The role of governance in the Offerman Family businesses

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DECLARATION

This treatise represents my own work and due acknowledgement is given in the references whenever information is derived from another source. No part of this treatise has been or is being concurrently submitted for another qualification at any other university.

[Signature]

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ABSTRACT

The primary research objective considered by this study was to determine the nature of the governance system employed by the Offerman Family businesses in ensuring that all company assets, resources and actions are directed at, and controlled in the achievement of established company objectives and are accounted for to all legitimate stakeholders. Four related secondary objectives were also examined.

The Offerman Family businesses consist of three separate companies that all make clay bricks in some form. Over recent years, the Offerman Family businesses have grown and taken on various minority shareholders in these three separate companies. For this reason, the governance requirements of the businesses have changed significantly from when the businesses were smaller and owned by a single family.

The literature review on which the study is founded commences with an overview of family business topics appropriate to the research. Following this introduction, the history of the Offerman Family businesses is presented through until the present day (August 2010). Topics of governance are then considered in depth with a particular focus maintained throughout on that most applicable to the Offerman Family businesses.

The research followed a case study approach within the phenomenological research paradigm. The details of the methodology employed are provided including an explanation of the questionnaire used as the research instrument. The questionnaire was submitted to ten people capable of influencing governance in the Offerman Family businesses and a useful response rate of 90 percent was achieved.

The findings of the research detail the nature of the governance system employed by the Offerman Family businesses. It appears that there are shortcomings with family governance while governance of the businesses seems to be facilitated by the presence of the requisite governance building blocks such as a board of directors. Nevertheless, these governance systems are currently not functioning optimally leaving considerable room for improvement.

The study closes with a review of the secondary research objectives and the resolution thereof. A list of recommendations is provided, which if implemented, could assist the Offerman Family businesses towards improving governance. Recommendations towards additional research are offered followed by an explanation of the limitations of the study.
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CHAPTER 1: INTRODUCTION

1.1 Introduction

“Death, it sometimes seems, may be the easiest way out of a family business. Other exits are often decidedly more traumatic for the businesses and the individuals involved.”

(Shapiro, 1991)

Adelphia Communications Corporation was the fifth largest cable company in the United States before it filed for Chapter 11 bankruptcy in 2002. It was originally a family business that was founded by John Rigas who was also responsible for taking the company public in 1986 (USA Today.com, 2004; Balshaw, 2004, pp. 1-2). Unfortunately, John Rigas and his son, Timothy, had to live through a traumatic exit from their former family business. They were both led away in handcuffs after being convicted of conspiracy, bank fraud and securities fraud for looting the cable company and duping its investors (Associated Press, 2004).

The implosion of Adelphia is a spectacular example of what can occur when the worst aspects of family business act in concert with poor corporate governance. A family business is a special type of business with a significant set of idiosyncrasies that set it apart from non-family business entities. One particular shortcoming of family business is that some family members can blur the line between resources belonging to the family and those that belong to the business (International Finance Corporation, 2008, pp. 47-48). The case of Adelphia is an extreme example although this kind of activity is usually more common with smaller family businesses.

However, one should not write off family businesses for reasons such as the above. A Harvard Business School study, reported by Casado writing in Tàpies and Ward (2008), claimed that family-owned enterprises account for two-thirds of all businesses worldwide. In the United States economy alone, the most conservative estimates put the annual contribution of family business towards that country’s Gross Domestic Product (GDP) at $2.6 trillion (Braun & Latham, 2009, p. 120). In this light, the contribution of family business to the world’s economy can be regarded as significant.

Unfortunately, “a man who collects honey is always tempted to lick his fingers” (King, 2006, p. 87). In other words, whenever there is temptation such as the wealth generated by family
business, people will always be tempted. In order to deal with these human shortcomings, corporate governance measures are required which can generally be described as “the system by which companies are directed and controlled” (Cadbury Committee, 1992). Unfortunately, many people only hear about corporate governance through widely reported failures such as those of Enron, Parmalat and Adelphia as described in the opening vignette.

Lest one think that corporate governance has only to do with human frailty, there are a myriad of other issues that can be addressed through the institution of governance measures in a family business. Concerns such as employment policies, remuneration and succession are notorious in any business but in a family business, the addition of the family dimension can add further complication. The proper consideration of governance measures can aid the business, as well as the family, in working towards resolution of similar issues as they can provide the structure necessary to handle these situations. In this light, sound governance can be regarded as providing a significant advantage for a business.

The aim of this study is to consider the hallmarks of family business in light of the requirements for sound corporate governance. Until recently, the study of corporate governance in family business has been a largely neglected area of research (Neubauer & Lank, 1998, pp. 65-67). However of late, investigations into the governance of family businesses have become more numerous (Fahed-Sreih, 2009, p. 50) with authors such as Adendorff (2004) advancing local knowledge in this arena.

In achieving the above aim, this study will follow a case study approach in investigating the nature of governance in a particular family business. The business in question is a majority family-held clay brick making concern which will collectively be referred to as the Offerman Family businesses for the purposes of this study. The researcher of this study is in fact an Offerman Family member who was previously employed in the family business and continues to hold shares and directorships in the family business.

Following this introduction, this chapter will proceed with a discussion of the significance of this research which will lead into a formal statement of the primary research objective. The various secondary objectives inherent in the study are then addressed culminating in a graphical representation of the actual case of the Offerman Family businesses. The research design is presented next after which an abbreviated outline of the research methodology employed in the study is provided. In order to establish the context for the study, an
introduction to the Offerman Family businesses is offered before the chapter closes with the provision of an outline detailing the structure of this document.

1.2 Problem statement

A weakness of family business is the ambiguity than can occur between the different roles played by family members in the business (International Finance Corporation, 2008, p. 13). In this vein, it is easy to imagine that family members in senior positions sometimes need to clarify from which points they are thinking or speaking – are they being “dad” or “boss” or “majority shareholder” (Kenyon-Rouvinez & Ward, 2005, p. 9)?

This problem can be further compounded if a family business grows significantly. A founding owner, used to fulfilling many roles in running the business on his / her own, will probably have little interest in the setting of clearly articulated governance principles (International Finance Corporation, 2008, p. 14). However, significant growth will probably require the employment of additional non-family members with an ensuing increase in the requirement for governance measures. Such measures are necessary for good communication which facilitates the management of relationships between the family and non-family managers, and especially the issue of power sharing (Cadbury, 2000, p. 8).

The consequences of a lack of governance can be severe. Due to notorious lack of effective communication in family business, the notion that shareholders who are active in the business withhold vital information from non-active shareholders can be strengthened (Balshaw, 2004, pp. 23-24). Although often based on misperceptions, such a situation is ripe for accusations of unfairness, mistrust and conflict. Whatever the basis of such conflict, it can ultimately result in the destruction of a business (Balshaw, 2004, pp. 23-24).

The essence of the significance of governance in a family business is captured in the following quote from Professor John L Ward (1997), an eminent family business researcher:

“For the family-owned business, good governance makes all the difference. Family firms with effective governance practices are more likely to do strategic planning and to do succession planning. On average, they grow faster and live longer.”

Research in the field of governance in family business in South Africa creates a basis for comparative studies in other parts of the world. From the literature review that is presented, it can be noted that the majority of the literature is sourced from outside of South Africa as
research into family business is still a relatively unpractised discipline in this country. This study can help to improve cognisance of this field and may also serve to assist family business owners with similar businesses to the subject of this case study, the Offerman Family businesses.

The point of departure for this study is the literature review on family business in general as well as governance in family business. In addition, a discussion of the history of the Offerman Family businesses is required in order to establish the context for the case study. According to Yin (2003), a case study is all about examining a phenomenon within its real life context.

Against this backdrop, the primary objective addressed by this study can be formally stated as follows:

**To determine the nature of the governance system employed by the Offerman Family businesses in ensuring that all company assets, resources and actions are directed at, and controlled in the achievement of established company objectives and are accounted for to all legitimate stakeholders.**

1.3 Secondary objectives

In addressing the primary objective considered by this research, the following secondary objectives will also be considered:

- Does the Offerman Family have an appropriate system of family governance to enable it to deal with business issues?
- What can the Offerman Family do towards improving family governance?
- Do the Offerman Family businesses have an appropriate system of governance in place, commensurate with their size and lifecycle status?
- What should be occurring within the Offerman Family businesses in order to promote better governance?

1.4 Graphical representation

In the literature review, the history of the Offerman Family businesses is presented in detail through to the present day (August 2010). This is crucial for the case study approach employed as it provides the context for the study. Additionally, the history also serves to
identify four distinct parties with the potential to influence the governance system of the Offerman Family businesses in the future. A graphical representation of the case study is offered in Figure 1.1 below.

**Figure 1.1: Graphical representation of case**

1.5 **Research design**

The research design followed by this study was as follows:

- Before any work commenced on this study, permission to conduct the study was sought from Mr EJ Offerman, majority shareholder and patriarch of the Offerman Family business, as well as the various company boards. No objections were voiced and the research was generally welcomed.

- To provide the departure point for the study, a secondary literature review was conducted on the topics of family business in general, family business in South Africa, corporate governance and governance in family business.

- With an established base in the applicable theory, a secondary literature review was directed at the Offerman Family businesses themselves in order to establish the context for the study. Where detail was lacking or unclear, data obtained from the literature was supplemented by information obtained from interviews with various persons connected with the businesses.
Following establishment of the context, primary research commenced by constructing a questionnaire to be answered by ten people belonging to the four groups capable of influencing governance in the Offerman Family businesses, as depicted in Figure 1.1.

Before being administered, the questionnaire was reviewed by a family business academic as well as two family members of the author also linked with the business.

The questionnaire was then administered following which the data was collated for analysis.

The data was analysed and the findings were reported in conjunction with conclusions drawn from the literature study. The conclusions drawn from the literature study aid in establishing the context for the primary research and the resolution of the primary research objective.

Following on from the resolution of the primary research, it was possible to answer the secondary research objectives and make recommendations as to the manner in which governance could be improved in the Offerman Family businesses.

A recommendation was also made as to a suggested topic of future research considering governance in family business in South Africa.

In addition to being evaluated in relation to the completion of the researcher’s Magister in Business Administration degree, the completed treatise will also be supplied to all ten persons with the ability to influence governance in the Offerman Family businesses.

1.6 Research methodology

The consideration of research methodology involves the choice of research paradigm or philosophy. The two poles of research paradigm are generally labelled positivistic and phenomenological respectively (Collis & Hussey, 2003, pp. 48-56) and there can be considerable blurring between the two opposing paradigms.

The positivistic research paradigm commonly produces quantitative data. For this reason, this approach is commonly referred to as the quantitative research paradigm and usually seeks to explain relationships between variables through the establishment of causal laws linked to a concept or theory (Leedy & Ormrod, 2005, p. 94). To achieve this, a practical norm of this paradigm is the stating of a theory or hypothesis indicating the relationships to be investigated by the study (Collis & Hussey, 2003, pp. 48-56).
However, due to the exploratory nature of this research by means of a case study, it is clear that this study falls within the phenomenological research paradigm. Also known as the qualitative research paradigm due to its production of qualitative data, phenomenological research tends to focus on meaning rather than measurement of social phenomena (Blumberg, Cooper, & Schindler, 2005, pp. 18-22). Phenomenological research is also subjective and makes use of inductive reasoning to gain an improved understanding of complex situations (Leedy & Ormrod, 2005). Nevertheless, the gathering of primary data is still a requirement of this research paradigm.

To this end, a case study approach was adopted and data was collected by means of a questionnaire. According to Yin (1989, p. 23) as reported in Cullen (2007), a case study can be regarded as an empirical enquiry that investigates a contemporary phenomenon within its real-life context. In contrast to other approaches that attempt to reproduce phenomena in laboratory-type formats, a case study approach emphasises the embeddedness of a phenomenon in its real-life context (Blumberg, Cooper, & Schindler, 2005, pp. 190-200). In this light, the data collected and analysed by this case study maintained a focus on the subjective realities particular to the case of the Offerman Family businesses.

1.6.1 The sample

Four distinct groups of people were identified with significant influence on the governance of the Offerman Family businesses. The groups are presented graphically in the conceptual model of the study provided as Figure 1.1. Please note that the researcher, although involved in the business as a director and shareholder, was excluded from these groupings. The reasoning behind this exclusion is that the researcher would have provided overly subjective information removed from its context due to his extensive research into the topics at hand.

In total, ten people were identified as having a significant influence on the governance of the Offerman Family businesses. Although high non-response rates are common with questionnaires (Collis & Hussey, 2003, p. 175), nine out of the ten people polled returned their answered questionnaires during the allotted time period. The 90 percent response rate was considered sufficient for the purposes of this study.

1.6.2 The research instrument

Having identified all of those capable of exerting significant influence on governance in the Offerman Family businesses, a questionnaire was selected as the research instrument of
choice. According to Leedy and Ormrod (2005, p. 197), the questionnaire is a commonly used instrument employed in observing data beyond the physical reach of the observer.

The questionnaire consisted of five different parts which made use of the framework offered by the literature review as a backbone. Due to the different dimensions offered by each of the four groups depicted in Figure 1.1, not all groups were required to answer all sections. For instance, only family members were requested to answer Part 3 as this section polled family governance issues.

A cover page was provided with the questionnaire detailing all of the instructions for completion as well as explaining the intentions of the questionnaire to all participants. The researcher was careful to emphasise that the intention of the questionnaire was not to identify individuals and / or individual shortcomings. Instead, it was explained that the questionnaire was designed to establish the general perceptions of those able to influence governance in the business and requested their open and honest responses according to their initial reactions.

In designing the questionnaire, a significant measure was taken towards improving the reliability of the study by the review of the instrument by an academic in the field of family business study. In this way, sound scientific as well as ethical standards were ensured. Additionally, the questionnaire was also reviewed by two of the researcher’s family members who are also linked with the business. In the end, no changes or omissions were required and the questionnaire was administered to all ten participants in person or via email.

1.7 Introduction to the Offerman Family businesses

Currently, the Offerman Family businesses consist of three separate companies. These companies are Ngqura Brick (Pty) Ltd trading as Algoa Brick, Coega Brick (Pty) Ltd and Grahamstown Brick (Pty) Ltd trading as Makana Brick. All three companies share the same majority shareholder in the EJ Offerman Family Trust. In addition to Mr EJ Offerman who is the youngest son of the original business founder, the business currently also employs the daughter of Mr EJ Offerman, Ms FA Offerman. For these two reasons, the Offerman Family businesses can be regarded as a family business in terms of most commonly accepted definitions of a family business (see Section 2.2).

Ngqura Brick (Pty) Ltd trading as Algoa Brick produces only clay plaster bricks, in various formats, at its site located near Swartkops. At full production, this factory is capable of producing 45 million standard bricks per year and employs a full staff complement of about
150 people. Unfortunately, due to weak market demand, the company is currently operating at about a third of capacity and is employing only about 70 people. However, the sales arm of this company, which handles sales for all three companies, was beginning to report slight improvements in the market in July 2010.

Coega Brick (Pty) Ltd is located within the Coega Industrial Development Zone. This factory has the capacity to produce approximately 20 million clay plaster bricks per year and although it normally makes products very similar to those produced by Ngqura Brick, it is also capable of producing larger format products that its sister plant cannot. Unfortunately, Coega Brick has felt the full brunt of the recession and at the time of writing, the normal complement of about 65 people had been reduced to approximately 6 staff operating on a care and maintenance basis. The factory was due to recommence operations in early August 2010.

Grahamstown Brick (Pty) Ltd trading as Makana Brick has the capacity to produce as many as 50-60 million bricks per year although the market has never demanded this much since the capacity was installed. This plant is capable of producing high grade clay facing bricks as well as lower grade facing bricks. Production which falls short of face brick standards is sold as plaster bricks. As per the other two companies, Grahamstown Brick is also operating with reduced staff for reasons of poor market demand.

1.8 Outline of the study
The study is divided into six chapters.

Chapter 1 provides the introduction to the study, the significance thereof and statements of the problem and sub-problem. A graphical representation is provided of the current scenario inherent in the Offerman Family businesses followed by outline detail of the research design and research methodology. The chapter concludes with an introduction into the Offerman Family businesses and this outline.

Chapter 2 forms the initial part of the literature review. This chapter introduces family businesses, discusses their characteristics and then moves onto establishing the history of the Offerman Family businesses through until the present day.

Chapter 3 completes the literature review. In this chapter, governance is introduced which is then drilled down to focus on governance in family business.
Chapter 4 presents the methodology followed by the study and clarifies the nature of the exploratory research carried out in the phenomenological paradigm. Details of the sample and the research instrument are provided following which a discussion is offered of the administration of the questionnaire, and its reliability and validity.

Chapter 5 contains the research findings. Interpretations from the literature study are provided to establish context following which the findings from the data gathered by the questionnaire are presented. In this chapter, the nature of the governance systems in the Offerman Family businesses is explicated which is the primary objective of the case study.

Chapter 6 is the final chapter of the study. The secondary research objectives are resolved and recommendations are made as to how governance could be improved in the Offerman Family businesses. A suggestion is also made as to a future direction of research. The chapter concludes with a discussion of the limitations of the research and a final, overall conclusion.
CHAPTER 2: FAMILY BUSINESS IN SOUTH AFRICA AND THE OFFERMAN FAMILY BUSINESSES

2.1 Introduction

In South Africa, it is said that: “Family businesses constitute the backbone of the South African economy” (Venter, 2009, p. 24). From this statement, the importance of family business to South Africa’s economy is clear.

In order to evaluate the impact of family business in South Africa more closely, it is first necessary to consider the exact definition of a family business. A case in point is the German company Siemens of which approximately 10 percent of the voting rights are controlled by the Siemens Family. As the other 90 percent of the voting rights are spread between approximately 607,000 individual, non-family shareholders, the Siemens Family are still able to exert considerable influence over the company (Neubauer & Lank, 1998, p. xvii). The explanations offered in the following chapter will show that much ambiguity exists over the definition of a family business. Indeed, although conclusive towards classifying the Offerman Family businesses, the two definitions offered conflict as to whether Siemens could be called a family business.

The reason that a need exists to identify family business as such is that family business plays a critical part in the world’s economy. However, family businesses are also notoriously short-lived (Neubauer & Lank, 1998, p. 14) and for this reason, a discussion is offered of the pros and cons of family business. Issues considered will include why family businesses can be such important employers and contributors to the economy, yet most have a very short life span beyond their founder’s stage (International Finance Corporation, 2008, p. 11) and many seem to cut their own throats with complex inner issues.

With the knowledge of these strengths and weaknesses, the role of family business in South Africa will be examined in some depth. With this in mind, the 65 year history of the Offerman Family businesses will be detailed right up to the present day. The chapter will conclude with a description of the current family involvement in the businesses followed by a summary of the chapter contents.
2.2 Defining a family business

One of the biggest challenges facing research into family business is the lack of a single definition to classify a family business as such. With clear definitional boundaries lacking, it becomes extremely difficult to compare different studies into family business as the probability is extremely high that varying definitions of family business have been used as key starting points (Neubauer & Lank, 1998). In the ensuing years since publication of Neubauer and Lank (1998), despite numerous attempts to clarify this area, the definition problem persists (Venter, 2009).

Adendorff (2004), Neubauer and Lank (1998) and other authors mention a multitude of different paths towards the definition of a family business which are sometimes conflicting. Evidently, consensus is yet to be reached but commonalities do exist among most of the definitions found in the literature, generally focusing on ownership and / or control of the business (Adendorff, 2004). Venter (2009) expands on these two broad categories by adding the related topics of management, family involvement, interdependent subsystems, generational transfer and multiple other conditions. Clearly, the definition of a family business is a complex topic on its own and for the moment, until some consensus is achieved, it is suggested that each researcher clarify their own choice of a family business (Venter, 2009).

For the purposes of this treatise, the Offerman Family businesses are considered against definitions from two different sources. Flören (2002), Hulshoff (2001) and Stoy Hayward (1989), as reported in Venter (2009, p. 6), provide the following broad criteria for the definition of a family business:

“At least 51% of the equity of the business is owned by a single family; a single family is able to exercise considerable influence; and at least two family members are actively involved as senior managers in the business.”

The second source to be considered is the definition put forward by Kenyon-Rouvinez and Ward (2005, p. 1). They report on a study from the Stockholm School of Economics in which a family business was defined as one that is controlled by a family and has at least one of the following three characteristics:

1. Three or more family members all active in the business;
2. Two or more generations of family control; or
3. Current family owners intend to pass on control to another generation of family.

In the case of the Offerman Family businesses, it will be shown that all three companies have Offerman Family ownership of at least 51 percent. This implies that the Offerman Family is well-positioned to exert considerable influence over these businesses. Additionally, three family members, from two different generations, are currently employed or contracted as senior managers in the business. If the concept of active involvement in the business is extended to directorships, the number of active family members increases to five. The Offerman Family businesses also meet the final condition as the current family owner has expressed his wish that the business be passed on to his children.

In considering the above two sources, the Offerman Family businesses clearly meet the criteria offered. However, the reasoning behind the classification of the Offerman Family businesses, or indeed any family business as a family business, must still be proposed. The following section will elaborate on what sets family business apart from non-family entities and why family business plays such a valuable role in our society.

2.3 **Strengths and weaknesses of family businesses**

In his study of family business, Fahed-Sreih (2009) tested the hypothesis that the family dimension influences the performance / survival of the firm positively. Although this study was limited in that only 116 family enterprises in Lebanon were considered, the results clearly indicated that family relationships do have a positive impact on firm performance or survival. Philip Clarke, as quoted by Sir Adrian Cadbury (Cadbury, 2000, p. 6), speaks of these family relationships as “kith-and-kin involvement” and they are perhaps the main distinguishing feature of family business.

Due to these family relationships, family firms are considered to exhibit strong stewardship and stakeholder orientations (Sirmon, Arregle, Hitt, & Webb, 2008). Neubauer and Lank (1998, p. 13) believe that much of this originates from the training that family members receive in the rights and responsibilities commensurate with their membership of the family business. Good relationships often extend to the treatment of employees, both family or other, where fairness and loyalty are usually reciprocated. Family firms are also known for their strong sense of responsibility to society which manifests in the contribution of time and money to community schemes (Neubauer & Lank, 1998, p. 13).
Commitment is an oft-mentioned term in considering the strengths of family business. The family as the business owner, displays the utmost determination towards building a successful enterprise that is able to be passed onto future generations, (International Finance Corporation, 2008, p. 12). In this way, the vision and values of the family are focussed in the same direction resulting in the commitment of family members towards the propagation of the business (Cadbury, 2000, p. 6). Additionally, as the family generally has their name and reputation associated with the products or services offered by the business, the family strives towards continuous improvement and the maintenance of good relationships with all stakeholders (International Finance Corporation, 2008, p. 13; Neubauer & Lank, 1998, p. 13). Cadbury (2000, p. 7) refers to this characteristic of family firms as having “a clear identity in an increasingly faceless world” which makes the positive implications increasingly clear.

A long-term perspective is also characteristic of family business. Family businesses are often not “bound by next quarter’s earnings”, as are non-family entities, and have been known to employ long-term perspectives towards maximising shareholder wealth “even a generation hence” (Neubauer & Lank, 1998, p. 13). This trait is also seen in the excellent management development systems applied to family members and often also applied to non-family employees (Neubauer & Lank, 1998, p. 13). Knowledge continuity is also important here as family businesses make it a priority to ensure that accumulated knowledge and skill is passed onto the next generation thereby ensuring the continued success of the family firm (International Finance Corporation, 2008, p. 13).

In considering the dark side of family business, the most often cited criticism of family business is that many family firms fail to be sustainable in the long term. Worldwide statistics bear this out with only 30-33 percent of family businesses surviving past the first generation (Venter, 2009, p. 8). The most commonly offered reason in this regard is that the family relationships that can provide such a source of strength for a family firm, can also become potentially destructive. This is particularly true in circumstances where family members find themselves in the overlap of the emotion-based family system and the task-driven system of the business (Balshaw, 2004, p. 5). Unchecked sibling rivalry and a lack of consensus on a family successor (Neubauer & Lank, 1998, p. 17) are familiar examples of family relationships issues that can beleaguer family business. Such family relationship issues can also prevent family businesses from attracting and retaining competent family members to work in the business.
Cadbury (2000, p. 7) offers a different perspective on this issue. As the flipside of the commitment coin, he believes that the line between family and business can become increasingly blurred in a family business. The result is that family business members are unrelentingly exposed to business issues, whether at work or at home. Additionally, family conflicts may be carried over into the workplace (Balshaw, 2004, p. 6) or vice versa. This may have an impact on the governance of the family business and other stakeholders including employees, customers and suppliers.

Whichever way one views the family relationship perspective, it is seen that the addition of the family dimension adds to the complexity of the business system (Neubauer & Lank, 1998, pp. 14-15; International Finance Corporation, 2008, p. 13). This additional complexity can also lead to role ambiguity as family members involved in the business sometimes have to consider whether their decisions are in the best interests of the family or the business (Kenyon-Rouvinez & Ward, 2005, p. 45). Taking this further, it is also possible that at certain times such as an economic downturn, a family may promote its own interests at the expense of the business and other stakeholders (Braun & Latham, 2009, p. 121).

A marked characteristic of family businesses is the absence of effective communication, decision-making and governance structures. An example of this is the perception that non-active shareholders often have of active shareholders in the business that they begrudge requests for dividends or even provision of information. In the absence of shared information, the resulting knowledge vacuum provides a fertile breeding ground for mistrust and conflict which is often based on misperceptions. Whatever the reasons for it, such conflict can lead to the destruction of a business (Balshaw, 2004, pp. 23-24).

Growth of a family business also brings a number of problems. In the early stages of a family firm, it is likely that the founding family is able to run the business themselves and is able to do so on a fairly informal basis. Due to the common goal and values shared by the founding family, there is generally very little importance accorded to the setting of clearly articulated governance principles (International Finance Corporation, 2008, p. 14). Along these lines, family businesses, particularly owner-managed businesses, are often characterised by a lack of decision-making and governance structures due to ineffective communication (Balshaw, 2004, p. 23).

These governance shortcomings can become more acute as the firm grows and managers need to be drawn in from outside of the family. In such a scenario, the requirement for more
formalised governance grows and management of the relationships between the family and non-family managers, especially the issue of power sharing, becomes paramount (Cadbury, 2000, p. 8). Potential conflict between the cultures of the family, the board and the business, including non-family managers, should be addressed by appropriate governance structures in order that competent senior non-family managers can be retained (Neubauer & Lank, 1998, p. 17).

In addition to the general weaknesses of family business, Neubauer and Lank (1998, p. 17) identified a few more specific challenges faced by family business. As total ownership control is sacrosanct for many family firms, obtaining capital for growth can be difficult without diluting the family’s equity. In addition, there may be conflict over the capital already in the business due to disagreement over the family’s need for liquidity and the business’s cash requirements. Another common problem with family business is that the older generation is unwilling to pass on the reins of the business at an appropriate time. One result of this reluctance is that numerous family businesses have been lost from the family due to the inability of the inheriting generation to pay estate taxes.

From the above, it is clear that strengths of family business are significant yet considerable pitfalls lie along the wayside. Lest one consider that the inherent weaknesses of family business may dominate over the positive aspects, the following section will detail the impact family business has on the world stage at large, followed by the South African case in particular. Without a doubt, it will be shown that the positive aspects of family business dominate over the negative.

2.3 The importance of family business in South Africa

Timmons and Spinelli (2009, p. 595) recount a recent report in the United States which indicated that 89 percent of all business tax returns and 60 percent of all public companies had family participation and strategic control. In hard currency, the most conservative estimates put the annual contribution of family business to the United States Gross Domestic Product (GDP) at $2.6 trillion or nearly 30 percent (Braun & Latham, 2009, p. 120).

In the rest of the non-communist world, figures are equally remarkable. Kenyon-Rouvinez and Ward (2005, p. 1) suggest that in most countries, the average contribution to GDP by family businesses stands at between 50 and 90 percent of GDP. Similarly, Casado, writing in Tàpies and Ward (2008), reports on a Harvard Business School study which claimed that
family-owned enterprises account for two-thirds of all businesses worldwide. Despite the apparent numerical dominance of family firms, several studies have shown that family firms also overshadow their non-family counterparts in terms of performance (International Finance Corporation, 2008, p. 12).

A Thomson Financial study undertaken for Newsweek Magazine considered the performance of various family firms against their non-family rivals on the six major stock exchange indices in Europe. The family firms outperformed their non-family rivals on all of these indices. As part of the study, a unique index was created for both family and non-family companies in various European countries, and their performance was tracked over ten years. The most dramatic difference was recorded in Germany where the family index soared 206 percent in comparison to a 47 percent rise in the non-family indicator. Family businesses also outperformed their non-family counterparts in France, Switzerland, Spain, Britain and Italy (Newsweek, 2004). In this light, the importance of family business worldwide is readily apparent and in South Africa, it is no different.

Some of the largest and most powerful companies in South Africa are / have been family-owned. Examples of these include Anglo American, Liberty Life, Rembrandt, Pick & Pay and Ellerines (Venter, 2003, p. 33; Balshaw, 2003, p. 110). However, it is not only large family businesses that make an impact in South Africa. Approximately two million small businesses operate in South Africa, making up 98 percent of the total number of businesses in the country (Venter, 2003, p. 1). Of these small businesses, Bridge, O’Neill and Cromie (1998; p. 129), as reported in Venter (2009, p. 3), state that the majority are family-owned making family business the predominant way of doing business in South Africa today.

Balshaw (2003, p. 26) attempts to define the exact numbers of family businesses more closely. Based on a similar data source and research model used to determine family business statistics for the United States, it was estimated that 84 percent, of a total number of 1.42 million active businesses in South Africa, are family businesses. As per the worldwide figures, there is again some variance as to the exact numbers but nevertheless, the overwhelming number of family businesses in South Africa is apparent.

More important than conflicting numbers, family businesses in South Africa have been making a positive contribution towards the economy for the past 300 years or more (Maas, Van der Merwe, & Venter, 2005). Adendorff (2004, p. 40) reports the expectations of a number of authors (Clark, 1993; Laubscher, 1993; Ryan, 1995) that the number of family
businesses, as well as their influence, will increase substantially in the future. Venter (2003, p. 32) believes that the rationalisation of large businesses, as well as the inability of the formal sector to create jobs, are possible reasons for growing significance of family businesses in South Africa. The reasoning behind this is that family businesses offer powerful opportunities for economic and social empowerment in South Africa – both sorely needed. Further in this vein, during the period 1987 to 1992, family businesses listed on the Johannesburg Securities Exchange (JSE) recorded an overall rate of return of 36 percent. In comparison, non-family businesses returned a rate of 27 percent. This, and other research, clearly demonstrates that successful family businesses can create jobs and wealth more efficiently than non-family enterprises (Venter, 2003, p. 33).

The Offerman Family businesses have been operating in South Africa since 1945. Over 65 years of operations, a significant contribution has been made towards job and wealth creation in the Eastern Cape. The following section will detail the chequered history of the business and examine how the business is poised for the future.

2.4 History, expansion and growth of Offerman Family businesses

2.4.1 The period 1945 – 1970

Algoa Brick came into existence in 1945 as the brainchild of a Dutch immigrant builder, Mr WA Offerman. Following his arrival from Holland some ten years earlier, Mr WA Offerman built a number of homes in the Port Elizabeth area but was not satisfied with the quality of clay bricks he was able to obtain. He resolved to do better and the idea for the Algoa Brick & Tile Co. was born.

The inaugural Directors Meeting of the Algoa Brick & Tile Co. (Pty) Ltd was held on 03 November 1945 (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970). In attendance were Mr WA Offerman, Mr PB Calitz, Mr BA Calitz, and Mr L Dubb and at the meeting, it was resolved to appoint Mr WA Offerman as Managing Director of the company, at a salary of £100 per month. Along with Mr WA Offerman, Mr PB Calitz and Mr L Dubb were appointed as directors of the company with Mr BA Calitz being designated as an alternate director to his father, Mr PB Calitz.
The original allotment of fully paid up shares of £1 each was as follows:

Mr Wouterus Adrianus Offerman – 11,000

Mr Petrus Benjamin Calitz – 2,500

Griffiths Blooman Glassworks (Pty) Ltd – 2,500

The company was located at Coega on a site that had originally been used for clay brick making by the Mattheus family. Notwithstanding the history of the site, business was tough and Mr WA Offerman found it necessary to seek additional investors to get the company off the ground. The minutes of the Shareholders Meeting of 09 April 1947, record the introduction of Mr JMH Beumer to the company as an additional investor of 10,000 fully paid up shares of £1 each. Mr JMH Beumer was also appointed as a company director.

Unfortunately, the company’s poor run of results continued. On 08 March 1951, a Shareholders Meeting was called “to discuss and decide upon the future of the company” as “it had been suggested that the company should go into liquidation and it was now for the shareholders to decide what to do” (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970, p. 21). Happily, the company survived and the July 1951 – June 1952 results showed the company’s financial position improving considerably.

In the minutes of the Directors Meeting of 01 November 1954, a consolidation of shareholding was recorded which resulted in only two remaining shareholders, effectively the Offerman family and the Beumer family. The beginning of a difficult period for shareholder relations was heralded by the following quote from the Annual General Meeting minutes of 17 February, 1955 (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970, p. 31):

“Beumer made it clear that under no circumstances will it be possible for any of the principal shareholders, viz Offerman and Beumer, to command more shares than the other, thus to have a position of equilibrium, viz 50 per cent each.”

By 1958, Algoa Brick again found itself in financial turmoil. The minutes of the Annual General Meeting of Shareholders, held on 29 March 1958, record the following (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970, p. 38):

“The loss sustained of £3739.3.10d is a serious one & our accumulated profit of £3328.11.69 for which we have worked 13 years has gone up in smoke.”
Once again, Algoa Brick survived but not without friction between its shareholders. Meeting minutes of 1960 – 1961 record details of the cartage operation used by Algoa Brick for delivery of its products. The main “bone of contention” was that the cartage contractor used by Algoa Brick was doing better than Algoa Brick itself but was owned entirely by Mr WA Offerman. The reason for Mr Offerman being the sole owner of the cartage contractor was that at the time cartage became a necessity, Algoa Brick had lacked the capital to purchase the vehicles it required on its own. For this reason, Mr Offerman had purchased two trucks for his own account with full disclosure thereof to the other shareholders and directors.

Nevertheless, Mr Beumer repeatedly expressed his dissatisfaction at this state of affairs. It seems that Mr Beumer’s annoyance was increased by Mr WA Offerman having arranged that Algoa Brick should pay the cartage contractor at the end of every month, regardless of whether Algoa Brick had been paid for the bricks and cartage. Further, the minutes of the Annual Meeting of Shareholders of 10 February 1961, recorded that “when a customer fails to pay his account for bricks and cartage, we so far are made responsible for the loss of cartage, which is an impossible position” (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970, p. 42).

In order to remedy the ill-feelings over the cartage situation, Mr WA Offerman suggested that Algoa Brick should take over the cartage contractor itself. The means suggested for payment thereof was either a preference share arrangement or a hire purchase scheme (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970, p. 44). However, this proposal was never followed. Instead, Mr WA Offerman arranged that the cartage contract would be run by his son, Mr W Offerman (Jnr). A contract was duly arranged as per the proposal set forward in the minutes of the Directors Meeting, 18 April 1962. Unfortunately, Mr Beumer did not accept this proposal either and cartage continued as a point of argument along with numerous other issues between himself and Mr WA Offerman. Clearly, their relationship had deteriorated.

Possibly as a result of the above friction, the minutes of a Directors Meeting, held on 07 December 1962, record that Mr WA Offerman resigned as Managing Director of Algoa Brick, effective from 30 June 1963. In his place, the meeting resolved that Mr SS Offerman, the oldest son of Mr WA Offerman, be appointed as General Manager of Algoa Brick as from 01 May 1963. Additionally, it was recorded that Mr WA Offerman would sell 14,000 of his 14,500 shares to Mr SS Offerman.
Unfortunately, this major change did not make the issue of the cartage contract go away, particularly with the disclosure by Mr SS Offerman of his own interest in cartage contracts with Algoa Brick (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970, p. 64). Mr SS Offerman resigned as General Manager of Algoa Brick effective from 01 October 1965. The company accepted his replacement as being Mr W Offerman (Jnr.) and also allowed for the 14,000 shares held by Mr SS Offerman to be transferred to Mr W Offerman (Jnr.) for the sum of R30,000.00 (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970, p. 66). The final resolution of the cartage contract issue took place from late 1965. At a Directors Meeting, it was resolved that Algoa Brick purchase two trucks from Offerman Transport & Plant Hire (Pty) Ltd in order to undertake cartage for Algoa Brick’s own account (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970, p. 70).

In 1969, Mr W Offerman led the company into a new era of technology and the decision was taken to proceed with the construction of a new tunnel kiln. Amongst various sources of debt finance, Algoa Brick also chose to raise money by the issuing of new shares. Of these new shares, 50 percent went to the Beumer family and 50 percent to the Offerman family raising the authorised share capital of the company to a total of R125,000.00 (Algoa Brick & Tile Co. (Pty) Ltd, 1945 - 1970, p. 81). All measures were taken to ensure equality between the Beumer and Offerman families, even to the point where the Offerman family was instructed to withdraw money from their loan account “so as to equalise the said loan account with that of (the Beumer family)” (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 10). No meeting records could be found for the year 1970 but it is understood that the new tunnel kiln was brought on line during this year (Offerman E., 2010).

2.4.2 The period 1971 – 1993

On 03 May 1972, the minutes of a Directors Meeting recorded the passing of company founder, Mr WA Offerman, on 29 April 1972 (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 18). On 05 June 1974, the minutes of a Shareholders Meeting reported that Mr WA Offerman’s regular sparring partner, Mr JMH Beumer, was in poor health and would most likely not stand for re-election as a company director (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 32). Mr JMH Beumer was duly replaced by a Mr CG Hall as director at a Shareholders Meeting held on 16 November 1974. In addition to Mr CG Hall, Mr WP Beumer, the son of Mr JMH Beumer, continued to represent the Beumer family on the Board of Algoa Brick.
Under the guidance of Mr W Offerman, the new tunnel kiln initially heralded good results for the company. However, early 1975 saw a drop in profitability with no dividend declared for the July 1975 – June 1975 financial year. Fortunately, profitability recovered quickly and the next year, the company was able to declare a dividend on 24 February 1976, halfway through the regular financial year (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 43).

The next major milestone in the company’s history occurred in 1977. The minutes of a Directors Meeting, held on 10 March 1977, recorded the resolution that Mr EJ Offerman, the younger brother of Mr SS and Mr W Offerman (Jnr.), be appointed as assistant to Mr W Offerman (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 44). Mr EJ Offerman was also afforded the opportunity of purchasing shares in the company from the portion held by the Offerman family. Shortly thereafter, the minutes of the Directors Meeting of 11 October 1978 record the winding up of the Beumer family’s interest in Algoa Brick. At this meeting, it was resolved that the shares held by the Beumer family “be transferred to Mr W Offerman and Mr EJ Offerman, each 50%” (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 49). Mr EJ Offerman replaced Mr CG Hall as a director and after the withdrawal of the Beumer family, only the two brothers remained as active directors although Mr WP Beumer only officially resigned as a director in June 1983.

The year 1981 saw the company increasing production yet again. Finance was acquired from Mr SS Offerman, the older brother of the two directors, in order to purchase new plant and equipment from Germany. The new machinery was brought on line quickly and by 15 August 1982, the loan from Mr SS Offerman was repaid “plus interest” (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 61). The company was also able to purchase approximately 102 hectares of land adjoining the factory site in 1983 and in 1984, again increased capacity through the building of a new tunnel kiln (Bentley, 1984).

In addition to capacity increases, Algoa Brick also differentiated itself from its competitors by various innovations. In 1979, Algoa Brick began producing dark coloured face bricks by adding a small percentage of manganese ore dust to its regular clay mix (Swanepoel, 1979). More significantly, the company also began to use sludge from the Fishwater Flats Wastewater Treatment Works in the brick making process (Jarvis, 1985). This was a world first that not only provided significant cost savings for Algoa Brick, but also saved the Port Elizabeth Municipality a significant amount of money in disposal costs (Slim & Wakefield, 1991).
On Friday, 16 May 1986, the Eastern Province Herald newspaper reported the closure of two notable plants in the Port Elizabeth area, one of which was Corobrik, a major competitor of Algoa Brick (March). The minutes of the Directors Meeting of 18 March 1986 mirrored this situation with that record that the “company was experiencing a “cash flow” problem” (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 88). Fortunately, the closure of the Corobrik plant helped Algoa Brick’s sales to recover and the company was able to forge ahead despite carrying the costs of the recently built tunnel kiln.

The minutes of a Directors Meeting held on 15 August 1988 record the next significant change at Algoa Brick – the appointment of Mr EJ Offerman as Managing Director and the semi-retirement of Mr W Offerman in order to take up the position of Company Chairman, both effective from 01 January 1989 (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 99). Unfortunately, this arrangement was to prove difficult for both Mr W Offerman and Mr EJ Offerman.

Although the company had prospered under the leadership of Mr W Offerman and grown further with the support of his younger brother, Mr EJ Offerman, the lack of fulltime engagement between the two brothers did the company no favours. Numerous arguments ensued but fortunately, the appointment of Mr WS Allchurch as an alternate director to Mrs G Offerman, the mother of Mr W and Mr EJ Offerman, helped to alleviate some of the tension (Algoa Brick & Tile Co. (Pty) Ltd., 1970 - 1991, p. 111). Mrs G Offerman had not taken an active role in the affairs of the business for a number of years and as an independent director, Mr WS Allchurch was able to provide a much needed objective voice between the two brothers (Allchurch, 2010).

Notwithstanding the changes and tension in management, a significant milestone was reached at Algoa Brick in 1990. Mr Hein Moggee, factory manager at Algoa Brick, celebrated 50 years of employment with the Offerman family (Evening Post, 1990). After starting out working for Mr WA Offerman in 1940 on various building sites, Mr Moggee was appointed as factory manager at Algoa Brick in 1945 and worked there through a succession of managing directors. After finally retiring, Mr Moggee passed away whilst still resident in a company house across the road from the plant.

The deadlock between Mr W Offerman and Mr EJ Offerman was finally broken in 1991 when Mr EJ offerman bought out his brother. Various financial mechanisms were used to enable the buyout and two new companies were created, both owned 100 percent by the EJ
Offerman Family Trust. The first of the two companies was Coega Brick (Pty) Ltd. This company was formed as a production company and held all the production assets formerly owned by the Algoa Brick and Tile Company (Pty) Ltd (Offerman E., 2010).

The second company was called Algoa Brick (Pty) Ltd. This company was formed to be a sales and marketing company only, with a minimal fixed asset base. This company was also owned 100 percent by the EJ Offerman Family Trust and served to market all the bricks produced by Coega Brick (Pty) Ltd. Algoa Brick (Pty) Ltd also served as a profit generating vehicle for the EJ Offerman Family Trust whilst Coega Brick (Pty) Ltd was run at breakeven. This move was in response to the possibility of unions being able to obtain company financial records and negotiate wages with full knowledge of the profit made by the company (Offerman E., 2010).

The period between 1991 and 1994 served as a period of consolidation for Mr EJ Offerman. During this period, stability was imperative as the loans used to buy out Mr W Offerman were repaid to First National Bank. However, in 1994, an opportunity for expansion arose that Mr EJ Offerman could not pass up and an investment was made in Grahamstown (Offerman E., 2010).

2.4.3 The period 1994 - 2002

In 1994, Mr EJ Offerman purchased an existing clay brick manufacturing concern in Grahamstown known as Grahamstown Brick Pty (Ltd) (Business Reporter, 1994). Grahamstown Brick (Pty) Ltd had been owner-managed so in order to operate the factory, Mr EJ Offerman offered his nephew, Mr JC Meyer, a position as Managing Director. Mr JC Meyer was also offered shares in the business along with Mr EJ Offerman’s children, Ms FA and Mr JL Offerman. The first two directors of Grahamstown Brick (Pty) Ltd were Mr EJ Offerman and Mr JC Meyer and the initial ownership structure of the company was as follows (Offerman E., 2010):

- EJ Offerman Family Trust 41 percent
- JC Meyer Family Trust 49 percent
- FA Offerman 5 percent
- JL Offerman 5 percent
The first obstacle hindering Grahamstown Brick’s progress was the location of the factory on leased land. This was duly circumvented by the purchase of property and the complete removal of the plant to its current location. Secondly, the period 1996 – 2000 was a difficult period for the clay brick industry in South Africa due mainly to the country’s transition to democracy and the uncertainty this change created. Nevertheless, Grahamstown Brick prospered and by 2002, its products had become well-known and sought after in the Eastern Cape. Sales were conducted directly with the public in many areas but in the traditional footprint region of Algoa Brick (Pty) Ltd, Algoa Brick had the exclusive marketing rights for Grahamstown Brick products. Both Mr EJ Offerman and Mr JC Meyer were directors of the company but formal directors meetings were rarely held (Offerman E., 2010).

During this period, further development at the original Algoa Brick factory site was suspended whilst all efforts were focussed on Grahamstown Brick. This was further compounded by the uncertainty created by the commencement of the new Coega Harbour Development at Coega. The original Algoa Brick factory site had been depicted as being located within the demarcated Coega Industrial Development Zone by various drawings carried in the media. As meaningful liaison with the Coega Development Corporation proved problematic, significant doubt existed over the future of the factory on this site (Offerman E., 2010).

2.4.4 The period 2002 – 2010

With Grahamstown Brick prospering and uncertainty existing over the original plant’s future, Mr EJ Offerman sought other investment opportunities within the clay brick industry. A significant opportunity presented itself in July 2002 when Corobrik (Pty) Ltd offered to sell their Port Elizabeth factory which hitherto had been a competitor in the Port Elizabeth area. At that time, Corobrik’s Port Elizabeth plant had been shut down for approximately three years due to poor market demand as well as a strategic decision taken by Corobrik to manufacture their products elsewhere and import them into the Eastern Cape.

Mr EJ Offerman negotiated with Corobrik and a deal was concluded heralding the birth of a new clay brick manufacturing concern, Ngqura Brick (Pty) Ltd. Mr EJ Offerman offered the post of Managing Director of Ngqura Brick to Mr NM Mienie (a non-family member) along with a 10 percent shareholding in the company to “sweeten the deal”. Mr Mienie accepted and assumed the helm of the new company supported by Mr JL Offerman, Mr EJ Offerman’s son (and author of this treatise), as project manager tasked with refurbishing the plant. An
additional 10 percent shareholding was offered to Mr M Hunter-Smith who, at that time, was Managing Director of Algoa Brick (Pty) Ltd, the sales and marketing company of the group. Mr EJ Offerman’s children, Ms FA and Mr JL Offerman, were also given the opportunity to obtain a 10 percent shareholding each which they both took up.

In a first for the clay brick industry in South Africa, Ngqura Brick (Pty) Ltd became the first independently-owned black empowered clay brick company in the country with the sale of a 15 percent share to Ziyabuya Fishing (Pty) Ltd, a black empowerment consortium (Derry, 2003). The reason for this move was the introduction of the Minerals Charter which required a minimum 25 percent black shareholding in all mines by April 2009, in order that a mining licence be renewed in terms of the new Mineral and Petroleum Resources Development Act of 2002 (Department of Minerals and Energy, 2007). Due to the mining of clay in order to make bricks, clay brick manufacturers are classed as mines in South Africa even though mining generally averages around 7 percent of their cost base (Offerman E., 2010). To summarise, the original shareholding of Ngqura Brick (Pty) Ltd was as follows:

- EJ Offerman Family Trust: 45 percent
- Ziyabuya Fishing (Pty) Ltd: 15 percent
- MN Mienie: 10 percent
- M Hunter-Smith: 10 percent
- FA Offerman: 10 percent
- JL Offerman: 10 percent

The Board of Directors of Ngqura Brick (Pty) Ltd consisted of Mr NM Mienie as Managing Director, supported by Directors consisting of Mr M Hunter-Smith, Mr EJ Offerman, Ms FA Offerman, Mr JL Offerman and two representatives from Ziyabuya, namely Mr C Solilo and Mr ME Links.

The timing of the Ngqura Brick venture was ideal. As production commenced and increased, the market grew significantly (Business Reporter, 2004). Selling exclusively through Algoa Brick (Pty) Ltd, Ngqura Brick was able to soak up practically the entire market growth and by the close of 2005, was the single largest clay brick producing factory in the Eastern Cape. The growth in the market also brought prosperity to Grahamstown Brick and Coega Brick
during this period and by mid 2005, a decision was taken to pool company efforts into a large development at Grahamstown Brick in Grahamstown, by this time trading as Makana Brick.

The development at Makana Brick comprised the construction of a new tunnel kiln factory employing the latest automation. During the initial planning phase, Mr JC Meyer chose to sell half of his shareholding in Grahamstown Brick back to the EJ Offerman Family Trust. An additional change of shareholding came during the financial structuring portion of the development with the investment of a black empowerment consortium known as Ifutha (Pty) Ltd (Loewe, 2006). On completion of the development, the eventual scale of which was more ambitious than originally envisaged, the shareholding of Grahamstown Brick (Pty) Ltd trading as Makana Brick was as follows:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EJ Offerman Family Trust</td>
<td>41 percent</td>
</tr>
<tr>
<td>Ifutha (Pty) Ltd</td>
<td>25 percent</td>
</tr>
<tr>
<td>JC Meyer Family Trust</td>
<td>24 percent</td>
</tr>
<tr>
<td>FA Offerman</td>
<td>5 percent</td>
</tr>
<tr>
<td>JL Offerman Family Trust</td>
<td>5 percent</td>
</tr>
</tbody>
</table>

The Board of Directors of Grahamstown Brick (Pty) Ltd consisted of Mr DD Sipeliti as Chairman of the Board, Mr JC Meyer as Managing Director, and Directors consisting of Mr M Hunter-Smith, Mr PJ Haasbroek, Mr TC Nkosi, Mr EJ Offerman, Ms FA Offerman and Mr JL Offerman. The new plant in Grahamstown began to operate in November 2007. Unfortunately, the commencement of production preceded a major economic downturn by only a few months and by the middle of 2008, South Africa was gripped by its first recession since democracy which had significant negative effects on the building industry (Herald Correspondent, 2008).

Hamstrung by debt from the development and inexperienced in the operation of a high technology plant, Grahamstown Brick began to struggle. Some family tension had existed for a lengthy period between the Port Elizabeth and Grahamstown operations but the difficult market made the situation worse. With the fires of discontent being fanned by the poor trading conditions, a terminal breakdown in working relationships occurred leading to the resignation of Mr JC Meyer, the nephew of Mr EJ Offerman, from his position as Managing Director. In addition to stepping down as Managing Director, Mr JC Meyer also disposed of
all of his shareholding to Coega Brick (Pty) Ltd – effectively back to Mr EJ Offerman albeit indirectly. Mr JC Meyer was replaced as Managing Director by Mr NM Mienie, who now serves both Algoa Brick and Makana Brick in this capacity.

Notwithstanding the struggle in Grahamstown, Ngqura Brick (Pty) Ltd and Algoa Brick (Pty) Ltd were still able to take a positive step during this period. On 01 July 2008, Algoa Brick (Pty) Ltd, which hitherto had been 100 percent owned by the EJ Offerman Family Trust, was bought by Ngqura Brick (Pty) Ltd (Correspondent, 2008). The new entity formed is known as Ngqura Brick (Pty) Ltd trading as Algoa Brick and the reason for this move is clear – it has become necessary for the marketing and sales side of the business to enjoy the advantage offered by black empowerment (Offerman E., 2010). In addition to the Algoa Brick purchase, a shareholding change occurred with the purchase of a further 10 percent stake in the new entity by Ziyabuya Fishing (Pty) Ltd. These shares were bought from the EJ Offerman Family Trust and served to raise Ziyabuya’s total shareholding to 25 percent. This was the final move towards complying with the Minerals Charter by having a total black empowerment ownership stake of 25 percent.

2.5 Current structure of Offerman Family businesses (August 2010)

As of August 2010, the Offerman Family have interests in three separate companies. These are Ngqura Brick (Pty) Ltd trading as Algoa Brick; Grahamstown Brick (Pty) Ltd trading as Makana Brick; and Coega Brick (Pty) Ltd. The shareholding and directorship structures are detailed in the following table and where there have been changes beyond those described in the preceding section, explanatory comments are provided.
Table 2:1: Shareholding and directorship structures in the Offerman Family businesses

<table>
<thead>
<tr>
<th>Company</th>
<th>Ngqura Brick (Pty) Ltd trading as Algoa Brick</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholding</strong></td>
<td>EJ Offerman Family Trust 35 percent</td>
</tr>
<tr>
<td></td>
<td>Ziyabuya Fishing (Pty) Ltd 25 percent</td>
</tr>
<tr>
<td></td>
<td>NM Mienie 10 percent</td>
</tr>
<tr>
<td></td>
<td>M Hunter-Smith 10 percent</td>
</tr>
<tr>
<td></td>
<td>FA Offerman 10 percent</td>
</tr>
<tr>
<td></td>
<td>JL Offerman 10 percent</td>
</tr>
<tr>
<td><strong>Directors</strong></td>
<td>Mr ME Links (Chairman)</td>
</tr>
<tr>
<td></td>
<td>Mr NM Mienie (Managing Director)</td>
</tr>
<tr>
<td></td>
<td>Mr EJ Offerman</td>
</tr>
<tr>
<td></td>
<td>Mr M Hunter-Smith</td>
</tr>
<tr>
<td></td>
<td>Mr TF Belewa</td>
</tr>
<tr>
<td></td>
<td>Ms FA Offerman</td>
</tr>
<tr>
<td></td>
<td>Mr GJ Richards</td>
</tr>
<tr>
<td></td>
<td>Mr JL Offerman</td>
</tr>
<tr>
<td><strong>Comments</strong></td>
<td>Mr TF Belewa replaced Mr C Solilo as a director on behalf of Ziyabuya Fishing.</td>
</tr>
<tr>
<td></td>
<td>Mr GJ Richards was appointed as an additional director on behalf of the EJ Offerman Family Trust. Mr GJ Richards is married to Ms FA Offerman and hence, is the son-in-law of Mr EJ Offerman. Mr GJ Richards does not have any executive responsibility but brings legal experience to the board.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Grahamstown Brick (Pty) Ltd trading as Makana Brick</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholding</strong></td>
<td>EJ Offerman Family Trust 41 percent</td>
</tr>
<tr>
<td></td>
<td>Ufutha (Pty) Ltd 25 percent</td>
</tr>
<tr>
<td></td>
<td>Coega Brick (Pty) Ltd 24 percent</td>
</tr>
<tr>
<td></td>
<td>FA Offerman 5 percent</td>
</tr>
<tr>
<td></td>
<td>JL Offerman Family Trust 5 percent</td>
</tr>
<tr>
<td><strong>Directors</strong></td>
<td>Mr DD Sipeliti (Chairman)</td>
</tr>
<tr>
<td></td>
<td>Mr NM Mienie (Managing)</td>
</tr>
<tr>
<td></td>
<td>Mr M Hunter-Smith</td>
</tr>
<tr>
<td></td>
<td>Mr PJ Haasbroek</td>
</tr>
<tr>
<td></td>
<td>Mr TC Nkosi</td>
</tr>
<tr>
<td></td>
<td>Mr EJ Offerman</td>
</tr>
<tr>
<td></td>
<td>Ms FA Offerman</td>
</tr>
<tr>
<td><strong>Comments</strong></td>
<td>Mr JL Offerman has stepped down as a director of Makana Brick and appointed Mr NM Mienie to act as a director in his stead.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Coega Brick (Pty) Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholding</strong></td>
<td>EJ Offerman Family Trust 100 percent</td>
</tr>
<tr>
<td><strong>Directors</strong></td>
<td>Mr EJ Offerman (Managing)</td>
</tr>
<tr>
<td></td>
<td>Mrs JA Offerman</td>
</tr>
<tr>
<td></td>
<td>Ms FA Offerman</td>
</tr>
<tr>
<td></td>
<td>Mr JL Offerman</td>
</tr>
<tr>
<td><strong>Comments</strong></td>
<td>Mrs JA Offerman is the former wife of Mr EJ Offerman. She plays no active role in the affairs of the company.</td>
</tr>
</tbody>
</table>
2.6 Current Offerman Family involvement in the businesses

Family shareholding in the three companies is detailed fully above. Ongoing family involvement at an executive level is as follows:

Mr EJ Offerman is the family patriarch and effectively controls the majority shareholding in all three companies via his trust, the EJ Offerman Family Trust. Mr EJ Offerman remains as the Managing Director of Coega Brick (Pty) Ltd and fulfils this role as his daily work. Although he is officially a non-executive director of both Ngqura Brick (Pty) Ltd trading as Algoa Brick, and Grahamstown Brick (Pty) Ltd trading as Makana Brick, Mr EJ Offerman wields considerably more executive influence than other non-executive directors. This is obviously to do with Mr EJ Offerman having founded both companies and having effective control (by virtue of the EJ Offerman Family Trust) of the largest shareholding in each company. Mr EJ Offerman is also highly experienced in the clay brick industry and held in high regard by many industry insiders as well as the executive management of his companies.

Ms FA Offerman is the elder of the two children of Mr EJ Offerman and is employed by Coega Brick (Pty) Ltd. She serves as a financial administrator for Coega Brick (Pty) Ltd as well as taking responsibility in other administrative areas such as human resources. Her services are also contracted out to Ngqura Brick (Pty) Ltd trading as Algoa Brick where she acts in a similar capacity. Ms FA Offerman serves as a non-executive director on the board of Grahamstown Brick (Pty) Ltd trading as Makana Brick whilst her directorial role at Ngqura Brick (Pty) Ltd trading as Algoa Brick is best described as executive due to her services being contracted to the company. Ms FA Offerman is also an executive director of Coega Brick (Pty) Ltd although the activities of the board of this company are limited to fulfilling legislative tasks rather than performing any real advisory role.

Mr GJ Richards is married to Ms FA Offerman and hence, is the son-in-law of Mr EJ Offerman. In 2009, Mr GJ Richards was appointed as an additional non-executive director of Ngqura Brick (Pty) Ltd trading as Algoa Brick by Mr EJ Offerman. In terms of the agreement governing the shareholders of the company, Mr EJ Offerman is entitled to appoint two directors to the board due to the size of his shareholding (Rushmere Noach Attorneys, 2009). Mr EJ Offerman chose to appoint Mr GJ Richards due to his legal knowledge as well as for reasons of bringing fresh ideas into the company.
Mr JL Offerman is the youngest of Mr EJ Offerman’s two children and the researcher of this treatise. Mr JL Offerman previously held a project managerial role at Ngqura Brick (Pty) Ltd trading as Algoa Brick, and later with Coega Brick (Pty) Ltd. However, a major drop in the market effectively made this position redundant. Coega Brick (Pty) Ltd undertook to fund Mr JL Offerman’s business studies during 2009 and 2010 but unfortunately, continued poor market demand forced the company to retrench Mr JL Offerman in March 2010. Although he has no current executive role at the companies, Mr JL Offerman continues to hold directorships at Ngqura Brick (Pty) Ltd trading as Algoa Brick, and Coega Brick (Pty) Ltd although as mentioned above, the activities of the Coega Brick (Pty) Ltd board are limited to fulfilling legislative tasks without any real advisory role. In the case of Grahamstown Brick (Pty) Ltd trading as Makana Brick, Mr JL Offerman has stepped down from the board and appointed Mr NM Mienie in his stead.

Mr JC Meyer is the nephew of Mr EJ Offerman. As detailed above, Mr JC Meyer recently stepped down as Managing Director of Grahamstown Brick (Pty) Ltd trading as Makana Brick after a lengthy period in this position. Additionally, Mr JC Meyer’s family trust also sold all of its shares in the company. As part of his exit strategy, Mr JC Meyer will continue to contract financial management services to the company for a period of two years, under instruction from the new Managing Director, Mr NM Mienie.

2.7 Chapter summary

The lack of a single, universally accepted definition of a family business is a major challenge for family business researchers as it becomes extremely difficult to compare different studies into family businesses. Against this backdrop, the Offerman Family business was evaluated against two definitions of a family business and found to comply with all the criteria offered. For this reason, the Offerman Family business is rightfully called a family business.

Family businesses are known to have significant strengths and weaknesses. Detail was provided of those strengths and weaknesses considered pertinent to the Offerman Family businesses following which the importance of family business in South Africa was addressed. It is estimated that approximately 84 percent of all businesses in South Africa are family businesses (Balshaw, 2003, p. 26) and against the worldwide picture of successful family businesses, this type of business entity was shown to be of key value in the South African economy.
An important local contributor to the South African economy is the Offerman Family businesses which have existed in various forms since 1945. The history of this business was detailed following which a summary was provided of the current structure of the Offerman Family businesses as of August 2010.

The chapter closed with a description of current Offerman Family involvement in the businesses. In this way, the context was established for the detailed overview of governance in family business that follows in Chapter 3.
CHAPTER 3: GOVERNANCE IN FAMILY BUSINESS

3.1 Introduction

Maxwell Corporation (United Kingdom). Enron (USA). WorldCom (USA). Parmalat (Italy). Satyam (India).

All of the above companies are names that one has seen in the media for the wrong reasons – corporate governance failures and scandal. All were once well-respected and successful companies and Satyam even won a corporate governance award a few years before the drama unfolded!

The obvious lesson from the above is no matter how good the governance systems appear to be, the temptation of human frailty is omnipresent. The five corporate sins of self-interest; self-concern; a focus on processes in lieu of enterprise; pride; and arrogance (King, 2006, pp. 22-23) are always close at hand and it is imperative that countermeasures are continually developed. In the corporate sphere, the countermeasures employed to deal with the five corporate sins are systems of corporate governance. However, the installation of these systems is not a once-off event and even companies which once had the best corporate governance systems can find themselves beset by spectacular failures.

This chapter will commence with a discussion on the nature of corporate governance in an attempt to find a suitable explanation of the concept. Once formulated, the concept will be taken forward into the realms of family business where the additional intricacies of governance in family business will be demonstrated. Governance is an important topic in all business. However in family business, there are additional implications which will be discussed in detail.

The stage of evolution in which a family business finds itself can have a significant effect on the governance system that it requires. For this reason, a discussion on life cycles of family business is offered before the topic of governance in family business is introduced. For the purposes of this study, there are effectively two main areas of concern with respect to governance in family business. These are family governance and business governance and both are reviewed in detail. Business governance is divided into two parts, namely governance provided by the board of directors, and governance provided by management.
It will be shown below that governance involves more than just systems and processes. There are also directing, controlling and accounting (for) elements of governance and a discussion on these topics provides the last comments on governance in the literature review. The directing task of governance is divided into three sections which are considered to be critical areas in which good governance can make a positive impact. Under controlling and accounting (for), a discussion will be offered on the various approaches that can be employed in controlling and accounting for governance in a family business. The chapter closes with a review of the topics covered.

In all of the above discussion, reference is maintained to the target of this study, the Offerman Family businesses. For this reason, the vast topic of governance in family business is focussed on that most applicable to the Offerman Family businesses. Mervyn E King SC, of the King Commission on Corporate Governance fame, wrote that: “The practice of good governance is a journey and not a destination” (King, 2006, p. 4). In this spirit, the journey commences with an inquiry into corporate governance measures most relevant to the Offerman Family businesses.

3.2 The nature of corporate governance

The concept of corporate governance is not new. Indeed, it may date back to when incorporation with limited liability became a practice in the nineteenth century. However, as recently as the 1980’s, the term was largely unknown and only came to prominence via the spectacular failure of various large corporate entities such as the United Kingdom’s Maxwell Corporation in 1991 (Vinten, 2001, p. 4; Maier, 2005, p. 2). Although the Cadbury Report of 1992 had been preceded by two reports from the United States, it quickly established itself as the world leader in corporate governance and the groundwork it laid in this field has become almost legendary (Neubauer & Lank, 1998). For this reason, it is fitting first to consider the definition for corporate governance put forward by the Cadbury Committee (1992):

“Corporate governance is the system by which companies are directed and controlled.”

Neubauer and Lank (1998, pp. 60-61) amend this means-orientated definition slightly to the following:

“Corporate governance is the system of structures and processes to direct and control corporations and to account for them.”
These authors consider the “directing” part of their definition to involve far-reaching decisions that are strategic in nature, precedent-setting and difficult to reverse (as opposed to the everyday involvement of management). “Controlling” is understood to involve oversight of management performance and the monitoring of progress towards corporate objectives and “accounting for” is taken to mean responsibility towards legitimate claimants (stakeholders) for accountability on the part of the firm. From this definition, it is clear that the concept of corporate governance is multi-faceted and involves the way in which companies should operate.

In order to provide an additional perspective, Neubauer and Lank (1998, pp. 60-61) also put forward an ends-orientated definition of corporate governance:

“Corporate governance is a system of structures and processes to secure the economic viability as well as legitimacy of the corporation.”

With this definition, “economic viability” means the enduring sustainable development of the firm whereas “legitimacy” involves the acceptance of a corporation by society at large. In his broad explanation of the nature of governance, King (2006, p. 14) echoes this ends-orientated definition in explaining that the consequence of bad governance “is that stakeholders’ support for the company dwindles” – i.e. its legitimacy is questioned. From this different perspective, corporate governance is seen as the manner in which companies should operate to sustain their future potential. In other words, governance of some form is required to enable companies to continue to operate sustainably.

Notwithstanding the ends-based explanation of corporate governance provided by King, the focal definition of corporate governance he suggests is also means-orientated (2006, p. 18):

“(Corporate governance consists of) processes to help directors discharge and be seen to be discharging their responsibilities created by their duties.”

The above definition supports King’s assertion that “good governance is a journey and not a destination” (2006, p. 4). For continued acceptance by all stakeholders, the directors of a company must continually be observed to be exercising their responsibilities towards governance lest the company’s perceived legitimacy begin to wane. Hence, governance can be regarded as a continuous learning process that is dynamic in nature and subject to many influences such as swings in the economy or changes in technology. Governance is not static but an ongoing work in progress (King, 2006).
There are numerous other definitions and descriptions of corporate governance. As part of his explanation of governance, Davis (2001) suggests that governance involves “bringing the right people together at the right time to discuss the right (important) things”. Maier (2005, p. 2), as part of her explanation, states that corporate governance defines a set of relationships between the management of a company, its board, shareholders and other stakeholders. In the same vein, a practically infinite number of other descriptions could be considered. However, it is clear that all of these outlooks on corporate governance are related. All have different meanings dependent on each individual observer’s perspective but yet essentially, all are very similar.

In essence, corporate governance can be viewed as standing upon four primary pillars. Fairness, accountability, responsibility and transparency are noted as forming the common foundation of all the major international guidelines of corporate governance (PricewaterhouseCoopers, 2003, p. i) Although not always directly stated, these primary pillars are generally at least implicit in the corporate governance definitions and explanations put forward above.

For the purposes of this dissertation, a combination of the above explanations and definitions is offered, founded on the four primary pillars of corporate governance. The definition so derived reads as follows:

**Corporate governance provides the collective means of ensuring that all corporate assets, resources and actions are directed at, and controlled in the achievement of established corporate objectives and are accounted for to all legitimate stakeholders** (PricewaterhouseCoopers, 2003; Neubauer & Lank, 1998; King, 2006).

### 3.3 Corporate governance in family business

In order to apply the above-derived account of corporate governance to family businesses specifically, it is first necessary to consider some fundamental differences between family businesses and non-family entities. Neubauer and Lank (1998, p. 14) consider family businesses to be the most complex form of business organisation and to this end, the Three Circles Model shown below, as put forward by Tagiuri and Davis (1992), provides useful insight into the additional complexity of family businesses.
Figure 3.1: The Three Circles Model of family business

![Three Circles Model](image)

Source: Tagiuri and Davis (1992)

Figure 3.1 shows that when considering a family business, at least three viewpoints should be contemplated: namely, the family, management and ownership. In most other forms of business, the situational focus mostly rests on management while ownership (shareholders) is probably considered to a lesser extent (Kenyon-Rouvinez & Ward, 2005, pp. 6-7). In most situations, it can be expected that each circle of the family business system will hold a particular perspective and naturally, it follows that these views may be different (Davis, 2001). Further to this, each of the three circles warrants particular governance mechanisms providing an additional level of complexity. To this end, adherence to the model provides assurance that each element of a decision or problem is considered (Kenyon-Rouvinez & Ward, 2005, pp. 6-7).

As an example of the above, consider a family shareholder that is not employed in the business. If one considers the Three Circles Model, such a person would find themselves in the overlap between the “Family” and “Ownership” circles but be excluded from the “Management” circle. Taking this further, it is likely that such an individual would favour the payment of a significant dividend stream in order to earn an income from their shareholding. In comparison, a family shareholder who is actually employed in the business may wish to see the business grow faster and would therefore favour retaining more earnings to invest in growth. In most cases, both of these opposing viewpoints would be entirely legitimate and
good governance would see them being reconciled in a manner such that the best interests of the business are taken into account whilst family harmony is preserved (Davis, 2001).

The overlapping circles can also engender confusion about roles and responsibilities. For instance, a family business owner who is simultaneously on the management team and board, as well as being an owner, may have grown up believing that being an owner automatically confers the ability to govern and manage the business. Unfortunately, becoming an effective director or a talented manager requires more than inheriting shares (Kenyon-Rouvinez & Ward, 2005, p. 46). Additionally, persons in such positions sometimes need to clarify from which points they are thinking or speaking – are they being “dad” or “boss” or “majority shareholder” (Kenyon-Rouvinez & Ward, 2005, p. 9)?

In addition to the Three Circles Model, there are a number of other models that have been created to illustrate the complexity and the inter-related subsystems of family business. Amongst others, Neubauer and Lank (1998, pp. 14-15) offered their “Three circle and tie model” while Klein (2000), as reported in Fahed-Sreih (2009, p. 52), derived his four-dimensional family business model. Although each of these models offers a different insight into the complexity of family business, they are generally all suited towards illustrating the position of an individual actor within the family business system and for gaining insight into this actor’s opinion with respect to other actors in the arena (Fahed-Sreih, 2009). In addition, these models also all serve to highlight a common issue – due to the additional facets of family business, it is clear that governance in family business requires a different approach to that which is successful in non-family entities.

Neubauer and Lank (1998, pp. 65-67), echoed by Adendorff (2004, pp. 228-231), wrote that very little study has been conducted into corporate governance in family-controlled companies. Neubauer and Lank identified authors considered to be notable exceptions to this generalisation including Ward (1991) and Gersick, Davis and McCollom (1997). Neubauer and Lank (1998) themselves also added significantly to the writings on this topic.

Since then, the work of Adendorff (2004) has served to advance knowledge in this arena locally while the topic of governance in family business seems to have enjoyed more coverage than was previously the case. In this vein, some works noted include that of Gallo and Kenyon-Rouvinez, as published in Kenyon-Rouvinez and Ward (2005, pp. 45-57), and that of Davis (2001), (2007). Another author noted is Fahed-Sreih (2009, p. 50) who believes that more recently, “corporate governance has proven to be a prominent academic subject
for investigation in family business” and goes on to describe two common approaches taken by various authors in the study of governance in family business.

According to Fahed-Sreih (2009, p. 50), the first prevalent method involves focusing on an individual mechanism of governance, such as the board of directors, and investigating it in isolation from the other governance structures of the firm. Two studies that have followed such an approach are those by Huse (2000) and Teksten, Moser and Ebert (2005). However, Coles, McWilliams and Sen (2001), as reported in Fahed-Sreih, believe that a focus on an isolated mechanism tends to sideline potential substitution effects within the same structure as well as interaction with other forms of governance.

The second prevalent approach to the study of governance, as reported by Fahed-Sreih (2009, p. 50), involves the adoption of a broader approach. This method considers several elements of the governance system and their multiple relationships simultaneously and according to Fahed-Sreih, recent exponents of this approach have included Anderson and Reeb (2003) and Pieper (2003). However, for the purposes of this study, a case study approach will be followed that focuses on the role of governance in a particular family business rather than these two methods which apply to the direct study of governance.

As a conclusion to this discussion on corporate governance in family business, the following definition by Kenyon-Rouvinez and Ward (2005, p. 45) is offered which encompasses the additional complexity of governance in family businesses over that of non-family entities:

“Family business governance is a system of processes and structures put in place at the highest level of the business, family, and ownership to make the best possible decisions regarding the direction of the business and assurance of accountability and control.”

3.4 The importance of governance in family business

Subsequent to the establishment of a definition for corporate governance and a review of the extension of this definition into the realms of family business, it follows that a discussion should be offered of why governance systems are of vital importance in family business. This section will consider the role that governance can play in the successful propagation of business. Alternatively, some light will be shed on what may occur should applicable governance be lacking in a family business.
King (2006, pp. 19-20) provides a simple explanation of the necessity for governance in a business. He posits that investors in the equity of a business expect that the return on their investment should be higher than that which could have been achieved in a bank for reasons of the added risk involved. Although the return is expected to be higher, investors are aware that the wrong business judgement call may result in a lower return than expected or even the complete loss of their investment. In this vein, investors accept the possibility that the directors of the company in which they have invested may make a wrong business judgement call. However, investors will not accept a wrong business call that was made by directors who adopted an inappropriate process in order to make their decision.

Notwithstanding the above, directors can make good business judgement calls whilst practising bad governance. The converse of a bad judgement call supported by good governance also occurs which unfortunately, is sometimes equated to bad governance. However, in the case of a bad judgement call backed by bad governance, directors should expect a disastrous situation (King, 2006, pp. 19-20). In echoing this sentiment, Levitt (2000), as cited by Adendorff (2004, p. 213), believes that sound corporate governance makes good business sense from a purely utilitarian point of view. Her motivation is the belief that sound governance promises an increased ability to attract foreign and institutional investment, to supplement sustainable growth and to identify and manage other risks (Levitt, 2000). Maier (2005, p. 2) makes a similar point in saying that governance can provide shareholders with increased confidence of an equitable return whilst providing other stakeholders with assurance towards the sustainability of the company.

Although the above seems relatively complex and applicable only to larger organisations, good governance is critically important to all businesses (Kenyon-Rouvinez & Ward, 2005, p. 45), even those too small to have a board of directors. Good governance ensures that the business has well thought-out and articulated directives that make its goals, mission and values clear to all concerned. Good governance is also critical for reasons of control as it ensures that the decisions made by the owners, directors and executives serve the goals of the business and are respected throughout the organisation. In this way, good governance leads to accountability and ensures responsibility (Kenyon-Rouvinez & Ward, 2005, p. 45).

A weakness of family business identified previously is ambiguity of the different roles played by family members in a family business which can lead to confusion between the roles of management, family and shareholders (International Finance Corporation, 2008, p. 13).
Sound governance promotes a clear understanding of the various role players in a family organisation and what their roles are (Kenyon-Rouvinez & Ward, 2005, p. 45). Additionally, good governance supports transparency and trust which are vital towards fostering shareholder commitment and bettering company performance. In this way, the long-term sustainability of a family business is assured (Kenyon-Rouvinez & Ward, 2005, p. 45).

In addition to role ambiguity, sound decision-making and governance structures supported by effective communication are often lacking in family business (Balshaw, 2004, pp. 23-24). An example of this is the perception that non-active shareholders often have of active shareholders in the business – active shareholder are often perceived to begrudge requests for dividends or even provision of information to non-active shareholders. In the absence of shared information promoted by sound governance, the resulting knowledge vacuum provides a fertile breeding ground for mistrust and conflict which is often based on misperception (Balshaw, 2004, pp. 23-24).

Clearly, a lack of governance can have major consequences in relatively normal circumstance due to the complexity of family business. However, when it comes to handling conflict in a family business, a lack of governance can be an even bigger problem. An oft-made mistake in family business in times of conflict, involves the employment of short-sighted and dysfunctional approaches to ‘handle’ issues rather than the installation of sound governance (Davis, 2001).

Common examples of these erroneous approaches include (i) exclusion and secrecy – the keeping of too many secrets from employees, owners or family members; (ii) divide and conquer – relying on allies for support whilst excluding others from information and decision-making; and (iii) bribery – this includes nepotism, paying family members too much for their value add, and being reckless with the distribution of company funds in order to maintain a semblance of family harmony (Davis, 2001). It is not hard to imagine how these tactics, used as poor stand-ins for a system of governance, can generate strife.

### 3.5 The influence of life cycle on the governance of family business

From the above, the importance of governance in a family business can be left in no doubt. Nevertheless, it is fairly easy to see that not all family businesses require the same level of governance – a first generation family owned retail outlet, in which a parent works with one child, will evidently require a vastly different governance system to a fourth generation
family-owned conglomerate in which numerous cousins, from different generations, are employed. Clearly, it is necessary to consider another important aspect of family – that of life cycle. A discussion of this facet of family business is necessary as the particular stage in the evolution of a family business can have a marked influence on the extent of governance mechanisms required by that business at a particular stage in its development (Neubauer & Lank, 1998, pp. 48-53).

Numerous authors have focussed on life cycles or development stages of family business as a point of study and for this reason, a comprehensive discussion of family business life cycles is a major topic on its own. Although it is necessary to consider family business life cycles for the purposes of this investigation, an all-embracing review of this subject is beyond the scope of this study. In this vein, a cursory overview is offered first before the necessary conclusions are drawn for the study of the role of governance in the Offerman Family businesses.

3.5.1 Life cycle literature review

Venter (2009, p. 11) makes mention of various typologies that have been offered to describe the different business developmental models within the context of family business. Amongst others, Venter cites the work of Leach (1994), Handelsman (1996) and Neubauer and Lank (1998, pp. 34-53) while a study by Gersick, Davis and McCollom (1997) is mentioned by numerous authors. In turn, these authors discuss various models by preceding studies, the most notable of which is Ward (1988), (1991) who is credited with authoring perhaps the best-known model that describes the evolution of a family business. For the purposes of this study, a discussion of Ward’s model is offered towards characterising the Offerman Family businesses.

Ward’s model involves three stages as follows: (1) the Founder(s) (or controlling owner(s)) Stage; (2) the Sibling Partnership Stage; and (3) the Cousin Confederation Stage (Ward, 1991). Stage one is the initial step of the business’ existence where the business is entirely owned and managed by the founder(s). Most founder(s) seek outside advice as required but in general, the founder(s) make(s) all key decisions. A characteristic of this stage of development is normally strong commitment from the founder(s) towards the success of the venture and a relatively simple governance structure. As ownership and control are still vested in the hands of the founder(s), governance issues are few in comparison to the latter stages (International Finance Corporation, 2008, pp. 14-16).
Stage two occurs when ownership and management have been transferred to the children of the founder(s). Due to the addition of more family members into the business structures, a corresponding increase in the complexity of governance issues is expected over Stage one. Commonly, challenges during this phase include the maintenance of sibling harmony against the ever-present danger of sibling rivalry and competition. Although the addition of diversity from the partnership can be beneficial, disagreement can be disastrous and can destroy lifelong family relationships (International Finance Corporation, 2008, pp. 14-16; Kenyon-Rouvinez & Ward, 2005, pp. 10-12).

Stage three, the Cousin Confederation, is usually the most complex of the three stages with regard to governance issues. More family members become involved, directly and indirectly, and family members can belong to different branches and different generations of the original founding family. This often means that diverse ideas exist on how the company should be run and what overall strategy should be employed providing much potential for conflict to develop. Additionally, any conflicts that may have existed among siblings in the previous stage of development can be carried through and unless sound governance measures are introduced including the right processes, policies and rules, company progress can be stifled (International Finance Corporation, 2008, pp. 14-16). When governance works well, all participants feel that their voices have been heard and that they have received fair treatment, even if they do not agree with a particular decision (Kenyon-Rouvinez & Ward, 2005, pp. 10-12). Kenyon-Rouvinez and Ward provide the following summary of the three stages, and some of their key characteristics:

**Table 3:1: Stages of Ownership**

<table>
<thead>
<tr>
<th>Stage 1: The Founder(s) (or Controlling Owner(s))</th>
<th>Stage 2: Sibling Partnership</th>
<th>Stage 3: Cousin Confederation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unilateral decisions</td>
<td>Consensus decisions</td>
<td>Democratic decision process</td>
</tr>
<tr>
<td>Authoritarian system</td>
<td>Intense and volatile</td>
<td>Dispersed ownership</td>
</tr>
<tr>
<td>Quick decisions</td>
<td>Diversity</td>
<td>No-one has absolute control</td>
</tr>
<tr>
<td>Others may feel alienated</td>
<td>Creativity</td>
<td>Rules and fair process</td>
</tr>
<tr>
<td>Simplicity</td>
<td>Higher risk of conflict</td>
<td>Loss of personal interest</td>
</tr>
</tbody>
</table>

**Source:** Kenyon-Rouvinez and Ward (2005, p. 10)
Kenyon-Rouvinez and Ward (2005, pp. 10-12) list two important benefits obtained via considering family business according to the above three stages. Firstly, the family, and others involved in the business, are able to view more clearly the style and implications of each decision-making approach. Secondly, incumbent owners from following generations can deliberate over suitable options for their generation and prepare accordingly. However, for the purposes of this study, the classification of the Offerman Family businesses against the three stage model is useful as it enables the typical issues of the identified stage to be considered in the discussion of governance mechanisms relevant to the Offerman Family businesses.

3.6 Governance systems in family business

Figure 3.2 below advances the Three Circles Model of family business into the realms of governance. In the diagram, Davis (2007, p. 6) depicts four elements that have influence on the governance of the family business system providing a multifaceted view that serves to demonstrate the complexity of governance in family business.

**Figure 3.2:** Basic governance structures of the family business system

![Figure 3.2: Basic governance structures of the family business system](source: Davis (2007, p. 6))
In most organisations, shareholders typically meet once a year at an Annual General Meeting (AGM) which is legally required. At these meetings, which can often be brief, formal affairs, proceedings usually include informing shareholders about company conditions, the election of board members, the appointment of the company auditor and any updating of corporate bylaws as required. In most family businesses, if the other three facets of governance, namely the family structures, management and the board of directors, are functioning effectively, the needs of most shareholders with regard to information about the business should be satisfied. It is for this reason that the AGM typically becomes a brief, rubber-stamp affair (Davis, 2007, pp. 5-6).

Nevertheless, in some businesses, particularly where there are a few powerful owners who wish to play a more central role in governance, a shareholders council can be a useful structure in order to represent these owners’ interests on financial and ownership issues. In such a case, the ownership facet of Davis’ model would play a larger role than in most family businesses. Notwithstanding this occurrence in larger family businesses, it is usually sufficient to consider the family, the board of directors and management under issues of governance (Davis, 2007, pp. 5-6).

Gallo and Kenyon-Rouvinez, writing in Kenyon-Rouvinez and Ward (2005, p. 47), provide an alternative view of the family business governance system as shown in Figure 3.3 below.

**Figure 3.3: A family business governance system**

![Family Business Governance System Diagram](Image)

**Source:** Kenyon-Rouvinez and Ward (2005, p. 47)
In Figure 3.3, it is depicted that governance in family business can be considered from two overall perspectives namely that of the family, and that of the business. Hence, the development of an effective governance structure in a family business can be seen to involve understanding how the business and its governance structures – the board of directors and management – interact with the family and its structures (family council, shareholders committee etc.) (Kenyon-Rouvinez & Ward, 2005, pp. 45-47). From the model and description, it would appear that an assumption of the Gallo and Kenyon-Rouvinez model is that ownership is concentrated in the hands of the family which is often the case, but not always. Nevertheless, the above model provides a second useful way of considering the system of governance in family business.

In considering the models of Davis (2007, p. 6) and that from Gallo and Kenyon-Rouvinez (Kenyon-Rouvinez & Ward, 2005, p. 47) together with the realities of the Offerman Family businesses, the twin system perspective, as depicted by the Gallo and Kenyon-Rouvinez model, will provide the framework for the following literature review. Under the heading of family governance, the various means by which governance can be effected within the family, such as the family constitution and various family institutions, will be discussed. Under the heading of business governance, an examination will be offered of the role of management and the board of directors in the governance of a family business.

3.7 Family governance

The family aspect is what sets family business apart from its non-family counterparts. For this reason, the family plays a crucial role in the governance of the business and this role begins with the manner in which the family governs itself (International Finance Corporation, 2008, p. 21). As described above, the life cycle of family business has bearing on the governance issues faced by the business and this is nowhere more apparent than in the consideration of family governance. When a family business is still in its earliest founder stage, the founder takes most decisions personally and normally represents the unified family voice.

However, as the business evolves over time and subsequent generations and / or additional family members join the business, a family governance system becomes necessary which is capable of uniting the different ideas and opinions as to how the business should be run. Such a system is necessary in order to instil discipline among family members and ensure continuity of the business by preventing potential conflicts (International Finance
Corporation, 2008, p. 21). In agreement with this description, Fahed-Sreih (2009, p. 53) considers the aim of family governance to be the coordination of relationships within the family, as well as between the family and the business.

More specifically, Gallo and Kenyon-Rouvinez writing in Kenyon-Rouvinez and Ward (2005, pp. 53-54), provide some detail on the aims of family governance. Effective family governance:

- is integral in the development and implementation of a family constitution;
- promotes family values and serves to develop next generation family leaders;
- supports good family communication;
- enables all family members to know and appreciate the family business;
- enables family members to know each other – some older family businesses can have several hundred shareholders that are related;
- develops a sense pride in the family over the business and encourages stewardship behaviour toward the business; and
- encourages the largest possible number of family members to be involved in matters related to the business such as the setting of family policies etc.

In families, there are certain characteristics that aid towards the establishment of good family governance. Tolstoy, in his classic *Anna Karenina*, puts forward the following insightful remark on family traits (Neubauer & Lank, 1998, p. 72):

“happy families are all alike; every unhappy family is unhappy in its own way”

Of these common characteristics, good communication is perhaps the most oft-mentioned (Neubauer & Lank, 1998, p. 72; International Finance Corporation, 2008, p. 21; Kenyon-Rouvinez & Ward, 2005, pp. 46-47). Amongst others, additional important traits include family commitment, mutual appreciation, spending time together and a willingness to change (Neubauer & Lank, 1998, p. 72; International Finance Corporation, 2008, p. 21; Balshaw, 2004, pp. 18-22) and together, these traits are often encapsulated in some form by the element on which family business should be founded – the family constitution.

3.7.1 Family constitution

As with a political constitution, the basic order of a family business or the ‘rules of the game’ can be implicit in the firm’s policies, customs or unwritten ‘laws’. Alternatively, these
principles could be stated explicitly in one or more written documents. Often, such documents carry titles such as “Statement of Family Principles”, “Family Protocols” or “Family Constitution” (Neubauer & Lank, 1998, p. 72; Kenyon-Rouvinez & Ward, 2005, pp. 42-44). However, for the purposes of this study, “family constitution” will be used as the generic term.

A political constitution identifies the organs of the state and describes how these should be directed and their actions accounted for. In a family business, a family constitution should do likewise by describing the various organs or institutions of the business, their tasks, the extents and limits of their power, their internal structure, the composition of their membership and their modus operandi. The manner in which individuals enter and leave these organs is also commonly delineated in a family constitution along with a multitude of other topics, depending on the family and the business (Neubauer & Lank, 1998, pp. 65-67).

Amongst the topics most commonly dealt with in family business constitutions, the issues of family shareholding and the liquidity of these shares are often carefully covered (International Finance Corporation, 2008, p. 28), (Kenyon-Rouvinez & Ward, 2005, pp. 42-44). The establishment of shareholding policies can help to create the right expectations among family members, particularly where some family members may be employed and receiving salaries and others are just shareholders. It may also be useful to provide family shareholders with a liquidity option for their shareholding which might aid in avoiding conflict and increase the chances of the business prospering in the long-term. This is possible by various means, one of which is to create a Shares Redemption Fund which can buy back any shares that family members would like to liquidate (International Finance Corporation, 2008, p. 28). In addition to shareholding, other topics that may receive coverage in the family constitution include dividends, codes of conduct and communication, philanthropy, loans and potential new ventures etc. (Kenyon-Rouvinez & Ward, 2005, pp. 42-44).

Astrachan and Stider, writing in Kenyon-Rouvinez and Ward (2005, pp. 42-44), consider the family constitution to be a living document that is increasingly being used in family business the world over. By their nature, these documents should be flexible and require periodic review and revision to meet the evolving needs of the business and the family. However, their basis is fairly constant and generally contains the philosophy of the family or similar such as a statement of family values (Kenyon-Rouvinez & Ward, 2005, pp. 42-44).
From their consultations to numerous family businesses, Neubauer and Lank (1998, pp. 65-67) were able to identify three common elements often encountered in family business constitutions. Although the nature and form of these constitutions varied widely between companies, corporate governance structures encountered in family business, whether written or implicit, typically contained detail on the following common elements:

- The family itself and its institutions such as the family assembly or family council (family governance);
- The board of directors where one exists (business governance); and
- Top management or the executive committee (also part of business governance).

From the above, the family constitution is seen to be the basis of the relationship the family holds with the business. However, as a document, whether living or not, a family constitution on its own is incapable of interacting with a business. Processes and mechanisms are needed to operationalise the values put forward by the family constitution (Neubauer & Lank, 1998, p. 80) and to do this, the family needs organs, or institutions, as identified by its constitution.

### 3.7.2 Family institutions

Family governance institutions act towards strengthening family harmony and also the family’s relationship with the business. In facilitating communication under one or more organised structures, family institutions help increase understanding of the business and build consensus within the family regarding the business (International Finance Corporation, 2008, pp. 28-33). Depending on the size, the life cycle or ownership stage of the business, the requirements for family institutions can vary widely from the highly informal to the strictly regimented, and of course, the requirements continue to change over time (Neubauer & Lank, 1998, p. 80).

In echoing the above, Gallo and Kenyon-Rouvinez writing in Kenyon-Rouvinez and Ward (2005, pp. 54-57) describe how a family business with a small number of family members will not need a complex set of structures. Conversely, a family business in which multiple generations and large numbers of family members are involved may require a few distinct family institutions with special committees focusing on critical areas such as family employment or family social interaction. In this type of scenario, governance institutions can become confusing for family members because it may become difficult for them to distinguish between the roles of family governance institutions and business governance.
bodies such as the board of directors and senior management. Resolution of this issue can be provided by the development of written procedures and guidelines for family institutions which are shared with all family members (International Finance Corporation, 2008, pp. 28-33).

Depending on the extent of their experience with different family entities, different authors espouse the value of varying family institutions. Sharma and Nordqvist writing in Tàpies and Ward (2008) focus on the family council in which they believe family related issues of the business should be addressed. Balshaw (2003), (2004, pp. 30-32) also expounds the value of a family council. Gallo and Kenyon-Rouvinez (Kenyon-Rouvinez & Ward, 2005, pp. 54-57) describe the family council as “the most important body of family governance” and go on to describe its two most important functions: (i) development and implementation of the family constitution; and (ii) anticipation and resolution of issues that may arise between family members in their relationship with each other or the business.

Gallo and Kenyon-Rouvinez (Kenyon-Rouvinez & Ward, 2005, pp. 54-57) also go further than the family council. In addition to the family council, they include the family assembly on the list of family governance structures and describe it as a “formal meeting in which family business information is shared and family members have the opportunity for closer contact.” In contrast, Gallo and Kenyon-Rouvinez describe the family council as a body that governs the relationship between the family owners of a business and the business itself.

Neubauer and Lank (1998, pp. 80-96) break down family governance structures even further. In addition to the family assembly and family council, Neubauer and Lank group together various types of sub-units under the “Others” heading. Bodies mentioned here include educational or philanthropy committees but may vary widely, depending on the leaning of a particular family business. Typically, the institutions grouped under the “Others” heading are mostly applicable in larger family businesses in which many family members are involved.

Similarly applicable to larger family entities, a family office is a further entity mentioned by various authors (Gray, 2007, pp. 13-15). The family office can be described as an investment and administrative advice centre which provides services such as investment planning, tax advice and estate planning to various individual family members connected to the business (International Finance Corporation, 2008, pp. 32-33). In this light, the family office can be seen as essentially a separate operation from the family business and not part of business
governance (Gray, 2007, pp. 13-15). However, it is noted by various authors under family governance and is mentioned here for the sake of completeness.

In addition to these complex family governance institutions, Neubauer and Lank (1998, pp. 80-96) also mention a fundamental, more basic family governance structure – the family meeting. The family meeting is described as something that “tends to be a very informal get-together” which is often found in the early stages of a family business under the influence of the entrepreneur or controlling owner. It is usually open to all family members and may begin informally as talk around the family dinner table or even “pillow talk” between married business partners (Neubauer & Lank, 1998, pp. 80-96). Topics of discussion may include family values and business ideas / vision as well as discussion regarding the future leader of the business (International Finance Corporation, 2008, pp. 31-32). Eventually, the family meeting may begin to formalise gradually and evolve into one of the more official governance entities mentioned above. However, for the purposes of this study, the family meeting is significant due to its prevalence in the Offerman Family businesses.

3.8 Business governance – board of directors

“No man is so foolish but he may sometimes give another good counsel, and no man so wise that he may not easily err if he takes no other counsel than his own. He that is taught only by himself has a fool for a master.”

(Ben Johnson, 1572-1637)

The above quote, offered by Neubauer and Lank (1998, p. 97) provides excellent insight into the value that a board may add to any business. This is particularly true of family business where a single founder or family partnership, that may have given rise to a considerable business entity, may be lulled into thinking that they alone know what it best for a business and have no need of the counsel available from a board. In reality, the board of directors is regarded as one of the most critical governance mechanisms in small and medium-sized family firms (van den Heuvel, Van Gils, & Voordeckers, 2006).

During the early years of a family firm’s existence, it probably will not have a board of directors. However, on reaching a certain size or evolving into a more complex structure, it is likely that it may be forced by law to institute a board of directors – the legal reason for having a board (Neubauer & Lank, 1998, p. 98). Unfortunately, many family firms first institute a “paper board” which is essentially a rubber-stamp structure, mostly made up of
family owners and managers, that serves only to fulfil a legal purpose (International Finance Corporation, 2008, p. 37). Only after some time, once the business gets more complex, do family companies start to employ the strategic advantage that a board can provide – the managerial angle (Neubauer & Lank, 1998, p. 98). In this case, the boards of family businesses can truly come into their own and set about creating economic value and increasing the unity and commitment of family owners (Kenyon-Rouvinez & Ward, 2005, p. 50).

Neubauer and Lank (1998, p. 108) propose two general rules which they believe make eminent sense for the boards of family businesses. Firstly, the contribution of the board should be additive in that it should improve company decisions and/or reduce the risks inherent in running the business. The background to this rule is that a board can put strain on a company’s resources and if it is not adding value in amounts greater than its cost, it should not be there. Secondly, Neubauer and Lank (1998, p. 108) suggest that the contribution of the board should be distinctive. No-one else in the firm should duplicate the tasks of the board. Clearly, if this were the case, the board would be superfluous to the functioning of the business.

Against the above background, the characteristics of boards in family businesses will be reviewed commensurate with the target of this study. The study of boards is a major topic in its own right and for this reason, the review offered below is focussed towards that which is most applicable to the Offerman Family businesses. Additionally, the Code of Governance Principles for South Africa, colloquially known as King III, is comprehensive in its prescriptions for boards of directors in South Africa and is freely available. For this reason, only pertinent excerpts of King III are covered in the following review.

As all three of the Offerman Family businesses have legally constituted boards, the directors of which are legally accountable, attention will be centred on this type of unitary board. King III, in line with current legislation (Delport, 2009, pp. 49-50), suggests that all companies in South Africa should be lead by a unitary board (Ernst & Young, 2009, p. 2) and for this reason, two-tier or advisory boards are not addressed in the discussion below.

3.8.1 The value and role of a board

Once a family firm has outgrown the point where the founder, or family partnership, can effectively manage the firm, the establishment of a board of directors becomes necessary
(Balshaw, 2004, p. 33). By following this route, a family business progresses from an organisation in which family relationships are dominant to an organisation based primarily on business relationships. In parallel, the informal structure of a family business inherited from its formative years is replaced by a more formal structure in which responsibilities are clarified and the process for taking decisions becomes more regulated (Cadbury, 2000, pp. 24-28).

A common fear of the introduction of formal order by a board is concern regarding the imposition of bureaucracy. Included here is the possibly negative effects a board may have on the informal family arrangements that worked well in the past (Cadbury, 2000, pp. 24-28). Additionally, this is further compounded by the founding owner’s fear of losing some of his or her independence or power. After all, an appetite for independence and power is frequently the reason that motivates entrepreneurs to start new ventures (Neubauer & Lank, 1998, pp. 97-132).

Nevertheless, the board’s establishment of clear lines of authority and responsibility, and the clear delegation of company power, can serve a company well. Installation of such structures can help avoid confusion, lobbying and wasting of time within company structures. This order is also particularly useful in providing stability and continuity in times of unexpected arguments or bereavements that may rock a family business with an informal system based on family relationships (Cadbury, 2000, pp. 24-28).

A board in a family business is also useful towards considering company strategy (Balshaw, 2004, p. 33; Cadbury, 2000, pp. 24-28; Neubauer & Lank, 1998, pp. 97-132). While family executives in charge of a family business are often fully engaged in day-to-day management, a board should focus on strategic issues in considering the longer-term future of the enterprise and planning for it accordingly (International Finance Corporation, 2008, p. 41). In doing so, a board can act as a bridge between the family owners and their business (Balshaw, 2004, p. 33) but it is necessary that the board understands that their primary role is strategic rather than day-to-day management (Cadbury, 2000, pp. 24-28). The board should also ensure that lines of responsibility should be clearly drawn such that board’s objectives and tasks are clearly articulated (Kenyon-Rouvinez & Ward, 2005, pp. 50-51), and that executive management understand their role in governing the firm (Cadbury, 2000, pp. 24-28). In this regard, Cadbury (2000, p. 27) posits that unless a board focuses on its strategic function, this
role will tend to fall away by default. As the strategic function is one of the board’s most critical roles, it is important that the board does not drop the ball on this issue.

A further strategic function of the board is to deal with issues arising from the family implications of a family business. While an informal family structure may tend to ignore or put off issues such as retirement and succession of family executives, a good board will identify and resolve these issues in appropriate timeframes (Cadbury, 2000, pp. 24-28). In addition, the board must ensure that it contributes towards directing, controlling and accounting for the business to a degree commensurate with the role that the family wants the board to play (Neubauer & Lank, 1998, p. 108). The board of a family firm should always bear in mind the wants and needs of the family in fulfilling their duties.

Based on the writings of a number of authors, the role of the board in a family business can vary widely, depending on many factors such as the size of the business and the characteristics of the family involved in the business. As a summary, some of the roles which a board may fulfil in a family business include the following (Kenyon-Rouvinez & Ward, 2005, pp. 50-51; Neubauer & Lank, 1998, p. 109; Cadbury, 2000, pp. 24-28; International Finance Corporation, 2008, p. 41; van den Heuvel, Van Gils & Voordeckers, 2006, pp. 479-480):

- Selecting new managers / directing succession problems;
- Approving financial decisions such as significant changes in capital structure etc.;
- Determining management’s areas of responsibility and accountability structures;
- Establishing the remuneration of management and other incentives;
- Monitoring all facets of operations including the implementation of strategies, evaluating the performance of management and implementing control where corrections are required;
- Building organisational reputation;
- Networking and maintaining relations among investors, owners, management etc.;
- Advising management on issues on which the board or its members are qualified to provide counsel;
- Formulating and ratifying organisational strategy including issues such as defining products and markets, competitive advantages, mergers and acquisitions etc.;
- Supervising the company’s audit plan and management of risk;
• Regulating access to excess company resources including issues such the allocation of profits and dividends; and
• Reporting to the shareholders and other interested parties.

The above provides a fairly comprehensive list of what a board should be doing but fails to convey what boards may achieve by dealing with these topics. In this regard, proof of the value of the board in family business is provided by the results of a survey conducted within the Leading the Family Business Programme conducted at the International Institute of Management Development (Neubauer & Lank, 1998, p. 127) in Lausanne, Switzerland. Of the 129 family businesses polled, 74 percent indicated that boards add value. With the vast majority of respondents confirming the value of a board in family business, it is clearly shown that an effective board can be an asset to a family business.

3.8.2 The size and composition of the board

According to the new Companies Act of South Africa, based on Bill 61D of 2008, every public company or non-profit company in South Africa must have a board of directors comprising at least three directors. In the case of private companies or personal liability companies, at least one director is required. Notwithstanding these minimum stipulations, in all cases, a company’s Memorandum of Incorporation (MOI) may specify a greater minimum number of directors (Delport, 2009, pp. 49-50).

According to Maier (2005, pp. 7-12), New Zealand has the smallest average board size of 7.2 directors while Germany has the largest. While averaging at 13 directors, some Japanese boards have as many as 50 directors. Overall though, the same data set provided by Ethical Investment Research Services, lists the average number of directors at 11.9 in Western Europe, North America and the Asia Pacific region. Clearly, there is a large range in the average size of boards the world over so a specification as to the correct or optimum size of board is not really feasible. Instead, the size of the board should be tailored to suit a specific situation and in this regard, the following quote from Higgs (2003, p. 22) provides astute observation:

“An effective board should not be so large as to become unwieldy. It should be of sufficient size that the balance of skills and experience is appropriate for the requirement of the business and that changes in the board’s composition can be managed without undue disruption.”
Based on their observations of numerous boards over an extended period, Neubauer & Lank (1998, pp. 109-110) suggest that six or seven members appears to be a reasonable number for normal situations. However, they also put forward that some situations, such as having to balance the influence of different family branches on the board, may require larger numbers of directors. In opposition to this suggestion, Gallo and Kenyon-Rouvinez (Kenyon-Rouvinez & Ward, 2005, p. 50) believe that balancing the board according to “blood” rights sets up a “false equality” scenario resulting in boards unable or unwilling to deal with tough issues, or that have a bias towards family matters rather than business issues. Gallo and Kenyon-Rouvinez would also prefer an odd number of board members in order to avoid a deadlocked vote. Clearly, there is some dissent as to the ideal composition of the board but there are also a number of similarities in the suggestions of family business authors.

The International Finance Corporation (2008, pp. 41-42), in their Family Business Governance Handbook, recommends a manageable board size of between five and nine members. Their motivation for a smaller board has to do with increased efficiency of communication, ease of listening to each other and the manageability of the meeting by the chairperson. Neubauer & Lank (1998, pp. 109-110) echo these ideas closely and further add that the dynamics of a small board provide a governance advantage by making it difficult for a CEO to manipulate the board. Overall, it would appear that a number of directors between five and nine is probably optimum for most family businesses.

Much has also been written about the composition of the board and the most suitable types of directors. King (2006, p. 37) suggests that it is necessary to know the skills that may be required by a business in order to ensure that the most appropriate mix of “coalface” knowledge and outside, practised ability is available to the business. Directors should be selected based on their potential to contribute to the business in critical areas such as strategy, management and oversight of operations (International Finance Corporation, 2008, p. 42). A board that consists entirely of outside directors will not have the intercommunication between coalface knowledge and external skill that a well-balanced board will have (King, 2006, p. 37). Practically, the actual proportion and balance of inside and outside skills should depend on the circumstances and nature of business of each company (PricewaterhouseCoopers, 2003, pp. 17-23). However, the balance is important which raises the topic of independent directors – a further theme on which vast tomes have been written.
According to Gallo and Kenyon-Rouvinez (Kenyon-Rouvinez & Ward, 2005, pp. 51-52), the presence of highly qualified, independent directors on the board of a family business is of remarkable value to the business. A study conducted by Ward (1991, p. 30) in the United States showed that the existence of an independent (non-family controlled) board was of vital importance in the survival of more than 80 family-owned enterprises run by the third or fourth generation. In all likelihood, this empirical evidence is provided by the following advantages offered by independent directors on the boards of family businesses (International Finance Corporation, 2008, p. 44; Kenyon-Rouvinez & Ward, 2005, pp. 51-52, Neubauer & Lank, 1998, p. 113; Cadbury, 2000, pp. 28-29):

- They bring an outside perspective on strategy and control which is independent from the family and objective;
- They add new skills and knowledge which may not have been available within the firm or family;
- They add an outside perspective to issues of hiring, promotion and succession and can provide trustworthy but confidential opinion in this regard;
- They provide the company with the benefit of their external contacts and connections;
- They increase the faith that owners, managers and investors have in the governance system; and
- They can act as balancing element between family factions and in some cases, provide objective opinion on internal family issues.

As far as local guidelines are concerned, King III (Ernst & Young, 2009, p. 2) suggests that a board should consist of a majority of non-executive directors and furthermore, the majority of the non-executive directors should be independent. There is also general agreement that the chairperson of the board (a position for which there is no legal requirement in South Africa but is generally provided for in the MOI) should be an independent and non-executive director, and should also be separate from the CEO (Ernst & Young, 2009, p. 2; PricewaterhouseCoopers, 2003, pp. 20-21). These sentiments are echoed by numerous other authors (Maier, 2005, pp. 8-9, Cadbury, 2000; Cadbury Committee, 1992; King, 2006).

Finally, there is growing agreement that increased diversity in the composition of the board improves board performance. Greater diversity with regard to ethnicity, background, skills, experience and gender brings a wider range of perspectives to the board (Maier, 2005, pp. 11-12). This is nowhere more important than in South Africa.
3.8.3 Directors

Neubauer & Lank (1998, pp. 111-117) provide a slightly different slant to many other authors on the issue of directors. Rather than appointing directors for reasons such as family ties or simply because they are external to the business, Neubauer & Lank advocate that the criteria for selecting board members should be focussed more on their qualifications and talent. In putting this forward, Neubauer and Lank avoid stipulations regarding the proportion of independent directors and rather focus on the danger, particular to family business, of directors being appointed for their surname rather than their competence.

The key attribute for any director should be the ability to make a meaningful contribution to the board’s deliberations (PricewaterhouseCoopers, 2003, pp. 25-30). To fulfil his or her duties of good faith, care, skill and diligence towards a company (King, 2006, pp. 29-33), a director in a family business should have exemplary personal integrity; be able to work as part of a team; have good communication and leadership skills; strong analytical abilities; and the self-confidence and independence of thought required to challenge other directors, family members and senior managers and ask “dumb questions” where required (International Finance Corporation, 2008, p. 42; King, 2006, pp. 46-49; PricewaterhouseCoopers, 2003, pp. 25-30). These attributes of a good director are ideally backed up by professional qualifications that include industry experience, sound business judgement and relevant expertise and skill (International Finance Corporation, 2008, p. 42; Neubauer & Lank, 1998, p. 117).

A recent development in South Africa with regard to directors is the requirement of King III (Ernst & Young, 2009, pp. 2-3) that the education, qualification and experience of directors should be reported. In this light, the requirement that directors be competent and qualified is seen to be important. Although private family business in South Africa will mostly not have to report on their board make-up to anyone, they would do well to heed the guidance provided by King III. In a similar vein, the King Report on Corporate Governance for South Africa 2002, colloquially known as King II, recommends that each newly appointed director should undergo a directors’ induction programme which should inform directors of their fiduciary duties as well as of the board’s expectations. The induction should cover issues such as company law or other relevant legislation, codes of corporate governance, the roles and responsibilities of directors and basic financial acumen (PricewaterhouseCoopers, 2003, pp. 28-29).
As a final point in the discussion on directors, King (2006, pp. 50-59) proposes ten silent questions which directors should ask of themselves when considering issues before the board. Although general in nature, these questions serve to emphasise the key role directors play in the governance of a business.

1. *Do I, as a director of this board, have any conflict in regard to the issue before the board?* As remote as any conflict may be, full disclosure is imperative.

2. *Do I have all the facts to enable me to make a decision on the issue before the board?* A director should separate facts from projections or assumptions and if necessary, ensure that any outstanding facts required are provided.

3. *Is the decision being made a rational business one based on all the facts available at the time of the board meeting?* If there is doubt whether the decision is in the interests of the company, this must be fully resolved before proceeding.

4. *Is the decision in the best interest of the company?* This question is particularly pertinent with regard to a family business where a director is challenged to differentiate between the interests of the company, to which he owes his duty, or the interests of the family.

5. *Is the communication of the decision to the stakeholders of the company transparent, promote substance over form, and does it contain all the negative and positive features bound up in that decision?* Without giving away confidential company information, transparency, as a pillar of good governance, provides a bright light which exposes misconduct and should unmask any attempt to substitute substance by form.

6. *Will the company be seen as a good corporate citizen as a result of this decision?* This question involves consideration of sustainability and the director should consider whether the decision might be providing short-term gains which compromise the long-term sustainability of the company.

7. *Am I acting as a good steward of the company’s assets in making this decisions?* It may be useful for an independent director of a family business, who is not a family member, to consider whether he would pass the same judgement if he were a family member.

8. *Have I exercised the concepts of intellectual honesty and intellectual naivety in acting on behalf of this incapacitated company?* Intellectual honesty implies exercising one’s unfettered mind, in an unbiased manner, towards making a decision in the best
interests of the company. Simply put, intellectual naivety involves asking questions that some may regard as dumb but are imperative towards understanding what it is in the best interests of a company that is incapable of looking after itself.

9. *Have I understood the material in the board pack and the discussion at the board room table?* With specific jargon common to industries and/or professions such as accounting, it is important that directors ensure their full understanding of what is in the board pack and what is discussed at the meeting.

10. *Will the board be embarrassed if its decision and the process employed in arriving at its decision were to appear on the front page of a national newspaper?* Sooner or later, it all comes out in the open and directors should ensure that they have confidence in their approach and decision.

### 3.8.4 Functioning of the board

King II (PricewaterhouseCoopers, 2003, p. 49) recommends that every board should have a charter which maps out its responsibilities. In a public company, this should be disclosed in the annual report but it is still a useful exercise in a private family business that does not disclose publicly. King II suggests that elements to be covered in the charter include the board’s responsibility for determining company strategy, the various committees to which the board may delegate tasks, the monitoring of performance, determination of various policies and the selection, orientation and evaluation of directors.

With regard to committees, King II recommends that all companies should have at least an Audit committee and a Remuneration committee (PricewaterhouseCoopers, 2003, p. 23). King III (Ernst & Young, 2009, p. 4) has added significant new recommendations regarding the Audit committee in line with the new Companies Act which is considerably more prescriptive on Audit committees than the previous Companies Act (Delport, 2009, pp. 80-81). Although various other types of committee such as a Risk committee or Health and Safety committee are common (PricewaterhouseCoopers, 2003, p. 23), the importance of the Audit committee is clearly highlighted. Maier (2005, p. 10) explains that this additional scrutiny on the Audit committee comes in the aftermath of various accounting scandals such as Enron.

King III (Ernst & Young, 2009, p. 2) advocates that a board should meet as often as is required to fulfil their duties and preferably, at least four times per year. Neubauer and Lank (1998, pp. 124-127) take this further by suggesting that the broader the role played by the
board and the tougher the economic times, the greater the need for frequent board meetings. As a general rule, a board meeting schedule should be published well in advance in terms of accepted company practice (Kenyon-Rouvinez & Ward, 2005, p. 52). However, in the case of smaller family businesses where directors are often in close contact with one another, short and less formal notice of board meetings can suffice (PricewaterhouseCoopers, 2003, p. 49).

It is important that directors be kept abreast of any developments in the company. Family firms have been known to ‘starve’ the board of information while the opposite, an information overload, also occurs (Neubauer & Lank, 1998, pp. 124-127). The timing of the information supply is also important and in this regard, the normal board meeting package, which should include items such as the agenda, financial data, background material or reports relating to issues under discussion, and any other pertinent information, should be received by directors sufficiently in advance of scheduled meetings (Kenyon-Rouvinez & Ward, 2005, p. 52; PricewaterhouseCoopers, 2003, p. 50).

Due care should be taken with establishment of the agenda (Kenyon-Rouvinez & Ward, 2005, p. 52). Neubauer and Lank (1998, pp. 124-127) go so far as to caution family businesses as to the manner in which the agenda is set. If openness and transparency are lacking and directors struggle to add their own ‘burning issue’ to the agenda, the board’s working atmosphere can be harmed. Such a situation may unduly affect the willingness or ability of directors to continue with their directorship thereby interrupting the continuity of tenure on the board.

3.8.5 Board tenure

In South Africa, there is no legal restriction on a director’s length of service although in practice, this is sometimes covered by the company’s MOI (PricewaterhouseCoopers, 2003, p. 29). Nevertheless, King III requires that the length of service and age of directors should be disclosed in the annual report (Ernst & Young, 2009, p. 2) which seems to imply that there is valid reason for keeping track of the tenure of any board member. One reason for this is provided by another King III stipulation which requires a review of the independence of an independent, non-executive director after they have served in such a capacity for a period of nine years (Ernst & Young, 2009, p. 3). Evidently, the inference of this requirement is that after such an extended period of service, an independent director may no longer be free of influence from those within the company.
Neubauer and Lank (1998, pp. 117-118) also believe in a limited tenure as they consider it beneficial for the board to be exposed to fresh viewpoints from time to time. As a rule of thumb, they suggest a tenure of six years as this period would allow new members sufficient time to familiarise themselves with the company and make useful contributions before their time expires. The period would also allow for continuity and stability which are valuable within the leadership echelons of most organisations.

In the case of family member directors, the relationship between the director and the family is personal which can lead to much longer directorship tenures than in non-family entities (Neubauer & Lank, 1998, pp. 117-118). There are also numerous other variables to take into account in a family business such as the age of family members, the percentage of family ownership and the number of other family members on the board (Kenyon-Rouvinez & Ward, 2005, p. 52). An effect of these additional variables can be the rotation of board seats among different family members (Kenyon-Rouvinez & Ward, 2005, p. 52).

In the context of directorship tenure that may be longer than ideal (or practically for life in the case of some family businesses), the relatively recent development of director performance evaluation has merit (Neubauer & Lank, 1998, pp. 117-118).

3.8.6 Evaluation of performance

Gallo and Kenyon-Rouvinez writing in Kenyon-Rouvinez and Ward (2005, pp. 52-53) believe that the most successful boards periodically undertake formal evaluations of each director as well as the board as a whole. This is supported by King III which recommends that the performance of the board, its committees and individual directors should be assessed annually. Furthermore, the results of such assessments should be disclosed in the company’s integrated report along with remedial action plans if required (Ernst & Young, 2009, p. 2).

Notwithstanding the requirements of King III, evaluation of individual directors can be troublesome in a family company. Neubauer and Lank (1998, pp. 118-119) cite the case of various chairpersons or senior family members who have blocked the passage of series of director evaluations fearing the repercussions should a family director receive a poor rating. In such a case, it is sometimes easier to abandon the idea of director evaluation although overall, director evaluation is regarded as a useful means of judging the performance of directors (Neubauer & Lank, 1998, pp. 118-119).
Notwithstanding the difficulties of director evaluation, Neubauer and Lank (1998, pp. 119-123) are convinced of its value and offer a framework by which this may be accomplished. Of necessity, they suggest that the formality of the process be limited which tends to require a strong leadership role from the chairperson in carrying out the process. The first step in the process is the identification and agreement of a set of attributes that the board feels is desirable in a director. Once this has been accomplished, each director is required to rate him/herself against the criteria as well as rate each other director against the same criteria. These answers are kept strictly confidential and sometimes, it is useful for an outside facilitator to assist in the process of compiling the data into a format in which the sources are protected. Only the summary, with the contributing directors names removed, is used in the next step of the process.

**Figure 3.4: Steps in the peer evaluation process**

Source: Neubauer and Lank (1998, p. 120)
The summarised data are used for confidential one-to-one discussions between each board member and the chairperson. Records of these discussions should be kept as well as details of corrective actions that should be employed, as required. Should the outcome be strongly negative, the chairperson and the director in question may agree that the director should not stand for re-election rather than be forced to leave the board immediately. This is an elegant face-saving solution that preserves the director’s dignity and promotes harmony of the board and buy-in to the evaluation process. A summary of this process is provided in Figure 3.4.

While the evaluation of individual directors focuses on the knowledge, qualifications, attitudes and contributions of individuals, evaluation of the board as a team is also suggested (Kenyon-Rouvinez & Ward, 2005, pp. 52-53; Neubauer & Lank, 1998, pp. 126-127). Unfortunately, many boards in family businesses do not judge their own performance systematically (Neubauer & Lank, 1998, pp. 126-127) meaning that they miss out on the potential benefits obtainable from implementing corrective measures. Arie de Geus, former head of planning of the Royal Dutch Shell Group, articulated this point perfectly in the following quote (Neubauer & Lank, 1998, pp. 126-127):

“The ability to learn faster than your competitors may be the only sustainable competitive advantage.”

3.8.7 Role of the Chairperson

Annual evaluations of directors and the board itself are useful in monitoring and improving the performance of the board. However, the role of the chairperson is also significant in optimal board functioning (Cadbury, 2000, p. 28). It is often the norm that the chairperson is responsible for establishing the agenda of board meetings and stemming from this custom, the chairperson is able to influence the tone of the board before a meeting is convened. At the board meeting, the chairperson is responsible for the conduct of the board and should ensure that all directors have the information they require to arrive at considered decisions.

Also at board meetings, it is the chairperson’s responsibility to ensure that all directors are allowed the opportunity to express their own opinions (Cadbury, 2000, p. 28). Although it is a well-known fact that all directors carry equal legal risk for the decisions taken by the board, actual practice at board meetings does not always reflect this fact. In addition, it is also up to the chairperson to champion the evaluation of the board (Neubauer & Lank, 1998, pp. 118-127; Cadbury, 2000, p. 28). In this light, the chairperson is seen to be a key figure.
In a family business, on top of managing the board with strength and wisdom as per most boards, a chairperson also has to deal with sometimes quarrelsome family members and show insight into the family vision for the company (Kenyon-Rouvinez & Ward, 2005, p. 53). To do this justice, a chairperson has to account for all the elements of family governance which may influence a company. Clearly, in a family business, the choice of chairperson is significant and chairmanly qualities should take precedence over seniority (Cadbury, 2000, p. 28).

3.8.8 Remuneration of board members

In the wake of numerous financial scandals and corporate bailouts, the United States instituted measures aimed at capping the remuneration of executives and directors of firms that had received governmental financial support (UK Shareholders' Association, 2009, p. 1). This is but one example of the difficulty surrounding the topic of directors’ remuneration which is something that continues to concern shareholders the world over (Maier, 2005, p. 11).

In South Africa, the situation is similar with King III now including a number of additional recommendations regarding directors’ remuneration. For example, King III recommends that the remuneration of each individual director and the three most highly paid employees be disclosed. In addition, it is suggested that the chairman and non-executive directors should not receive incentives based on corporate performance or the share price (Ernst & Young, 2009, p. 2). This current focus on remuneration in South African business is also demonstrated by publications such as the PricewaterhouseCoopers report on the remuneration of executive directors in South Africa (PricewaterhouseCoopers, 2009). Clearly, the topic of remuneration is one to be treated carefully.

Neubauer and Lank (1998, pp. 123-124) opine that directors’ remuneration in a family business should be significant lest directors feel a lack of respect from being offered too little. However, they caution that remuneration should not be too high in order to avoid the creation of an employment-type relationship in which the independence of directors might be questioned. As a possible solution, Neubauer and Lank quote a suggestion made by John L Ward that the owner-manager of a family business divides his or her salary by the number of working days in a year. The daily rate calculated is then used as the basis on which to pay board members and the logical way in which it is calculated serves to put board members on a level plane with the owner-manager (Neubauer & Lank, 1998, pp. 123-124).
From the above, no matter what route is eventually followed in the determination of directors’ remuneration, it would seem clear that the director’s mandate of good faith, care, skill and diligence (King, 2006, p. 29) should be applied in arriving at suitable remuneration.

3.9 Business governance – management

Following the establishment of a board of directors in a family firm, the role of management becomes less strategic enabling management to focus largely on operational issues. Included under operational issues, one usually considers tasks such as the day-to-day business of the firm, operational planning, prioritising, efficiency issues, budgeting, product or service development and human resources (Balshaw, 2004, p. 37). However, all of these issues actually form part of the strategic direction of the firm, as mapped out by the board. For this reason, it can be seen that the senior managers that oversee these operational tasks form an essential element of the family business governance structure and their quality has a direct impact on company performance, and therefore family wealth (International Finance Corporation, 2008, pp. 46-47).

Clearly, having the right management in place at a family business is a key element of its success. If the board is functioning well, the lines of responsibility and level of authority granted to all levels of management should be clear thereby facilitating management in performing their tasks (Cadbury, 2000, p. 25). Unfortunately, it is not as easy as this would seem to indicate as family business presents some unique challenges for the system of business governance and management to overcome. Amongst others, employment policies, remuneration and the use of business resources can be sources of discord in family business and require informed management.

3.9.1 Employment policies

The employment policy of a family business can be a complex issue. Some family businesses advocate an open door policy that invites any family member to join the family business. In such a situation, the business can become a safety net for family members who cannot succeed elsewhere (International Finance Corporation, 2008, pp. 47-48). Close family participation, leading to the reinforcement of family values, is a hallmark of family business and a critical factor in its success. Unfortunately, it is also a major source of the problems in family business (Kenyon-Rouvinez & Ward, 2005, pp. 23-28).
Fortunately, as businesses become larger, competence and qualifications become more important in the selection of personnel. In this situation, family members must increasingly bring qualifications and skills to a family business as the employment of non-family members becomes more common (Kenyon-Rouvinez & Ward, 2005, pp. 23-28). Growth necessitates the drawing of employees and managers from outside of the family and in this regard, management of the relationships between family and non-family employees becomes increasingly important (Cadbury, 2000, p. 8).

A common fear among non-family member employees is that they may be forced to “make way” for a family member at some stage or other or may possibly find themselves reporting to an inexperienced and/or unqualified family member. Fortunately, these practices are becoming less common and family businesses nowadays usually specify stringent requirements for family members to enter and advance in the family business (Kenyon-Rouvinez & Ward, 2005, pp. 23-28).

Instead of working up from the shop floor, as may have previously been the norm, it is becoming more common for family members to enter the family business bringing qualifications and experience obtained outside of the business. In such a case, many families recognise the value of providing new family members with a breadth of experience in different departments of the business. Coupled with active mentoring, often by veteran non-family employees, the impact of family bias in employment and promotion is lessened (Kenyon-Rouvinez & Ward, 2005, pp. 23-28).

Nevertheless, the importance of considering all positives and pitfalls of the employment options open to a particular family firm should be considered. The context of each family firm is different and it is important that family and non-family members know and appreciate the employment policies selected by the business. Although most of the policies will be formulated at board level, implementation is the task of management and as such, management should take heed of the common employment drawbacks of family business.

3.9.2 Remuneration

In some, more traditional family businesses, all family member employees are paid the same, regardless of their experience and contribution to the welfare of the business. In such a system, capable family members are expected to care for their less competent family members (International Finance Corporation, 2008, pp. 47-48) and in some cases, “needy”
family members are employed in order to ensure their economic well-being (Kenyon-Rouvinez & Ward, 2005, pp. 23-28).

Other manifestations of older-style thinking in family business include the underpayment of family members who work in family businesses (Balshaw, 2003, p. 131) for reasons of frugality or simply the idea that they will eventually own it, so they should put up with underpayment in the short term (Fishman, 2009, p. 75). This idea can also work the other way with some family businesses purposefully paying family members a premium over market rates due to the extra obligations and responsibilities they hold as family members (Fishman, 2009, p. 73). In addition to these ideas, a strength of family businesses is that in times of hardship, family employees have been known to accept considerable reductions in remuneration for the good of the business (Fishman, 2009, p. 73). Non-family member employees are seldom as accommodating.

Nevertheless, as one can imagine, practices such as those listed above are less prevalent than they used to be and compensation practices in family business are now driven more by the open labour market (Kenyon-Rouvinez & Ward, 2005, pp. 23-28). This is especially so in larger family businesses where growth necessitates the employment and incentivising of non-family member employees. In such a scenario, compensation is based on performance and responsibility and the rates paid are market related – for both family members and non-family members (International Finance Corporation, 2008, pp. 47-48). The flip side of this arrangement is that family members become subject to the same guidelines as non-family members and should a family member perform poorly, they would be disciplined or their employment may be terminated (International Finance Corporation, 2008, pp. 47-48). In such a case, the issues inherent in family business become apparent once again.

In many ways, family member employees are not comparable to non-family members, nor are they replaceable as per non-family member employees. The aspect of family that they bring to the business and the benefits it can create are significant, and these cannot be quantified by the open labour market (Kenyon-Rouvinez & Ward, 2005, pp. 23-28). For this reason, there is a significant challenge involved in determining the correct level of compensation for family members in a family business and ensuring that non-family members are also fairly remunerated. A clear distinction must be made between return on capital for family members, and pay for work done (Cadbury, 2000, p. 18) but from the above, it is not a straightforward task.
Management needs to be aware of the issues that may arise and take steps accordingly. If concerns surface, they need to be dealt with in an open and transparent manner such that all may appreciate the reasoning behind which staff are compensated. As above, the task of formulating the policies should fall to the board. However, management are on the frontline of this issue and have a major role to play in the implementation of remuneration schemes and the feedback therefrom.

3.9.3 Business resources

In some family businesses, business resources can be used to service the personal needs of family members such as the provision of housing, motor vehicles and payment of personal expenses (International Finance Corporation, 2008, pp. 47-48). This practice is more usually found in smaller family businesses in their earlier stages of evolution but can extend to larger family businesses as well.

A case in point, where such practices got criminally out of hand, was the former family business mentioned in the introduction, Adelphia Communications Corporation. It is said that the founder, John Rigas, viewed the large public, but family-controlled communications company as his personal core asset and made use of its resources as if they were his own. Among a number of irregular activities, the Rigas Family are said to have used $12.8 million of company funds to build a luxury golf course on family-owned property (Balshaw, 2004, pp. 1-2; Associated Press, 2004). The case of the Rigas Family is extreme but serves as a warning that family businesses can easily blur the line between personal and company funds and should be cautious in this regard lest it get out of hand.

Fortunately, many family businesses are able to find the right balance, particularly as they move into later life cycle phases. In contrast to when the family and the firm are as one in the early stage of the business, the benefits the family once received in kind begin to be handled correctly (Cadbury, 2000, p. 19). As family businesses evolve, it becomes more likely that business resources will be used strategically and a clear separation will be kept between business and family assets (International Finance Corporation, 2008, pp. 47-48). Notwithstanding, the concept of fairness is critical in the management of relationships in family firms and it is important that family judgements are visibly separated from business judgements. Independent, outside counsel is invaluable in achieving this (Cadbury, 2000, p. 19).
In most family firms, independent non-executive directors provide the much-needed outside counsel and for this reason, the board has a major role to play in ensuring that company resources are correctly employed. However, management needs to heed their advice – this is sometimes challenging for owner-managers who have become accustomed to considering business resources as their own personal resources.

3.10 The directing task of governance

In the preceding sections, the two main spheres of governance in family business, namely family and business governance, have been considered. Together, these constitute the system of structures and processes that form the backbone of governance in family business. However, simply instituting the systems and processes is insufficient. The family (and shareholders), the board and management should be aware of certain key areas towards which governance measures should be directed, and in which the value of good governance may be demonstrated.

In the discussion of family institutions and the functions of the board, a number of governance tasks required of the various governance institutions were examined. Three of these – succession; vision and strategy; and sustainability coupled with corporate citizenship – will be discussed in more depth below. By looking at these three measures, the success of the directing task of governance in family business can be examined further. Please note that all three of these topics can be considered as fairly complex themes in the study of family business and for this reason, only a brief overview, sufficient for the purposes of this study, is provided here.

3.10.1 Succession

Succession is the final test for any family business which rears its head at least once per generation. Should the test be failed, the efforts of the preceding generations can be ruined. Try as one might, the test cannot be avoided because time waits for no man (Kenyon-Rouvinez & Ward, 2005, p. 59).

CEO succession, or succession in any senior role for that matter, is an important topic for all businesses. However, in the case of family business, it is even more critical as the wants and needs of the business need to be reconciled with those of the family (Kenyon-Rouvinez & Ward, 2005, p. 59; International Finance Corporation, 2008, p. 49). In family business, succession is also not only about the CEO, or a senior manager, but can involve succession of
ownership between generations (Kenyon-Rouvinez & Ward, 2005, p. 59). As mentioned earlier, governance in family business has much to do with strengthening family harmony and the family’s relationship with the business (International Finance Corporation, 2008, p. 28). Succession is also mentioned numerous times as a topic with which the board of a family business should concern themselves (Kenyon-Rouvinez & Ward, 2005, pp. 51-52; International Finance Corporation, 2008, p. 44; Neubauer & Lank, 1998, p. 113; Cadbury, 2000, pp. 28-29). Against this backdrop, it can be seen that succession planning, or the extent to which a business considers succession in both critical roles and ownership, can be taken as a key measure of the successful implementation of governance in family business (Neubauer & Lank, 1998, p. 113).

Succession is a topic on which many family business authors such as Wendy (1994), Neubauer and Lank (1998), Aronoff, McClure and Ward (2003), Venter (2003), Kenyon-Rouvinez and Ward (2005, pp. 51-52), and Tàpies and Ward (2008), have written extensively. In this light, succession is viewed as a major subject on its own and for the purposes of this study, it is sufficient to view the implementation of succession planning simply as an indicator of whether the directing task of corporate governance is being implemented effectively. A detailed review of the implications of succession planning in family business is beyond the scope of this study.

3.10.2 Vision and strategy

In the context of business, vision can be described as a future imagined, or a clear image of a desired future (Leavitt, 1986). If an organisation has a clear vision to which the entire entity can aspire and unite around, the potential for achievement and performance is unprecedented. As a non-business example, the vision offered by the words of Martin Luther King Jr on 28 August 1963 – his famous “I Have a Dream” speech – offered a glimpse of the future he imagined that an entire sector of the United States’ population was able to grasp. In a business, the power of a uniting vision can also be as substantial as this.

Although strategy should stem from vision, the two concepts should not be confused (Neubauer & Lank, 1998, p. 175). In the first few years of a business, a clear vision of what the business may become is difficult and possibly seen only in the eyes of the founder. The strategy followed during this period generally only considers survival. During this period, the family founders personify the combination of family values and management purpose and attempt to pass this on to succeeding generations (Kenyon-Rouvinez & Ward, 2005, p. 19).
However, as the business grows, this becomes more difficult, particularly as more non-family members become involved in the business.

In moving from a strategy concerned with survival to a strategy that is driven by a vision, a family business faces the additional challenge of aligning business strategy with family objectives (Kenyon-Rouvinez & Ward, 2005, p. 22). There are clearly governance implications involved with this process and in this light, the development of a unifying vision and commensurate strategy can be seen as measures of the success of implementing the directing task of governance in family business (Neubauer & Lank, 1998, p. 167). Vision and strategy formulation are not discussed further as a detailed investigation into these topics lies outside the scope of this study.

### 3.10.3 Sustainability and corporate citizenship

Sustainability may be defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (King, 2006, pp. 61-62). In the business context, the concept of sustainability has been adapted to mean the achievement of balanced, integrated, economic, environmental and social performance (Naidoo, 2002) which are mostly non-financial risks. Business leaders are increasingly having to deal with non-financial aspects of risk (King, 2006, pp. 61-62).

In South Africa and internationally, there is increasing pressure on all organisations to incorporate consideration of non-financial risk into their governance systems. King III devotes an entire new chapter to the notion of corporate citizenship which includes recommendations for sustainability and the need for effective ethical leadership in this regard (Ernst & Young, 2009, p. 1). This comes in addition to the recommendations for integrated sustainability reporting as put forward by King II (PricewaterhouseCoopers, 2003, p. 84).

Willard (2002) as quoted in Adendorff (2004, pp. 289-290) identifies some strong reasoning why triple-bottom line reporting is of great benefit to companies:

- Easier hiring of staff and improved ability of a company to attract and retain top talent;
- Increased productivity amongst staff;
- Reduced costs due to reduced waste and education regarding the sustainability message;
Increased market share and the ability to tap into new markets with commensurate revenue increases; and

Reduced risk which lowers insurance costs and makes it easier to obtain finance.

It is useful to note some of the advantages offered by the consideration of sustainability and corporate citizenship. However, similar to the topics of succession and vision, the detailed consideration of non-financial aspects of business risk forms another large realm of study which is beyond the scope of this review. For the purposes of this study, it is sufficient to consider aspects of sustainability and corporate citizenship as indicators of whether the directing task of governance is being suitably implemented.

3.11 Control

No control system is completely watertight. Although major advances have been made that facilitate the board’s controlling role, it is still a complex task which is compounded by an ever-increasing number of factors. These include the growing diversity in a firm’s activities and expanded geographic footprints which tend to loosen the board’s or family’s controlling grip on the organisation (Neubauer & Lank, 1998, pp. 216-228).

As the family business grows and the family becomes increasingly remote from the business, more reliance is progressively placed on the board for the monitoring of management’s activities (Neubauer & Lank, 1998, pp. 216-228). This importance was clearly demonstrated by the in-depth review of the board as a structure of business governance. In order for the board to be most effective in its controlling role, Parker (1990) suggests that the board should play a role in the design of the information system responsible for keeping the board in touch with the firm. In doing so, the departure point for the formulation of specifications is agreement on the data the board needs to monitor and judge the performance of management, and to fulfil the board’s fiduciary duty (Parker, 1990).

Boards have two options for the basis of their control efforts namely: measureable outcomes of the management process (outcome controls); or the quality of management processes in place (behaviour controls) (Neubauer & Lank, 1998, pp. 216-228). Many outcome controls are analytical or financial in nature which means they are generally quantitative. Common outcome measures include evaluations of profitability, liquidity or growth which have the advantage that they are generally universally understood. Although widely used, these measures share a common drawback in that they are reports of what has already happened.
and many managers feel that they arrive too late. To counter this, future-orientated measures such as order inflow, market share evaluation or product quality assessments are also now used widely and clearly, outcome controls will always be used in some way (Neubauer & Lank, 1998, pp. 216-228).

As an alternative to outcome controls, behaviour controls have similar importance. Firstly, behaviour controls consider ongoing processes with the idea that interventions can be made before a problem occurs. Secondly, behaviour controls are judgemental in nature as they are based on subjective information – an example is the evaluation of the performance of a senior manager. Although much of the evaluation may be based on quantitative data such as the results obtained by the manager, qualitative issues would also need to be considered such as the manager’s leadership qualities etc. Finally, the third key aspect of behaviour controls is that they typically require information that conventional reporting systems do not produce. This is the kind of information that can only be gathered ‘by osmosis’, perhaps by walking around in the firm or conversing with customers or even competitors (Neubauer & Lank, 1998, pp. 216-228).

3.12 Accounting (for)

In the derived definition of corporate governance offered, it was emphasised that it is important to account for all aspects of a firm’s resources to all legitimate stakeholders. In the case of large, publicly owned companies, there are normally explicit frameworks within which they should operate that ensure that information is furnished to all stakeholders with legitimate interests in the business. However, in private companies, especially family companies, the situation is not as clear cut (Neubauer & Lank, 1998, pp. 228-229).

While the family is small, it is relatively easy for specific information on the firm’s progress to reach all co-owning family members, even those who are inactive in the business. However, as the family becomes larger and the business evolves into a different life cycle phase, the situation becomes more complex. When a family firm has grown really large, a typical solution is to adopt reporting practices within the firm that are similar to those of a public company (Neubauer & Lank, 1998, pp. 228-229). However, in between the extremes of small and large, there exists a grey area that requires specific attention. The following quote from Sir Adrian Cadbury (2000, p. 19) highlights the issue:
At the heart of the management of relationships in a family firm lies the concept of fairness. Divisions and ructions within the family can be caused only too easily through suspicion that some family members are benefiting at the expense of others, or that the contribution which some are making to the firm is not being properly recognised.

As mentioned earlier, effective communication is often lacking in family business which can give rise to the notion that shareholders who are active in the business withhold vital information from non-active shareholders (Balshaw, 2004, pp. 23-24). Although often based on misperceptions, such a situation is ripe for accusations of unfairness, mistrust and conflict.

Neubauer and Lank (1998, pp. 228-229) suggest transparency as a remedy for dealing with this situation, particularly with regard to the dealings of individual family members. On top of regular financial statements, the owners should be kept well informed about all important developments within the firm and in this regard, regular meetings of applicable family institutions can provide the ideal forum for dissemination of all desired information. Written communication from applicable family institutions can also play a key role in maintaining a healthy atmosphere of transparency, fairness and trust (Neubauer & Lank, 1998, pp. 228-229). In this way, all stakeholders should come to accept that the family firm’s resources are being appropriately accounted for.

3.13 Chapter summary

The chapter opened with a discussion on the nature of corporate governance. A number of different definitions were discussed culminating in a definition derived from the preferred definitions offered in the literature. With an established definition, the discussion was taken forward into the realms of family business which can be decidedly more complex than other forms of business. The importance of governance in family business was then highlighted showing how critical governance can be to the longevity of a family business.

As a family business evolves, it passes through various stages. As can be imagined, the specific stage of its life cycle through which a family business is passing must of necessity have a significant effect on its governance requirements. For this reason, a brief review of family life cycle literature was offered before the discussion of governance systems in family business began in earnest.

There are various parties involved in the governance of family business with the most obvious being the family itself. Consequently, the discussion of governance systems
commenced with a review of family governance following which the second major party was introduced – the board of directors. In discussing the board of directors, numerous subtopics were presented detailing multiple facets of this important institution of governance.

Another party that plays a major role in the governance of family business is executive management. The impact of this group was discussed next including for various subtopics such as employment policies, remuneration and the governance of business resources.

The chapter closed with consideration of the directing, controlling and accounting (for) areas of governance within family business. Subtopics considered under these headings included issues such as succession planning, vision and strategy, as well as sustainability and corporate citizenship.

Overall, a detailed overview of governance in family business was offered whilst maintaining reference to the target of this study, the Offerman Family businesses. Chapter 4 will now serve to introduce the research methodology employed in the study and detail the manner in which the primary research was conducted.
CHAPTER 4: METHODOLOGY

4.1 Introduction

Blumberg, Cooper and Schindler (2005, pp. 154-160) suggest that a literature review should serve to establish the context of the problem by reference to previous work, and provide some understanding of the structure of the problem by relating it to theories and ideas. In Chapter 2, a literature review on family business in general was provided. A discussion on the intricacies of defining a family business, consideration of the various strengths and weaknesses of family business, and the establishment of the importance of family business in South Africa served to provide the context for the topic under consideration. To identify the relevant variables and relations (Blumberg, Cooper, & Schindler, 2005, pp. 154-160), an overview of the Offerman Family businesses was also provided covering the period from the business’ inception in 1945 through to the present day.

Chapter 3 provided further context for the study by offering first an overview of governance in general. With this established, a discussion was presented of governance in family business with a specific focus maintained on that most applicable to the study target, the Offerman Family businesses. In this way, the literature review served to guide and inform the research (Collis & Hussey, 2003, p. 110).

Leedy and Ormrod (2005) define research as the systematic process of collecting and analysing information in order to increase the understanding of the phenomenon in which the organisation may be interested. Building on the base of the literature review, this chapter will serve to introduce and discuss the method by which the empirical research employed in this study was conducted.

The chapter will commence with a reconsideration of the primary research objective, as this is the basis for the research, as well as a review of the four secondary research objectives considered by the study. Following this, an overview of phenomenological research is offered as this is the paradigm employed by this study. Next, detail will be provided on the case study method of research, as an investigation into the governance methods employed by the Offerman Family businesses is an example of this type of research.

The final sections of the chapter have to do with the actual accomplishment of the research. Topics discussed here include the sample, the development, testing and application of the
questionnaire, and the validity and reliability of the data collected. In closing, a summary of the chapter’s content is provided.

4.2 Research objectives

By researching in the field of governance in family business in South Africa, a base is created for comparative research in other parts of the world. Additionally, the literature review has shown that the majority of the literature is sourced from outside of South Africa as research into family business is still in its infancy in this country. This study can help to improve awareness of this field and also may serve to assist family business owners with similar businesses to the subject of the case study, the Offerman Family businesses.

In order to achieve the above, the primary objective addressed by this study can be formally stated as follows:

| To determine the nature of the governance system employed by the Offerman Family businesses in ensuring that all company assets, resources and actions are directed at, and controlled in the achievement of established company objectives and are accounted for to all legitimate stakeholders. |

In addressing the primary objective considered by this research, the following secondary objectives were also considered:

- Does the Offerman Family have an appropriate system of family governance to enable it to deal with business issues?
- What can the Offerman Family do towards improving family governance?
- Do the Offerman Family businesses have an appropriate system of governance in place, commensurate with their size and lifecycle status?
- What should be occurring within the Offerman Family businesses in order to promote better governance?

4.3 Research paradigm – phenomenological

There are two main poles of research paradigm or philosophy. At the one extreme, one finds the positivistic research paradigm, which tends to produce quantitative data (Collis & Hussey, 2003, pp. 48-56). At the other extreme, one finds the phenomenological research paradigm, also known as interpretivism (Blumberg, Cooper, & Schindler, 2005, pp. 18-22), which tends
to produce qualitative data. There can be considerable blurring between the two opposing research paradigms with some authors identifying a continuum between the two with distinctly identifiable stages (Collis & Hussey, 2003, pp. 48-56). Nevertheless, for the purposes of this study, it is sufficient to consider either a positivistic or phenomenological approach.

According to Blumberg, Cooper and Schindler (2005, pp. 18-22), positivism assumes that the social world can be observed by the collection of objective facts. Additionally, positivism also assumes that the social world consists of simple elements to which it can be reduced. In doing so, positivism seeks to explain relationships between variables through the establishment of causal laws linked to a concept or theory. For this reason, a practical requirement of this paradigm usually involves the stating of a theory or hypothesis indicating the relationships to be investigated by the study (Collis & Hussey, 2003, pp. 48-56).

This study aims to provide insight into the existing state of governance within the Offerman Family businesses, a topic into which no previous research has been done and on which no hypotheses can be made. For this reason, the research is exploratory in nature and falls clearly within the phenomenological paradigm (Collis & Hussey, 2003, pp. 48-56). According to Blumberg, Cooper and Schindler (2005, pp. 18-22), the phenomenological paradigm assumes that the social world is observed by seeing what meanings are given to it by people and also their own interpretations of these meanings. In addition, social phenomena can only be understood by looking at the totality and for this reason, the phenomenological paradigm generally involves qualitative data (Collis & Hussey, 2003, pp. 48-56).

Phenomenological research is also subjective and makes use of inductive reasoning to gain an improved understanding of complex situation (Leedy & Ormrod, 2005). Although the focus of phenomenological research is on meaning rather than measurement (Collis & Hussey, 2003, pp. 48-56), it is still necessary to collect data for this research paradigm. To this end, a case study approach was adopted and data was collected by means of a questionnaire. However, in analysing the data, a focus was maintained on the subjective realities particular to the case of the Offerman Family businesses.

4.4 Case study research

Case studies are good examples of phenomenological research as they generally involve extensive examination of a single instance of a phenomenon of interest (Collis & Hussey,
According to Yin (1989, p. 23) as reported in Cullen (2007), a case study can be regarded as an empirical enquiry that investigates a contemporary phenomenon within its real-life context. Viewed in this light, the case study approach can clearly be seen to differ from other research approaches, many of which deliberately attempt to divide a phenomenon from its context by trying to recreate it in a laboratory setting. In contrast, a case study approach emphasises the embeddedness of a phenomenon in its real-life context (Blumberg, Cooper, & Schindler, 2005, pp. 190-200).

Due to the contextual nature of case studies, they are held in contempt by some researchers. Blumberg, Cooper and Schindler (2005, p. 131) report that some perceive case studies to be scientifically worthless because they do not meet design requirements for comparison. However, in the case of this study and most other case studies, the objective is not to generalise and draw comparisons from a sample to a larger population (Yin, 1989, p. 21). Instead, the study is exploratory and descriptive in nature (Collis & Hussey, 2003, pp. 68-70) and is aimed at describing the current governance practices within the Offerman Family businesses for illustrative purposes.

The investigation into the Offerman Family businesses is an example of a single case study. Blumberg, Cooper and Schindler (2005, pp. 190-200) suggest that it is usually better to investigate several different cases, in different contexts, rather than rely on the information produced in a single case study. Such a study would be an example of a multiple case study and the evidence therefrom is usually more compelling than that from a single case study (Yin, 1989, p. 52). Nevertheless, Blumberg, Cooper and Schindler (2005, pp. 190-200) suggest that a single case study is sufficient in the following instances:

- The intended study forms part of a longer series of case studies or provides the closing critical study in a longer series of case studies;
- An extreme or unique case is being investigated; and / or
- Pragmatic reasons exist which preclude the study of more than one case.

Each and every family business is unique to the family involved and the particular context in which it exists. Additionally, this study is not attempting to define hypotheses regarding governance in family business. Instead, this study can be viewed as part of a longer series of case studies gradually attempting to gain insight into the workings of family businesses in South Africa. In this regard, Yin (2003) provides compelling comment:
“The strength of the case study is its ability to examine, in depth, a case within its real life context.”

4.5 Conducting the research

4.5.1 The sample

The aim of the study was to investigate the nature of the governance system employed by the Offerman Family businesses. However, it is obviously not possible to interview the businesses directly and for this reason, people with a significant influence on the governance of the Offerman Family businesses were polled on their individual views.

During the course of the literature study presented in Chapters 2 and 3, four distinct groups of people were identified with significant influence on the governance of the Offerman Family businesses. The influence of these groups on the businesses is represented graphically in Figure 1.1.

Please note that the author, although involved in the business as a director and shareholder, was excluded from these groupings. Although a phenomenological approach involves the collection of subjective data within a certain context, collecting data from the author was regarded as too subjective. Additionally, the author no longer forms part of the regular context within the businesses due to having carried out extensive research on the topic. For this reason, the author did not answer the questionnaire himself.

The four groups are as follows:

- Family members employed in the business who are also directors and shareholders. These are Mr EJ Offerman and Ms FA Offerman;
- Family members who are not employed in the business, who have no direct shareholding but are active as non-executive directors. Mr GJ Richards, the husband of Ms FA Offerman, is the only member of this group;
- Non-family members who are not employed in the business, who act as non-executive directors but represent groups of shareholders. These are Mr ME Links, Mr TF Belewa, Mr DD Sipeliti, Mr PJ Haasbroek and Mr TC Nkosi; and
- Non-family members employed in the business who are also executive directors and shareholders. These are Mr NM Mienie and Mr M Hunter-Smith.
The abovementioned ten people can be regarded as the complete population of individuals with significant influence on the governance of the Offerman Family businesses.

4.5.2 Development of the research instrument

According to Leedy and Ormrod (2005, p. 197), the questionnaire is a commonly used instrument employed in observing data beyond the physical reach of the observer. Having identified those capable of exerting significant influence on the governance of the Offerman Family businesses, a questionnaire was constructed aimed at recording their perceptions of governance.

As shown in Figure 1.1 and detailed above, the sample consisted of four different groups with each capable of providing a different dimension to the study. As an example, only family members can be questioned about family governance and similarly, family members who have no executive role in the business cannot be questioned on executive management issues. For this reason, a multi-tiered questionnaire, divided into five parts, was developed using the framework offered by the literature review as a backbone. An example of the questionnaire is attached as Appendix A.

In designing the questionnaire, numerous authors were consulted as to the best methods. For example, Frazer and Lawley (2000, p. 80) suggest that presentation is important and each questionnaire should be accompanied by a clear introduction to the survey that motivates respondents to complete the questionnaire. Salkind (1997, p. 149) proposes that questions should not be personal or offensive in any way while Collis and Hussey (2003, pp. 173-177) advise that precise instructions should be given in order the respondents may complete the questionnaire in the desired way.

In addressing the concerns of the authors consulted, each of the ten questionnaires included a cover page detailing the nature of the study as well as instructions on how the questionnaire should be completed. In the best interests of the business, the cover page was explicit in stating that the intention of the questionnaire was not to identify individuals and / or individual shortcomings. Instead, it was explained that the questionnaire was designed to establish the general perceptions of those able to influence governance in the business and requested their open and honest responses according to their initial reactions.

All respondents were asked to complete Part 1 as this contained personal information. Parts 2 and 4 were also to be completed by all respondents as these contained general questions and
questions on corporate governance respectively. Part 3 was designated for family members as this section polled family governance issues. Part 5 polled executive management issues and for this reason, was only applicable to those acting in an executive management capacity. For reasons of transparency and general interest, all parts of the questionnaire were provided to all participants.

In total, the questionnaire included 78 questions (excluding the classification questions), divided into five parts. While the first few questions sought classification data, the bulk of the questionnaire was made up of open questions and particularly those rated against a five point Likert scale (Collis & Hussey, 2003, pp. 179-186). Answering 1 on the Likert scale indicated no agreement with the offered statement, 2 indicated agreement to a lesser extent, 3 indicated agreement to some extent, 4 indicated agreement to a great extent, and 5 indicated agreement to a very large extent.

A few simple questions seeking Yes / No responses were also included for variety but these were kept to a minimum as such questions can have the effect of provoking an opinion on an issue when in fact the respondent does not hold one (Collis & Hussey, 2003, p. 184). In the case of Yes / No questions, most were followed by an open question seeking an explanation for the preceding Yes / No response.

4.5.4 Testing the research instrument

Birley and Moreland (1998, p. 45) recommend that someone other than the researcher should scrutinise a questionnaire to eliminate unsuitable or ambiguous items. In addition, it is common that researchers wish to ask too many questions and for this reason, a checklist for eliminating unnecessary questions, as proposed by Collis and Hussey, was employed to trim down the number of questions (2003, pp. 187-188). Following these steps, the researcher’s supervisor, an academic in the field of family business, was asked to review the questionnaire before submitting it to any respondents.

Over and above the review provided by the researcher’s supervisor, two family members of the researcher, both involved in the business, were asked to complete the questionnaire before submitting it to anyone outside of the family. This was done for reasons of seeking to avoid overly sensitive issues. Fortunately, neither family member was of the opinion that any questions should be altered or omitted.
4.5.4 Administering the research instrument

The questionnaire was directed to six out of ten respondents via email. Although the cover page of the questionnaire was quite comprehensive, further detail was provided in a brief covering email that was personalised to each participant. The researcher knows all the respondents personally and wrote a personal email for purposes of maintaining the best relationship as well as receiving a timely reply.

In the case of four of the ten respondents, it was possible to hand them each a hard copy personally. Two of these respondents were family members while the other two were both not equipped with email or fax in order to receive the questionnaire in any other way. Both of these other two respondents agreed to visit the researcher at his office and complete the questionnaire in close proximity in order that queries due to language issues might be resolved – both do not speak English as a mother tongue.

While it is normal that questionnaires experience high rates of non-response (Collis & Hussey, 2003, p. 175), nine out of ten respondents returned their questionnaires during the allotted time. This ninety percent response rate was considered adequate for the purposes of this study.

4.5.5 Validity and reliability

Collis and Hussey (2003, pp. 58-59) regard validity as the extent to which the research findings are accurate in their representation of the actual occurrences in a situation. In terms of the measuring instrument, validity is concerned with the soundness and effectiveness of the measuring instrument (Leedy & Ormrod, 2005, p. 28). In other words, validity is concerned with whether the measuring instrument actually measures what it is supposed to be measuring.

In the case of the phenomenological paradigm, as per this case study, the aim of the study is to capture the essence of the phenomena and extract data that is rich in explanation and analysis. In such a case, validity is high due to the researcher’s aim towards full access of the knowledge and the meaning of those involved in the phenomenon (Collis & Hussey, 2003, pp. 58-59). On this basis, the validity is considered high in regard to the investigation of governance in the Offerman Family businesses.

Reliability has to do with the accuracy and precision of a measurement procedure (Blumberg, Cooper, & Schindler, 2005, p. 379). In the case of the measuring instrument, reliability is
synonymous with the consistency with which the measuring instrument performs (Leedy & Ormrod, 2005, p. 29). In practical terms, reliability is concerned with whether the same results would be obtained if a test were to be repeated by the same researcher or anybody else (Collis & Hussey, 2003, pp. 58-59).

Within a phenomenological research paradigm, reliability may be given lesser status. The importance of reliability for qualitative measures in the positivistic sense is low, but what does matter is whether similar observations could be made by different observers on different occasions (Collis & Hussey, 2003, pp. 58-59). In the case of this study, a significant measure taken towards improving the reliability of the study was the review of the measuring instrument by an academic in the field of family business study. However, first and foremost, the reliability was heightened by the undertaking of a comprehensive literature review of the relevant topics of study. Taken together, these measures ensured the validity and reliability of the study as well as the maintenance of sound ethical standards.

4.6 Chapter summary

The chapter commenced with a review of the research objectives. The primary research objective is to determine the nature of the governance system employed by the Offerman Family businesses while the secondary research objectives have a more practical focus on the governance systems employed by the business.

With the objectives clearly stated, a discussion was presented on the phenomenological research paradigm followed by the study. An outline of the positivistic paradigm was also provided in order to contrast against the nature of the phenomenological paradigm followed by the case study of the Offerman Family businesses. Case studies are a particular form of phenomenological research and for this reason, their nature was discussed more closely.

In the section on conducting the research, the elements involved in physically carrying out the primary research were discussed. Detailed here were the sample, the questionnaire employed as the research instrument and its development, the testing of the questionnaire and the administration of the research. The section closed with a discussion of the validity and reliability of the research.

Overall, this chapter detailed how the primary research was actually carried out. The findings of the primary research are presented in Chapter 5.
CHAPTER 5: RESEARCH FINDINGS

5.1 Introduction

In Chapters 2 and 3, an extensive literature review was provided on the topics of family business, the history of the Offerman Family businesses, and applicable forms of governance. Chapter 4 detailed the methodology followed in conducting the primary research which took place via the administration of a questionnaire.

In presenting the analysis and results of the primary research, this chapter will first serve to build on the foundations of the literature review. To this end, the context of the scenario is considered by applying theory discussed in the literature review, and commenting on the actual case of the Offerman Family businesses. According to Yin (1989, p. 23) as reported in Cullen (2007), a case study can be regarded as an empirical enquiry that investigates a contemporary phenomenon within its real-life context. In establishing this context, topics considered here are life cycle of the Offerman Family businesses, governance in the Offerman Family and boards in the Offerman Family business.

With the context established, the actual findings of the primary research are then presented. The findings are offered in a similar format to the structure offered by the literature review with the headings echoing those provided in earlier chapters where possible. In this way, a link is provided between the literature review which presented the theory and the practical research into the Offerman Family businesses.

The primary research findings commence with general perceptions of family business. This section covers general perceptions of family business as well as those focussed on the Offerman Family businesses in particular. The next section follows a similar format by combining general perceptions of governance followed by a particular focus on the Offerman Family businesses.

Family governance is dealt with next including its various subsections such as family constitution and family institutions. This is followed by the primary research findings into the board of directors, including those for a number of subtopics echoing the headings of Chapter 3. The research findings into the management element of governance are covered next including its various subsections as per those presented in Chapter 3.
The final set of findings presented involve a discussion of the directing, controlling and accounting (for) elements of governance. Ultimately, the complete nature of the governance system employed by the Offerman Family businesses, as revealed by the primary research, will be detailed. In this way, the primary objective of the research will be addressed.

The chapter closes with a condensed summary of the major research findings in the chapter summary. Due to the length of the research findings in the main body of this chapter, key findings are reiterated in the summary for ease of reference.

5.2 The Offerman Family businesses in context

5.2.1 Life cycle of the Offerman Family businesses

From the history of the Offerman Family businesses provided in Chapter 2, the classification of the early years of the business against the three stage model is not straightforward. During most of the period 1945 – 1978, ownership of the business was effectively by means of a partnership between various shareholders in the Offerman Family and outside investors, most notably the Beumer Family who held half of the company’s shares between 1954 and 1978. Hence, it is probably more correct to consider the business as a non-family partnership during this period, rather than a family business. Nevertheless, the involvement of Mr WA Offerman’s sons in the business bore the hallmarks of a family business and for this reason, considering the business in terms of a Stage one family business carries some validity.

In 1977, Mr EJ Offerman joined his brother, Mr W Offerman in the business. Shortly thereafter, all of the business shareholding was consolidated into the hands of the Offerman Family with much of it held by Mr W Offerman and his brother. It is clear that the business was now a Sibling Partnership and the arguments that ensued towards the end of the 1980’s and early 1990’s bear testimony to the potential problems that can arise during the Stage two incarnation of a family business. Such problems can be exacerbated by a lack of sufficient governance and it could be speculated that this is possibly what occurred.

According to Neubauer and Lank (1998, p. 39), multiple combinations and permutations are possible in the ownership structure of a family business over its life cycle. The potential exists for a business to move from Stage one to Stage three, and back again, as circumstances change in the business and different generations come and go. This is borne out by the experience of the Offerman Family businesses – following the buy-out of Mr W Offerman by
his brother in 1991, the business was effectively returned to being a Stage one company under the leadership of a controlling owner.

After 1994, the case for classification by the three stage model again becomes complicated. Mr EJ Offerman effectively gave a fifty percent shareholding in a subsidiary company he created, Grahamstown Brick (Pty) Ltd, to his nephew, Mr JC Meyer, whilst holding forty percent himself as well as giving a five percent share to each of his children. With the benefit of hindsight, it seems likely that in Grahamstown Brick (Pty) Ltd, both Mr EJ Offerman and Mr JC Meyer considered themselves as controlling owners, even though Mr EJ Offerman and Mr JC Meyer are from different family generations and Mr Offerman had provided all the capital. With two controlling owners, Grahamstown Brick could possibly have been regarded as a Stage one family business in terms of management and control.

Nevertheless, as both Mr EJ Offerman’s children were shareholders in the business, Mr EJ Offerman had unwittingly created a Stage three family business – a cousin confederation – without full consideration of the governance implications thereof. To complicate matters further, Mr EJ Offerman’s elder child, Ms FA Offerman, joined the business in 1996, first working under Mr JC Meyer at Grahamstown Brick (Pty) Ltd and then moving to work directly under her father at Coega Brick (Pty) Ltd after approximately two years. With hindsight, it is clear that formal governance mechanisms were lacking commensurate with the Stage three evolution of the family business (Offerman E., 2010). According to Neubauer and Lank (1998, p. 39), interstage transitions can be extremely difficult and this was certainly borne out in practice.

During this period, the original Offerman Family business, now operating as Coega Brick (Pty) Ltd, continued to operate as a Stage one business, entirely under the control of Mr EJ Offerman. In 2002, Mr EJ Offerman’s second child, Mr JL Offerman, also joined the business although at a new subsidiary created by Mr EJ Offerman. Mr JL Offerman’s recruitment provided an additional complication to the cousin confederation and again, it would seem from hindsight that insufficient consideration was given towards suitable governance structures (Offerman E., 2010).

On 30 April 2010, Mr JC Meyer sold his entire shareholding in Grahamstown Brick (Pty) Ltd and exited the business as a director and shareholder (Allchurch, Offerman, & Meyer, 2010). Effectively, this move has returned the Offerman Family businesses to a Stage one family enterprise. Notwithstanding, both Mr EJ Offerman’s children are still shareholders in various
subsidiaries of the business along with four other minority shareholders, including two black empowerment consortia. In this light, it seems possible that a Stage two family business is not far away. Additionally, the inclusion of various minority shareholders in a family business is a situation sorely in need of sound governance structures. For these reasons, it is imperative that the Offerman Family businesses make haste to implement sensible governance measures. However, governance measures within the actual family are just as important.

**5.2.2 Offerman Family governance**

In the case of the Offerman Family, the informal family meeting has been the only significant family governance structure employed by the family. Moreover, although business has long been discussed at family get-togethers, the calling of family meetings, in order for family members to discuss business-related issues particularly, is only a relatively recent occurrence in the current generation of the business. The main driver of these meetings has been the breakdown in relationships which occurred due to the difficulties being experienced by Grahamstown Brick (Pty) Ltd trading as Makana Brick (Offerman F., 2010).

In addition to relationship turmoil, a further driver in the ascent of family meetings has been the financial exposure increasingly being felt by the children of Mr EJ Offerman. Beginning with their investments into Ngqura Brick (Pty) Ltd (now trading as Algoa Brick), Mr EJ Offerman’s children have increasingly invested into the family businesses to the point where their personal financial wellbeing has become intricately linked with that of the businesses. Moreover, the development in Grahamstown required significant assumption of risk on the part of Ms FA and Mr JL Offerman resulting in enhanced concern over the performance of Grahamstown Brick (Pty) Ltd trading as Makana Brick (Offerman F., 2010). This increased assumption of risk on the part of the next generation could also be seen as the initiation of the transition of the business from a Stage one family business to a Stage two sibling partnership arrangement.

Notwithstanding, until recently, family meetings have been held only informally and usually consist of Mr EJ Offerman and his two children. Additional advisers have sometimes been present, or have had indirect input in order to provide opinion or professional guidance, as necessitated by the issues at hand. Apart from the outputs stemming from particular issues discussed, no minutes were kept and hence, family meetings have appeared to achieve little other than an exchange of opinion and ideas (Offerman F., 2010).
Following commencement of this study, the researcher, Mr JL Offerman, suggested that the family consider a more formalised family governance structure. The result was a formal meeting, held on 14 April 2010, at which Mr EJ Offerman and his two children, Ms FA Offerman and Mr JL Offerman, were present, at which a written agenda was discussed and following which a set of minutes was generated (Offerman Family Council, 2010). Although exploratory in nature and by definition more a family assembly or forum rather than a family council structure (Neubauer & Lank, 1998, pp. 80-96), it is hoped that this meeting may spawn a new focus on family governance which would seem to have been neglected over recent times. The actual name of the meeting or body is unimportant – its potential in light of the history of the Offerman Family businesses is far more significant.

As mentioned above, a terminal breakdown in relationships recently occurred between the Port Elizabeth and Grahamstown operations of the family business following a lengthy period of family tension. During this period, no family governance institutions existed whatsoever nor was there much thought directed towards family governance. Although it would be simplistic to cite the lack of family governance as the sole cause of the situation, the outcome was the exit of Mr JC Meyer, nephew of Mr EJ Offerman, from the business on terms negotiated under highly stressed conditions (Allchurch, Offerman, & Meyer, 2010).

Similarly, going back some years, 1991 saw the exit of Mr W Offerman (Jnr) from the business following a buyout by his brother. The circumstances of Mr W Offerman’s exit can also be described as strained, much in line with the departure of Mr JC Meyer (Offerman E., 2010). Again, no formal systems of family governance were in place at the time nor were any agreements formalised as to how family relationships may affect the business. The aim of family governance institutions is to help strengthen family harmony and the family’s relationships with the business (International Finance Corporation, 2008, p. 28). In the situation described above, it seems likely that improved family governance may have helped, especially in the light of comments from an independent director of the time about the necessity for an objective voice between the two disagreeing brothers (Allchurch, 2010).

A discussion on the possible causes of the above two issues is now moot, especially as some nerves are still raw in the former case. However, the lack of family governance appears to be a common thread between the above two incidents and for this reason, all precautions should be taken to ensure that lessons are learnt. After all, “Those who cannot remember the past are condemned to repeat it” (Santayana, 1998).
A relatively recent addition to the governance measures employed in the Offerman Family businesses has been the creation of company boards for the three different companies. Against the backdrop of apparent shortcomings in family governance, the company boards have provided an opportunity whereby outside influences could act towards influencing governance within the Offerman Family businesses.

5.2.3 Boards in the Offerman Family businesses

All three companies in the Offerman Family business stable, namely Coega Brick (Pty) Ltd, Ngqura Brick (Pty) Ltd trading as Algoa Brick, and Grahamstown Brick (Pty) Ltd trading as Makana Brick, have legally constituted unitary advisory boards. This is in line with current legislation (Delport, 2009, pp. 49-50) as well as the recommendations of King III (Ernst & Young, 2009, p. 2). However, it appears that these boards fall short of the recommended ideals for unitary boards in a number of ways.

In the case of Coega Brick (Pty) Ltd, the board is essentially a “paper board” set up to comply with legislation and rubber-stamp the Managing Director’s decisions (International Finance Corporation, 2008, p. 37). No regular meetings are held, there are no formal reporting structures and the board does not appear to add significant value to the company in any readily discernible way. Additionally, it could be argued that the two non-executive directors on this board receive no direct compensation for the legal risks they carry as company directors. However, this argument is countered by the fact that both non-executive directors are family members who do benefit from the company, albeit indirectly (Offerman F., 2010).

Notwithstanding these criticisms, the board of Coega Brick (Pty) Ltd does serve the purpose of complying with legislation. In addition, the plant operated by Coega Brick (Pty) Ltd has existed in its current form since 1985 and has performed admirably under the control of its current managing director who is essentially the sole owner of the company in any case. On these grounds, there is a strong argument that Coega Brick (Pty) Ltd does not need the services of a unitary advisory board on its own (Offerman E., 2010). Instead, this company actually forms part of a larger group, consisting of three companies, two of which have far more functional boards of directors.

In the case of both Ngqura Brick (Pty) Ltd trading as Algoa Brick, and Grahamstown Brick (Pty) Ltd trading as Makana Brick, both companies have a board that was founded from their
respective shareholders’ agreements (Rushmere Noach Attorneys, 2006; Rushmere Noach Attorneys, 2009). Both agreements were written by the same attorneys and essentially, both boards consist of a similar number of directors appointed by company shareholders. In both cases, shareholders are able to appoint a number of directors approximately corresponding with their percentage shareholding. In light of their respective agreements, the boards are actually constituted more along the lines of shareholders’ councils rather than unitary advisory boards as recommended by King III (Ernst & Young, 2009, p. 2).

Further to the above, the constitution of the two boards along the lines of shareholders’ councils actually creates a potential conflict of interest for the directors. According to King (2006, pp. 31-33), a major element of responsibility for company directors is to act in good faith on behalf of an “incapacitated” company. In this way, it is possible that a director may find him / herself in conflict between the wishes of a nominating shareholder and the best interests of the “incapacitated” company. This would be a tricky situation which provides good argument for the inclusion of independent directors on the board.

The fact that no allowance is made for the inclusion of independent directors is another obvious criticism of the board make-up as per the shareholders’ agreements. King III (Ernst & Young, 2009, p. 2) is clear in its recommendations regarding independent directors and numerous other authors echo these sentiments (Maier, 2005, pp. 8-9; Cadbury, 2000; Cadbury Committee, 1992; King, 2006). Nevertheless, there is nothing in either shareholders’ agreement that prevents both companies from appointing independent directors by means of mutual agreement. These could be in addition to the directors representing shareholders or in place thereof, as long as the board agrees and duly records the resolution.

Although there are some major similarities, there are two significant differences between the shareholders’ agreements of Ngqura Brick (Pty) Ltd trading as Algoa Brick and Grahamstown Brick (Pty) Ltd trading as Makana Brick. At Ngqura Brick (Pty) Ltd trading as Algoa Brick, each director is afforded one vote with respect to matters considered by the board. In contrast, directors at Grahamstown Brick (Pty) Ltd trading as Makana Brick vote according to the number of shares held by their nominating shareholders. In the case of Makana Brick, this agreed voting structure would also need to be changed to enable the appointment of additional independent directors.

The other significant difference between the shareholders’ agreements regards the appointment of the board chairman. Although it may seem a minor difference, the agreement
of Ngqura Brick (Pty) Ltd trading as Algoa Brick records that the company chairman should be appointed for a period of two years following which period a review of the appointment is required by the board. Grahamstown Brick (Pty) Ltd trading as Makana Brick has no such stipulation.

According to Cadbury (2000, p. 28), the company chairman plays a significant role in the optimal functioning of the board. For reasons of reviewing and improving the function of the board, it is useful that regular attention (every two years) is brought to bear on the chairman. In this way, it is likely that attention will also be directed into whether the board has performed well or not. Further critique of the boards is provided by the primary research results detailed below, commencing first with an explanation of the manner in which the primary research data was analysed.

5.3 Findings – general perceptions of family business

The first question of the questionnaire polled all respondents on whether they considered the Offerman Family businesses to be a family business. To reiterate from the literature review, Kenyon-Rouvinez and Ward (2005, p. 1) defined a family business as a business entity possessing at least one of the following three characteristics:

1. Three or more family members all active in the business;
2. Two or more generations of family control; or
3. Current family owners intend to pass on control to another generation of family.

Interestingly enough, although the literature review showed that the Offerman Family businesses comply with all three of the above statements, only three (33 percent) of the questionnaire respondents concurred. Five (56 percent) did not consider the businesses to be family businesses while one person ‘sat on the fence’ by answering both yes and no (11 percent).

In all cases, respondents listed the shareholding held by parties external to the family as the main reason for not considering the Offerman Family businesses as a family business. Other reasons included the fact that most senior managers are not family members and also the necessity of consulting parties external to the family in the event of major decisions. One respondent also considered the business to have a corporate-like feeling due to the involvement of the different parties.
Reasons for considering the Offerman Family businesses as a family business included the origins of the company from the Offerman Family and also the majority shareholding held by the Offerman Family. Another reason given was that the financial risk carried by the EJ Offerman Family Trust and individual Offerman Family members significantly outweighs the percentage shareholding held by the Offerman Family. As a generalisation, most loan guarantees and personal sureties are anchored by the EJ Offerman Family Trust and / or individual Offerman Family members. One respondent remarked on the coherence of Offerman Family members observed during board discussions as a reason for considering the business to be a family one.

When asked about their personal perceptions of family businesses, those polled returned a variety of answers. These included the idea that family businesses are generally a smaller, mom and pop corner café arrangement, or that they are normally controlled from a central point and managed chiefly by family members. Positive perceptions included the idea that family business tends to think long term and invest for future rewards, or that family business implies the employment of family ingenuity towards creating self employment and creating wealth for a family. One respondent also remarked that family business can sometimes move more quickly than a corporate as major decisions can involve less bureaucracy and commensurate delays.

Negative perceptions about family business revolved chiefly around the emotional aspect. One respondent noted that emotions within a family can cloud judgement while another noted that the failure of communication within a family can lead to serious issues. A number of respondents had similar concerns such as family members might cling to key positions for overly long periods, to the detriment of the business, or might insist on filling key managerial positions for which they are ill-equipped. One respondent also voiced concerns over the blurring of lines between family and work as well as the delineation of authority.

Although family members employed in the business can struggle when the lines are blurred between family and work, close family participation plays a critical role in the success of family business and the benefits created cannot be quantified by the open labour market (Kenyon-Rouvinez & Ward, 2005, pp. 23-28). In order to gauge perceptions on this area within the Offerman Family businesses, four executives were asked to consider whether family members in the business could be replaced by non-family members at similar cost and benefit to the company.
On a Likert scale with one representing no agreement and five representing agreement to a very large extent, the two family member executives answered two and three respectively. The two non-family members answered three and four respectively. Overall, these answers would tend to indicate that there is some agreement with the notion that family members in the business could be replaced by non-family members at similar cost and benefit to the company. This goes against the view offered by Kenyon-Rouvinez and Ward offered above (2005, pp. 23-28).

If one compares the answers of the family members to those of the non-family members, it is noted that non-family members seem to value family members less than family members value themselves. This is not really a surprise. Nevertheless, the opinions of various authors offered in the literature review remain indicating that the overall perception of both family and non-family members is probably flawed. All respondents would do well to re-consider their responses in light of the literature review and the actual value that close family participation in all likelihood adds to the business.

The section of general family business questions closed with another practical question concerning the case of the Offerman Family businesses. When polled on whether the three different companies were inextricably connected or were capable of operating independently, five respondents (56 percent) felt that they could not really be separated and should be working together more and unlocking potential synergies. A rider given to this was the market conditions – separate operation is possible while demand is strong but since sales have been poor, it has become important for all three companies to work together to avoid shooting each other in the foot. All operate in a similar market space and without cooperation, it is natural that competition would occur with ensuing detrimental effects to all.

Three respondents (33 percent) felt that the three companies could operate separately with minimal regard for one another. The main reason given for this is the differing external shareholders between companies and the fact that the performance (both good and bad) of different companies should not necessarily affect unrelated shareholders of another company (only the Offerman Family has interests in all three companies). One respondent cited the current independent company structure as an issue keeping the companies separate while another felt that independent operation had previously worked and could continue to do so. One respondent (11 percent) provided an inconclusive answer but overall, the majority
sentiment was that the three businesses cannot be operated independently with no regard for one another.

5.4 Findings – general perceptions of governance

In order to gauge general perceptions regarding governance, respondents were first provided with a definition of corporate governance from Neubauer and Lank (1998, pp. 60-61) following which they were polled on their personal perceptions of corporate governance. A wide range of answers provided interesting reading and served to demonstrate an appreciation of what corporate governance entails and more critically, its importance.

Two respondents linked corporate governance to complying with legal requirements but qualified this by saying corporate governance is required for openness, honesty and accountability. One respondent provided a particularly compelling answer by describing corporate governance as “an ultimate tool...(that) eliminates all doubts that would come in its absence”, while another respondent added communication and understanding of the people involved in governance to the definition provided by Neubauer and Lank (1998, pp. 60-61). One respondent also felt that corporate governance should be respected at all times lest a company engage in reckless trading.

A respondent also linked their understanding of corporate governance to the following question by saying that governance is less important in smaller businesses than larger ones. Their reasoning argued that larger businesses have more leaders, or people trying to be leaders, and corporate governance plays a role in regulating this scenario.

The following question polled respondents on whether they felt that corporate governance is more important for big corporate rather than family businesses. The answers to this question were illuminating as they demonstrated distinctly polarised thinking. On the Likert scale, three respondents (33 percent) answered four or above in indicating their strong feeling that governance is more important in big corporates than family businesses. Conversely, six respondents (67 percent) answered two or less demonstrating equally strong feelings that corporate governance is important in family businesses. Overall, it is fortunate that the majority consider corporate governance to be of significance for family business and it is hoped that this thesis may serve to likewise convince their colleagues.

Cadbury (2000, p. 11) remarks that one of the most difficult transitions for a family firm is to move from the owner / manager stage to the point where ownership is separated from
management to a greater or lesser extent. Against this backdrop, the question was asked whether the respondents felt that the development of governance measures had kept pace with the growth of the businesses. Again, opinion was polarised with four respondents (44 percent) marking two – i.e. to a lesser extent. Of the remainder, two (22 percent) marked four and three (33 percent) marked five indicating agreement to a great or very large extent.

In light of the literature review, the life cycle of the business and the recent dramatic growth in the businesses, it would seem likely that the institution of governance measures have actually not kept pace with the growth of the business. The general perceptions towards governance of some, as reported above, would seem to indicate that governance currently does not enjoy the priority it deserves from all. For this reason, the Offerman Family businesses would do well to prioritise the institution of sound governance measures. However, to facilitate this prioritisation, the Offerman Family first needs to consider the issue of family governance.

5.5 Findings – family governance

Only family members active in the businesses were questioned on family governance and of those polled, two out of three were in agreement that a lack of family governance had hurt the family businesses. The explanations in agreement with the above had mostly to do with the breakdown in relationships recently experienced culminating in one family member exiting the business. Perhaps if the family had employed improved family governance measures, this situation may have been avoided or have been easier to handle.

In contrast, one respondent considered the recent events of a family member leaving the business to have had more to do with the dramatic growth of the business and changes in company structure. Concomitant with this growth, the businesses have been forced to move away from a one-man-style of management to a more corporately structured management system and this different opinion merely appears to concur that there have been governance shortcomings, but not particularly within the family.

Governance has much to do with communication. The question of whether family members are provided with sufficient company information showed that in general, sufficient communication is provided. However, the follow-up question seeking to establish what additional information might be required provided an illuminating response:

“If you trust someone and their judgement, you don’t need much information.”
The above mode of thinking could probably be construed to originate from the time before the recent dramatic growth of the business, where fewer people were involved and a one-man-style of management was sufficient. However, the growth of the businesses and the commensurate involvement of more managerial staff necessitates the installation of governance systems. With the involvement of more people, trust becomes insufficient as greater numbers bring different perceptions and sometimes contradictory values.

The above can even occur within a family. When a number of family members become involved in the business, bringing their different values and perceptions, it is often useful to install a family constitution in order that the family’s ideas may be explicitly aligned.

5.5.1 Family constitution

A Yes / No question was posed on whether the Offerman Family has a definitive constitution with regard to its business interests. Section 5.2.2 above described the recent creation of a formalised Offerman Family meeting (Offerman Family Council, 2010). The discussions held over a proposed constitution and the contents thereof provided the only qualification to the ‘No’ answer to this question – the Offerman Family does not have a definitive constitution with regard to its business interests.

In response to the question regarding ideals that should form part of a proposed Offerman Family constitution, philanthropy in some form was put forward by all respondents. Other suggestions included sound management of relationships and people as well as looking after those non-family members who are integral to the performance of the businesses.

With regard to policies that could form part of a proposed Offerman Family constitution, it was proposed that each family member should be treated fairly, as per any other staff member, and should not get any special treatment or remuneration. Reasonable management practices should be employed that ensure that nothing impacts negatively on external shareholders. Each family member should be able to have their say, with the others listening, and in the case of an individual family member bearing excessive risk or responsibility, each case should be dealt with on its individual merits rather than by means of blanket policies.

Although a family constitution provides a basis to guide intra-family dealings, the family requires institutions in order to formulate the constitution and effect its intentions. For this reason, family members were also questioned whether the Offerman Family had suitable family institutions in place.
5.5.2 Family institutions

Family respondents were divided on whether the family had a suitable institution of family governance. One questioned the need for such an institution due to the fact that only three family members are involved. However, this answer was revealing in that there are actually four family members actively involved with the businesses as board members while a fifth is working through his exit strategy. There are more family members involved than simply those with the surname Offerman.

Two other respondents answered that the Offerman Family does have a suitable family governance institution. The explanation for this answer was that family members have previously pulled together when necessary, and that the recent advent of family meetings has shown that the family is learning to operate better in concert.

The final question aimed only at family members sought suggestions as to improvements in Offerman Family governance. The key suggestion was communication – “Talk often and try to keep emotions out of it” and “keep communicating...and keep an understanding of what is important to all of us, individually, and as a family”.

Against the backdrop of family governance, all questionnaire respondents were asked whether they were conscious of the family dimensions of the business. Three respondents (33 percent) answered three (some agreement), three respondents answered four (agreement to a large extent) while the remaining three respondents (33 percent) answered five indicating their agreement to a very large extent. Overall, it is safe to say that there is general awareness of the family elements within the Offerman Family businesses.

Further in this regard, all questionnaire respondents were also asked whether they perceived the Offerman Family to speak with a unitary voice in relation to business decisions. It should be of concern to the Offerman Family that two ratings of one (not at all) were provided by respondents and all family members rated this question as 2 or 3 (to some extent). It is clear that the Offerman Family needs to provide a more unified voice in its dealings with the business.

5.6 Findings – board of directors

All directors were asked whether they considered the board to provide the business with a strategic advantage. The modal return was three indicating agreement to some extent by four respondents (44 percent). One respondent (11 percent) returned two indicating agreement to a
lesser extent, two respondents (22 percent) answered four while the remaining two respondents (22 percent) answered five indicating agreement to a very large extent. Overall, sentiment leaned towards agreement with the concept of the board providing a strategic advantage which agrees with the sentiments expressed by numerous authors in the literature review.

As discussed in Section 3.8, Neubauer and Lank (1998, p. 108) propose that as a general rule, the contribution of the board to a company should be additive and distinctive. If this is not the case, the board is costing money without returning additional value that cannot be delivered by anyone else. In response to the question on whether the contribution of the board is additive, the answers were less than ideal.

Although three people (33 percent) considered the board’s contribution to be additive to a very large extent (rating of five), four responses (44 percent) of three indicated agreement to some extent. There was also a single return of two indicating agreement to a lesser extent and one non-return meaning the overall sentiment leaned towards disagreement with the boards’ contribution being additive.

Similarly, responses on whether the board’s contribution is distinctive were also less than positive. Although two (22 percent) returns of five were given, the modal answer provided by three respondents (33 percent) was two indicating agreement to a lesser extent. Two answers (22 percent) of one were given, indicating no agreement, while two responses (22 percent) of three were also received. All in all, the feeling was that the boards’ contribution is less than distinctive meaning that the boards do not do anything significant that could not be done by another party involved in the company. In combination with the above sentiment that the boards’ contribution is not additive, it would seem that the boards of both Ngqura Brick (Pty) Ltd trading as Algoa Brick and Grahamstown Brick (Pty) Ltd trading as Makana Brick have some way to go before providing the full strategic advantage of which the directors believe they are capable.

Notwithstanding the above, the businesses and people involved are growing all the time. In this regard, it is an accepted fact with growing family businesses that the owner / founders, and the business itself, can struggle with the introduction of formal order such as a board (Neubauer & Lank, 1998, pp. 97-132). When polled on whether the board imposed unnecessary bureaucracy into the business, the highest rating provided was from one respondent (11 percent) who returned a rating of four indicating agreement to a great extent.
There was also one (11 percent) rating of three whilst the majority returned a rating of one i.e. no agreement. Overall, it was clear that the majority were comfortable with the level of officialdom instituted by the various boards which should be seen in a positive light.

5.6.1 The value and role of the board

Cadbury (2000, pp. 24-28) suggests that one advantage that a board in a family business can offer is the establishment of clear lines of authority and responsibility. In response to a query of this nature, the modal answer by three (33 percent) directors was a rating of three indicating some agreement. Two returns (22 percent) of two were counteracted by two returns (22 percent) of five indicating an overall leaning towards agreement that the boards had established some clear lines of authority and responsibility. Two respondents failed to answer this question.

The literature review showed that the establishment of clear lines of authority and responsibility is an important role of the board, particularly in a family business that has grown organically. For this reason, the Offerman Family businesses would do well to ensure that more agreement is reached on the lines of responsibility and authority in the business.

The literature also provides many lists of roles that a board in a family business may play. Succession planning is often near the top of these lists but the returns provided on polling this issue showed that seven respondents (78 percent) answered one or two i.e. that succession was not really a consideration of the boards. Interestingly, two respondents (22 percent), involved at different companies, returned a score of five indicating that succession was considered to a very large extent. Notwithstanding, it would appear that succession planning is relatively low on the various board agendas and is probably not getting the attention it deserves. As further evidence of this, one director even listed the lack of succession planning as the biggest risk faced by the company (see below).

The formulation of strategy and the due consideration of risk are also significant issues mentioned by numerous authors with regard to the role of the board (International Finance Corporation, 2008, p. 44; Kenyon-Rouvinez & Ward, 2005, pp. 51-52; Neubauer & Lank, 1998, p. 113; Cadbury, 2000, pp. 28-29). For this reason, all respondents were polled on their views as to the three most important risks facing the company.

Three respondents (33 percent) listed variations of poor market demand as the primary risk faced by the company. Variations of this risk factor also appeared on the lists of two other
respondents (22 percent). A summary of the remaining risks listed, in no particular order, is as follows:

- Cash flow and bankruptcy;
- The ability to adapt to changing circumstances;
- Debt leverage from the new investment in Grahamstown;
- Management issues;
- Unnecessarily high overheads;
- Sales management completely concentrated in the hands of one person;
- Exposure to creditors;
- Conflicts of interest between shareholders leading to infighting;
- The lack of succession planning in key roles; and
- The presence of family members on the board due only to their being family.

Although the above list will be of interest to all the respondents, it is provided here in order to comment on the range of different ideas put forward for the three key risks faced by the businesses. Three respondents (33 percent) provided incomplete lists but there were still eleven different risks proposed. On this basis, it is most likely necessary for the boards to spend more time in deliberation on the risks faced by the business such that executive management may be directed to act accordingly.

A similar exercise was undertaken with regard to company strategy. All respondents were polled on their perception of current business strategy, bearing in mind that three companies are involved. The modal result was “survival” which was listed by three respondents (33 percent). Two respondents (22 percent) listed variations of efficient production, good products and service delivery while one respondent did not provide an answer. Other strategies listed, in no particular order, were as follows:

- Merge the three businesses;
- Marketing to grow the business; and
- No real strategy at present due to more immediate issues.

Again, the list is provided for the point it demonstrates rather than the content. Amongst the eight opinions that were provided, five different strategies were offered. It appears as if the current strategy being followed by each company could do with further discussion and deliberation at board level.
Notwithstanding the apparent discrepancies on the strategy being followed, respondents were polled on whether they felt the business strategy stemmed from a unifying vision. The lowest return was two, indicating agreement to a lesser extent from two respondents (22 percent). The modal return was three which was provided by four respondents (44 percent) indicating agreement to some extent by a significant group of respondents. One respondent failed to answer the question with the remaining two (22 percent) returning a score of five indicating agreement to a very large extent. Overall, there does appear to be some concurrence as to the vision of the companies and although the consideration of risk and strategy may be wanting, vision is an important driver towards a successful future (Neubauer & Lank, 1998, pp. 175-176).

5.6.2 The size and composition of the board

The literature review offered various opinions as to the ideal board size. The board of Ngqura Brick (Pty) Ltd trading as Algoa Brick has eight members while the board of Grahamstown Brick (Pty) Ltd trading as Makana Brick has seven members. Of those polled, seven respondents (78 percent) returned a score of four or more indicating their approval of the size of the board. The remaining two respondents returned scores of two and three respectively and from discussions with them, they both would prefer to operate with smaller boards for purely pragmatic reasons – it is generally easier to relate and take decisions in concert with fewer people.

When polled on the combination of skills and experience available to each board, seven respondents (78 percent) returned a score of three or higher. Overall, this indicates that there is some or greater agreement that the boards have the right combination of skills and experience. In contrast, the remaining respondents (22 percent) returned scores of one and two respectively indicating dissenting opinions that the board does not have a suitable mix of skills and experience.

Despite the previous inequalities in South Africa, one respondent was unhappy with the statement that the board should be reflective of South African requirements towards affirmative action and equity. This respondent (11 percent) returned a score of two while four other respondents (44 percent) agreed to some extent in returning scores of three. The remaining four respondents (44 percent) returned scores of four or higher indicating an overall leaning towards agreement that the board should bear some reflection of South African requirements towards affirmative action and equity.
According to Gallo and Kenyon-Rouvinez (Kenyon-Rouvinez & Ward, 2005, pp. 51-52), the presence of highly qualified, independent directors on the board of a family business is of remarkable value to the business. Eight respondents (89 percent) appeared to agree with this statement to varying extents and returned scores of three or higher. Only one respondent (11 percent) did not see the value of more independent directors and returned an outlying score of one. In this light, it would seem pertinent that the boards explore all means available of finding and appointing suitable independent directors.

5.6.3 Directors

King III recommends that the education, qualification and experience of directors should be publically reported (Ernst & Young, 2009, pp. 2-3). This clearly demonstrates the requirement that directors be competent and qualified but fails to take into account the requirements of the South African situation, especially where attempts are being made to involve previously disadvantaged groups in the mainstream economy. In this regard, the boards of both Ngqura Brick (Pty) Ltd trading as Algoa Brick and Grahamstown Brick (Pty) Ltd trading as Makana Brick were formed following the successful completion of black economic empowerment deals aimed at complying with the Minerals Charter.

Against this backdrop, all respondents, who are all company directors, were asked to provide some basic data on levels of education and experience. Five respondents (56 percent) possess tertiary qualifications of National Diploma or higher. Two respondents (22 percent) have attended numerous courses including some university courses, while the remaining two both have matric and various short-term tertiary courses. In all cases, lack of formal qualifications is compensated for by extensive experience and the overall competence and qualifications of the boards appears to be sound.

Notwithstanding the levels of formal education and experience, King II recommends that all newly appointed directors should undergo a directors’ induction programme (PricewaterhouseCoopers, 2003, pp. 28-29). To this end, the questionnaire polled whether directors felt they had been properly inducted and made aware of their responsibilities when appointed as directors. Six respondents (67 percent) returned a score of one or two indicating no formal induction had taken place. Overall, it seems unlikely that some board members were inducted and others not and for this reason, the apparent lack of consistency in the answers received is most likely due to perceptions (or misperceptions) of what constitutes induction to the board.
Notwithstanding a lack of induction however, a separate question clearly showed that all board members are aware of the legal risk they carry as appointed company board members. Nevertheless, due to the legal implications of sitting as a company director, it would seem prudent that all directors receive some form of training as to their role as a company director, as resources allow. Additionally, new directors should be formally inducted onto the board.

In carrying a legal risk, directors, through their duties of good faith, care, skill and diligence, are accountable to the company (King, 2006, pp. 29-35). However, in the cases of Ngqura Brick (Pty) Ltd trading as Algoa Brick and Grahamstown Brick (Pty) Ltd trading as Makana Brick, all directors were appointed to represent shareholders. In this light, all respondents considered it important that shareholders have direct representation on the board through appointment of their representing director(s). Only one respondent (11 percent) digressed slightly and returned the lowest score of three, still indicating agreement to some extent.

Similarly, six respondents (67 percent) felt that a director’s primary responsibility should be to the shareholders by whom he / she was appointed by returning scores of four or more. One respondent (11 percent) digressed slightly by returning three while the remaining two respondents (22 percent) disagreed completely. All in all, this could be seen as problematic in light of King’s statement that a director is primarily accountable to the company (King, 2006, pp. 29-35) as it is possible that a director acting in the best interests of his / her appointing shareholder might act against the best interests of the company.

In this vein, a separate question polled whether directors agree that a director’s primary responsibility should be to the company. Seemingly in conflict with the above question, respondents were unanimous in agreeing with this notion. For these reasons, the boards would do well to deliberate this issue with all directors and consider providing some clarification in their respective board charters.

5.6.4 Functioning of the board

King II recommends that every board should have a charter setting out its responsibilities (PricewaterhouseCoopers, 2003, p. 31). To this end, all respondents answered that the boards of the Offerman Family businesses have no charter with one person qualifying their negative answer by querying whether the shareholders’ agreement did not constitute some form of a charter. In this regard, the existing shareholders’ agreements simply provide the basis for the
boards to operate and delineate some of their basic operating procedures. No details of the boards’ responsibilities, as should be contained in a board charter, are provided.

When asked for suggestions as to what should feature in potential board charters, respondents proposed that detail be included as to the roles of directors and focus areas for certain directors. It was also suggested that some consideration be given as to the mechanisms by which board decisions should be made binding. Additionally a suggestion was made to change the voting procedure of the Grahamstown Brick (Pty) Ltd trading as Makana Brick board from voting weighted by percentage shareholding to voting based on a one person one vote scenario.

In order to carry out their function, King II recommends that all company boards should have at least an Audit committee and a Remuneration committee (PricewaterhouseCoopers, 2003, p. 23). Questionnaire answers overwhelmingly indicated that the boards of the Offerman Family businesses have neither. Further to remuneration, questionnaire answers would seem to indicate that knowledge of remuneration levels is mostly limited to those in executive roles or family members. It would seem wise that both company boards take measures to remedy these shortcomings and improve communication with regard to knowledge of remuneration.

Good communication is critical for the efficient functioning of a company board. This topic is mentioned often in the study of governance as in the absence of good communication, misperception can often rush in to fill the vacuum. For this reason, all directors were asked whether they are provided with sufficient company information. Fortunately, the lowest score out of five was three with the modal score of four indicating overall agreement to a great extent.

Qualifications of their answers included suggestions that different information was pertinent according to market conditions – i.e. at present, information as to which creditors are being rolled over might be useful. Additionally, it was suggested that more information regarding current business strategy would be useful, particularly in relation to identifying and developing new talent to sustain future growth. A respondent would also like to see more information regarding the strategy being followed by the company to be conveyed back to directors. The respective boards should consider whether these additional information request could be accommodated.
When polled further on communication issues, the positive results continued. All respondents felt that they understood the information supplied in their board packs and also believed that they could add items to the boards’ agenda should they need to do so. This bodes well for the efficient functioning of the respective boards.

5.6.5 Board tenure

Opinions seemed slightly divided on whether board members should have a limited tenure before standing for re-election. Notwithstanding the fact that no basis exists currently for limiting the tenure of regular board members, six respondents (67 percent) returned three or higher indicating that they agreed at least to some extent with limited tenure of directorships before standing for re-election. The remaining three respondents (33 percent) marked two and one indicating their disagreement with limited director tenure, against the overall trend. It would seem that this matter requires further deliberation by the respective boards.

With regard to limited tenure of the chairperson, eight respondents (89 percent) returned three or higher indicating overwhelming agreement that the chairperson should have a limited tenure before standing for re-election. As described in Section 5.2.3, only the board of Ngqura Brick (Pty) Ltd trading as Algoa Brick currently has allowance in its founding document for limited tenure in the role of chairman. However, this clause has not been followed in practice (Offerman F. , 2010) and the board would do well to consider this issue further.

Following the above trends, all nine respondents (100 percent) indicated their agreement with the proposition of introducing new directors to the board. Concomitantly, new directors would bring fresh ideas to the respective boards and for this reason, it would appear advisable that the introduction of new, independent directors (see above) be considered.

5.6.6 Evaluation of performance

King III recommends that the board, its committees as well as individual directors be assessed annually (Ernst & Young, 2009, p. 2). As a first step in gauging perceptions in this regard, directors were polled on their awareness of their own level of performance. To this end, six respondents (67 percent) were comfortable in their knowledge of their personal level of performance as directors and returned answers of four or more. Only three respondents (33 percent) indicated some disagreement with regard to their own awareness of their personal performance levels as company directors.
In assessing this aspect further, eight respondents (100 percent) overwhelmingly agreed that they were personably able to make a meaningful contribution to the success of the company by returning scores of four and five. One respondent dissented and returned a score of two. From these two questions, it appears overall that most company directors are at ease with their personal performance levels and feel that they make a meaningful contribution to the respective boards.

Although most directors seem personally comfortable with their own level of performance, there does not appear to be a system in place for the board to evaluate its performance as a whole. When asked if the board had suitable performance management systems in order to gauge its own performance, the returned scores were overwhelmingly low. For this reason, it would appear that boards would be well advised to improve the performance management systems for gauging their own performance. To effect such an evaluation, the literature suggests that evaluation of individual directors also be undertaken. This should serve the companies well and also put at ease those directors unsure of their own performance.

With regard to performance management of senior executives, the results were also not ideal. Six respondents (67 percent) indicated that minimal formal performance management systems are in place for senior executives by answering one or two. This was not encouraging as it is important that the board be aware of the performance of the executives who represent them.

Fortunately, the results obtained in polling only senior executives were marginally better. Of the four senior executives polled on whether their performance was monitored and managed, three (75 percent) answered three indicating agreement to some extent while the fourth (25 percent) senior executive answered two showing less agreement. Based on these results, it would appear that the boards would be well advised to investigate the establishment of more formal performance management systems than it currently employs with respect to senior management. This is definitely an area in need of the boards’ attention.

5.6.7 Remuneration of board members

All respondents were polled on the remuneration they receive as a company director. The modal return by four respondents (44 percent) was three indicating some agreement that director’s remuneration is adequate. However, one respondent (11 percent) did not agree at all while two respondents (22 percent) agreed to a very large extent. The remainder (22
percent) agreed to a great extent so overall, the general feeling is that compensation for directors is adequate.

Notwithstanding the above finding, the respective boards may do well to consider the opinion of the director who did not agree with the level of directors’ remuneration at all. This may be especially pertinent in seeking to find and appoint suitably capable independent directors, as suggested above. All current directors have vested interests in the company and for this reason, they are probably more likely to agree to lower levels of directors’ remuneration than would be acceptable to an independent director.

5.7 Findings – management

If the board of directors in a family firm is operating effectively, management’s role becomes less strategic (Balshaw, 2004, p. 37). In this regard, effective functioning of the board should serve to establish clear lines of responsibility and authority for senior management and it has been shown above that the majority of directors believe that the boards have indeed done so to some extent.

Four senior executives were polled directly on whether they felt they had clear lines of responsibility and levels of authority. The results were clearer than those offered by all board members in that one senior executive (25 percent) marked five, two members (50 percent) returned a score of four and the remaining executive (25 percent) returned an answer of three. Overall, it would seem that senior executives do have reasonably clear cut lines of responsibility and authority and it would seem that the companies have achieved some success in this regard.

The four executives were also questioned on whether they felt supported in their role by sound structures and policies from the company. All four respondents (100 percent) answered three indicating overall agreement to some extent. Although the return was not negative, there is definitely room for improvement in this area and the boards would do well to consider how improved structures and policies could be implemented to assist company executives in fulfilling their mandates.

5.7.1 Employment policies

A particular area of interest with regard to company policy involves the employment policies of the Offerman Family businesses. Employment policies in family business can be complex due to the family element and for this reason, the four executives were asked whether the
company applies sound employment policies. Three executives (75 percent) answered four indicating their agreement to a great extent while one (25 percent) felt differently and answered two indicating agreement to a lesser extent.

Overall, it would appear that employment policies are adequate but the executive who feels differently possibly has a certain case in mind. For this reason, it would probably be advisable that employment policies be reviewed, particularly in light of the recent drastic swings in the market.

The four executives were also questioned as to whether non-family members enjoy the same treatment by the company as family members. Two (50 percent) answers of four were received indicating agreement to a great extent while the other two executives answered three and two respectively. Overall, these answers would tend to indicate some agreement with this notion. However, dissatisfaction with the way in which family members versus non-family members are treated in family business can be a serious issue with far-reaching repercussions. For this reason, it would be advisable to ensure that a policy regarding the treatment of family versus non-family members is applied, but more importantly accepted by all lest tensions simmer and eventually boil over.

5.7.2 Remuneration

Remuneration issues can also lead to tensions within a family business. For this reason, the four executives were polled whether the businesses have a well-articulated remuneration policy. One respondent (25 percent) returned a three while the remainder (75 percent) returned two indicating overwhelmingly that there are problems with the remuneration policy of the businesses.

In addition to issues with standard remuneration, even more negative responses were received on questioning whether the perks and benefits received by executives are regulated by suitable policies and guidelines. Taken together, the responses with regard to remuneration and benefits would seem to indicate that there is potential for discontent in this area at executive level. From the responses of all directors reported above, certain board members are also uncertain of the levels of remuneration and benefits offered by the company. On this basis, it seems that the Offerman Family businesses would do well to overhaul all systems and policies with regard to remuneration and benefits.
An accepted advantage of family business is that during tough times, family members may accept a reduction in remuneration for the long-term good of the business (Fishman, 2009, p. 71). The Offerman Family businesses are no exception and two family member executives are currently drawing lower salaries than normal due to unfavourable market conditions. With this background, the four company executives were polled as to their opinion on whether family members should accept a reduction in remuneration during tough times. The two family member executives returned scores of four and five indicating their agreement with this idea. However, the two non-family executives saw it differently and both returned scores of two indicating much less agreement.

In the case of the Offerman Family businesses, both non-family executives are also shareholders in the business, as reported in Table 2.1. Hence, a follow-up question was asked whether shareholders, who are also employees, should also accept a reduction in remuneration during tough times. Once again, the two family member executives returned scores of four and five indicating their agreement with this idea. Predictably, the two non-family executives saw it differently and returned scores of one and two indicating almost no agreement.

While not unexpected, the above answers serve to exemplify the differences in perception between family members and non-family members. Both have valid points of view and strong arguments as to what shareholding and employment in a business should mean. However, unless these are deliberated and reviewed as circumstances change, the potential for discontent will be omnipresent. For this reason, it is suggested that an overhaul of the systems governing remuneration and benefits should include participative review of what should occur during periods of poor market conditions.

5.7.3 Business resources

Over and above remuneration issues, the use of business resources by shareholders in a family business is also a potential source of strife. For this reason, the four executives were asked whether policies are in place to govern the use of company resources by shareholders. Three executives (75 percent) returned answers of three while the fourth (25 percent) returned an answer of two, overall indicating some limited agreement that there are policies in place on this issue.
The follow-up question posed to these executives was whether shareholders employed in the business should be able to use company resources for their personal benefit. In this instance, the two family member executives answered two and one respectively indicating minimal agreement with this notion. In contrast, the two non-family member executives, who are both shareholders, returned answers of four indicating their belief that shareholders employed in the business should be able to use company resources for their personal benefit.

Clearly, there are important differences in perception as per the remuneration issue mentioned above. As an example, family members might argue that shareholding, and the privilege of using company resources for personal benefit, includes the responsibility of lowered remuneration during tough times for the good of the company and all of its staff. Non-family executives, who are also shareholders, might argue that they could earn their full remuneration elsewhere irrespective of market conditions and that a drop in remuneration is only applicable to a wholly family-owned business.

Clearly, this is a complex issue for which there are no simple, one-size-fits-all answers. Extensive, ongoing consultation is needed to find the middle ground where all parties consider that sufficient heed has been taken of their views. The improvement of governance mechanisms and the review process that this will entail, should serve the Offerman Family businesses well in growing past these issues.

5.8 Findings – directing, controlling and accounting (for)

The literature review touched on succession planning when discussing the directing task of governance in family business. As proof of the importance of this issue, a director even listed the lack of succession planning as the greatest risk faced by the business. Proof of this director’s concerns were provided by posing the question of whether succession planning is taking place, directly to the four executives. Three executives (75 percent) answered two while the fourth answered one indicating almost no agreement. On this basis, it is clear that the Offerman Family businesses should take formal steps to address this issue.

Further to succession, when asked for additional comments with regard to governance, a director voiced the concern that the sales side of the business is almost entirely dependent on one person. Without a potential successor in training, or someone at sufficient level capable of standing in for this one person, the business will always be vulnerable. For this reason,
concrete steps towards implementing sound succession planning should probably begin in this area.

Sustainability and corporate citizenship is an area of governance that has recently taken on more prominence. King III devotes an entire new chapter to this area (Ernst & Young, 2009, p. 1). To gauge perceptions in this regard, the four executives were polled on whether the business applies sufficient consideration to this area and although one executive abstained from voting, the remaining three (75 percent) all indicated some agreement that sufficient consideration is applied. On this result, there appears to be room for improvement but this topic is probably of lesser importance to the Offerman Family businesses than other areas of governance mentioned elsewhere.

Further to the directing, controlling and accounting (for) areas of governance, it is difficult to poll topics on these areas directly. However, communication is key in all spheres of governance and for this reason, the four executives were asked whether there is effective communication in the business between senior management, the board and the Offerman Family. Two respondents (50 percent) returned answers of four indicating agreement to a great extent. The other two respondents returned scores of three and two respectively indicating lesser agreement but overall, this result is interpreted as encouraging for the businesses. An executive also remarked separately on the good communication between certain executive parties.

As a final word, a question was asked of the four executives whether an atmosphere of transparency and trust exists in the businesses. Three executives (75 percent) returned answers of two while the fourth returned an answer of three. Notwithstanding the encouraging results on communication, the apparent lack of transparency and trust is regarded in a serious light. This is further compounded by a comment from one respondent that there seems to be a culture of wariness of others and protection of one’s “turf” within the business.

Whether these issues are related to the recent breakdown of relationships between the Port Elizabeth and Grahamstown operations, stem from alternative sources or are simply symptoms of governance shortcomings, it is important that they be addressed without delay. Previously, when relationship issues have arisen, attempts were made to ‘handle’ issues in order that confrontation was avoided. The institution of improved governance mechanisms, with the commensurate review process, will serve the Offerman Family businesses well in
proactively avoiding similar situations. In this way, the creation of an atmosphere of transparency and trust within the businesses will be facilitated.

5.9 Chapter summary

5.9.1 The Offerman Family businesses in context

For reasons of setting the context, the chapter commenced with a discussion of the life cycle of the Offerman Family businesses. This discussion showed that the businesses have passed through a number of stages, including to the level of a cousin confederation, but is now currently operating as a Stage one family business. Nevertheless, the presence of two of Mr EJ Offerman’s children in the business makes it seem possible that a Stage two sibling partnership might soon be a reality.

Further to setting the context, the Offerman Family was seen to have no formal constitution with regard to its business interests and has only recently attempted to institute a formal institution of family governance. In light of the breakdowns that have occurred previously in family relationships, such moves seem warranted and in concert with the creation of boards of directors for two family companies, governance mechanisms appear to be on the rise within the Offerman Family businesses. Nevertheless, the makeup of the boards appears less than ideal and a review of the boards seems warranted.

5.9.2 Summary of findings – general perceptions of family business

Although the Offerman Family business interests can be classified as a family business according to most common definitions, a number of those able to influence governance within the business do not agree with this classification. In addition, company executives generally felt that family members in the business could be replaced by non-family members at similar cost and benefit.

Both of the above findings contradict the views of the literature such as those from Kenyon-Rouvinez and Ward (2005, pp. 23-28). On this basis, all respondents would do well to reconsider their views in the light of the benefits that can flow from close family involvement.

The practical question of whether the three Offerman Family companies can operate independently returned mixed opinions. Nevertheless, the majority agreed that the businesses could not operate without regard for one another.
5.9.3 Summary of findings – general perceptions of governance

The majority of respondents felt that governance issues are significant for family businesses and not only for big corporates. When asked if the institution of governance measures in the Offerman Family businesses had kept pace with the growth of the business, opinion was polarised leading to the conclusion that governance currently does not enjoy the priority it deserves. In this regard, the Offerman Family businesses would do well to prioritise the improvement of their governance mechanisms.

5.9.4 Summary of findings – family governance

Two out of three family members opined that a lack of family governance had hurt the family business. The dissenter’s opinion was that the problems had more to do with growth and changes in company structure rather than a lack of family governance. Nevertheless, this simply implies that governance has been lacking in the business rather than the family.

The Offerman Family currently does not have a constitution. If one is created, it was suggested that it should include philanthropy in some guise, the sound management of relationships and caring for non-family members who are part of the business, as fundamental values. With regard to policies forming part of the family constitution, fair treatment of family members as per any other staff member was mentioned as well as a policy that all family members should be allowed to have their say with the others listening.

With regard to a family institution, the Offerman Family has recently set about creating a suitable institution for dealing with its governance needs and enabling the family to operate better in concert. This appears to be sorely needed as a number of respondents felt that the Offerman Family does not speak with a united voice when it comes to business matters. Even family members concurred with this. Fortunately, there is general awareness within the businesses of the family element of the business.

5.9.5 Summary of findings – board of directors

Although the majority considered that the boards provide the businesses with a strategic advantage and do not impose unnecessary bureaucracy into the business, negative perceptions predominated on whether the boards’ contributions were additive and distinctive. For this reason, the boards have some way to go before delivering the full strategic advantage of which they are considered capable.
The questionnaire returned a few potential reasons for the above shortcomings. The boards have yet to reach consensus on the establishment of clear lines of authority and responsibility. Succession planning is not occurring as it should and consensus and deliberation appears to be lacking on the risks faced by the businesses as well as the strategy being followed. However, some compensation for these shortcomings is provided by the general feeling that the companies are acting towards a unifying vision as this is considered an important driver towards success.

In general, respondents considered the boards to be sized correctly with a reasonable combination of skills and experience, although there was some dissent on this issue. There was agreement that the boards should bear some reflection of South African requirements towards equity. Additionally, it was unanimously agreed that independent directors could add value to the boards and for this reason, all avenues of finding and appointing suitable independent directors should be sought.

With regard to directors, the overall competence and qualifications of all directors appears sound. Although no directors were properly inducted into their roles as board members, they are at least generally aware of the legal risk and responsibility they carry as sitting directors. Nevertheless, it is of concern that the majority of directors seem to believe that they are equally responsible to the shareholders who appointed them as well as to the company. For these reasons, the boards would do well to deliberate these issues and consider clarifying them in proposed board charters.

The boards in the Offerman Family businesses currently do not have a charter, an Audit committee or a Remuneration Committee, as suggested by the King reports. Fortunately, there is good communication between the boards and the businesses which should help to compensate for these shortcomings. Nevertheless, the boards would be wise to remedy these shortcomings directly.

With regard to board tenure, the majority leant towards limiting the tenure of board members before standing for re-election although there was significant dissent on this issue. With regard to the chairperson, there was less dissent and more respondents agreed that the chairperson should enjoy a limited tenure before standing for re-election. In this vein, all directors agreed that introducing fresh ideas to the board would be useful and for this reason, the boards should seek to appoint new, independent directors.
Although directors are generally comfortable with their own level of performance and felt that they were making meaningful contributions to the businesses, there do not seem to be adequate measures in place to consider the performance of the board or that of executive management. Fortunately, executive management feel that there is some management and monitoring of their performance but overall, the businesses would do well to consider issues of performance management across the company spectrum.

Lastly, there was general agreement that directors do receive sufficient remuneration. However, all current directors have a vested interest in the company and are more likely to accept lower levels of remuneration than would be required by a competent independent director. This should be considered further.

5.9.5 Summary of findings – management

Although company executives feel comfortable with their lines of responsibility and authority, the responses demonstrated a need for the institution of improved structures and policies to facilitate executives in performing their roles. Particular comment was obtained on the employment policies and overall, no major problems were noted although one respondent dissented. With some disagreement, it may be advisable to revisit employment policies particularly in light of the recent drastic swings in the market.

In response to a question on whether family members receive the same treatment by the company as non-family members, there was some disagreement. Although not vast, dissatisfaction with inequality of treatment between family and non-family members can have far-reaching implications in a family business and it would seem advisable that this issue be addressed.

Responses showed that the companies lack well-articulated policies with regard to remuneration and additional perks and benefits. Currently, two family member executives are receiving reduced salaries due to poor market conditions while non-family members, who are also shareholders, do not agree that any salaries should be reduced during tough times. There are valid viewpoints from both sides and for this reason, it is suggested that an overhaul of all remuneration policies, including perks and benefits, should be instituted which should include participative review of what should occur during all market conditions.

Over and above remuneration issues, there is also some disagreement on the use of business resources by shareholders. As per the issues of remuneration, the family and non-family sides
both have valid arguments. For this reason, ongoing consultation is required to find the middle ground where all parties believe that their needs have been duly considered.

5.9.6 Summary of findings – directing, controlling and accounting (for)

Succession planning, or rather the lack thereof, was again raised as an issue. As an area of focus, it was suggested that the sales arena should be prioritised for succession planning as the company currently has no backup in this area of operations.

There appears to be room for improvement with regard to the businesses’ sustainability and corporate citizenship initiatives. However, there are probably more pressing areas of concern to the Offerman Family businesses than this. In tackling these areas, communication is key and fortunately, it appears as if communication is generally healthy within the business.

Finally, it was shown that the atmosphere of trust and transparency is not what it should be within the Offerman Family businesses. There are a myriad of possible reasons for this but whatever has caused such an atmosphere, concrete action should be taken to address this issue immediately. The institution of improved governance mechanisms coupled with the review process that this will entail should serve the Offerman Family businesses well in this regard.

In presenting the findings of the primary research, Chapter 5 has served to address the primary research objective of this study. Chapter 6 will consider the secondary research objectives, make recommendations, detail the limitations of the study and finally serve to conclude the study.
CHAPTER 6: RECOMMENDATIONS AND CONCLUSION

6.1 Introduction

In Chapter 5, the detailed findings of the primary research conducted during this study were presented. In the process, the nature of the governance system employed by the Offerman Family businesses was systematically explicated thereby addressing the primary research objective.

This chapter will serve to demonstrate how the accomplishment of the primary research objective has facilitated resolution of the secondary research objectives. The four secondary objectives will be reiterated followed by a discussion of their outcome.

During the investigation into the nature of the governance system employed by the Offerman Family businesses, it was possible to compare the actual scenario against the theoretical and practical propositions discussed in the literature review. In doing so, it was possible to generate a list of practical recommendations for consideration by the parties capable of influencing governance in the Offerman Family businesses. These are presented next and serve to answer the last of the secondary research objectives.

Research into the field of governance in family business in South Africa creates a basis for similar research in this country as well as other parts of the world. The case study directed at the Offerman Family businesses is insufficient for the establishment of theories or principles and for this reason, additional areas of research are recommended, stemming from issues identified by this study.

Notwithstanding the apparent resolution of the research objectives and the recommendations made by this study, it is important that they be viewed in light of the limitations of this study. Although every effort has been to employ rigorous methods of research, there are still weaknesses inherent in the output which are detailed next.

Finally, the chapter will close with a conclusion to the entire research project.
6.2 Resolution of secondary research objectives

The primary objective addressed by this study was formally stated as follows:

| To determine the nature of the governance system employed by the Offerman Family businesses in ensuring that all company assets, resources and actions are directed at, and controlled in the achievement of established company objectives and are accounted for to all legitimate stakeholders. |

This objective was addressed in the detailed findings presented in Chapter 5 of this study. Flowing from this objective, four secondary objectives were also considered and are resolved as follows:

- **Does the Offerman Family have an appropriate system of family governance to enable it to deal with business issues?**

  The study revealed that the Offerman Family lacks a constitution and has only recently taken steps towards establishing a formalised family meeting structure. Two out of three family members polled felt that a lack of family governance has adversely affected the family business. Notwithstanding this general opinion, indifference towards family governance is still in evidence via the erroneous comment that only three family members are involved.

  For these reasons, the current answer is no. The Offerman Family currently does not have an appropriate system of family governance to enable it to deal with business issues.

- **What can the Offerman Family do towards improving family governance?**

  The establishment of a practical family institution is a good start towards improving family governance. By means of this forum, steps can be taken towards creating a family constitution that reflects the values of the family and its individual members.

  In creating a family constitution, family members should realise that Rome was not built in a day so the formation of a constitution will take time and effort. It is also not a once-off affair and should be reviewed as and when necessary.

  In addition to working on a family constitution, the formalised family meeting has been employed from the outset to deliberate on matters of importance to both the
family and the business. Amongst others, matters such as family financial exposure and strategic influence on the businesses have already been discussed.

- **Do the Offerman Family businesses have an appropriate system of governance in place, commensurate with their size and lifecycle status?**

The boards of Ngqura Brick (Pty) Ltd trading as Algoa Brick and Grahamstown Brick (Pty) Ltd trading as Makana Brick have certain shortcomings but are legally constituted and functional. Although the board of Coega Brick (Pty) Ltd is essentially a “paper board”, it actually consists almost entirely of Offerman Family members that are involved in the Offerman Family Council thereby providing the company with an operational forum for the discussion of its issues.

With the Offerman Family gradually taking more cognisance of the importance of family governance, the building blocks for sound governance are in place. For this reason, the answer is a qualified yes – the Offerman Family businesses do have an appropriate system of governance in place, commensurate with their size and lifecycle status, but considerable improvements are possible.

- **What should be occurring within the Offerman Family businesses in order to promote better governance?**

Although the building blocks for sound governance are in place, the Offerman Family businesses could take proactive steps towards improving governance. A summary of these recommendations is provided below.

### 6.3 Recommendations

#### 6.3.1 The Offerman Family businesses

For reasons of improving governance within the Offerman Family businesses, it is recommended that the following be considered:

- Accepting that the Offerman Family businesses, despite their external shareholding, are actually family businesses and seeking to leverage the benefits this can offer while actively avoiding the potential downside;
- Prioritising the implementation of improved governance measures and accepting the validity and value thereof;
Consolidation of the three different companies which make up the Offerman Family businesses;

- Embarking on a consultative visioning process that works towards aligning all efforts;
- Improving the functioning of the boards such that their contribution is additive and distinctive and serves to provide a strategic advantage;
- Clarification of the roles and responsibilities of directors, as well as the tenure of directors and chairpersons via the creation of charters for the boards;
- Seeking and appointing independent directors to the boards;
- Establishment of appropriate board structures to serve the purposes of Audit and Remuneration committees;
- Re-evaluation of board remuneration;
- Creation of comprehensive performance management systems for both the boards and executive management;
- Participative review of employment policies including consideration of family members in the business;
- Consultative review of company policies with regard to the remuneration and benefits received by executives as well as their use of company resources;
- Deliberation on succession planning and the areas in which this should be prioritised; and
- Improvement of the atmosphere of trust and transparency within the Offerman Family businesses such that openness and teamwork are encouraged.

### 6.3.2 Additional research

A relatively new complication in the governance system of the Offerman Family businesses is the inclusion of black empowerment shareholding necessitated by the requirements of the Minerals Charter. The Offerman Family businesses have been fortunate that the black empowerment consortia, with whom deals were struck, have contributed positively to the businesses. Included in their positive contribution has been understanding that the inclusion of black empowerment shareholders has brought not only a change from exclusive family ownership, but also the need to be cognisant of shareholders from a completely different cultural background.

With the wholesale push in South Africa towards black empowerment, the Offerman Family businesses are one of many family businesses that have been forced, or will still be forced to
make such changes. While the Offerman Family businesses have been fortunate, there are many family businesses whose experiences have been less so. In this vein, it could be of use to many family businesses if a study was undertaken into the governance methods employed in a relatively successful transition to empowered status in South Africa. Such a study would involve considering the case of a family business, such as that of the Offermans’, versus a business that has been less successful in such a transition. In doing so, a useful contribution could be made towards the improvement of family business success in the South African context.

6.4 Limitations of the study

The study identified ten people capable of influencing governance within the Offerman Family businesses and requested them all to complete questionnaires. Of those ten people, one person neglected to return their questionnaire. Although a single set of opinions would be unlikely to affect the outcome of the study materially, the 90 percent response rate is a limitation of the study.

The findings of the research depend on the data obtained from the questionnaire. For this reason, although it is common in everyday life to accept opinions offered as truthful, the findings are dependent on the honesty and motivation of the respondents. In the case of family business, emotions can play a significant part and may have influenced the views offered materially. All efforts were made to counteract this possibility by the assurance of strict confidentiality.

In the case of four respondents, the data obtained by the questionnaire may also have been affected by language issues as these four respondents do not speak English as a mother tongue. All efforts were made to negate this problem through the wording chosen for the questions. In addition, the researcher was also able to be physically present while two of these respondents answered their questionnaires. In this way, issues of language and understanding were negated for these two respondents.

The last limitation worth noting is due to the fact that the author is an Offerman Family member and continues to hold shares and directorships within the Offerman Family businesses. Although a phenomenological approach involves the collection of subjective data within a certain context, the author considered himself too subjective to partake in the study.
directly. Additionally, due to his in-depth study of the topic, the author no longer forms part of the context within which the research took place.

For this reason, although all effort has been made to ensure academic rigour, it is possible that the personal bias of the author, due to his involvement in the business and the Offerman Family, may colour the findings of the study to a minor extent. Nevertheless, awareness of this issue enabled the author to actively avoid the intrusion of his personal bias into the research and attempt to report only on the findings of the collected data.

6.5 Conclusion

The opening vignette on Adelphia Communications Corporation provided an extreme case of the consequences of governance shortcomings in family business. In contrast, the case study into the Offerman Family businesses did not detail any missing millions, private golf courses or directors in handcuffs.

Notwithstanding, the Offerman Family businesses are a lot more tangible to most readers of this study. For residents of Port Elizabeth who notice these things, pallets of bricks branded Algoa Brick are commonly seen on building sites. The majority shareholder and family patriarch drives a bakkie and does not flit around the world in a private jet. Therein lies the value of this study.

The Offerman Family businesses are regular family businesses seeking to sustain a family legacy and provide a living for family members as well as the non-family members who are integral to their operation. The Offerman Family has governance shortcomings but is realising the implications thereof. The businesses have most of the requisite governance building blocks but currently, these are not functioning optimally. In a similar vein, if many family businesses in South Africa followed a process of introspection, they would probably find themselves in a similar state.

This investigation into the role of governance in the Offerman Family businesses considered the hallmarks of family business in light of the requirements for sound corporate governance. In doing so, the primary research objective, to consider the nature of the governance system employed by the Offerman Family businesses, was resolved. In addition, four secondary research objectives were asked and answered culminating in numerous recommendations that if followed, could improve governance within the Offerman Family businesses.
This study will have value for many family businesses in South Africa facing similar trials. Although focussed on the Offerman Family businesses, most of the issues are not unique and will have similar implications for other family businesses. In addition, as academic rigour has been observed, this study could also provide a basis for comparative research in South Africa as well as other parts of the world.

Overall, it is hoped that a useful contribution has been made into the research of governance within family business.
LIST OF REFERENCES


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APPENDIX A: SAMPLE QUESTIONNAIRE

Questionnaire – The role of governance in the Offerman Family businesses

“For the family-owned business, good governance makes all the difference. Family firms with effective governance practices are more likely to do strategic planning and to do succession planning. On average, they grow faster and live longer.”

(Ward, 1997)

Important information

- The intention of this study is to investigate the nature of governance employed within our businesses. No intention is held to identify anyone or anything in particular – the goal is only towards improving the functioning of our business.
- Please answer in relation to the company(s) with which you are involved.
- Parts 1, 2 and 4 are to be answered by all. Part 3 is to be answered by Offerman Family members and Part 5 is to be answered by executive management only. All parts are supplied to everyone surveyed for purposes of interest and transparency.
- Although each questionnaire is personalised with known personal information that is pertinent, the results as recorded in the thesis will not identify anyone. Please check the personal information and make any corrections required.
- The final thesis, which will be supplied to all, will not link any names to results or comments. You are assured that raw, personally identifiable responses will only be seen by myself, John Offerman.
- There are no right or wrong answers. The idea is to gauge collective perceptions and make recommendations accordingly.
- Please do not second-guess the questions. Please answer open and honestly in line with your first reactions.
- The majority of the questions are presented as statements. To answer these questions, please indicate your agreement with the statement by considering the five point scale provided in the header. Please mark the number corresponding to your answer with an X.
- Where a Yes / No answer is required, please mark Y or N with an X.
- Where the questions are open or comments are invited, please provide as much (or as little) detail as you see fit.
- The questionnaire should take between 30 minutes and 1 hour to complete. If done electronically, please email back to johno@algoabrick.co.za. If handwritten, please fax to 0866913145.
- If you have any queries while filling in the questionnaire, please don’t hesitate to call me on 083 637 0662.

Part 1: Demographic information (to be answered by all)

Name:
Position:
Age:
Major qualifications:
Pertinent work experience:
Other pertinent information:
<table>
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<tr>
<th>Question No.</th>
<th>Question</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To some extent</th>
<th>To a great extent</th>
<th>To a very large extent</th>
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<tr>
<td>1</td>
<td>Do you regard the business as a family business?</td>
<td>Y</td>
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<td>2</td>
<td>Explain your answer to the above question.</td>
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<tr>
<td>3</td>
<td>What is your perception of a family business – i.e. what is good and bad about a family business?</td>
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<td>4</td>
<td>What is your perception regarding the interconnectedness of the three different companies? Can they operate separately without regard for one another?</td>
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</tbody>
</table>

**Part 3: Family governance (to be answered by EJ Offerman, FA Offerman, G Richards)**

“Family business governance is a system of processes and structures put in place at the highest level of the business, family, and ownership to make the best possible decisions regarding the direction of the business and assurance of accountability and control.”

<table>
<thead>
<tr>
<th>Question No.</th>
<th>Question</th>
<th>1</th>
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</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>The Offerman Family has an appropriate system of family governance to enable it to deal with business issues.</td>
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<tr>
<td>6</td>
<td>Has the lack of family governance (if any) hurt our family business?</td>
<td>Y</td>
<td></td>
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<tr>
<td>7</td>
<td>Explain your answer to the above question.</td>
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</tr>
<tr>
<td>Question No.</td>
<td>Question</td>
<td>Not at all</td>
<td>To a lesser extent</td>
<td>To some extent</td>
<td>To a great extent</td>
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<tr>
<td>8</td>
<td>Family members are provided with sufficient company information.</td>
<td>1</td>
<td>2</td>
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<td>4</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>Is there any additional company information that you would like to receive?</td>
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</tr>
<tr>
<td>10</td>
<td>Does the Offerman Family have a definitive constitution with regard to its business interests?</td>
<td>Y</td>
<td></td>
<td></td>
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<tr>
<td>11</td>
<td>Explain your answer to the above question.</td>
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<tr>
<td>12</td>
<td>What ideals should be part of the Offerman Family constitution? (Examples: Philanthropy, Looking after staff and their families etc.)</td>
<td></td>
<td></td>
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<tr>
<td>13</td>
<td>What policies should be part of the Offerman Family constitution? (Examples: Employment of family members, Treatment of family members in the workplace, Remuneration of family members)</td>
<td></td>
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</tr>
<tr>
<td>14</td>
<td>Does the Offerman Family have a suitable family governance institution to enable it to deal with its business interests?</td>
<td>Y</td>
<td></td>
<td></td>
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<tr>
<td>15</td>
<td>Explain your answer to the above question.</td>
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<td>Question No.</td>
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<tr>
<td>16</td>
<td>Do you have any suggestions towards improving Offerman Family governance?</td>
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</tbody>
</table>

**Part 4: Corporate governance (to be answered by all)**

17 Neubauer and Lank (1998, pp. 60-61) describe corporate governance as follows: “Corporate governance is the system of structures and processes to direct and control corporations and to account for them.”

What is your perception of corporate governance?

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Governance is more important for big corporates rather than family businesses.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The development of governance measures have kept up with the growth of the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Shareholders are provided with sufficient company information.</td>
<td>1</td>
<td>2</td>
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<td>5</td>
</tr>
<tr>
<td>As a shareholder, what additional information would you like to receive?</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Question</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Directors are provided with sufficient company information.</td>
<td>1</td>
<td>2</td>
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<td>5</td>
</tr>
<tr>
<td>As a Director, what additional information would you like to receive?</td>
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<tr>
<td>Question No.</td>
<td>Question</td>
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<td>To a lesser extent</td>
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<tr>
<td>24</td>
<td>The Offerman Family has a single unitary voice when it comes to business decisions.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>25</td>
<td>Does the board have a charter that you know of?</td>
<td>Y</td>
<td></td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>If you answered no to the above question, what do you think should be in the board charter if one is constituted?</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>27</td>
<td>The board provides the business with a strategic advantage.</td>
<td>1</td>
<td>2</td>
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<td>4</td>
</tr>
<tr>
<td>28</td>
<td>The contribution of the board is additive – i.e. it improves company decisions and helps to reduce the risk of running the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>29</td>
<td>The contribution of the board is distinctive – i.e. the board performs tasks that no-one else in the business does.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>30</td>
<td>The board imposes an unnecessary element of bureaucracy into the running of the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>31</td>
<td>The board has established clear lines of authority and responsibility for senior management (as opposed to those established by an individual).</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>32</td>
<td>I am aware of the family dimensions of the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>33</td>
<td>The board has / is considering issues of succession in key roles within the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>34</td>
<td>The board has a functional remuneration committee that reports back to the board.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>35</td>
<td>I am aware of the level of remuneration of senior management in the business.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>36</td>
<td>The board has a functional audit committee.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>37</td>
<td>On being appointed as a board member, I was properly inducted and made aware of my responsibilities as a board member.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>38</td>
<td>I am aware that I carry a legal risk, equal to any other board member, for the decisions taken by the board.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>39</td>
<td>Suitable performance management systems are in place for the board to be aware of the level of performance of senior management.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Question No.</td>
<td>Question</td>
<td>Not at all</td>
<td>To a lesser extent</td>
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</tr>
<tr>
<td>40</td>
<td>Suitable performance management systems are in place for the board to be aware of its own level of performance.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>41</td>
<td>I am aware of my own level of performance as a company director.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>42</td>
<td>The board has the right number of directors.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>43</td>
<td>The board has a suitable combination of skills and experience.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>44</td>
<td>The board should have more independent directors.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>45</td>
<td>The composition of the board should be that which is most capable of fulfilling the board’s tasks.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>46</td>
<td>The composition of the board should be reflective of South African requirements towards affirmative action and equity.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>47</td>
<td>It is important that all shareholders have direct representation on the board through the appointment of their representative director.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>48</td>
<td>A director’s primary responsibility on the board is to act in the best interests of the shareholders by whom he/she was appointed.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>49</td>
<td>A director’s primary responsibility on the board is to act in the best interests of the company.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>50</td>
<td>In performing my duties as a director, I am able to make a meaningful contribution towards the success of the company.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>51</td>
<td>I understand the majority of the material supplied to me in my board pack and the reasons for it being there.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>52</td>
<td>I feel that I am able to add issues to the board meeting agenda when I want to.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>53</td>
<td>Board members should have limited tenure before standing for re-election.</td>
<td>1</td>
<td>2</td>
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<td>4</td>
</tr>
<tr>
<td>54</td>
<td>The chairman should have a limited tenure before standing for re-election.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>55</td>
<td>I think it is necessary for fresh ideas to be made available to the board from time to time through the appointment of new directors.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>56</td>
<td>As a director, I am adequately remunerated.</td>
<td>1</td>
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</tr>
<tr>
<td>Question No.</td>
<td>Question</td>
<td>Not at all</td>
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<tr>
<td>57</td>
<td>Please rank in order of importance the three major risks faced by our business.</td>
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<tr>
<td></td>
<td>1. (Highest risk)</td>
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<td>3.</td>
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<tr>
<td>58</td>
<td>Our business strategy stems from a unifying vision.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>59</td>
<td>What is our current business strategy?</td>
<td></td>
<td></td>
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<tr>
<td>60</td>
<td>Please provide any additional comment with regard to the board or any method of improving governance in our businesses.</td>
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</tbody>
</table>

**Part 5: Executive management (to be answered by Mr M Hunter-Smith, Mr N Mienie, Mr EJ Offerman, and Ms FA Offerman)**

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<tr>
<th>Question No.</th>
<th>Question</th>
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<th>To a great extent</th>
<th>To a very large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>61</td>
<td>I have a clear line of responsibility and level of authority.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>62</td>
<td>My performance is monitored and managed.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>63</td>
<td>The company supports my role with sound structures and policies.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>64</td>
<td>The company applies sound employment policies.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>65</td>
<td>Non-family members enjoy the same treatment by the company as family members.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>66</td>
<td>The company has a well-articulated remuneration policy that ensures remuneration keeps pace with market levels.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>67</td>
<td>The company has policies and guidelines that regulate all the perks and benefits that I receive.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>68</td>
<td>When times are tough, family members should accept a reduction in remuneration.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>69</td>
<td>When times are tough, shareholders who are also employees should accept a reduction in remuneration.</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<td>5</td>
</tr>
<tr>
<td>Question No.</td>
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<tr>
<td>70</td>
<td>Family members in the business could be replaced by non-family members at similar cost and benefit to the company.</td>
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<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>71</td>
<td>Policies are in place that govern the use of company resources by shareholders.</td>
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<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>72</td>
<td>Shareholders employed in the business should be able to use company resources for their personal benefit.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>73</td>
<td>Succession planning is ongoing for senior management positions.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>74</td>
<td>Our business applies sufficient consideration to sustainability and corporate citizenship issues.</td>
<td>1</td>
<td>2</td>
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<td>5</td>
</tr>
<tr>
<td>75</td>
<td>There is effective communication in the business between senior management, the board and the Offerman Family.</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<td>5</td>
</tr>
<tr>
<td>76</td>
<td>There is an atmosphere of transparency and trust in the business.</td>
<td>1</td>
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<td>5</td>
</tr>
<tr>
<td>77</td>
<td>Please provide comment on any additional executive management issues.</td>
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</tr>
<tr>
<td>78</td>
<td>Are there any other issues you would like to comment on?</td>
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</tbody>
</table>