the directors and families didn’t want to go through the process.”

22. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated not according to age or gender.

Respondent: “No, not at the moment, in the past right in the beginning we were compensated according to age, but not anymore.”

23. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are paid a competitive market-related salary/wage for their efforts in the family business.

Respondent: “Yes.”

Researcher: “Ok, great.”

Respondent: “You can link it to the previous answer, on that topic.”
24. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business.

Respondent: “Yes, they do.”

25. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the appropriate business experience that enables them to contribute to the functioning of the family business.

Respondent: “We all, we all gain our business experience in the family business barring myself. I was a audit clerk for three years, so yes we do have the experience now, but we used the business to gain that experience. The next generation will definitely have to gain experience outside the business before they join.”

26. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are competent in performing their tasks in the family business.

Respondent: “Yes they are, but if there are concerns of competency, it’s very difficult to address in the family business, because it’s always some kind of emotional link to it so you can’t manage or treat a fellow director or a senior family member one hundred percent the same as an employee, there is a difference in approach.”

27. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There are outside consultants advising the family business.

Respondent: “Yes, there are at different levels of operations, strategically as well, so yes.”

28. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.

Respondent: “We were fortunate that we have never had conflict, we’ve had differences but we’ve never had conflict, so we have never had to resort to outside advice, to consult us on that.”
29. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be.

Respondent: “Yes we have done that for benchmarking, but again, we haven’t formally used that, as part of our remuneration packages, no.”

30. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires has already been identified.

Respondent: “No, we have identified the risk and we have identified the reality, but we haven’t identified a succession individual.”

Researcher: “Alright.”

Respondent: “This stage there’s nobody in the family, in terms of the next generation that’s capable yet, being inexperienced or young, so if it has to happen now we would have to bring an outsider in.”

31. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires is being prepared for their role.

Respondent: “No.”

32. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a proper succession plan in place for this business which includes what the successor’s compensation will be.

Respondent: “Yes, a successor’s compensation will certainly be addressed, there is a process in place, but the only reality is we haven’t identified a person, there certainly is a process in place, there’s a lot of ideas on the table, there are certain individuals, within the organisation, that can go into the senior positions, but nobody to take over the role of a CEO.”

33. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Replacing the current owner/manager with a successor will be done in good time.

Respondent: “Yes, otherwise I will be working till the age of your dad.”
34. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.

Respondent: “Not to the successor because there’s nobody but the board and the family understands the process of what we are trying to achieve.”

35. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, family members are treated fairly by the family business.

Respondent: “Yes they are.”

36. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.

Respondent: “Family member employees, or all employees?”

Researcher: “All employees.”

Respondent: “Yes, I believe so, I know that big corporate individuals one day said, I think, one hundred thousand people work for him and not one out of those hundred thousand ever told him that he earns enough, so employees will probably never be completely happy, but we do definitely create a friendly environment to achieve in here.”

37. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, the salary family members receive in the family business is fair.

Respondent: “Yes, it is fair.”

38. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The rules are equally fair to everyone in the family business.

Respondent: “Family members get free benefits that other employees would not be part of, yes.”

Researcher: “Ok.”

Respondent: “That refers to housing and vehicles for example yes.”
39. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The procedures followed are equally fair to everyone in the family business.

   Respondent: “In terms of the remuneration it is equally fair, family members obviously are shareholders, so they reap the rewards of capital or dividends, where the rest of the employees would share in profit share and bonuses.”

   Researcher: “Ok.”

   Respondent: “That’s always debatable if it’s sufficient or not.”

40. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members care about each other's well-being.

   Respondent: “Yes absolutely we do.”

41. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members respect each other.

   Respondent: “Yes, we do.”

42. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members support each other.

   Respondent: “Yes we do. We got different circles of friends, our social environments are different, but we certainly support each other yes.”

43. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members trust each other.

   Respondent: “Yes, we do.”

44. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members understand each other’s views.

   Respondent: “We do as family members, worked together in a business for fifteen years, if you don’t after fifteen years understand the point of views of different individuals and we are significantly different individuals, which is sometimes good, you wouldn’t be doing the right thing, so we do understand each other yes.”
45. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members listen to each other’s opinions.

Respondent: “Yes, we do. We, we absolutely do. I think overtime it took time, the fact that I’m the CEO and not the oldest, took time to grow on the two others that’s older than I, but that’s all been because it was never pushed, it was never fast tracked, it was much easier to grow into it. I think if my dad and uncle’s from the previous generation pushed an individual to be the CEO from day one, ten, twelve, fifteen years ago it would have created some animosity, but it actually just happened and the responsibilities grew and so it worked out well.”

46. Is there anything you would like to add regarding compensation and the family business?

Respondent: “No.”

INTERVIEW THREE

Embedded Unit One of Case Study Three: Edward Snell & Company (PTY) Limited

1. What is your name?

   Respondent: “Iain Hooper.”

2. What is your position in the business?

   Respondent: “Managing Director.”

3. What is the name of the business you represent?


4. What generation business is the family business?

   Respondent: “Fourth generation, but the business was sold during the 1950s and was bought back in 1980. If 1980 is taken as a starting point then it is second generation.”

5. What city/town is home to the head office of the business?

   Respondent: “Durban.”

6. What industry is the business part of?

   Respondent: “We are in the beverage sector, mainly spirits business.”

7. Roughly, how many employees are employed by the business?

   Respondent: “Two hundred and ninety.”
8. Roughly, how many family members actively work in the business and get paid compensation by the business?
   Respondent: “Two.”

9. Do you regard the business a family business?
   Respondent: “Yes, I do.”

10. What is the core business activity of this business?
    Respondent: “We are a wholesale wine and spirits distributor. We produce a range of our own brands and act as a distributor for five international brands.”

11. Does the family hold fifty percent or more ownership of the business? If not, roughly what is the percentage family ownership?
    Respondent: “Yes.”

12. Are there any family members in management positions in the business?
    Respondent: “Yes.”

13. Are there any potential family member successors to take over the business one day?
    Respondent: “To take over do you mean, as in to manage the business?”
    Researcher: “Yes.”
    Respondent: “Quite a difficult one to answer because the next generation is still quite young, so not immediately, I would be very surprised, it’s highly unlikely that the next managing director would be a family member, if that helps my answer.”

14. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated according to their contribution to the business.
    Respondent: “Yes, true, agree.”

15. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between work performance and compensation.
    Respondent: “I agree.”

16. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between the amount of responsibility and compensation in the family business.
    Respondent: “I agree.”

17. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members in the family
business are compensated at levels consistent with the standards of the industry.

Respondent: “I agree. Just to add there, there’s absolutely no difference at all between whether the person is a family member or a non-family member, it becomes irrelevant.”

18. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The compensation to individual family members is reasonable compared to the salaries of other family members.

Respondent: “Yes compensation of individual family members relative to each other is fair. For your info it's also fair relative to non-family members, i.e. family or no family, there is fairness and benchmarking to market related compensation.”

19. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Given their compensation each family member hired by the family business does their fair share of the work in the family business.

Respondent: “I agree.”

20. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business each family member hired by the family business is compensated fairly for the work that they do.

Respondent: “Yes, I agree.”

21. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business rewards for family employees are based on merit.

Respondent: “Most definitely agreed.”

22. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated not according to age or gender.

Respondent: “No, they are not, so yes I agree.”

23. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are paid a competitive market-related salary/wage for their efforts in the family business.
Respondent: “I agree, can I just mention bearing in mind there are only two of us in the business.”

Researcher: “Ok.”

Respondent: “So it’s me at an executive level and it’s Dave who, I don’t know if you know but your dad, Nico knows him very well, he’s our chairman.”

Researcher: “Ok.”

Respondent: “So, it’s only two of us. So I’m speaking on behalf, on behalf of two people.”

Researcher: “That’s fine.”

24. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business.

Respondent: “Yes, I agree.”

25. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the appropriate business experience that enables them to contribute to the functioning of the family business.

Respondent: “Yes, I agree.”

26. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are competent in performing their tasks in the family business.

Respondent: “I hope so, being one of them.”

27. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There are outside consultants advising the family business.

Respondent: “Yes, there are.”

28. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.

Respondent: “No, it hasn’t been necessary so.”

29. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business
draws on outside expertise to assist with determining what family employee compensation should entail and be.

Respondent: “Yes, most certainly, again would you like me to elaborate on the agree and the and the not agree statement?”

Researcher: “Whatever you want to.”

Respondent: “We have contracted the services initially of a company called PE Corporate Services survey and more recently we use a service called REMchannel. Now REMchannel gather a whole lot of data from members, that contribute their data into this pool, where you can bench mark positions in the organisation, against other companies of similar size or the industry. Obviously in our case it’s difficult to look at say the beverage sector and compare it to our size, because on the supply side, there are not that many businesses of our size, so we then open up the survey to other businesses of our size, but in the FMCG, so we found that it’s hugely useful not tool but consultancy, that have advised us on remuneration.”

30. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires has already been identified.

Respondent: “No.”

31. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires is being prepared for their role.

Respondent: “No.”

32. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a proper succession plan in place for this business which includes what the successor’s compensation will be.

Respondent: “There is a proper succession plan, it does have gaps in it and where there’s a gap, the gap merely states that we would look to the outside and no, there’s no compensation linked to our succession plan in process at this stage.”
33. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Replacing the current owner/manager with a successor will be done in good time.

   Respondent: “Yes, it will be done in good time, but that time has not been determined.”

34. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.

   Respondent: “Not applicable because he has not been identified.”

35. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, family members are treated fairly by the family business.

   Respondent: “Yes.”

36. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.

   Respondent: “Yes.”

37. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, the salary family members receive in the family business is fair.

   Respondent: “Yes.”

38. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The rules are equally fair to everyone in the family business.

   Respondent: “Yes.”

39. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The procedures followed are equally fair to everyone in the family business.

   Respondent: “Yes, agree.”

40. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members care about each other's well-being.

   Respondent: “Yes, I agree.”
41. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members respect each other.
   
   Respondent: “Yes, most certainly.”

42. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members support each other.
   
   Respondent: “Yes.”

43. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members trust each other.
   
   Respondent: “Yes.”

44. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members understand each other’s views.
   
   Respondent: “Yes, understand, but may not always necessarily agree with them, but understand, yes agreed.”

45. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members listen to each other’s opinions.
   
   Respondent: “Yes I agree.”

46. Is there anything you would like to add regarding compensation and the family business?
   
   Respondent: “No, I think it’s a very comprehensive exercise, I think just to mention what I did say is, there are only two family members in our business. Our business is a family business, but it’s essentially run by our management team of seven people, our chairman who’s not an executive member of that management team, although he is very involved in a semi-executive way in the running of the business, so we are a family business but a lot of the control of the management of the business rests with the management team and it’s that team that defines strategy that leads the business, that’s ultimately responsible for implementation and then the link with the broader family takes place between me, my uncle Dave who’s the chairman and between the two of us we achieve sign off in the family.”
So, I just think worth mentioning that although we are a family business, it’s often for your management team that are responsible for the day.”

Researcher: “So, it’s professionalized?”

Respondent: “Yes it is, the fact that I’m a member of the family, sure our peers are aware that I’m a family member but I don’t think they don’t see me any differently to themselves. We are all members of the team it’s not them and then us as a family. We operate as a team.”

Researcher: “So basically your compensation like you said earlier is based on as if it was a normal business?”

Respondent: “Correct, yes one hundred percent.”

Respondent: “I’m very happy that the difference between the managing directors pay and the other senior executives pay is quite a narrow band. If we benchmarked ourselves against other FMCG businesses of our size, the differential between the managing directors pay and the other senior executives, the data suggests that it would be a wider gap. I am very comfortable where it is because I just feel it helps the dynamic of us, does that mean I’m under paid relative to my peers? I don’t believe I am, but the data would suggest that maybe the differential is a bit wider. It’s a personal thing for me. I’m very happy with what I get paid, I believe it’s close to the market and I just think it leads to a healthy dynamic between me and the six other members of my team, where it’s complete transparency. Ok, not with all of them, but certainly the senior members of that team know they are involved in the whole remuneration process and the fact is there’s a narrow gap. I think it’s good for our team dynamic, it’s more than acceptable for me.”

Researcher: “The fact is like you said that your business is professionalized and you work as if it’s a normal business, you know that actually does solve problems, because the problem with family businesses is that overlap of family and business, there’s a conflict, sure, like in our business. If you can somehow put a frame work together, so that if you are in a family business and you want to know, ok we have just had kids they are going to take over one day, what do we do? Ok, this method is going to work so we must put our children through university and they must go and work in a firm for three years, outside the business or whatever.”
INTERVIEW FOUR
Embedded Unit One of Case Study Four: Fischer and Company (Pty) Limited

1. What is your name?
   Respondent: “Peter Moser.”

2. What is your position in the business?
   Respondent: “Managing Director.”

3. What is the name of the business you represent?
   Respondent: “Fischer and Company (Pty) Limited.”

4. What generation business is the family business?
   Respondent: “Third.”

5. What city/town is home to the head office of the business?
   Respondent: “Port Elizabeth.”

6. What industry is the business part of?
   Respondent: “Jewellery.”

7. Roughly, how many employees are employed by the business?
   Respondent: “Thirty five.”

8. Roughly, how many family members actively work in the business and get paid compensation by the business?
   Respondent: “Five.”

9. Do you regard the business a family business?
   Respondent: “Yes.”

10. What is the core business activity of this business?
    Respondent: “Retail jewellery and manufacturing jewellery.”

11. Does the family hold fifty percent or more ownership of the business? If not, roughly what is the percentage family ownership?
    Respondent: “Yes.”

12. Are there any family members in management positions in the business?
    Respondent: “Yes.”

13. Are there any potential family member successors to take over the business one day?
    Respondent: “Yes.”
14. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated according to their contribution to the business.

   Respondent: “Yes.”

15. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between work performance and compensation.

   Respondent: “Yes.”

16. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between the amount of responsibility and compensation in the family business.

   Respondent: “Yes.”

17. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members in the family business are compensated at levels consistent with the standards of the industry.

   Respondent: “Yes.”

18. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The compensation to individual family members is reasonable compared to the salaries of other family members.

   Respondent: “Compare with, sorry read that again.”

   Researcher: “Ok, the compensation to individual family members is reasonable compared to the salaries of other family members.”

   Respondent: “Yes.”

19. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Given their compensation each family member hired by the family business does their fair share of the work in the family business.

   Respondent: “Yes.”

20. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business each family member hired by the family business is compensated fairly for the work that they do.
21. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business rewards for family employees are based on merit.

Respondent: “Partially so yes.”

Researcher: “Ok, do you want to elaborate on that?”

Respondent: “I think that, you know, look they get paid for their performance, but then we also actually give bonuses which would not happen if they were not family members, that would be purely to split the tax burden, you might say.”

22. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated not according to age or gender.

Respondent: “No.”

23. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are paid a competitive market-related salary/wage for their efforts in the family business.

Respondent: “Yes.”

24. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business.

Respondent: “Yes.”

25. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the appropriate business experience that enables them to contribute to the functioning of the family business.

Respondent: “Yes.”

26. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are competent in performing their tasks in the family business.

Respondent: “Yes.”
27. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There are outside consultants advising the family business. 
   Respondent: “Other than the auditors, I would say no.”

28. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation. 
   Respondent: “No.”

29. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be. 
   Respondent: “No.”

30. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires has already been identified. 
   Respondent: “Yes.”

31. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires is being prepared for their role. 
   Respondent: “Yes.”

32. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a proper succession plan in place for this business which includes what the successor’s compensation will be. 
   Respondent: “No.”

33. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Replacing the current owner/manager with a successor will be done in good time. 
   Respondent: “Yes.”
34. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.

Respondent: “It hasn’t been communicated but has been assumed. We’ve got two directors that are sons and they will take over.”

35. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, family members are treated fairly by the family business.

Respondent: “Yes.”

36. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.

Respondent: “Yes.”

37. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, the salary family members receive in the family business is fair.

Respondent: “Yes.”

38. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The rules are equally fair to everyone in the family business.

Respondent: “Yes.”

39. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The procedures followed are equally fair to everyone in the family business.

Respondent: “Yes.”

40. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members care about each other’s well-being.

Respondent: “Yes.”

41. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members respect each other.

Respondent: “Yes.”
42. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members support each other.
   Respondent: “Yes.”

43. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members trust each other.
   Respondent: “Yes.”

44. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members understand each other’s views.
   Respondent: “Yes.”

45. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members listen to each other’s opinions.
   Respondent: “Most of the time.”

46. Is there anything you would like to add regarding compensation and the family business?
   Respondent: “I don’t think so. I don’t know if you’ve chosen a fair business to deal with this, because you know the family and we are very close as family, the whole family works here and probably a bit like your family too. We not only work together but we socialize together so eventually all the questions were very easy to answer. With the succession plan I hesitated to answer the one part being treated equally because there is a daughter in the business, but she’s not part of the succession plan which is often the case. So that’s the only part that would be a little unfair but then obviously she will be compensated in other ways.”

INTERVIEW FIVE
Embedded Unit One of Case Study Five: Oom Cola’s Tavern (Pty) Limited

1. What is your name?
   Respondent: “Mandisi Gqulane.”

2. What is your position in the business?
Respondent: “Manager.”

3. What is the name of the business you represent?
   Respondent: “Oom Cola’s Tavern (Pty) Limited.”

4. What generation business is the family business?
   Respondent: “Second.”

5. What city/town is home to the head office of the business?
   Respondent: “Port Elizabeth.”

6. What industry is the business part of?
   Respondent: “I would say hospitality.”

7. Roughly, how many employees are employed by the business?
   Respondent: “Full-time there are six and with part-time we are about eight.”

8. Roughly, how many family members actively work in the business and get paid compensation by the business?
   Respondent: “Four.”

9. Do you regard the business a family business?
   Respondent: “Yes, I do.”

10. What is the core business activity of this business?
    Respondent: “Trade in alcohol and food.”

11. Does the family hold fifty percent or more ownership of the business? If not, roughly what is the percentage family ownership?
    Respondent: “Yes.”

12. Are there any family members in management positions in the business?
    a. Respondent: “Yes, my brother runs the kitchen and my other brother is the assistant manager.”

13. Are there any potential family member successors to take over the business one day?
    Respondent: “Yes there is.”

14. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated according to their contribution to the business.
    Respondent: “Yes.”

15. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between work performance and compensation.
16. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between the amount of responsibility and compensation in the family business.  
Respondent: “No it’s equal.”

17. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members in the family business are compensated at levels consistent with the standards of the industry.  
Respondent: “Yes.”

18. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The compensation to individual family members is reasonable compared to the salaries of other family members.  
Respondent: “I could say so yes.”

19. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Given their compensation each family member hired by the family business does their fair share of the work in the family business.  
Respondent: “Yes, yes.”

20. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business each family member hired by the family business is compensated fairly for the work that they do.  
Respondent: “Yes.”

21. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business rewards for family employees are based on merit.  
Respondent: “Yes.”

22. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated not according to age or gender.  
Respondent: “Yes they are not.”
23. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are paid a competitive market-related salary/wage for their efforts in the family business.

Respondent: “Yes, they are.”

24. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business.

Respondent: “Yes.”

25. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the appropriate business experience that enables them to contribute to the functioning of the family business.

Respondent: “Yes, they do.”

26. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are competent in performing their tasks in the family business.

Respondent: “Yes, they are.”

27. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There are outside consultants advising the family business.

Respondent: “Besides the lawyer there’s none.”

28. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.

Respondent: “Thinking outside of the lawyer, there’s none, it’s just the lawyer.”

Researcher: “Has the lawyer ever been involved in compensation issues?”

Respondent: “Not at this stage no.”

29. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be.
30. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires has already been identified.

   Respondent: “No.”

31. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires is being prepared for their role.

   Respondent: “Yes, yes.”

32. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a proper succession plan in place for this business which includes what the successor’s compensation will be.

   Respondent: “I could say so, yes.”

   Researcher: “There is a proper succession plan in place for this business which includes what the successor’s compensation will be. The person that will take over, you got to plan what their compensation is going to be.”

33. Respondent: “There is a succession plan but does not include what the compensation is going to be.”

34. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Replacing the current owner/manager with a successor will be done in good time.

   Respondent: “Yes, it will.”

35. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.

   Respondent: “Yes it has.”

36. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.

   Respondent: “Yes it has.”

37. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, family members are treated fairly by the family business.

   Respondent: “Yes, they are.”
38. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.
   Respondent: “Yes they are.”

39. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, the salary family members receive in the family business is fair.
   Respondent: “Yes, it is.”

40. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The rules are equally fair to everyone in the family business.
   Respondent: “Yes, they are.”

41. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The procedures followed are equally fair to everyone in the family business.
   Respondent: “Yes.”

42. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members care about each other’s well-being.
   Respondent: “Yes, they do.”

43. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members respect each other.
   Respondent: “Yes, they do.”

44. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members support each other.
   Respondent: “Yes, we do.”

45. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members trust each other.
   Respondent: “Yes, they do.”
46. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members understand each other's views.
   Respondent: “Yes, they do.”

47. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members listen to each other's opinions.
   Respondent: “Yes, we do.”

48. Is there anything you would like to add regarding compensation and the family business?
   Respondent: “On the compensation fact, there isn’t much I can add. It’s based on fairness like you guys said and it’s also based on the amount the person brings into the business, how much business the person brings into the business. So you will find that in certain circumstances, we have sisters who are not involved in the business and we compensate them, but we will not compensate them at the same rate as those who are in the business.”

INTERVIEW SIX
Embedded Unit One of Case Study Six: Blunden Coach Tours (Pty) Limited

1. What is your name?
   Respondent: “Shawn Blunden.”

2. What is your position in the business?
   Respondent: “CEO.”

3. What is the name of the business you represent?
   Respondent: “Blunden Coach Tours (Pty) Limited.”

4. What generation business is the family business?
   Respondent: “Third.”

5. What city/town is home to the head office of the business?
   Respondent: “Port Elizabeth.”

6. What industry is the business part of?
   Respondent: “We are part of the service and hotel industry, hospitality industry.”

7. Roughly, how many employees are employed by the business?
8. Roughly, how many family members actively work in the business and get paid compensation by the business?
   Respondent: “Two.”

9. Do you regard the business a family business?
   Respondent: “Yes, it is.”

10. What is the core business activity of this business?
    Respondent: “Luxury passenger transport.”

11. Does the family hold fifty percent or more ownership of the business? If not, roughly what is the percentage family ownership?
    Respondent: “Yes.”

12. Are there any family members in management positions in the business?
    Respondent: “Yes.”

13. Are there any potential family member successors to take over the business one day?
    Respondent: “Yes.”

14. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated according to their contribution to the business.
    Respondent: “Yes.”

15. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between work performance and compensation.
    Respondent: “Yes.”

16. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between the amount of responsibility and compensation in the family business.
    Respondent: “Yes.”

17. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members in the family business are compensated at levels consistent with the standards of the industry.
    Respondent: “That’s correct.”
18. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The compensation to individual family members is reasonable compared to the salaries of other family members.
Respondent: “That’s right.”

19. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Given their compensation each family member hired by the family business does their fair share of the work in the family business.
Respondent: “That’s right.”

20. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business each family member hired by the family business is compensated fairly for the work that they do.
Respondent: “That’s right.”

21. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business rewards for family employees are based on merit.
Respondent: “Yes.”

22. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated not according to age or gender.
Respondent: “Not according to age and gender, yes.”

23. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are paid a competitive market-related salary/wage for their efforts in the family business.
Respondent: “Yes.”

24. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business.
Respondent: “Yes.”
25. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the appropriate business experience that enables them to contribute to the functioning of the family business.

Respondent: “Yes.”

26. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are competent in performing their tasks in the family business.

Respondent: “Yes.”

27. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There are outside consultants advising the family business.

Respondent: “Yes.”

28. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.

Respondent: “Yes.”

29. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be.

Respondent: “Yes.”

30. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires has already been identified.

Respondent: “Yes.”

31. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires is being prepared for their role.

Respondent: “Yes.”
32. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a proper succession plan in place for this business which includes what the successor’s compensation will be.
   Respondent: “Yes.”

33. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Replacing the current owner/manager with a successor will be done in good time.
   Respondent: “Yes.”

34. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.
   Respondent: “Yes.”

35. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, family members are treated fairly by the family business.
   Respondent: “Yes.”

36. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.
   Respondent: “Yes.”

37. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, the salary family members receive in the family business is fair.
   Respondent: “Yes.”

38. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The rules are equally fair to everyone in the family business.
   Respondent: “Yes.”

39. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The procedures followed are equally fair to everyone in the family business.
   Respondent: “Yes.”
40. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members care about each other’s well-being.

Respondent: “Yes.”

41. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members respect each other.

Respondent: “Yes.”

42. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members support each other.

Respondent: “Yes.”

43. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members trust each other.

Respondent: “Yes.”

44. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members understand each other’s views.

Respondent: “Yes.”

45. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members listen to each other’s opinions.

Respondent: “Yes.”

46. Is there anything you would like to add regarding compensation and the family business?

Respondent: “Well you know with family-owned businesses, fair compensation you got to pay what is market related. There’s no way that because family members work in the business or they are part of the management of the business that they got to be paid exorbitant salaries. So it’s got to be market related and it’s got to be fair, not because family members are family members, they got to be treated as everybody else got to be treated. And I think you once you do that, I think you got a winning recipe for success. As I said, you do have some family
members who are expecting more than what they are actually due and that’s where the problems creeps in, but it’s how you manage that situation that counts.”

INTERVIEW SEVEN
Embedded Unit One of Case Study Seven: Kloppers (Pty) Limited

1. What is your name?
   Respondent: “Leon Klopper.”

2. What is your position in the business?
   Respondent: “Director.”

3. What is the name of the business you represent?
   Respondent: “Kloppers (Pty) Limited.”

4. What generation business is the family business?
   Respondent: “It’s second with us. My dad started it, sold it and we started it again, so it’s with us, second, but third basically going into.”

5. What city/town is home to the head office of the business?
   Respondent: “Bloemfontein.”

6. What industry is the business part of?
   Respondent: “General retail.”

7. Roughly, how many employees are employed by the business?
   Respondent: “Five hundred.”

8. Roughly, how many family members actively work in the business and get paid compensation by the business?
   Respondent: “All six.”

9. Do you regard the business a family business?
   Respondent: “Yes.”

10. What is the core business activity of this business?
    Respondent: “General Retail Discount.”

11. Does the family hold fifty percent or more ownership of the business? If not, roughly what is the percentage family ownership?
    Respondent: “Yes.”

12. Are there any family members in management positions in the business?
    Respondent: “Yes.”
13. Are there any potential family member successors to take over the business one day?
   Respondent: “Yes.”

14. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated according to their contribution to the business.
   Respondent: “I don’t agree.”
   Researcher: “Ok.”
   Respondent: “Family members are?”
   Researcher: “Compensated according to their contribution to the family business.”
   Respondent: “Meaning that some could get more and some could get less?”
   Researcher: “According to what they contribute, so if I work five days a week and you work seven days a week, you get paid.”
   Respondent: “No.”
   Researcher: “So you, disagree, or you?”
   Respondent: “Yes, we all get the same let’s put it that way. I don’t know where the questions are going to, but I don’t.”
   Researcher: “Just answer each one independently.”
   Respondent: “Ye, but we all work the same hours, we all.”
   Researcher: “Get paid the same?”
   Respondent: “The same, so what does that mean, agree or disagree?”
   Researcher: “Yes, agree.”
   Respondent: “Ok.”

15. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between work performance and compensation.
   Respondent: “Agree.”

16. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between the amount of responsibility and compensation in the family business.
   Respondent: “Agree.”
17. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members in the family business are compensated at levels consistent with the standards of the industry.

   Respondent: “Of? Read it again.”
   Researcher: “Compensated at levels consistent with the standards of the industry.”
   Respondent: “Of family businesses or the industry?”
   Researcher: “The industry.”
   Respondent: “I disagree, it’s less.”
   Researcher: “Ok, alright, anything else you would like to say?”
   Respondent: “Just because we are such a lot of people involved. We are a group of six cutting the cake.”
   Researcher: “Ok.”
   Respondent: “Or sharing it.”

18. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The compensation to individual family members is reasonable compared to the salaries of other family members.

   Respondent: “Yes, I agree.”

19. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Given their compensation each family member hired by the family business does their fair share of the work in the family business.

   Respondent: “Agree.”

20. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business each family member hired by the family business is compensated fairly for the work that they do.

   Respondent: “Agree.”

21. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business rewards for family employees are based on merit.

   Respondent: “Agree.”
22. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated not according to age or gender.
Respondent: “Agree.”

23. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are paid a competitive market-related salary/wage for their efforts in the family business.
Respondent: “Agree, but, then the other one should also be agree, the one where I said I disagree.”
Researcher: Ok so you agree with the fact that they get paid according to their contribution?”
Respondent: “Yes.”
Researcher: “And it is all market related?”
Respondent: “Yes.”

24. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business.
Respondent: “I agree ok, but also with some, I think I know where this is going to.”
Researcher: “Was there anything you wanted to add to the first one?”
Respondent: “No, I thought there was something else coming in. So just read the first question again, I thought I was thinking.”
Researcher: “Ok, HC1, The family members have qualifications ie, education that enable them to contribute to the effective functioning of the family business.”
Respondent: “Ok, it used to be like that and we stopped that. We are all equally now paid and remunerated and the guys with degrees or qualifications into business were paid more than the other guys.”
Researcher: “But it’s no longer like that?”
Respondent: “No, it’s no longer like that.”
Researcher: “So you’ve all chosen whether you have a degree or not, you get paid the same?”
Researcher: “Ok.”


Respondent: “Is that more or less, does that answer that thing then?”
Researcher: “Yes, I’m very happy with that.”

25. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the appropriate business experience that enables them to contribute to the functioning of the family business.
Respondent: “Agreed.”

26. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are competent in performing their tasks in the family business.
Respondent: “Agree.”

27. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There are outside consultants advising the family business.
Respondent: “I must answer, disagree or agree?”
Researcher: “Yes.”
Respondent: “I, disagree.”
Researcher: “Ok.”

28. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.
Respondent: “I disagree.”

29. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be.
Respondent: “I disagree.”

30. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires has already been identified.
Respondent: “I disagree.”

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31. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires is being prepared for their role.
   Respondent: “I disagree.”

32. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a proper succession plan in place for this business which includes what the successor’s compensation will be.
   Respondent: “I disagree.”

33. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Replacing the current owner/manager with a successor will be done in good time.
   Respondent: “I agree.”

34. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.
   Respondent: “The successor?”
   Researcher: “Yes, so the identity, so who the person is going to be.”
   Respondent: “Ok, I agree.”

35. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, family members are treated fairly by the family business.
   Respondent: “I agree.”

36. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.
   Respondent: “I agree.”

37. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, the salary family members receive in the family business is fair.
   Respondent: “I agree.”
38. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The rules are equally fair to everyone in the family business.
   Respondent: “Agree.”
39. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The procedures followed are equally fair to everyone in the family business.
   Respondent: “Agree.”
40. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members care about each other’s well-being.
   Respondent: “I agree.”
41. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members respect each other.
   Respondent: “I agree.”
42. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members support each other.
   Respondent: “Agree.”
43. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members trust each other.
   Respondent: “Agree.”
44. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members understand each other’s views.
   Respondent: “Agree.”
45. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members listen to each other’s opinions.
   Respondent: “Agree.”
46. Is there anything you would like to add regarding compensation and the family business?
Respondent: “No, as I said in the beginning in my father’s time, the first generation, to him it was qualifications and when we started, the sons started it and we decided it’s an equal share. It’s as simple as that. So there is no differentiation between a CA and something else.”
Researcher: “And everybody is happy with that?”
Respondent: “Everybody is happy with that. And that’s maybe why I think it’s working, we all work equally hard so. I think that is why we are so successful; it’s because of that, because money is not the goals.”

INTERVIEW EIGHT
Embedded Unit One of Case Study Eight: Cicognini Properties (Pty) Limited

1. What is your name?
   Respondent: “Dante Cicognini.”

2. What is your position in the business?
   Respondent: “Director.”

3. What is the name of the business you represent?

4. What generation business is the family business?
   Respondent: “Second generation.”

5. What city/town is home to the head office of the business?
   Respondent: “Port Elizabeth.”

6. What industry is the business part of?
   Respondent: “Construction and property.”

7. Roughly, how many employees are employed by the business?
   Respondent: “One hundred.”

8. Roughly, how many family members actively work in the business and get paid compensation by the business?
   Respondent: “Three.”

9. Do you regard the business a family business?
   Respondent: “Yes.”

10. What is the core business activity of this business?
    Respondent: “Property investment.”
11. Does the family hold fifty percent or more ownership of the business? If not, roughly what is the percentage family ownership?
   Respondent: “Yes.”

12. Are there any family members in management positions in the business?
   Respondent: “Yes.”

13. Are there any potential family member successors to take over the business one day?
   Respondent: “Yes.”

14. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated according to their contribution to the business.
   Respondent: “Yes.”

15. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between work performance and compensation.
   Respondent: “Yes.”

16. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a direct link between the amount of responsibility and compensation in the family business.
   Respondent: “Yes.”

17. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members in the family business are compensated at levels consistent with the standards of the industry.
   Respondent: “No.”
   Researcher: “Ok.”
   Respondent: “Do you, do you want me to elaborate?”
   Researcher: “You can elaborate.”
   Respondent: “We generally take our money in dividends, those are annual dividends and they are based on property performances in separate companies. Most of our salaries are quite low and the reason being is for cash flow reasons, we are not big borrowers.”
18. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The compensation to individual family members is reasonable compared to the salaries of other family members.

Respondent: “Yes.”

19. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Given their compensation each family member hired by the family business does their fair share of the work in the family business.

Respondent: “Yes.”

20. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business each family member hired by the family business is compensated fairly for the work that they do.

Respondent: “Yes the reason I stalled there is we are not only a family business, we also the oldest partnership in property in Port Elizabeth, with another family business and I just feel we take the Rands for both businesses too much.”

Researcher: “Ok.”

Respondent: “And so we land up doing a lot of work for our partners.”

Researcher: “So you don’t think it’s fair?”

Respondent: “Not really, well to be honest no.”

21. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: In the family business rewards for family employees are based on merit.

Respondent: “Yes.”

22. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are compensated not according to age or gender.

Respondent: “No.”

23. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are paid a competitive market-related salary/wage for their efforts in the family business.

Respondent: “I would say it’s a bit low but as I explained earlier.”
Researcher: “Yes.”
Respondent: “It’s cash flow.”
Researcher: “So you wouldn’t say its market related?”
Respondent: “No.”
Researcher: “It’s below market?”
Respondent: “It’s below market.”

24. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the qualifications (education) that enable them to contribute to the effective functioning of the family business.
Respondent: “Yes.”

25. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members have the appropriate business experience that enables them to contribute to the functioning of the family business.
Respondent: “Yes.”

26. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Family members are competent in performing their tasks in the family business.
Respondent: “Very much so.”

27. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There are outside consultants advising the family business.
Respondent: “Yes there are.”
Researcher: “Ok.”
Respondent: “Do you want an example?”
Researcher: “You can elaborate.”
Respondent: “Example would be possibly our accountants and then quantity surveyors, quantifying the sums before expanding.”

28. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on the expertise of professional outside advisors to resolve conflict regarding family member compensation.
Respondent: “Yes, but that’s never happened.”
Researcher: “And if it happened?”
Respondent: “It would.”

29. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: When needed the family business draws on outside expertise to assist with determining what family employee compensation should entail and be.
Respondent: “Well, as I said to you, we haven’t had any issues with it before so.”
Researcher: “But would you call on outside advisors to help you just to determine what it should be?”
Respondent: “Absolutely, yes and that would probably be our accountant.”

30. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires has already been identified.
Respondent: “Yes.”

31. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The person who will take over this business when the current owner/manager retires is being prepared for their role.
Respondent: “Yes.”

32. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: There is a proper succession plan in place for this business which includes what the successor’s compensation will be.
Respondent: “Yes.”

33. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Replacing the current owner/manager with a successor will be done in good time.
Respondent: “Yes.”

34. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The identity of the successor to the current owner/manager has been communicated to all concerned.
Respondent: “No.”
Researcher: “Ok.”
Respondent: “Only, the directors know who the successors are and one of the successors would be a director.”
Researcher: “Ok.”
Respondent: “A current director.”

35. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, family members are treated fairly by the family business.
Respondent: “Very much so.”

36. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: It is fair how resources (e.g., salary, bonuses, etc.) are allocated among employees in the family business.
Respondent: “Yes.”

37. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: Overall, the salary family members receive in the family business is fair.
Respondent: “Yes.”

38. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The rules are equally fair to everyone in the family business.
Respondent: “Yes.”

39. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The procedures followed are equally fair to everyone in the family business.
Respondent: “Yes.”

40. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members care about each other’s well-being.
Respondent: “Very much so.”

41. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members respect each other.
Respondent: “Yes.”

42. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members support each other.
Respondent: “Yes.”

43. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members trust each other.
Respondent: “Yes, very much so.”

44. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members understand each other’s views.
Respondent: “Yes.”

45. Please state whether you agree or disagree with the following statement and at your discretion explain why you say so: The family members listen to each other’s opinions.
Respondent: “Yes.”
Researcher: “Ok.”
Respondent: “There are sometimes that you view, varying on opinions but you know im covered by two sisters, with their feet in the ground, so usually they have a issue with my with my variables, but im the go getter so we all work in harmony.”

46. Is there anything you would like to add regarding compensation and the family business?
Respondent: “Yes, I think for anybody that works for, or is involved in a family business, for you example, it’s very difficult to define a line where, on who does what and gets more for doing what, that’s the reason we are all on the same basis.”
Researcher: “You mean you are equal?”
Respondent: “We are equal in salary as well and the reason behind that, is my father, who is the originator of our family business, who decided that’s the way it will be and that’s the way it will stay and it was part of his will, so even though I believe that I could be doing more than my sisters are doing, I am quite happy
to work for the cause and I think it’s very important when it comes to a family business.”

Researcher: “So you feel the non-financial goals behind it is highly important?”

Respondent: “Yes, the reason behind it is because it brings animosity and the one gets more than the other and the other believes they are doing more than the other and if you are all in the same playing field and you’ve had a family business, you need it to be sustainable and the only way to do it is to have everybody inline. I will give you an example. My oldest sister, she is a director, but a non-working director. She doesn’t receive a salary, but she does receive all her dividends and she’s quite happy with that, because she lives the life she wants to live, receives her dividends and my other sister and myself run the enterprise. She is involved in all the director’s decisions such as purchasing a property, acquiring new tenant and maintenance expenditure. She will be called in, but other than that the two of us run the business and that’s the reason we take light salaries.

Researcher: “And would you now apply the same principal to your kids?”

Respondent: “Very much so.”

Researcher: “So everyone will be getting equal throughout the generations?”

Respondent: “Yes, the reason behind it is, probably because it’s a property business and I would imagine in your sort of business it would be slightly different, because there’s a lot more to run. Where in the property business, we have small departments; I’m in charge of letting and of all the maintenance for the properties and to acquire new tenants. My sister is in charge of collecting the money, making sure that the receiver is paid and all leases.”

Researcher: “Yes, but you said now while busy with the statements that, everybody contributes their equal share, do you feel that the amount you contribute is the same as what every other family member contributes?”

Respondent: “It varies from month to month, you know. If the properties are full then, I don’t contribute as much, because I’m not doing half of my duties, but in the current market I contribute far more, because of my time spent out in the field, finding tenants and collecting properties. At the moment we have quite a bit of stock available, but that’s a variable and that’s why the property business is very difficult to say, she gets a hundred thousand and you get fifty thousand
Rand. We rather all get fifty thousand and accept our dividends when we receive them.”

Researcher: “And dividends are the same as well?”

Respondent: “Yes so they portion it to the shareholders a third, a third, a third and our jobs are really to make sure that the dividends come in leaps and bounds and promptly and to make as much money in the dividend sector as you can and take lighter salaries to keep your cash flow standard, in your management company.”