STRATEGIES FOR SUSTAINING FAMILY BUSINESS THROUGH SUCCESSION PLANNING AND FAMILY CREED.

BY

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SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE IN MASTERS IN BUSINESS ADMINISTRATION AT THE NELSON MANDELA METROPOLITAN UNIVERSITY

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DATE SUBMITTED: 30 NOVEMBER 2005
DECLARATION

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

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The dissertation is the result of my own independent work/investigation, except where otherwise stated.

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DEDICATION

This research is dedicated to my father Theodore Nkumbulo Luxolo Gwiliza who passed on while the succession planning for his family business was still in its initial stages. He has been a role model, mentor and my great source of inspiration. His love and unwavering faith in my abilities has strengthened me to further my studies. I will always be grateful to him.
ACKNOWLEDGEMENTS

I hereby wish to acknowledge my appreciation to the following people, without whom whose guidance, encouragement and motivation, the completion of this research would not have been completed as scheduled.

1. Special thanks to Mr. Malcolm Figg, my promoter, for his time, patience and guidance.

2. MonaLisa Mbebe for her motivation and encouragement.

3. To my family for their patience and understanding.
ABSTRACT

Family business literature reveals that the majority of family businesses do not make it to the second generation, and quite a few are fortunate to be passed onto the third generation. Succession planning is the critical issue that enhances continuity of the family business.

Relational influences indicate that the balancing of family systems and business systems is more likely to encourage high quality succession.

The development of effective practical governance systems can help the family business achieve its strategy.

External influences indicate that owner role adjustment, defined as the predecessor's “letting go” in the firm, as well as the development and mentoring of the successor, shape the effectiveness of succession in the family business.
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INTRODUCTION

1.1 BACKGROUND AND MAIN PROBLEM

Family businesses are major contributors to the economy, yet its strength (the family) may also be the reason for its fragility. Balshaw (2003: 20) indicates that less than one third of family businesses survive through each generation, and of those that survive, half are sold off. The reasons for their failure are often predictable. It is clear that the family dynamics and family business issues are not well understood, balanced, or managed.

Smith (2005: 15) explains that a family business is more than simply a business. Members involved in its founding and day-to-day running invest part of their lives in its creation and maintenance, meaning that there are emotions involved in the way the business is managed. Most family business owners operate with no strategic plan and little, if any, thought regarding who will oversee the business.
Shanker and Astrachan (1996) state that family businesses fail because its owners or managers avoid making needed decisions about the company’s future. As a result, the firms may not stay intact after experiencing the rapid changes that often take place in business.

Businesses need the advanced skills and experience of the new generation in order to keep up with the changes. Family business owners that do survive learn to anticipate the changes, crises or problems that may arise and have effectively planned to deal with these challenges (Shanker & Astrachan 1996).

Handler (1989: 46) states that many studies have shown it is very difficult for the senior generation of a closely-held family business to relinquish ownership and control to a new and younger generation (Lutz, 2003). Gersick, Davis, Hampton and Lansberg (1997: 95) explain that for the senior generation, leadership provides status, meaning, power and other rewards. The rest of the family colludes in resisting in acknowledging that the time for transition has arrived. Gersick et al further explain that there are some cases where the successor generation is impatient and cannot wait for the parents’ departure from the business. In other cases, the younger generation is struggling
with ambivalence and, as a result, joins fully in avoiding the
topic.

The above opinions thus direct the researcher to the main
problem of this study, namely:

**What guidelines should a family business owner follow to
ensure a successful succession that enhances continuity
of the business?**

1.2 STATEMENT OF SUB-PROBLEM

In developing a research strategy to deal with and solve the
main problem, the following sub-problems have been identified:

a) What effect does balancing business and family systems
have in enhancing continuity of a family business?

b) What does literature reveal about effectiveness of
succession planning in enhancing continuity of a
family business?

c) Do family business owners have strategic planning for their
family businesses?
1.3 DELIMITATION OF THE RESEARCH

The study was limited to family businesses that are owned and run by family members. Conflict caused by failure to plan for succession is manifested in these businesses. Family businesses that are entirely run by non-family executives were excluded because there is little or no conflict in this type of governance. This study was done on family businesses that are in the multi-generational involvement phase limited to Buffalo City and King Sabata Dalindyebo municipalities.

1.4 DEFINITION OF TERMS

1.4.1 FAMILY BUSINESS

A review of literature has revealed a long list of elements used by various authors to construct their varying definitions of family business.

The following definition suits the purpose of this study: According to Neubauer and Lank (1998: 6), an enterprise is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family. Neubauer and Lank
(1998: 7) further explain that such a relationship is indicated when one or more of the following conditions exist:

- Family relationship is a factor, amongst others, in determining management succession.
- Wives or sons of present or former company executives are on the board of directors.
- The important institutional values of the firm are identified with a family, either in formal company publications or in the informal traditions of the organisation.
- The actions of a family member reflect on or are thought to reflect on the reputation of the enterprise, regardless of his or her formal connection to management.
- The relatives involved feel obliged to hold the company stock for more than purely financial reasons, especially when losses are involved.
- The position of the family member in the firm influences his standing in the family.
- A family member must come to terms with his or her relationship to the enterprise in determining his or her own career.
1.4.2 SUCCESSION PLANNING

Balshaw (2003: 110) defines succession planning of a family business as everything aimed at ensuring the continuity of business from one generation to the next. It is not an overnight event, but a meaningful, deliberate and thought-out process over a period of time. The planning process should, ideally, be seriously underway by the time the business leader is in his or her late forties and the children in their mid-twenties.

Rosenthal (2002) states that family business succession is “the passing of the leadership baton” from the founder or owner to a successor who will either be a family member or a non–family member; that is a professional manager.

Succession planning has three objectives: to efficiently and fairly distribute assets from older generation to younger generations; to pass control of the business in a way that will ensure effective leadership; and to maintain and promote family harmony (Fischetti, 1997: 5).
1.4.3 FAMILY CREED

The family creed is a confidential family document intended to have persuasive value and provide guidance to the family. It sets out the values, mission, and principles to be observed by the family, particularly with regard to the management and ownership. It is, however, not intended to have a force of law. It is usually developed collectively by the family as the key outcome of a process that focuses on promoting the continuity and growth of the family business, harmony, trust and the financial success for the owning family (Balshaw, 2003: 81).

1.4.4 CONFLICT

Conflict is a process in which one party perceives that its interests are being opposed or negatively affected by another party. Balshaw (2002:16) states that conflict in a family business arises when needs of its owners, or their family, the needs of individuals who manage it (who may not necessarily be family members) and the business itself are not in harmony.

Carlock and Ward (2001: 124) explain that the involvement of two or more generations in owning and managing a business
creates the potential for conflict. There can also be conflicts over personal or business priorities between generations.

1.4.5 FAMILY SYSTEMS

Families have values and goals just as the businesses do. Carlock and Ward (2001: 5) point out that family system is based on the development and support of family members. Families are concerned about emotions, family needs and maintaining stability.

The characteristics of family systems, stated by Balshaw (2001: 31) are:

- Inward–looking;
- Protecting low achievers;
- Averse to change;
- Equality; and
- Wealth preservation.

1.4.6 BUSINESS SYSTEMS

Balshaw (2003: 32) explains that business systems are task based, focusing on business demands and management of time. The emphasis on business systems is maximizing profits
and professionalizing the business. The forecast on this system is strategic planning and significant growth.

1.5 THE IMPORTANCE OF THE RESEARCH

Balshaw (2003) explains that family businesses are the unparallel champions of the world’s economies; in fact they constitute more than eighty percent of all businesses. In many countries they generate more than seventy five percent of new jobs, and employ more than half the work force.

Maas, van der Merwe and Venter (2005) state that the importance of family business among all ethnic groups is increasingly recognised in South Africa. This study will reveal the need to enlighten and educate family business owners (especially the previously disadvantaged group) on how to develop a systematic framework for thinking about the future strategy for their families and businesses. The purpose of this research is to develop a model that can be used to plan for a successful succession that will enhance continuity of family businesses. The study will also create an awareness of the challenges and opportunities that exist in family business. Family members can be trained in ownership rights and
responsibilities – for example, the norm of stewardship and creating wealth for future generations.

1.6 PROGRAMME OF STUDY

The research includes the following chapters:

Chapter 1 : Problem statement and definition of concepts.

Chapter 2 : The effect of balancing family and business systems.

Chapter 3 : Guidelines for succession planning.

Chapter 4 : Designing the empirical survey.

Chapter 5 : Analysis and interpretation of the research findings.

Chapter 6 : Recommendation and conclusion.
CHAPTER 2

THE EFFECT OF BALANCING FAMILY AND BUSINESS SYSTEMS

2.1 INTRODUCTION

Family businesses are socioeconomic organizations, made up of two overlapping subsystems: the family and the business.

Figure 2.1 Subsystems of family business

Source: Carlock & Ward (2001: 7)
Carlock and Ward (2001: 5) state that each of these two circles has its own norms, membership rules, value structures, and organizational structures. Conflict arises because the same individuals have to fulfil obligations in both circles; for example, as parents and as professional managers. In addition, the business itself has to operate according to sound business practices and principles, while at the same time meeting the needs of the family.

According to Gersick et al (1997: 5), finding strategies to balance the family and business systems are the key challenge facing the family businesses. Researchers and consultants use this two-system concept as a basis for their analysis of complex organizational behaviour, strategy, competitiveness and family dynamics.

2.2 THE FAMILY SYSTEM

Balshaw (2003:37) states that, in a social system mode, a family is more than the sum of its parts; it is the interrelationship of its parts (symbiosis). Families are systems of organization whose structure, interaction, and histories provide insight into
the complexities and dynamics of family business management. Families have values and goals just as the business do (Handler, 1989: 34).

Handler (1989:34) uses a cultural framework for considering the patterns of organization in the family business system. He distinguishes three typical cultural patterns:

1) patriarchal (or matriarchal) families, where the father or mother is the dominant authority figure;
2) collaborative families, where the power is shared among family members; and
3) conflicted families, which are characterized by an absence of shared goals and existence of counter dependent relationships.

When these patterns are combined with the existing business cultural pattern and governing board cultural pattern, the result is a corresponding cultural configuration of the family firm.

Sheehy & Flynn (2005: 60) state that the family system is emotion–based with its members bound together by deep emotional ties that can be both positive and negative. These ties are heavily influenced by the subconscious – the need for brothers to be stronger than brothers and fathers to be stronger than sons.
The family system also tends to be inward-looking, placing higher values on long-term loyalty care of family members. In addition, it is a conservative structure operating to minimize change.

Furthermore Balshaw (2003:32) asserts that under this system families express feelings, protect low achievers, recruit family first, pay high dividends, advocate equality, preserve wealth, are risk averse, advocate lifetime membership and family leadership succession.

Carlock and Ward (2001: 5) observes that family members can be either a great strength or a potential weakness for the family business. Ignoring them for whatever their reasons, weakens the business. Family businesses that overemphasize the business system, and consequently diminish attention to the family system, often end up with families that do not relate to each other and psychologically compete with the business.

Kahan (2002: 46) agrees with the above authors by concurring that family businesses, using family system, often have a lower level of expectation for return on investment. These businesses tend to place higher value on creating employment for family
members, having job satisfaction and maintaining the family
type of business at any cost.

According to Kahan (2002: 46) this system is characterized by:

- No job description or appraisal system.
- No employee training programme.
- Employees who are paid and promoted for longevity rather than performance.
- No board of directors or advisors.
- Employment of children or other family members without appropriate qualification.
- Pay systems that can favour relatives.
- Jealousy, lack of motivation and new ideas, and corporate stagnancy.
- No financial accountability.
- Autocratic and decentralized.

When financial problems arise in these types of settings, indicating that something might be wrong and should be reviewed, these can be perceived as disloyal behaviour and threaten family harmony (Kahan 2002: 46).
2.3 BUSINESS SYSTEMS

Business systems take an opposite approach to family system, by focusing outward on external environment and looking for ways to exploit change. According to Balshaw (2003: 31) the business system is characterized by being task-based, unemotional, reward performance, risk-taking, capital reinvestments, best person for the job, best qualified applicant, perform or leave, equality, meritocracy and wealth creation.

The emphasis on business system is maximizing profits and professionalizing the business. The forecast on this system is strategic planning and significant growth. A strategic plan gives everyone a common understanding of where the business is going and how it will get there, because the plan details expected results, target dates, individual responsibilities and required resources. Because we live in a rapidly changing world, a strategic plan allows one to change direction if so required (Balshaw 2003: 31).

Family businesses that put business first tend to be oriented toward the production of goods and services. These businesses place high value on competency and productivity. Decisions are
usually based on the exploration of change in the interests of the growth of the business (Balshaw 2003: 31).

Below is a comparative table of family and business systems

<table>
<thead>
<tr>
<th>Areas of Conflict</th>
<th>Family Systems</th>
<th>Business Systems</th>
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<tr>
<td>Goals</td>
<td>Development and support of family members</td>
<td>Profits, revenues, efficiency, growth</td>
</tr>
<tr>
<td>Relations</td>
<td>Deeply personal, of primary importance</td>
<td>Semi-personal or impersonal, of secondary importance</td>
</tr>
<tr>
<td>Rules</td>
<td>Informal expectations (&quot;That's how we've always done it&quot;)</td>
<td>Written and formal rules with rewards and punishment often spelled out</td>
</tr>
<tr>
<td>Evaluation</td>
<td>Members rewarded for who they are; effort counts; unconditional love and support</td>
<td>Support conditional on performance and results; employees can be promoted or fired</td>
</tr>
<tr>
<td>Succession</td>
<td>Caused by death or divorce</td>
<td>Caused by retirement, promotion, or departure</td>
</tr>
<tr>
<td>Authority</td>
<td>Based on family position or seniority</td>
<td>Based on formal position in the organization’s hierarchy</td>
</tr>
<tr>
<td>Commitment</td>
<td>Intergenerational and lifetime; based on one’s identity with the family</td>
<td>Short term; based on rewards received for employment</td>
</tr>
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Source: Hilburt-Davis (2005).
2.4 CONFLICT

Family businesses are prone to some serious and endemic weaknesses, the most detrimental of which is conflict. In family businesses, conflict can split the family and business and in the process destroy the lifestyle which the business was set up to provide in the first place (Sheehy & Flynn 2005: 62).

Conflict arises when roles assumed in one system intrude on roles in the other, when communication patterns used in one system are used in the other or when there are conflicts of interest between the two systems. A conflict may arise between parent and child, between siblings or between husband and wife when roles assumed in the business system carry over to the family system. (Bork, 1994: 78)

Conflict in family businesses arises from many quarters, including the inward-looking nature of the family, the sense of individualism among family members, lack of tolerance for process, autocratic decision-making, trying to be on top of everything, lack of clear vision and commitment, fear of succession, skewed perceptions and inordinate stress levels (Balshaw, 2003: 32).
Unfortunately many families are never free from the business because it completely dominates every aspect of their lives as the business is run as an extension of the family. It dominates dinner table discussions, family get-togethers, leisure activities, investment decisions, family time and holidays. Conflict, according to Balshaw (2003: 29), manifests itself at the most inopportune times, turning well-intended and meaningful occasions into battlegrounds for confronting family and family business disputes. Essentially, the family is trapped in the overlap of family and business system, not knowing how to enjoy normal family life and the fruits of a successful family business.

Conflict is a natural element of human relationships. Unfortunately, in some families, conflict becomes the regular pattern of interaction. Working together intensifies family interactions and can exacerbate family problems such as sibling rivalry or recurring conflicts which diminishes communication and trust in the family. It becomes difficult for family members to share ideas, discuss issues or make decisions effectively (Carlock & Ward 2001: 4).

Maas et al (2005) points out that several family businesses have been ruined as a result of power struggles and conflict.
The family has a huge responsibility and needs wisdom to diffuse conflict situations in good time.

2.5 CAUSES OF FAMILY BUSINESS CONFLICT

Maas et al (2005) points out that the family business should develop a sound understanding of the causes of conflict. This will enable the family to take preventive action, or to solve existing conflict promptly and effectively.

According to Ohly (2003) some of the causes of conflict are:

- Poor communication between family members, plus historically low levels of trust and a general absence of willing collaboration.
- Lack of information about the financial situation and future prospects for the business and for family members working in and or depending on the business.
- Unclear or unshared vision and goals for the business and the family. Family members working in or relying on the business have no idea what the future may bring for the business, for the family or for themselves.
• Inter and intra–generational conflict arising over the perceived need to make major changes and or to modernize, professionalize or restructure the business.

• Fear. Owners cannot bring themselves to pass over ownership of the business, even though they transferred responsibility for managing it years previously.

• Lack of a workable or any succession plan.

• Unclear roles and responsibilities for family members.

• Unclear and unknown expectations amongst family members.

• Entrenched and unresolved relationship problems between family members.

• Inability to separate business issues from family issues.

• Inability to mobilize the family to support the business and vice versa.

• Lack of people to help resolve conflict between family members.

Balshaw (2003: 32) states that tremendous potential for conflict arises when family members find themselves in the overlap of the family and business system. He further recommends that the setting of appropriate boundaries and the professional running of the family business are important steps towards
being able to manage potential conflicts between family values and goals, and the business's values and goals.

2.6 BALANCING FAMILY SYSTEM AND BUSINESS SYSTEM

Maas et al state that family businesses are unique in the sense that family interests should be aligned with the interests of the business. Families, who equalize family and business systems, create a positive environment where the family thrives and the business performs. Carlock & Ward (2001: 7) state that balanced business and family systems create trust, commitment, business effectiveness, and family harmony.

2.6.1 Trust

McClendon & Kadis (2003: 216) consider trust to be a firm belief in the reliability, truth, or strength of a person or thing. This is applied in two different ways: trust is a phenomenon that has relevance first to the individual, and then interpersonally. Trust, as an individual issue, means “I can rely on myself and my abilities to think clearly and manage my feelings in whatever situation I am facing.” Trust, as interpersonal issue, means “I can rely on someone else to say what they mean and mean what they say; and follow through in caring ways.”
Trust is based on individual experiences with the family or business. A business family creates trust when it works together to plan and solve problem around tough issues. Fairly developing rules and then applying them consistently to all family members builds trust. Each family member knows what to expect from his or her interaction with the family and business (McClendon 2003: 216).

Trust increases a family’s decision-making ability and energy to devote to the company’s present and future activities. With mutual trust present among them, family members are able to focus their individual talents and abilities on the company, confident that information, knowledge, and resources will be utilized and shared for the common good. Families working together in this way can produce interpersonal magic; anything seems to become possible (McClendon & Kadis, 2003: 218).

2.6.2 Commitment

O'Malley (2000) quoted by McClendon & Kadis (2003: 219) explored the components of high commitment, when adapted by family businesses as follows:
• Cohesiveness: Individuals are bounded by common values, goals, and mutual positive regard.
• Pride: Family members feel proud of themselves and their family.
• Mutuality: Family members feel that their interests will be taken into account regardless of their position in management or as a shareholder.
• Fulfilled: Family members feel fulfilled in their jobs, supported in their work, and positively regarded by one another.
• Reward: Family members understand the special benefits that result from being part of the family company.

Balanced family and business systems create the ability for family members to skilfully regulate their emotions and control their behaviours within the stressful and affect-laden workplace.

According to Balshaw (2003: 33), successful families set appropriate boundaries between the two systems so that they can enjoy the benefits of the business as well as the joy of normal family life. These boundaries need to be documented in the Family Creed (to be discussed in the next chapter), which
should be clear, consistent, practical, and have enough flexibility to provide for the unforeseen.

Family members should not treat company monies as if they were their own. The setting of appropriate boundaries and the professional running of the family business are important steps in managing potential conflict (Balshaw 2003: 33).

2.6.3 FAMILY HARMONY

Neubauer and Lank (1998: 136) explains that there is a positive correlation between family harmony and continuity planning. If the family is in harmony, it is much easier to discuss succession and set up appropriate systems for preparing the next generation to take over.

Irving (2005: 33) describes the following as contributory factors to family harmony:

a) Sharing Relationship Power

All family members, no matter what their involvement in the business or how many shares they control are allowed to hold significant and equal relationship influence. Many years of struggles and estrangement, and even many companies themselves, can be saved if family members are given
equivalent relationship power and respected influential places in the family relationship circle, regardless of the circumstances of their business involvement.

b) Respect Individual Differences

Each family member has a distinctive set of innate abilities (determined by biological and developmental factors), as well as different experiences, interests, strengths, and skills.

Each person also has a unique personality. These diversities manifest themselves as differing needs for closeness and independence where the family and the family business are concerned; as different styles in interpersonal relationships; and as different levels of personal investment in the company. Each person in the family needs to be considered as valuable as all the others, and just as capable of bringing a distinctive richness to the family and its business.

In other words, every family business has something of value to gain from every family member; it only needs to be discovered and then encouraged.
c) Contain Conflict
Conflict between people comes naturally because people are different from one another. Conflict can be healthy and supply opportunities for growth and learning or, if allowed to broaden in scope and increase in intensity, can escalate and disable the usual mechanisms of individual and relationship repair – sometimes even beyond the possibility of reconciliation. Families that have harmony recognize conflict early and repair relationships quickly.

d) Stay Active and Involved
The biggest obstacle to reconciliation in family business is non-participation of family members in efforts to reconcile broken relationships. In healthy relationships, people contribute, stay active, and are involved. Family members who are passive, or who refuse to connect, with or participate in problem solving processes should be challenged.

e) Keep the Focus Positive
Excellence in both the personal and business arenas requires the support and acceptance of others and oneself in all endeavours. An affirming environment fosters amazing results.
f) Be Grateful

In every family, showing gratitude is important and appropriate. People who are grateful see the good in every situation. They look for what is going to be right and hold onto the kindness and advantages that have come their way.

Every generation of a successful business treats the next generation of family members with charity and kind-heartedness when they pass along opportunities and wealth. Each new generation that receives the gift of a business and family members to work with benefits from others family members’ actions, courage and foresight. Being grateful is recognizing that someone has deliberately given you something of value just because you are a family member – and you are you. Gratitude keeps individuals, families, and business healthy.

2.7 THE PARALLEL PLANNING PROCESS

To balance family and business systems, Carlock & Ward (2003:12) propose what they call Parallel Planning Process (PPP). The PPP expands on the traditional model of family business planning. The development of a viable business strategy is still the outcome, but it is an outcome shaped by the
concerns of the family. The parallel approach is founded on four premises, which are values, strategic thinking, shared future vision, and formulating plans.

**Figure 2.2 The Parallel Planning Process**

The PPP proposes that family members as well as the management team simultaneously explore the family and business systems. This collaborative process not only yields ideas, but also establishes a shared understanding of the

Source: Carlock & Ward (2001: 17)
family’s business values, goals, strengths, weaknesses, threats, and potential opportunities (Carlock & Ward, 2001: 12).

2.8 THE EFFECT OF PARALLEL PLANNING PROCESS

The goal of the PPP is to identify family and business plans that are mutually supportive of other’s needs and goals. This is accomplished by considering business strategies in the context of both the family and the business expectations. The ultimate goal of the business plan remains the development of strategies that create long-term economic value for the stakeholders (Carlock & Ward 2001: 13).

The PPP uses a series of planning and programming activities that lead the family and management to a business strategy that matches the family and management teams to their mutual commitment to a Shared Future Vision. Based on this shared vision, both systems begin their respective planning activities with the development of the Family Enterprise Continuity Plan and Business Strategy Plan (Carlock & Ward, 2001: 13).

Planning together helps family members and management understand the critical factors for long-term business growth and helps to build long-term family commitment. It also
provides a foundation for coordinating, directing and controlling the activities of the business. These goals have special meaning for a business family concerned about the additional challenges of management and ownership succession while maintaining family relationships.

Adopting the PPP is a chance to address expectations, change and conflict (Carlork & Ward 2001:13).

2.9 CONCLUSION
Based on the literature referred to in this chapter, the researcher has attempted to clarify that conflict, caused by the overlap of family and business systems, is the major cause of failure in family businesses. Bork (1993:105) suggests that one way to define and align family and business goals in order to prevent this conflict is through business strategic planning, which includes succession planning as well as family strategic planning, which includes the family creed.

Succession planning and the family creed are documented in the next chapter.
3.1 INTRODUCTION

Before attempting to develop an integrated process model of succession planning, the researcher believes it is important to investigate what literature reveals with regards to:

- Setting a strategy and planning the process;
- Preparing the family for what will unfold;
- How to prepare the business for the changes to come;
- Using the family council as a communicating platform;
- How to develop potential successors;
- How to transfer ownership and control;
- How a successor takes charge; and
- How the owner can manage to let go.

3.2 SETTING A STRATEGY AND PLANNING THE PROCESS

Fischetti (1997: 5) states that the succession process begins with one of several sound strategies such as:
• Empowering members of the next generation;
• Retaining control until successors are ready to lead; and
• Binding siblings or separating them.

The strategic planning provides a systematic way of asking key business questions and is designed to create insights into the business and the environment in which it operates.

Financial Guide (2005: 7) argues that while there is a time frame within which the transition will occur, the actual amount of time taken for the process is arbitrary. Succession planning is a process rather than an event.

3.3 PREPARING THE FAMILY FOR WHAT WILL HAPPEN

An issue that is critical to all members of the family business is what will happen to the business after the departure of the founder. According to Resnick (2005: 27), the succession issue should be addressed seven to ten years before the owner expects to retire, and it should be discussed well before then. This provides enough time to work with the family members who are active in the business in order to bring about a smooth transition.
If the children have committed themselves to a career in the business, the founder has a moral obligation to share his intentions with them. Fischetti (1997: 27) states that succession planning can dramatically upset the equilibrium. It affects not just the departing leaders but the entire extended family. Silent hopes, masked expectations, and unresolved difficulties suddenly burst forth, seemingly from nowhere.

Preparing family members for succession begins with an understanding of the psychological issues that prevail during different stages of each person’s life. Once these are exposed, the family needs a vehicle for sustaining communication; the family council is the best forum for this purpose. Family tensions can also be reduced by creating ways for relatives to join the company, leave it, and retain or cash out their shares. One case of discord is potentially the most disastrous of all when multiple successors can’t get along. In this case, Fischetti (1997: 33) suggests that splitting the business may be the best way to maintain family unity.

Everyone in the family must have a common direction, know where they want to be in future, understand each other and be encouraged to provide their own thoughts. Rosenthal (2005) states that effective succession planning requires realistic
introspection, hard (often emotional) choices, foresight, accurate assessment of the character and judgment of others, acceptance, accurate assessment of business prospects, trust, patience, compromise and persistence. Owners, would-be-owners, key employees and family members must demonstrate these qualities. In addition, the constituents must invest time, energy and financial resources in the process.

According to Rosenthal (2005), an attorney with sufficient training, expertise, and experience is essential. The succession attorney should have experience in resolving disputes between business owners. Actual experience with dispute situations is crucial to a full understanding of it and is the key to addressing it in a timely and effective manner. The attorney must be able to identify and overcome conflicts of interest that, undoubtedly, will arise in the succession planning process.

3.4 PREPARING THE BUSINESS FOR CHANGE

Succession affects everyone associated with the business: its leaders, managers, employees, suppliers, and customers. They become nervous and sometimes decide to leave before anything happens.
Their confidence can be retained by explaining the succession process, being clear about who will take over and when, and explaining the business objectives, policies, and management accountability that will prevail in the future. Aronoff & Ward (1994: 72) explain that strategies that incorporate family and business goals, produce powerful results during generational transition. Yoswick (2004: 70) suggests that the founder should get the business to a place where it can function without him or her. Fischetti (1997:38) argues that developing a human resources plan that takes into account potential successors, ensures some turnover at the top, encourages early retirement, and provides outplacement.

Creating business values and traditions that make a company relevant to society needs will inspire the individual stakeholders to work and make the sacrifices necessary to sustain a business during transition period. The most important key is getting these plans written down. Making the business appealing has to be part of succession plan (Yoswick, 2004: 70).

Family business leaders are required to create a culture of change, which anticipates the needs of the future. There are some things that need not to be changed, things that define the
purpose of the organization and give it direction. The company must develop policy statements that show how the organization’s values and beliefs have been incorporated into the governance of the company before the founder’s departure (Fischetti, 1997:40).

Rosenthal (2005) states that company accountants should be engaged in the process as they have an existing relationship of trust and confidence with owners, key employees and family members. They know the players, the business situation, interpersonal histories, and future plans for the company. They will be called upon to deal with business valuation issues and projections, and are usually involved in implementing the selected succession plan.

3.5 USING THE FAMILY COUNCIL AS A COMMUNICATION PLATFORM

According to Katz (2005: 12), several issues are critical in the ongoing success of a family business – among them leadership, management, and compensation. A family council and family creed serve as a guide to assist families in answering questions regarding disputes that can arise over issues such as how a successor will be determined and the
treatment of non-family employees versus family employees.

As part of the council, which consists of those family members with a vested interest in the family business, all family members, whether involved in the business or not need to meet on a regular basis.

This process, in its early stages, is highly delicate and requires an experienced facilitator who can ensure that no one dominates the meeting or is left unheard. A neutral facilitator sees that the lines of communication are open to provide a better understanding of who each family member is as an individual (Katz 2005: 14).

It is important to establish a written family creed which provides the framework for outlining the basic values and beliefs of the family as they relate to the business, the family business succession plan, strategies and policies, hiring decisions within and outside the family and issues such as the charitable company giving (Katz 2005: 14)

A family creed, established in advance, will greatly assist the continued growth of the family business and serve as a critical component of the corporate compensation strategy.
A family creed is a process whereby the older and the next generations dialogue central issues and decide how critical decisions will be resolved and what will be the relationship of different bodies such as the board of directors, family council and family shareholders (Katz, 2005: 16)

Financial Guide (2005) states that the entire family should develop a mission statement or creed that defines why it is committed to the business. By sharing priorities, strengths and weaknesses, and the contribution each member can make to the business, the family will begin to create a unified vision of the firm. This vision includes personal goals and career objectives.

An important issue to consider as explained by Financial Guide (2005) is how to set priorities for the family and the business, that is, decide which will come first, the family or the business. How this question is answered will influence further planning. Some family members will opt for the family first, reasoning that, without a business, there will be no financial security for the family. Others will opt for the family first, reasoning that no business is worth the loss of family harmony.
A third alternative is to serve both family and business, perhaps not equally, but as fairly as possible. Under this alternative, all decisions are made to satisfy both family and business objectives. For example, a family may have a policy that any family member may join the business, but he or she must meet the requirements of the job. This is considered as the best alternative because it forces a commitment to both the family and the business (Financial Guide 2005).

3.6 HOW TO DEVELOP POTENTIAL SUCCESSORS

Smith (2005: 16) explains that the start to succession planning is one that will usually start with a list of candidates; this is a good starting point.

Fischetti (1997: 50) says that a business can be preserved if there are competent and motivated successors. Children who have grown up with an understanding of family business have the best chance to learn how to make it their own when mentored by their parents or company managers. For parental mentoring to be effective, the process must be upfront agreement between the successors. The agreement should outline the specific jobs and competencies that need to be mastered at each stage before the mentee moves on to the
next stage. Successors must be assigned real jobs that generate reliable performance data. To be evaluated effectively, the successor should be given responsibility and authority. Financial Guide (2005) agrees with Fischetti (1997: 50) by explaining that the job description should include the requirements for the position such as skills, experience, and possible personality attributes. For example, if a firm plans to pursue growth in the next five years, the potential successor would be required to have a thorough understanding of business valuations and financial statements, the ability to negotiate and develop a good relationship with financial institutions. Designing such job descriptions provides a number of benefits. First, it removes the emotional aspect from successor selection. If necessary, the successor can acquire any special training the job description outlines. Second, it provides the business with a set of future goals and objectives that have been developed by the whole family. Finally, the founder may feel more comfortable knowing objectives are in place that will ensure a growing, healthy business.

Fischetti (1997: 45) argues that the most important quality for developing a successor is an innate understanding of the company philosophy.
Ward (1987: 209) argues that successors can encourage their development by taking responsibility for their own growth and designing personal development programmes that will inculcate the proper skills.

These programmes include:

- **Complementing the parent’s capabilities**

  Successors should learn to be strong where the parent is weak, for example, to learn formal business skills, emphasize technology, exploring the markets for clues to future growth and profit, run a profit centre, set goals with outside review, continue with professional studies and finding support groups.

- **Respect for the corporate culture**

  Successors must spend time learning to appreciate their company’s past business, since that will have a critical effect on their ability to bring about change. Trying to change the way things are done overnight might be destructive of the success that the company has already achieved. Successors should understand both the past and the present. This requires a systematic study of the company’s history, strategy, creed and values. These are the building blocks of corporate culture, the ideas that underlie the daily actions and attitudes of every employee in the company.
Below is a table explaining how to develop a successor.

<table>
<thead>
<tr>
<th>Skills</th>
<th>Tips/Tools: Family</th>
<th>Tips/Tools: Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible &amp; Accountable</td>
<td>Don't have all the answers; provide situations that require hard decisions. Help them to do the right thing and, when they don't, 'own up to it' and learn from it.</td>
<td>Have an employment plan for the next generation. Don't interfere with their decisions. Encourage appropriate risk-taking.</td>
</tr>
<tr>
<td>Visionary</td>
<td>Help them dream; inspire them; listen; articulate your own dreams. Provide a variety of experiences.</td>
<td>On a regular basis, family members in the business should articulate goals and vision for the future.</td>
</tr>
<tr>
<td>Caring about others and achieving goals; passionate</td>
<td>Teach them to care; nurture talents and choices; build self-confidence.</td>
<td>Encourage each of the next generation to 'pursue their dreams', inside or outside the family business.</td>
</tr>
<tr>
<td>Seeing the humour in situations</td>
<td>Laugh, celebrate. Expose to arts and music.</td>
<td>Create rituals for celebration and fun.</td>
</tr>
<tr>
<td>Self-discipline</td>
<td>Set appropriate limits; expect responsibility and accountability at every age; teach patience. Have age appropriate allowance and teach good money habits.</td>
<td>Each job should have a formal, written job description and regular performance reviews, for the family and non-family members.</td>
</tr>
<tr>
<td>People skills</td>
<td>Teach reading emotional clues in others and identify own emotions/feelings; give accurate and honest feedback regarding how they come across to others; discuss social situations; expose to literature and the arts.</td>
<td>Choose a non-family mentor for next generation who can give honest feedback. Develop human resources; pay attention to care of the employees.</td>
</tr>
</tbody>
</table>
| Combination of intuition and analytic competencies | Teach problem-solving and decision-making; help them follow through on hunches, learn to pay attention to 'gut feelings', play 'what if' scenarios, games and travel. See patterns and relationships in people and things. | Practice ‘what if’ scenarios at work. Challenge opinion: ‘What would you do in this situation?’ 
Create a task force, looking at trends, patterns which will affect company's future. |
| Ethical behaviour | Teach respect, accountability, honesty, forthrightness, charity and humility. Family discussions regarding the right decision, the 'greater good'; foster spiritual development. Develop the ability to trust and be trustworthy. | Encourage and be an example for honesty and ethical behaviour. Create a board with independent directors; address mistakes early and openly. Trustworthy and honest. |

Source: Hilburt-Davis (2005)
3.7 HOW TO TRANSFER OWNERSHIP AND CONTROL

According to the Financial Guide (2005), the actual transfer of control to the successor occurs when the owner retires. Transitions are smoothest when:

- It is timely.
- It is final and do not include the entrepreneur’s participation in daily activities.
- The entrepreneur is publicly committed to an orderly succession plan.
- The entrepreneur has articulated and supervised the formulation of company principles.

The transition can be effected gradually by relinquishing more and more responsibility to the successors and taking a number of planned absences before actually relinquishing control. This will let the successor see what it is like to manage the business alone. It will also show the entrepreneur that the business is not going to fall apart when he or she is gone (Financial Guide, 2005).

Leob (2001) emphasizes that for a successful transfer to occur, planning needs to take place over a period of years before the
assets are passed on. The succession plan goal includes, amongst others, the passing of control of the business in a way that ensures effective business leadership and support family harmony.

Protection of the current owner’s personal financial security is a key to a complete succession plan. Fischetti (1997: 85) states that the owner needs to protect his or her retirement income as he or she transfers ownership by making certain provisions in the transfer agreement (legal guarantees, payouts requirements, financial restrictions on the next generation and other measures) that will provide him or her with the money he or she needs, without overly restricting the successors.

Fischetti (1997: 93) explains that buyouts are often used to concentrate shares in the successor’s hands. This reduces the number of shareholders and potential dissidents. The older generation should transfer at least 30 percent of their ownership. This recognizes the substantial importance of the next generation. This has important implications for bankers, suppliers and customers. It is advisable to give voting control to the next generation members who are running the business and give non-voting shares to passive members. Transferring shares to family members who are not involved in the business
is risky. Invariably, they will question basic decisions by successors who will run the company. The best thing to do is to concentrate control in the hands of a few and use a variety of vehicles to reward other family members.

3.7.1 Tools for transferring ownership

Fischetti (1997: 89) states that there is a range of tools for passing ownership. These tools provide for successors and protect the owner’s financial security in retirement. These are:

- Gifts

The owner can give successors gifts every year until the market value of the business is covered.

- Grantor Retained Annuity Trust

Shares are gifted to a trust and the grantors (the parents) receive an income from the trust for a specified term, say, ten years. At the end of the term, shares and any appreciation pass to the successors.

- Instalment buyouts
These are simply purchases of business shares by successors. They can get a loan to buy them.

- Covenant not to compete

This is an agreement that the retiring owner will not open up shop somewhere else and compete with the successor. For this promise, the retiree is usually paid an annual amount for two or three years. The payments are tax deductible for the company.

- Deferred compensation plan

Prior to retiring, the owner can begin a deferred compensation plan. It enables him or her to receive annual payments from the business. The payments are tax deductible for the company, and because they are considered retirement benefits, payroll taxes do not have to be withheld. A survivor benefit can be added so that payments would continue to a benefactor.
3.8 HOW A SUCCESSOR TAKES CHARGE

Fischetti (1997: 101) argues that there is no better way to learn how to take charge than to study how others have done it. Being a leader means allocating resources in ways that will inevitably displease some who do not get all that they want. It means hiring and firing employees, and disciplining those whose performance or behaviour falls short of the leader's expectations. It means having the power to set direction of the business even when other strong leaders are fiercely opposed. It means outsmarting competitors who may use every stratagem – ethical or otherwise – to seize the firm's customers and market. In every organization, leaders are the lighting rods for emotional dynamics of its members; this is especially so in family companies in which the top managers may have deep-rooted rivalries. According to Financial Guide (2005) it is impossible to hold a position of leadership without sooner or later evoking the envy and wrath of those whose lives are affected by the leader's decision. Successors who are driven by the need to please and be liked by all will invariably fail.

Fischetti (1997: 102) explains that it is essential for successors to demonstrate their ability through unambiguous performance at real jobs. Only through a track record of tangible, measurable
achievement – ideally both outside and inside the family company – do they acquire the right to lead the family business.

A board of trustees can provide the kind of knowledge a successor needs to make changes that are necessary.

According to Fischetti (1997: 102) the leader establishes authority by setting an agenda, maintaining boundaries, and providing incentives for good performance and penalties for failure. Every family must strive to bridge the generation gap between the founder and the successor, to make the family whole. The survival of the business may depend on the family.

3.9 HOW THE OWNER CAN LET GO

Lutz (2003: 1) mentions that many studies have shown that it is very difficult for a senior generation of a closely held family business to relinquish ownership and control to a new generation. There is no “ideal” transition for the family business from one generation to another, but it does seem there are some common elements practiced by those firms that do it successfully. One of these common traits is that the senior generation member or members are able to create a
meaningful second career for themselves. They are able to find a new challenge and pursue a new dream with plenty of passion.

Thornton (2005: 5) says, in the end, the best role for the senior generation is to act as consultants to the successors; providing advice and counsel only when asked. Another solid contribution is as cultural ombudsman whose responsibilities are defined by the board of directors. Gracefully letting go is the final and true test of an owner's leadership.

According to Financial Guide (2005), the entrepreneur who successfully lets go has:

- A solid financial plan for retirement.
- Activities outside the business that provide social contact and power.
- Confidence in the successor, and
- A willingness to listen to outside advisors.
Figure 3.1 The Succession Planning Model

SET STRATEGY & PLAN THE PROCESS

PREPARE THE FAMILY FOR WHAT WILL UNFOLD
- FAMILY COUNCIL
- FAMILY CREED

PREPARE THE BUSINESS FOR WHAT WILL HAPPEN
- VALUES & BELIEFS
- TRADITIONS
- CULTURE OF CHANGE

DEVELOP A POTENTIAL SUCCESSOR
- SELECTION
- TRAINING & MENTORING
- TAKING RESPONSIBILITY

TRANSFER OF OWNERSHIP
- FINANCIAL SECURITY
- WEALTH DISTRIBUTION

SUCCESSOR TAKES CHARGE

OWNER CAN LET GO.
The researcher has developed the succession planning model from the literature review.

3.10 EXPLANATION OF THE MODEL

The model in figure 3.1 is a multi-step process. The first step is to set a strategy and plan the process. The second step is to prepare the family and the business for the changes to come. This step focuses on a common vision and shared values. The third step involves training and mentoring of a potential successor. The fourth step is to consider the financial security of the retiring owner as well as wealth distribution. The fifth step evaluates how the successor takes charge. The sixth step suggests how the owner can manage to let go.

3.11 CONCLUSION

In this chapter, the researcher has developed a process model for succession. It is recognized that no two family businesses are alike and therefore there is no grand theory for succession. However, developing plans, based on core values, shared visions, fair process, long-term thinking and commitment to family and business are best practices that will enhance success and continuity of a family business.
In the next chapter, the research methodology used in the research project is covered. The development of the questionnaire, testing the validity of the researcher’s process model of succession, is also included in the chapter.
CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

In order to achieve the results needed to solve the main problem highlighted in chapter one, a questionnaire was developed comprising all relevant indicators identified by the literature review. This questionnaire was sent by fax and e-mail to the family businesses described in chapter one.

4.2 RESEARCH METHODOLOGY

Welman & Kruger (2001: 2) define research as the process in which scientific methods are used to expand knowledge in a particular field of study. The design of the research is a key element in its success. Kinnear & Taylor (1979: 123) explain that a research design is the basic plan which guides the data collection and analysis phases of the research project.

Leedy (2001: 101) states that qualitative research is typically used to answer questions about the complex nature of
phenomena, often with the purpose of describing and understanding the phenomena.

The research design adopted in this study consisted of firstly, identifying the main problem needing to be resolved and secondly, breaking this down into three sub-problems mentioned above. The main problem is to identify the effectiveness of succession planning in enhancing continuity of family businesses. The sub-problems are:

- What effect does balancing family and business systems have in enhancing continuity of family businesses?
- What does literature reveal about the effectiveness of succession planning in enhancing continuity of a family business?
- Do family business owners have strategic planning for their businesses?

The process followed to solve the main problem and sub-problem was as follows:

Chapter two includes a critical analysis of family and business systems. Chapter three covers the guidelines for the development of a model for succession planning. The information obtained in the literature study was used to develop the survey questionnaire. The
questionnaire was then sent to multi-generational family businesses in the Eastern Cape who are in the funeral industry. The questionnaire was distributed by means of fax and e-mail.

4.3 DEVELOPING THE QUESTIONNAIRE

According to Leedy (2001: 202) questionnaires seem so simply, yet they can be tricky to construct and administer, and one false step can lead to uninterpretable data. Planning is therefore essential in ensuring that the data collected can be objectively analysed. Saunders, Lewis and Thornhill (1997: 254) stress that the validity and reliability of the data collected and the response rate achieved largely depend on the design of the questions, the structure of the questionnaire and the effectiveness of the pilot study.

Leedy (2001: 202) further suggests the following guidelines for constructing an effective questionnaire:

- Keep it short.
- Use simply, clear unambiguous language.
- Check for unwarranted assumptions implicit in questions.
- Word questions in ways that do not give clues about preferred or more desirable responses.
- Check for consistency.
- Determine in advance how the responses will be coded.
- Keep respondent’s task simple.
- Provide clear instructions.
- Give a rationale for any items whose purpose may be unclear.
- Conduct a pilot test.
- Scrutinise the almost-final product carefully to make sure it addresses the needs.

In constructing the questionnaire for this study, the above guidelines were taken into consideration.

The choice of individual questions is determined by the data needed and can be developed by the researcher, or adapted from other questionnaires. Welman and Kruger (1997: 172) advise the researcher to choose carefully between open-ended and close-ended questions, since the advantages ascribed to each type can be seen as disadvantages, depending on the situation.

In designing the questionnaires for this research (see Appendix A), some new questions were formulated, while others were
adopted from the questionnaire used by Leob (2001) and Katz (2005).

Section A is dedicated to biographical information, while succession planning factors are targeted in Section B and transition in Section C. The content of the questions in Section B and Section C are based on the literature review discussed in chapter two and chapter three.

For this research, an open-ended questionnaire was chosen because of the sensitive nature of information needed and fear of not getting responses. De Vries (1996: 4) explains that privately owned companies are not always easy to study and many family enterprises are quite secretive, jealously guarding their privacy and wary of communicating with outsiders.

Questions in this study include a list of responses from which the respondent can choose the relevant response. These were mainly used to ascertain whether there is a succession planning in place and also to check if the transition is to be successful, peaceful, and effective in order to sustain continuity of the business.
According to Leedy (2001: 197) rating questions are often used to collect data about attitudes, beliefs or opinions and consist of a scale with a sequence of defined numbers. A five-point rating scale was used to determine the respondents’ opinions regarding preparation of and passing the family business to the next generation.

4.4 COVER LETTER

Leedy (1997: 194, 196) stresses the importance of a well-structured and courteous cover letter. The letter should persuade the respondent to complete the questionnaire, but remain tactful and respectful to build and maintain good interpersonal relations. The same is relevant for any reminders to be sent out if a reply is not received by the due date.

Saunders et al (1997: 267) has shown that the message contained in the covering letter will affect the response rate. Apart from the salutation, details of the researcher and the process to be followed, they recommend that the cover letter should include the following four messages:

- The content, purpose and importance of the research;
• The respondent’s importance to the study and the time it will take to complete the questionnaire;
• Promises of confidentiality and anonymity;
• Information about how the results will be used.

A covering letter was formulated on the basis of this structure and accompanied the questionnaire

4.5 ADMINISTERING OF THE QUESTIONNAIRE

The covering letter and questionnaires were emailed and faxed to the targeted potential respondents on 17 October 2005. Respondents were requested to complete and return the questionnaire by electronic mail or fax within a week of receiving. Where completed questionnaires had not been received by due date, follow-up email messages were sent to encourage respondents to complete questionnaires. The final cut off date was 7 November 2005.

In this study, the researcher has used a cluster sampling method to choose a sample. Welman and Kruger (2002: 60) state that in large-scale surveys, it is difficult, if not impossible; to obtain all the members of the population as is required for drawing random or
more systematic samples. In the case of cluster sampling, the researcher draws pre-existing, heterogeneous groups, called clusters, and all the members of the selected clusters (or a simple random or a stratified random of them) are the eventual sample.

In total, 50 questionnaires were sent to potential respondents, mostly by fax. By the closing date, 35 questionnaires were returned, which represented a response rate of 80%.

4.6 CONCLUSION

In this chapter, the researcher has provided a review of the methodology of the research conducted. In the following chapter, an analysis and interpretation of the research findings will be conducted.
CHAPTER 5
RESULTS OF THE EMPIRICAL SURVEY

5.1 INTRODUCTION

Chapter four described the research methodology used in this study. The empirical study was conducted in order to investigate what guidelines should family business owners follow, in order to ensure that their successful succession planning enhances continuity of the business and to evaluate the validity of the process model of succession planning developed by the researcher in chapter four. In this chapter, the results of the empirical study are analysed and interpreted.

A summary of the responses received from the respondents to the questionnaire are arranged in tabular form and are presented in the same sequence as the questions in the survey questionnaire. After each section, the results are discussed.

The data are analysed and interpreted in terms of the questionnaire:

Section A – Biographical information
Section B – Succession planning factors
Section C – Transition
5.2 ANALYSIS AND INTERPRETATION OF BIOGRAPHICAL INFORMATION

- Gender

Table 5.1 illustrates the division of the gender of the questionnaire respondents.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number of responses</th>
<th>% of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>20</td>
<td>57</td>
</tr>
<tr>
<td>Female</td>
<td>15</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey Questionnaire: Section A

Table 5.1 indicates that the gender of the respondents is fairly balanced namely 43% female and 57% male. The researcher believes this is advantageous to her study, as gender bias is reduced.
• Race

This question evaluates the number of family businesses owned by the previously advantaged group (Blacks, Indians & Coloureds).

Table 5.2   Responses according to race

<table>
<thead>
<tr>
<th>Race</th>
<th>Number of responses</th>
<th>% of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Coloured</td>
<td>10</td>
<td>29</td>
</tr>
<tr>
<td>Black</td>
<td>20</td>
<td>57</td>
</tr>
<tr>
<td>White</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey questionnaire: Section A

Table 5.2 illustrates that 86% of the respondents fall under the “previously disadvantaged group”.

64
• Qualification

This question evaluates the level of qualification of the respondents.

Table 5.3  Respondents according to qualification

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Number of responses</th>
<th>% of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Certificate</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Diploma</td>
<td>20</td>
<td>57</td>
</tr>
<tr>
<td>Degree</td>
<td>10</td>
<td>29</td>
</tr>
<tr>
<td>Honours</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Masters</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Doctorate</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Questionnaire: Section A

Table 5.3 illustrates that 14% of the respondents do not have a tertiary qualification. Fifty seven percent have diploma qualification and 29% have degree qualification. This indicates that family business owners are in general educated.
Family Business Age

Table 5.4 Responses according to age of the family business

<table>
<thead>
<tr>
<th>Age of family business</th>
<th>Number of Responses</th>
<th>% of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 10 years</td>
<td>10</td>
<td>29</td>
</tr>
<tr>
<td>10 – 20 years</td>
<td>18</td>
<td>48</td>
</tr>
<tr>
<td>+20 years</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey Questionnaire: Section A

Table 5.4 indicates that the majority of the respondents (77%) have been in their family businesses for 20 years and less.
• Founder’s Age

Table 5.5  Responses according to founder’s age

<table>
<thead>
<tr>
<th>Founder’s age</th>
<th>Number of responses</th>
<th>% of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>40 - 50</td>
<td>10</td>
<td>29</td>
</tr>
<tr>
<td>51 - 60</td>
<td>15</td>
<td>42</td>
</tr>
<tr>
<td>+61</td>
<td>10</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey Questionnaire: Section A

Table 5.5 indicates that there are more family business owners in the 51-to-60 year old age category (42%), an equal number in the 40-to-50 year old and over 61-year old categories (29%). This may influence the process of succession planning being implemented in order to enhance continuity of the businesses.

After outlining the results in section A of the questionnaire, as illustrated in tables 5.1 to 5.5, the researcher concludes that the respondents involved in the survey cover a fair representation of family businesses.
5.3 ANALYSIS AND INTERPRETATION OF THE RESPONSES TO SUCESSION PLANNING FACTORS

The purpose of this section is to evaluate the importance of strategic planning in succession planning.

Table 5.6 Responses to statements regarding strategy and planning.

<table>
<thead>
<tr>
<th>STRATEGY AND PLANNING</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Not sure</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family members really want to work in the family business.</td>
<td>0%</td>
<td>13%</td>
<td>5%</td>
<td>67%</td>
<td>15%</td>
</tr>
<tr>
<td>There is a need to have a clear short and long term written business plan.</td>
<td>0%</td>
<td>0%</td>
<td>11%</td>
<td>19%</td>
<td>70%</td>
</tr>
<tr>
<td>I have a written succession plan.</td>
<td>0%</td>
<td>80%</td>
<td>0%</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>I have a written family business creed/constitution.</td>
<td>0%</td>
<td>74%</td>
<td>0%</td>
<td>19%</td>
<td>7%</td>
</tr>
<tr>
<td>I have addressed ownership of the business.</td>
<td>0%</td>
<td>78%</td>
<td>6%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>I have addressed shareholding rights.</td>
<td>0%</td>
<td>66%</td>
<td>7%</td>
<td>18%</td>
<td>9%</td>
</tr>
<tr>
<td>I have addressed rules and regulations of the business.</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
<td>39%</td>
<td>58%</td>
</tr>
<tr>
<td>I have addressed employment and remuneration policies.</td>
<td>0%</td>
<td>91%</td>
<td>0%</td>
<td>9%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Survey Questionnaire: Section B
Table 5.6 depicts a strong response (82%) to the statement that family members really want to work in the family business, which is similar to the response (89%) received for the statement that there is a need to have a clear short and long term written business plan.

This substantiates Maas’ (2003: 181) observation that joining the family business is one route to entrepreneurship.

From table 5.6, it is evident that the majority of respondents do not have written succession plans and family creeds.

Table 5.6 shows that 84% respondents have not addressed ownership, which is similar to the response (73%) received for not addressing shareholding rights. The failure to face and plan for succession is an all-too-common problem (Financial Guide, 2005).

An overwhelming majority of respondents (91%) do not have employment and remuneration policies. This is a characteristic of the emotion-based family system explained by Carlock and Ward (2001: 5) and Balshaw (2003: 32).
Table 5.7 Responses to statements regarding the preparation for succession

<table>
<thead>
<tr>
<th>PREPARATION</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Not sure</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family members are aware of my succession plan.</td>
<td>9%</td>
<td>42%</td>
<td>0%</td>
<td>49%</td>
<td>0%</td>
</tr>
<tr>
<td>I have advised my staff of my succession plan.</td>
<td>0%</td>
<td>59%</td>
<td>0%</td>
<td>35%</td>
<td>6%</td>
</tr>
<tr>
<td>I have advised my important customers, creditors and suppliers of my succession plan.</td>
<td>0%</td>
<td>29%</td>
<td>0%</td>
<td>71%</td>
<td>0%</td>
</tr>
<tr>
<td>I am working with my children in the business.</td>
<td>0%</td>
<td>13%</td>
<td>0%</td>
<td>75%</td>
<td>12%</td>
</tr>
<tr>
<td>I have identified my successor.</td>
<td>0%</td>
<td>41%</td>
<td>2%</td>
<td>57%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Survey Questionnaire: Section B

Table 5.7 illustrates that 49% of respondents have made their family members aware of their succession planning, which is similar to the 41% of respondents who have advised their staff members. Fifty one percent of respondents have not made their family members aware of their succession planning, which is similar to the 59% of respondents who have not informed their staff members.

In table 5.7, the results specify that the majority of respondents (71%) have advised their important customers, creditors and
suppliers of their succession planning. This could be caused by the
desire of the owner to see his business continue even if he or she is
no longer there.

In table 5.7, the results specify that a majority of 87% of the
respondents are working with their children in the family business.
This result was expected, as the sample was chosen in a population
of family businesses who are in the multi-generation phase.

The respondents are a little ambivalent with regards to identifying the
successor. Forty three percent and 57% of the respondents have
either identified the successor or are not sure and have not identified
the successor respectively, which indicates that respondents are not
aware of the importance of succession planning.
Table 5.8 Responses to statements on development of a successor

<table>
<thead>
<tr>
<th></th>
<th><strong>DEVELOPMENT</strong></th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Not sure</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>There is a minimum education level or skill required to become a successor.</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
<td>91%</td>
<td>6%</td>
</tr>
<tr>
<td>15</td>
<td>A training programme to ensure that the successor will be competent has to be designed.</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>16</td>
<td>A mentor should be selected for a successor.</td>
<td>0%</td>
<td>38%</td>
<td>19%</td>
<td>43%</td>
<td>0%</td>
</tr>
<tr>
<td>17</td>
<td>A successor should work at different divisions.</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>18</td>
<td>The successor’s performance should be measured.</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>91%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Survey Questionnaire: Section B

Table 5.8 depicts a strong response (97%) to the statement that there is a minimum education level or skill required to become a successor, which is similar to the response (100%) received for the statement that a training programme has to be designed to ensure that the successor will be competent. This substantiates Fischetti’s (1997: 62) opinion of developing a successor.

The respondents were divided with regards to selecting a mentor for a successor. Nineteen percent and 38% of the respondents are
either unsure or disagree with the statement that a mentor should be selected for a successor. This indicates that the respondents do not agree with Fischetti (1997: 63).

Table 5.8 indicates that all of the respondents agree or strongly agree that the successor should work at different divisions, which is similar to the response (100%) received for the statement that the successor’s performance should be measured.

Responses to the statements on strategy and planning section indicate that the respondents do not have strategic plans for their family businesses.

The researcher believes that results received from statements on preparation and development of a successor are advantageous to the study, as these responses include opinions of the family business owners.
5.4 ANALYSIS AND INTERPRETATION OF THE RESPONSES TO TRANSITIONAL FACTORS

The purpose of this section is to evaluate the viability of succession planning.

Table 5.9 Responses to the statements regarding transferring ownership and control

<table>
<thead>
<tr>
<th>VIABILITY</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Not sure</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  The successor generation is capable of leading the business.</td>
<td>0%</td>
<td>14%</td>
<td>0%</td>
<td>51%</td>
<td>35%</td>
</tr>
<tr>
<td>2  It is financially feasible to keep the business.</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>3  The senior generation is financially independent from the business.</td>
<td>0%</td>
<td>19%</td>
<td>8%</td>
<td>73%</td>
<td>0%</td>
</tr>
<tr>
<td>4  A contingency plan in the event of death, disability, or failure of a successor is in place.</td>
<td>0%</td>
<td>12%</td>
<td>0%</td>
<td>87%</td>
<td>1%</td>
</tr>
<tr>
<td>5  The transfer can be a friendly transaction.</td>
<td>0%</td>
<td>0%</td>
<td>29%</td>
<td>54%</td>
<td>17%</td>
</tr>
<tr>
<td>6  Ownership and control should be transferred equally to all the children.</td>
<td>0%</td>
<td>41%</td>
<td>11%</td>
<td>48%</td>
<td>0%</td>
</tr>
<tr>
<td>7  A successor will have most shares and control.</td>
<td>0%</td>
<td>48%</td>
<td>11%</td>
<td>41%</td>
<td>0%</td>
</tr>
</tbody>
</table>
There will be a compensation policy for non–working children.

| 0% | 39% | 0% | 57% | 4% |

Source: Survey Questionnaire: Section C

Table 5.9 depicts a strong response (86%) to the statement that the successor generation is capable of leading the business. This substantiates Feinstein’s (1994: 13) Family Employment Policy that family members must meet the same criteria for hire or fire as non-family members.

All respondents agree (83%) or strongly agree (17%) that the family business should be financially sustaining if it is to be alive and if it is to be passed on to the next generation.

From the table 5.9, it is evident that the majority of the respondents agree that the senior generation should be financially independent from the business.

Respondents agree (77%) or strongly agree (1%) to the statement that a contingency plan, in the event of death, disability, or failure of a successor should be in place. This supports Fichetti’s (1997: 77) opinion that the business has a better chance for survival if it has put in place a contingency plan (in case of sudden death of the key family leader) for choosing a non-family leader, and measures that will help him or her succeed.

Table 5.9 depicts a strong response to the statement that the transfer of ownership and control can be a friendly transaction,
which indicates that respondents understand the importance of strategic planning for succession.

5.5 CONCLUSION

Respondents were a little ambivalent with regards to equal transfer of ownership and control among all the children, which indicates that they do not entirely agree with Fishetti’s (1997: 88) philosophy that transferring shares to family members who are not involved in the business is risky. This response is similar to the response received for the statement that a successor will have most shares and control.
CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

The first and second sub-problems have been discussed in the previous chapters of the research paper. The main problem of the study, namely "What guidelines should a family business owner follow to ensure successful succession that will enhance continuity of the family business" is highlighted in chapter five. In this final chapter, the researcher will draw conclusions from the results obtained in the empirical study. The difficulties and limitations experienced during this research period will be discussed. Finally, the researcher will present recommendations for guidelines that could be used for succession planning by the family business owners.

6.2 LITERATURE STUDY

The first sub-problem that this study attempts to address is an investigation of what effect balancing family and business systems has in enhancing continuity of family business. A comprehensive literature study was conducted which included the advantages of
balancing these systems and the disadvantages of over emphasizing of one system over the other.

The second sub-problem that this study attempts to address is an investigation of what does the literature reveal about the effectiveness of succession planning in enhancing continuity of a family business.

The findings of the literature survey were discussed in chapters two and three. Based on this research, the researcher developed a process model for succession that will enhance continuity of the family businesses.

6.3 EMPIRICAL STUDY

The empirical study was conducted in order to test the validity of the model developed by the researcher from the literature study. The empirical study was also conducted to address the third sub-problem, namely, do family business owners have strategic planning for succession in their family businesses. A questionnaire survey was undertaken on selected family business owners whose businesses are in the multi-generational phase.
The results of the survey questionnaire indicate that the majority of the respondents agree with the literature study's findings in terms of important factors that need to be considered in succession planning, namely, strategy and planning, preparation of family and business, development of a successor and transition. Furthermore, from the analysis of the results, the majority of the respondents agree with contents of the model, as developed by the researcher, which ensures its validity.

6.4 PROBLEMS AND LIMITATIONS

The minimal number of individuals failed to submit their responses by the stipulated date. The researcher had anticipated this problem, as the family business owners tend to be secretive with regards their business issues. However, the response rate of 70% was treated as extremely satisfactory.

6.5 RECOMMENDATIONS

The researcher is aware that no two family businesses are alike and therefore there is no prescription for successful succession. However, families and family businesses face similar issues.
The conclusions discussed in section 6.2 and section 6.3 led to the following recommendations for the family business owners.

- **Recommendation 1**
  Family businesses should establish written family creeds which provide the framework for outlining the basic values and beliefs of the families as they relate to the businesses. The family creed should detail how the family and business will be governed and how major decisions will be made. The shared family business vision should be included in the family creed. Putting things in writing creates a strong, positive feeling that things are under control. From the empirical study, the majority of the respondents agreed that they do not have written succession plan and family creed (see table 5.6). It is the researcher's recommendation that family business owners do not ignore this important factor and seriously consider including these documents in their statutory records. The researcher recommends that family business owners are educated on establishing these records and the benefits of reviewing them annually.

- **Recommendation 2**
  It is the researcher’s recommendation that family business owners place more emphasis on balancing the family system and
the business system. The literature study has revealed that families who balance these two systems create trust, commitment, business effectiveness and family harmony. Family business owners should make sure that these two systems are balanced in order to avoid conflict. Family business owners should take careful note of what may be causing dissatisfaction amongst family members as well as non-family employees, and take appropriate actions to eliminate these factors.

• Recommendation 3
Although 75% of the respondents are working with their children in the family businesses (see table 5.7), little has been done to prepare other stakeholders for the succession. The researcher recommends that family business owners be changed from the old tradition of being secretive about family business issues, be educated on advantages of being transparent about the succession plan in order to avoid negative perceptions that may damage the image and profitability of the family business.

• Recommendation 4
It is the researcher’s recommendation that the successor be trained and mentored before taking the responsibility of leading the family business. The literature study has revealed that it is important to measure the successor’s performance and reward
according to performance. The researcher recommends that a non-performing successor and a non-performing family employee should not be kept in the business. A perform and reward system should be adapted.

- Recommendation 5

Although the results of the empirical study indicate that the majority of the respondents agree that the transfer of ownership can be friendly and viable (see table 5.8), the literature study revealed that it is natural for family business owners to hang on to businesses that they have played a significant role in creating, developing and managing. A number of factors contribute to this behaviour, including financial insecurity, wealth distribution, fear of losing dignity and recognition and many others. Family business owners should be educated on how to prepare for getting out of their businesses peacefully.

6.6 CONCLUSION

From the study, it can be concluded that balancing the family system and business system as well succession planning are the key elements in enhancing continuity of a family business. There is however no single answer to the question of what steps should be
followed in order to be successful at succession. Succession may be one of the hardest areas of planning. The sooner the process is started, the better. Family business owners need to understand that succession planning is an ongoing process that is necessary to ensure that leadership growth keeps pace with organizational growth.

In order to be successful at succession, the family business owner should set a strategy and plan the process according to the uniqueness of the family business.
LIST OF REFERENCES


Dear Sir/Madam

Succession Planning in Family Businesses.
In partial fulfilment of the requirements for the Master’s Degree in Business Administration at Nelson Mandela Metropolitan University, I am currently conducting a survey on succession in family businesses.

It would be greatly appreciated if you could assist me in obtaining valuable information by completing the questionnaire. The information that you share will be treated as strictly confidential. The attached questionnaire has been prepared in such a way that it will require not more than 10 minutes of your time to complete.

Please could you return the completed questionnaire before 1st November 2005. Should you require any further information, do not hesitate to contact me at 043 748 6657 or 083 544 7138.

Your kind co-operation and time is greatly appreciated.

Yours sincerely

Ms Nwabisa Gwiliza
(Researcher)
## QUESTIONNAIRE: SUCCESSION PLANNING

### Section A: BIOGRAPHICAL INFORMATION

Please answer by placing and X in the appropriate block.

<table>
<thead>
<tr>
<th></th>
<th><strong>Gender</strong></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th><strong>Race</strong></th>
<th>Indian</th>
<th>Coloured</th>
<th>Black</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th><strong>Highest Qualification</strong></th>
<th>Senior Certificate</th>
<th>Diploma</th>
<th>Degree</th>
<th>Honours</th>
<th>Masters</th>
<th>Doctorate</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th><strong>Family Business age</strong></th>
<th>0-10 yrs</th>
<th>10-20 yrs</th>
<th>+20 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th><strong>Founder’s age</strong></th>
<th>40 - 50</th>
<th>51 - 60</th>
<th>+ 60</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STRATEGY AND PLANNING</td>
<td>Strongly disagree</td>
<td>Disagree</td>
<td>Not sure</td>
<td>Agree</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-------------------</td>
<td>----------</td>
<td>----------</td>
<td>-------</td>
</tr>
<tr>
<td>1. Family members really want to work in the family business.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. There is a need to have a clear short and long term written business plan.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. I have a written succession plan.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. I have a written family business creed/constitution.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. I have addressed ownership of the business.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. I have addressed shareholding rights.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. I have addressed rules and regulations of the business.</td>
<td></td>
<td></td>
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<td>8. I have addressed employment and remuneration policies.</td>
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<tr>
<td>PREPARATION</td>
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<td>9. Family members are aware of my succession plan.</td>
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<td>10. I have advised my staff of my succession plan.</td>
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<tr>
<td>11. I have advised my important customers, creditors and suppliers of my succession plan.</td>
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<td>12. I am working with my children in the business.</td>
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<td>13. I have identified a successor for my business.</td>
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<td>DEVELOPMENT</td>
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<td></td>
<td>There is a minimum education level or skill required to become a successor.</td>
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<td></td>
<td>A training programme to ensure that the successor will be competent has been designed.</td>
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<td></td>
<td>A mentor will be selected for a successor.</td>
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<td></td>
<td>A successor should work at different divisions.</td>
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<td></td>
<td>The successor’s performance should be measured.</td>
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</tbody>
</table>
### SECTION C: TRANSITION

Please answer the following questions by placing an X in the appropriate block.

<table>
<thead>
<tr>
<th></th>
<th><strong>VIABILITY</strong></th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Not sure</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The successor generation is capable of leading the business.</td>
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<td>2</td>
<td>It is financially feasible to keep the business.</td>
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<td>3</td>
<td>The senior generation is financially independent from the business.</td>
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<td>4</td>
<td>A contingency plan in the event of death, disability, or failure of a successor is in place.</td>
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<td>5</td>
<td>The transfer can be a friendly transaction.</td>
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<td>6</td>
<td>Ownership and control is transferred equally to all the children.</td>
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<td>7</td>
<td>A successor has most shares and control.</td>
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<td>8</td>
<td>There is a compensation policy for non-working children.</td>
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</tbody>
</table>

Thank you for your assistance with completing this survey.