The nature of family businesses and their importance for economic development[1]

Elmarie Venter [2] and Shelley Farrington

South Campus (Port Elizabeth)

Nelson Mandela Metropolitan University

Samevatting

Familieondernemings is die algemeenste vorm van sake-ondernemings ter wêreld, insluitend Suid Afrika. Hul invloed en getalle sal in die nabye toekoms aansienlik toeneem. Alhoewel dit alombekend is en aanvaar word dat kleinsake-ondernemings ‘n belangrike bydrae tot ekonomieë lewer, is dit minder bekend dat die meerderheid kleinsake ook familieondernemings is. Gevolglik is daar selfs ‘n neiging in sommige lande om familieondernemings en kleinsake-ondernemings as een generiese begrip saam te flans.

Sedert sy ontstaan voer die studieveld van familieondernemings ‘n stryd om sy grense en aard van uitsonderlikheid presies af te baken. Die hoofdoel van hierdie artikel is om dié uitdaging die hoof te bied, deur die verskillende voorgestelde definisies van familieondernemings sedert die vroeë tagtiger jare te ondersoek. Verder sal daar lig gewerp word op die aard van hierdie tipe besighede, hul belangrike bydrae tot nasionale ekonomieë, insluitend die Suid Afrikaanse ekonomie, en die uitdagings waarmee hulle te kampe het.

Hierdie artikel illustreer die problematiek om familieondernemings te definieer. Afgesien van die aantal verskillende definisies wat bestaan, behoort hierdie definisies ook tot ‘n aantal verskillende kategorieë. By gebrek aan ‘n algemeen-aanvaarde definisie van familieondernemings is dit belangrik dat elke navorser ‘n duidelike omskrywing bied van sy keuse van ‘n definisie van ‘n familieonderneming. Met die definisies van Flören (2002), Hulshoff (2001) en Stoy Hayward (1989) as grondslag, kan ‘n familieonderneming in breë terme aan die hand van die volgende kriteria gedefinieer word: ten minste 51% van die besigheid se eienaarsbelang is in besit van ‘n enkele familie; ‘n

1 This paper is based upon work financially supported by the National Research Foundation of South Africa.

2 To whom correspondence should be addressed.

enkel familie is in staat om aansienlike invloed uit te oefen; en minstens twee familielede wat aktief betrokke is as senior bestuurders in die besigheid.[3]

Een van die basiese studievelde in familiebesigheidsnavorsing is om die verskille tussen familie- en nie-familielede te identifiseer. Alhoewel onlangse navorsing op hierdie gebied 'n mate van vooruitgang getoon het, is die verskil tussen familie- en nie-familieondernemings nie duidelik omskryf nie.[4] Ondanks die bydrae van vergelykende sudies wat poog om 'n beter begrip van hierdie ondernemings te verkry, is daar nog geen stel van beslissende veranderlikes geïdentifiseer wat familieondernemings van die nie-familieondernemings onderskei nie.[5] Beide familie- en nie-familieondernemings is onteenseglik aan die problematiese uitdagings en hoë graad van mislukkings verbind. Afgesien van dieselfde probleme wat kleinsake (SMEs) wat in familie besit is, en daardie wat in nie-familie besit is ervaar, is daar bykomende uitdagings wat besighede wat in familie besit is, die hoof moet bied. Hiérdie uitdagings is te wyte aan hul unieke aard en die familiale, interpersoonlike verwantskappe wat by hierdie soort besigheid bestaan. Dié tersaaklike uitdagings sal ook in die artikel aangespreek word.

Familieondernemings, en meer spesifiek dié van klein- en mediumgrootte, vorm die grondslag van die Suid-Afrikaanse ekonomie, en dit is van kardinale belang dat alle pogings aangewend word om die sukses en volhoubaarheid daarvan te bevorder.

Keywords:

Family business; Small and medium-sized businesses.

Introduction

The family business is the most common form of business organisation in the world, and its influence, as well as its numbers, can be expected to increase substantially in the near future.[6] Family businesses can therefore offer powerful opportunities for further economic growth in South Africa. Although the field of family business has been regarded as a separate academic discipline since

3 RH Flören, *Crown princes in the clay* (Assen, The Netherlands, Royal Van Gorcum, 2002); H Hulshoff, "Family business in the Dutch SME sector", RH Flören, *Crown princes*…, 2002; Stoy Hayward, "Staying the course", in RH Flören, *Crown princes*…, 2002.

4 MA Gallo, J Tàpies & K Cappuyns, "Comparison of family and nonfamily business: Financial logic and personal preferences", *Family Business Review*, XVII(4), 2004, p. 303.

5 P Sharma, "An overview of the field of family business studies: Current status and directions for the future", *Family Business Review*, XVII(1), 2004, p. 5.

6 G Maas, S Van der Merwe & E Venter, *Family business in South Africa: A practical governance guide* (Stellenbosch, Content Solutions, 2005), p. 52.

the 1990s,[7] only recently has it been embraced within mainstream business research.[8]

Since its inception, however, the field of family business studies has struggled with a need to define its boundaries and source of distinctiveness. Without clear definitional boundaries, it remains unclear what constitutes a family business, which could pose numerous methodological problems for family business researchers.[9] Although family businesses resist easy definition, almost all researchers agree on the necessity of having a clear definition.[10] Consequently, clarifying a definition for a family business is the first and most obvious challenge facing the family business researcher.[11] Given this important challenge, the main purpose of this paper is to examine the nature of these types of business organisations by looking at how they are defined, how they differ from non-family businesses, and the unique challenges they face. In addition, their importance to national economies, including the South African economy, is highlighted.

The nature of family business

Defining the family business

There is no universally accepted definition of a family business in the literature or among teaching and consulting communities, the public, or even family business owners.[12] Numerous attempts have been made to articulate conceptual and operational definitions of family businesses, and consequently many definitions exist.[13] A review of the literature has, however, revealed that a

7 B Bird, H Welsh, JH Astrachan & D Pistrui, "Family business research: The evolution of an academic field", *Family Business Review*, 15(4), 2002.

8 JJ Chrisman, JH Chua & LP Steier, "An introduction to theories of family business", *Journal of Business Venturing*, 18(4), 2003; LP Steier & JL Ward, "If theories of family enterprise really do matter, so does change in management education", *Entrepreneurship Theory and Practice*, 30(6), 2006.

9 SA Zahra & P Sharma, "Family business research: A strategic reflection", *Family Business Review*, XVII(4), 2004, pp. 331-333; WC Handler, "Methodological issues and considerations in studying family businesses", *Family Business Review*, II(3), 1989; F Neubauer & AG Lank, *The family business – its governance for sustainability* (New York, Routledge, 1998), p. 5.

10 J Lee, "Family firm performance: Further evidence", *Family Business Review,* XIX(2), 2006, p. 105; RH Flören, *Crown princes …*, p. 16.

11 WC Handler, "Methodological issues …", *Family Business Review*, II(3), 1989, p. 25.

12 JH Astrachan, SB Klein & KX Smyrnios, "The F-PEC scale of family influence: A proposal for solving the family business definition problem", *Family Business Review*, XV(1), 2002, p. 45; RH Flören, *Crown princes …*, p. 15; H Littunen & K Hyrsky, "The early entrepreneurial stage in Finnish family and nonfamily firms", *Family Business Review*, XIII(1), 2000, p. 41.

13 P Sharma, "An overview of the field …", *Family Business Review*, XVII(1), 2004, p. 3; D Stokes & N Wilson, *Small business management entrepreneurship*, 5th Edition (London, Thomson Learning, 2006), p. 457.

number of these definitions share several common elements. This has enabled researchers to classify their definitions into different categories.[14] There seems to be general agreement that the categories of ownership and management, family involvement, interdependent subsystems, generational transfer, and multiple conditions are most commonly used in defining a family business.[15] Some definitions are very specific, while others are broad. Many are impossible to quantify and thus difficult to apply to empirical data, whilst others are more specific and consequently usable for data collection.[16] Despite efforts to develop conceptual and operational definitions of family firms,[17] to date, instead of one definition, a range of definitions (see Annexure A for examples) that capture the varying extents and modes of family involvement in these firms is being used.

The discussion above illustrates the difficulties in defining a family business. Apart from the number of different definitions that exist, some categories of definitions are too restrictive or too inclusive, whilst others cannot be applied, or have never been applied, to empirical data.[18] As long as there is no generally accepted family business definition, it is important that each researcher clarifies his/her choice of a family business definition, because the definition chosen influences the interpretation of results. Based in particular on the definitions of a family business offered by Flören, Hulshoff and Stoy Hayward, a family business can be broadly defined by the following criteria: 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.[19] The aforementioned definition is supported by Davis, who most recently (2009) has defined a family business as one where ownership is controlled by a single family and where two or more family members significantly influence the direction of the business through management/governance roles, ownership

14 RH Flören, *Crown princes…*, p. 23.

15 JH Astrachan, SB Klein & KX Smyrnios, "The F-PEC scale…", *Family Business Review*, XV(1), 2002, p. 45; RH Flören, Crown princes …, p. 24; WC Handler, "Managing the family firm succession process: The next-generation family member's experience", (Ph.D, Boston University, 1989), p. 6; F Neubauer & AG Lank, The family business …, p. 5,6; P Sharma, "Determinants of the satisfaction of the primary stakeholders with the succession process in family firms", (Ph.D, University of Calgary, 1997), p. 5.

16 RH Flören, *Crown princes…*, p. 16.

17 P Sharma, "An overview of the field …", *Family Business Review*, XVII(1), 2004, p. 9.

18 RH Flören, *Crown princes…*, p. 25.

19 RH Flören, *Crown princes…*, 2002; H Hulshoff, "Family business in the Dutch SME sector", RH Flören, *Crown princes…*, 2002; Stoy Hayward, "Staying the course", RH Flören, *Crown princes…*, 2002.

rights and/or family relations.[20]

Family businesses both large and small

Although it is well known and widely accepted that small businesses make a major contribution to many economies, it is less well known that the majority of small businesses are also family businesses and vice versa.[21] Internationally, the overwhelming majority of small and medium-sized businesses (SMEs) are family-owned and managed[22] and, as a result, there has even been a tendency in some countries to lump together family businesses and small businesses as a generic term.[23] This trend is also evident in South Africa, with approximately 80% to 90% of SMEs being family owned or controlled.[24]

Although the majority of family-owned businesses are small, many well-known examples of large family businesses do exist.[25] There is clear evidence worldwide (with the exception of Asia), that a number of family businesses are occupying important positions in national and international rankings, and have gained solid positions in the top 500 of their respective countries. For example, in France and Germany, the majority of the 250 largest listed companies are family and/or individual dominated.[26] In Spain, statistics indicate that 50% of the top 3 000 firms are family owned. Similarly, in the United States, 35% of the 500 biggest companies are family owned.[27] Commercial giants such as Walmart, Samsung, Hyundai (Passing on the

20 JA Davis, (Presentation at the 9th Annual IFERA World Family Business Conference, Cyprus, 24-27 June, 2009).

21 S Bridge, O'Neill & S Cromie, *Understanding enterprise, entrepreneurship & small business* (London, Macmillan, 1998), p. 129.

22 P Bjuggren & L Sund, "Organisation of successions of small and medium sized enterprises within the family" (Paper, International Council for Small Business, 45th World Conference, Brisbane, Australia, June 2000), p. 2; JK Bosch, M Tait & E Venter, *Business management: An entrepreneurial perspective* (Port Elizabeth, Lectern, 2006), p. 684; J Lee, "Impact of family relationships on attitudes of the second generation in family business", *Family Business Review*, XIX(3), 2006, p. 188; JG Longenecker, CW Moore, JW Petty & LE Palich, *Small business management: An entrepreneurial emphasis* (Mason, Thomson South-Western, 2006), p. 86; C Serrano, "Family business in Mexico – a preliminary report", *The Family Business Network Newsletter*, 27 (July/August), 2000, p. 23.

23 P Leach, *The Stoy Hayward guide to the family business*, 2nd Edition (London, Kogan Page, 1994), p. xi.

24 E Venter, "The succession process of small and medium-sized family businesses in South Africa", (Ph.D, University of Port Elizabeth, 2003), pp. 32-34.

25 KE Gersick, JA Davis, MM McCollom Hampton & I Lansberg, Generation to generation…, p. 2; J Lee, "Family firm performance…", *Family Business Review*, XIX(3), 2006, p. 103.

26 IFERA (International Family Enterprise Research Academy), "Family businesses dominate", *Family Business Review*, XVI(4), 2003, p. 236.

27 J Lee, "Family firm performance…, Family Business Review, XIX(3), 2006, p. 103; JG Longenecker, CW Moore, JW Petty & LE Palich, *Small business management…*, p. 85.

crown 2004), Ford, Mars and L'Oreal, as well as Henkel, LEGO, C&A, Cargill and Suntory (Japan) are just a few examples.[28] Some of the largest and most powerful South African businesses, all family owned, dominant especially in the second half of the 20th century, include Anglo American and Anglovaal, Rembrandt, Liberty, Altron, Pick & Pay, Pepkor, Liberty Life, Sage Life and Toyota SA.[29]

The great majority of family businesses do, however, appear to be SMEs[30] and it is expected that their influence and numbers will increase significantly in South Africa in the near future.[31]

Family versus non-family businesses

After conducting a thorough review of the family-business literature, Wortman[32] concludes that the exact field or domain of family business is unknown and that the boundaries of this study field are unclear. Some clarity on the domain and distinctiveness of the field of family business studies is, however, emerging as progress is made on the development of definitions of family businesses. Numerous efforts aimed at finding the sources of distinctiveness in family firm studies have been directed towards comparative studies of family and non-family firms.[33]

Various studies have, for example, attempted to contrast the differences between family and non-family businesses with regard to:

28 F Neubauer & AG Lank, The family business …, p. 11; IFERA (International Family Enterprise Research Academy), "Family businesses…", Family Business Review, XVI(4), 2003, p. 236; Passing on the crown, The Economist, 4 November 2004. (available at http://www.economist.com/business/displayStory.cfm?story_id=3352686 as accessed 23 June 2005).

29 E Venter, "The succession process…", (Unpublished doctoral thesis, University of Port Elizabeth, 2003), p. 33; Growing family businesses into professional companies, (available at http://www.thecorpshop.co.za/fambus.html, as accessed 15 September 2008); V Jack, "Family businesses have a role in advancing BEE Business Report", August 2008 (available at http://www.busrep.co.za/index.php?fArticleId=4561135&f SectionId=2512&fSetId=662, as accessed 15 September 2008).

30 IFERA (International Family Enterprise Research Academy), "Family businesses…", *Family Business Review*, XVI(4), 2003, p. 236; J Lee, "Family firm performance…", Family Business Review, XVI(4), 2003, p. 104; JG Longenecker, CW Moore, JW Petty & LE Palich, Small business management …., p. 86.

31 E Venter, "The succession process…", (Ph.D, University of Port Elizabeth, 2003), pp. 32-34.

32 MS Wortman, "Theoretical foundantions for family-owned businesses: A conceptual and research-based paradigm", *Family Business Review*, 7(1), 1994, p. 4.

33 P Sharma, "An overview of the field …", *Family Business Review*, XVII(1), 2004, pp. 5-6.

- Strategic behaviour and relation to the business environment[34]
- Management and ownership imperatives[35]
- Management information systems (planning, control and reward systems)[36]
- Customer services[37]
- Organisational buyer behaviou;[38]
- Successor development[39]
- Management of human resources[40]
- Business-related goals[41]
- Sectors[42]
- Venture capital, financing and financial issues[43]
- Attributes of owner-managers and characteristics of CEOs[44]
- Management capabilities[45]
- Competitiveness and performance[46]

34 D Gudmundson, EA Hartman & CB Tower, "Strategic orientation: Differences between family and nonfamily firms", *Family Business Review*, 12(1), 1999; KX Smyrnios & RH Walker, "Australian family and private business survey", C Graves & J Thomas, "Internationalisation of Australian Businesses: A managerial capabilities perspective", *Family Business Review*, XIX(3), 2006.

35 P Westhead, M Cowling & C Howorth, "The development of family companies: Management and ownership imperatives", *Family Business Review*, XIV(4), 2001.

36 CM Daily & MJ Dollinger, "An empirical examination of ownership structure in family managed and professionally managed firms", *Family Business Review*, 5(2), 1992.

37 AR Lyman, "Customer service: Does ownership make a difference?" *Family Business Review*, IV(3), 1991.

38 KM File, "Organizational buyer behaviour of the family firm: A review of the literature and set of proportions", *Family Business Review*, VIII(1), 1995.

39 MK Fiegener, BM Brown, RA Prince & KM File, "A comparison of successor development in family and nonfamily businesses", *Family Business Review*, VII(4), 1994.

40 JH Astrachan & TA Kolenko, "A neglected factor explaining family business success: Human resource practices", *Family Business Review*, VII(3), 1994.

41 M Lee & EG Rogoff, "Research note: Comparison of small businesses with family participation versus small businesses without family participation: An investigation of differences in goals, attitudes, and family/business conflict", *Family Business Review*, IX(4), 1996.

42 P Leach & T Bogod, *BDO Stoy Hayward guide to the family business*, 3rd Edition, (London, Kogan Page, 1999).

43 MA Gallo, J Tàpies & K Cappuyns, "Comparison of family …", Family Business Review, XVII(4), 2004; P Jaskiewicz, VM Gonzáles, S Menéndez & D Schiereck, "Long-run IPO performance analysis of German and Spanish family-owned businesses", Family Business Review, XVIII(3), 2005, p. 179.

44 MA Gallo, "Family businesses in Spain: Tracks followed and outcomes reached by those among the largest thousand", *Family Business Review*, VIII(4), 1995.

45 C Graves & J Thomas, "Internationalisation of Australian Businesses: A managerial capabilities perspective", *Family Business Review*, XIX(3), 2006.

46 WG Dyer, "Examining the 'Family Effect' on firm performance", *Family Business Review*, XIX(4), 2006, p. 253.

- Adapting to a hostile environment.[47]

Family and non-family businesses differ with regard to certain aspects such as entrepreneurial activities undertaken, performance, and perceptions of environmental opportunities and threats, but they do not differ regarding other aspects such as strategic orientations and sources of debt financing.[48] A large body of literature has also identified the unique attributes of family businesses versus businesses with diverse ownership. These include attributes such as trust, altruism and commitments that can, in principle, enhance firm efficiency and performance.[49] Over the past 15 years, notable contributions have been made in identifying the different characteristics of family and non-family businesses. These contributions are based on a number of theoretical frameworks. According to agency theory, family firms are different because they demonstrate overlapping owner/manager relationships. In addition, the theory of transaction cost economics assigns cost advantages to family firms as a result of better communication, higher trust, lower monitoring costs and consolidated decision-making. Others attribute the differences between family and non-family firms to the contradictions between family and business systems.[50]

Research aimed at distinguishing between family and non-family businesses has revealed mixed results in terms of differences between them.[51] Methodological concerns have also been expressed in relation to the comparative family versus non-family research.[52] According to Jorissen et al.,[53] the differences between family and non-family firms found in prior studies could be due to demographic sample differences such as size, age, type of industry and location, instead of "real" differences between groups. Their research provides evidence that family and non-family firms of a certain size, age, and in the same industry, do not differ greatly with regard to strategy, networking, perceptions

47 WG Dyer & SP Mortensen, "Entrepreneurship and family business in a hostile environment: The Case of Lithuania", *Family Business Review,* XVIII(3), 2005.

48 P Sharma, "An overview of the field …", *Family Business Review*, XVII(1), 2004, p. 5.

49 J Lee, "Family firm performance…", *Family Business Review*, XIX(3), 2006, p. 103.

50 JL Ward, *Keeping the family business healthy: How to plan for continuing growth, profitability and family leadership* (San Francisco, Jossey-Bass, 1987); A Jorissen, E Laveren, R Martens & A Reheul, "Real versus sample-based differences in comparative family business research", *Family Business Review,* XVIII(3), 2005 , p. 229.

51 P Sharma, "An overview of the field …", *Family Business Review*, XVII(1), 2004, p. 5; WG Dyer, "Examining the Family Effect on…", *Family Business Review*, XIX(4), 2006, p. 253.

52 D Gudmundson, EA Hartman & CB Tower, "Strategic orientation…", *Family Business Review*, 12(1), 1999; A Jorissen, E Laveren, R Martens & A Reheul, "Real versus sample-based…", *Family Business Review*, XVIII(3), 2005, p. 230.

53 A Jorissen, E Laveren, R Martens & A Reheul, "Real versus sample-based…", *Family Business Review*, XVIII(3), 2005 , p. 230.

of the environment, long-term planning, non-financial control, growth, and management training. Real differences were, however, found in relation to export, formal short-term planning systems, variable reward systems, and CEO characteristics such as age, education, tenure and gender.[54]

Identifying differences between family and non-family businesses constitutes one of the basic fields of family business research. Research has recently made some progress in this regard. However, in some cases, the differences between family and non-family businesses have not been sufficiently explained.[55] Although these comparative studies have enhanced understanding of these firms, no set of distinct variables separating family and non-family firms has yet been identified.[56]

Importance of family businesses

Throughout economic history, no institution has driven economic development in the way that family-based enterprises have, and it is generally agreed that this unique form of organisation is the economic motor of all non-communistic economies.[57] It would be difficult to overestimate the critical importance of the success of family businesses to any country.[58] Those who downplay their importance are making an enormous mistake.[59] Even the most conservative estimates put the proportion of all worldwide business enterprises owned or managed by families at between 65% and 90%.[60] However, the importance of family businesses for national and worldwide economies is usually underestimated or not recognised, as are their sheer numbers and their contribution to employment.[61]

54 A Jorissen, E Laveren, R Martens & A Reheul, "Real versus sample-based…", *Family Business Review*, XVIII(3), 2005 , p. 244.

55 MA Gallo, J Tàpies & K Cappuyns, "Comparison of family …", *Family Business Review*, XVII(4), 2004, p. 303.

56 P Sharma, "An overview of the field …", *Family Business Review*, XVII(1), 2004, p. 5.

57 F Neubauer & AG Lank, *The family business*…, p. xiii, 8.

58 JH Astrachan & MC Shanker, "Family businesses' contribution to the U.S. economy: A closer look", *Family Business Review,* 16(3), 2003, p. 212; E Venter & C Boshoff, "The influence of successor-related factors on the succession process in small and medium-sized family business", *Family Business Review*, 18(4), 2005, p. 283.

59 MFR Kets de Vries, "The dynamics of family controlled firms: The good news and the bad news", *Organisational dynamics*, 21(Winter), 1993, p.61; P Leach, *The stoy Hayward guide* …, p. xi.

60 KE Gersick, JA Davis, MM McCollom Hampton & I Lansberg, *Generation to generation – life cycles of the family business* (Boston, Harvard Business School Press, 1997), p. 2; TW Zimmerer & NM Scarborough, *Essentials of entrepreneurship and small business management*, 3rd Edition (Englewood Cliffs, New Jersey, Prentice-Hall, 2002), p. 19.

61 RH Flören, Crown princes …, p. 69; IFERA (International Family Enterprise Research Academy), "Family businesses…", *Family Business Review*, XVI(4), 2003, p. 238.

No statistics exist that are complete enough to map the presence of family-owned businesses throughout the world. Most estimates focus on smaller samples, or are anecdotal rather than based on quantitative research.[62] Some even suggest that commonly quoted statistics are the result of "street lore", not statistical analysis.[63] In addition, no lists or databases exist in any country that distinguishes family businesses from non-family businesses.[64]

Several possible reasons present themselves for the scarcity of general statistics and research on family businesses. Firstly, there is a lack of a universal definition of a family business and, secondly, there are widespread beliefs about family businesses, based mostly on negative prejudices about the way in which such businesses operate.[65] In addition, family businesses have not received the recognition they deserve because they are categorised by size (most are SMEs) and are therefore not recognised as characteristically distinct.[66] In fact, until recently, few academics, governmental agencies or data-gathering agencies regarded families in business as characteristically distinct entities.[67]

Furthermore, family businesses themselves, for the most part, irrespective of their size, prefer to keep their anonymity.[68] Families have no reason to publicise their involvement with a business, and as a result the outside world does not always recognise these businesses as family-owned. Many family businesses are privately owned and therefore not subject to publishing annual financial reports.[69] Family enterprises are notoriously secretive; even well-intentioned researchers who are prepared to guarantee confidentiality, are not welcome. Many family businesses find it difficult to provide such cooperation because of a strong affinity for privacy and an unwillingness to disclose personal information.[70] Moreover, families themselves sometimes tend to

---

62 IFERA (International Family Enterprise Research Academy), "Family businesses…", *Family Business Review*, XVI(4), 2003, p. 235; RH Flören, Crown princes …, p. 71.

63 MC Shanker & JH Astrachan, "Myths and realities: Family businesses' contribution to the US economy – a framework for assessing family business statistics", *Family Business Review*, VII(2), 1996.

64 RH Flören, *Crown princes*…, p. 70.

65 RH Flören, Crown princes …, p. 71; IFERA (International Family Enterprise Research Academy), "Family businesses…", *Family Business Review*, XVI(4), 2003, p. 235.

66 IFERA (International Family Enterprise Research Academy), "Family businesses…", *Family Business Review*, XVI(4), 2003, p. 236.

67 I Lansberg, EL Perrow & S Rogolsky, " Family business as an emerging field", RH Flören, *Crown princes*…, 2002.

68 IFERA (International Family Enterprise Research Academy), "Family businesses…", *Family Business Review*, XVI(4), 2003, p. 238.

69 RH Flören, *Crown princes*…, p. 69.

70 P Davis, "Realizing the potential of the family business", *Organisational Dynamics*, 12(Summer), 1993, p. 56.

keep non-family members at a distance.[71] This need for privacy at certain levels diminishes the possibility for family businesses to benefit from academic research and specific political decisions that could meet their demands.[72]

Despite the fact that studies conducted in the field of family businesses display numerous methodological shortcomings and should therefore be used with caution in making interpretations and comparisons, they nevertheless confirm the weight that family businesses carry in their respective national economies, and substantiate the significance of family businesses worldwide.[73]

Table 1[74] presents a comparison of the contributions of family businesses in selected countries around the world. Many of the figures in Table 1 are based on quantitative research. In some cases the percentages quoted for a country vary from source to source; in addition, the percentage range is sometimes very broad. Consequently, these comparisons should be interpreted with caution; they are merely an indication of the impact that family businesses could potentially have, all over the world.

From Table 1 it is, however, clearly evident that, in the countries represented, approximately 60-90% of the businesses can be classified as family businesses. These businesses are responsible for between 40-70% of the GNP in these countries, and account for approximately 40-65% of employment.

71 SN Rodriguez, GJ Hildreth & J Mancuso, "The dynamics of families in business: How therapists can help in ways consultants don't", *Contemporary Family Therapy,* 21(4), 1999, p. 466.

72 IFERA (International Family Enterprise Research Academy), "Family businesses…", *Family Business Review*, XVI(4), 2003, p. 238.

73 RH Flören, Crown princes …, p. 73; IFERA, "Family businesses…", *Family Business Review*, XVI(4), 2003, p. 235.

74 Adapted from the following: SM Farrington, "Sibling Partnerships in South African small and medium-sized family businesses", (Ph.D, Nelson Mandela Metropolitan University, 2009), p. 64; RH Flören, *Crown princes …*, pp. 71-72; IFERA, "Family businesses…, *Family Business Review*, XVI(4), 2003, p. 237; F Soria, "Los principales retos de la empresa familiar en el siglo XXI", P Jaskiewicz, VM Gonzáles, S Menéndez & D Schiereck, "Long-run IPO performance …", *Family Business Review*, XVIII(3), 2005; S Lane, J Astrachan, A Keyt & K McMillan, "Guidelines for family business boards of directors", *Family Business Review*, XIX(2), 2006, p. 148.

Table 1: Importance of family businesses

Country	% Family business	GNP	Employment
		Australasia	
• Australia	• 80% of all private and 25 % of all public businesses, >75% of companies (Baring 1992); • 67% (Smyrnious & Walker 2003)	• 50% (Smyrnious et al. 1997)	• 50% (Smyrnious et al. 1997)
• India	• No data available	• 65%(CMIE; National Income Statistics 2000)	• 75% (CMIE; National Income Statistics 2000)
• Indonesia	• No data available	• 82% (Faustine 2001)	• No data available
		USA/Canada	
• USA	• 96% (Astrachan & Shanker 1996) • 75-95% (Ward & Aronoff 1990) • 19-92% (Shanker & Astrachan 1996) • 89% (Shanker & Astrachan 2003) • 90% (Scarborough & Zimmerer 2003:18)	• 40%(Astrachan & Shanker 1996) • 64% GDP (Shanker & Astrachan 2003) • 50% (Scarborough & Zimmerer 2003:18; Longenecker et al. 2006:86)	• 60% (Astrachan & Shanker 1996) • 62% (Shanker & Astrachan 2003) • 60% (Scarborough & Zimmerer 2003:18; Longenecker et al. 2006:86)

• Canada	• No data available	• 45% (Delotte & Touche 1999)	• No data available
UK and Ireland			
• UK	• 76% of 8000 largest (Leach 1991) • >76% in wider business population (Stoy Hayward 1989) • 70% (Poutziouris 2002)	• No data available	• >50% (Poutziouris 2002)
• Ireland	• No data available	• No data available	• 40-50% (Sunday Business Post, April 9, 1995)
Latin America			
• Brazil	• 90% (Bernhoeft Consulting Group 2002) • 75% (Martinez 1994)	• 65% (Bernhoeft Consulting Group 2002)	• No data available
• Chile	• 80-98% (Poza 1995)	• 50-70% (Martinez 1994)	• No data available
• Other	• 65-80% (Gersick et al. 1997) • 95% (Litz1995)	• No data available	• No data available
Europe			
• Belgium	• 70-80% of all SMEs (Donckels and Hoebeke 1992) • 70% (Crijns 2001)	• 55% (Crijns 2001)	

• Netherlands	• 74% (Flören 1998)	• 54% (Flören 1998)	• 43% (Flören 1998)
• France	• >60% (ASMEP/GEEF)	• >60% (ASMEP/ GEEF)	• 45% (ASMEP/GEEF)
• Germany	• 60% (Klein 2000) • 80% (Reidel 1994)	• 55% GDP (Klein 2000)	• 58% pvt. (Klein 2000)
• Italy	• 93% (Corbetta 1995) • Almost 80% of firms employing 20-500 persons (Bank of Italy, 1994)	• No data available	• 79% (Corbetta 1995)
• Spain	• 71% of companies with turnover >$2 million (Gallo 1994) • 23% of 1000 largest businesses (Gallo 1995) • 75% (Gallo, Cappuyns & Estapé 1995)	• 65% Gallo, Cappuyns & Estapé 1995) • 60-65% GDP (Soria 2002)	• 80% pvt. (Soria 2002)
• Portugal	• 70% (Reojo 1997)	• 60% (Reojo 1997)	• No data available
Scandinavia			
• Sweden	• 79% (Emling 2000)	• No data available	• No data available
• Finland	• 80% (Veaceslav & Lehtinen 2001)	• 40-45% (Veaceslav & Lehtinen 2001)	• No data available
Asia			
• Singapore	• 80-90% (Lee 2006b:175)	• No data available	• No data available

Africa			
• South Africa	• 80% (Ackerman 2001:325; Piliso 2006)	• 60% (Piliso 2006)	• 75% (Piliso 2006)
• Other	• No data available	• No data available	• No data available

It is a worldwide phenomenon that family businesses account for most of the GNP and employment places; the figures are estimated to vary from 45-70% throughout the non-communistic world.[75] Indeed, family-controlled businesses are the dominant form of business throughout much of the world and are among the most important, if not the most important, contributors to wealth and employment in virtually every country.[76]

Family businesses are also the predominant way of doing business in South Africa today comprising about 80% of South African businesses.[77] For the past 300 years or more, family businesses have been making a positive contribution towards the South African economy and their influence, as well as their numbers, can be expected to increase substantially in the future.[78] Reasons for this could include amongst others, the high level of retrenchments in the corporate sector as well as Black Economic Empowerment and employment equity. In addition young people today are demonstrating more enthusiasm for working in their family's business.[79] Joint research[80] between the United States, Britain and South Africa has revealed that successful family businesses

75 MFR Kets de Vries, "The dynamics of family…", *Organisational Dynamics*, 21(Winter), 1993, p. 61; F Neubauer & AG Lank, *The family business…*, p. 10; V Zheng, "Inheritance, Chinese family business and economic development in Hong Kong", *Journal of Enterprising Culture*, 10(4), 2002, p. 287.

76 F Neubauer & AG Lank, The family business …, p. 11; P Sharma, "Determinants of the …", (Ph.D, University of Calgary, 1997), p. 1; V Jack, Family businesses have a role in advancing BEE Business Report, August 2008 (available at http://www.busrep.co.za/index.php?fArticleId =4561135&f SectionId=2512&fSetId=662, as accessed 15 September 2008).

77 *Growing family businesses into professional companies,* (available at http://www.thecorpshop.co.za/ fambus.html, as accessed 15 September 2008); S Piliso, "Blood money", *Sunday Times, Business Times*, 23, (April), 2006; R Ackerman, *Hearing grasshoppers jump: The story of Raymond Ackerman as told to Denise Prichard* (Cape Town, David Philip), 2001, p. 325.

78 G Maas, S Van der Merwe & E Venter, *Family business in South Africa* …, p. 6; K Clarke, "All in the family", *Finance Week*, (October), 1993, p. 14; C Ryan, "Are family businesses better?", *Productivity South Africa*, (March/April), 1995, p. 12.

79 FS & KM Schneider, 2002, *More family businesses are sharing their leadership roles* (available at http://bizjournals.com/denver/stories/2002/01/14/smallb6.html?page=2 as accessed 23 June 2005).

80 PF Hugo, "The alternative business entities…", ", (MBA treatise, Graduate School of Business, University of Stellenbosch, 1996), p. 7.

generate jobs and wealth on a much larger scale than any other type of business. It is thus vital that more care be taken by public policy-makers everywhere to ensure the health, prosperity and longevity of this type of business.[81]

Challenges facing small and medium-sized family businesses

In the previous paragraphs the vital importance of family-owned business, specifically those that are SMEs, was highlighted. This evidently also applies to South Africa, with approximately 80-90% of SMEs being family owned or controlled.[82]

SMEs, both family- and non-family-owned, are, however, inextricably linked to problematic challenges and high failure rates. In the USA, for example, 34% of new small businesses fail within two years, 50% within four years, and 60% within six years.[83] According to Kuratko and Hodgetts[84], a more accurate statement is that more than half of all start-ups last between five and seven years, depending on the economic conditions following the start. It has been estimated that the SME failure rate in South Africa is between 70% and 80%, and that 80% of all new small businesses fail within their first five years of existence.[85] High rates of failure are also expected among family businesses, as they are concentrated among small businesses.

There are many reasons for this high failure rate among SMEs, although some reasons are more prevalent and are cited more often than others. Because of their limited resources, inexperienced management and lack of financial stability, small businesses suffer from significantly higher mortality rates than larger businesses.[86] Constraints specifically faced by smaller business enterprises in South Africa include: legal and regulatory requirements; market access; access to finance and suitable business premises; the acquisition

81 F Neubauer & AG Lank, *The family business* …, p. 11.
82 SM Farrington, "Sibling Partnerships…", (Ph.D, Nelson Mandela Metropolitan University, 2009); E Venter, "The succession process…", (Unpublished doctoral thesis, University of Port Elizabeth, 2003), pp. 32-34.
83 NM Scarborough & TW Zimmerer, *Effective small business management: An entrepreneurial approach*, 7th Edition (Upper Saddle River, Prentice Hall, 2003), p. 12.
84 DF Kuratko & RM Hodgetts, *Entrepreneurship: Theory, process, practice*, 7th Edition (Mason, Thomson South Western, 2007), p. 13.
85 G Moodie, "Education is the missing link", *Sunday Times, Business Times,* (March), 2003, p. 9; E Ryan, "Some to lean on and learn from", *Sunday Times, Business Times.* March), 2003, p. 13; "Time is now right for entrepreneurs to start and run their own businesses", *Big News*, (August), 2006, p. 8; *Why do small businesses fail?*, (available at http://www.desmondconsulting.com/homepagearticles/ why_do_small_ businesses_fail.htm, as accessed 8 February 2006), p. 1.
86 NM Scarborough & TW Zimmerer, *Effective small business management…*, p. 24.

of skills and managerial expertise; access to appropriate resources and technology; the quality of infrastructure, especially in poverty-stricken and rural areas; bureaucratic hurdles, and tax regulations.[87] Failures are largely due to a combination of poor macro-economic performance and a number of structural constraints that impede development.[88]

Apart from facing similar business and environmental challenges as non-family-owned SMEs, family-owned SMEs face additional challenges owing to their unique nature and familial interpersonal relationships. These include problems arising from family conflict, emotional issues, sibling rivalry, autocratic paternalistic cultures, nepotism, confusing organisation, rigidity in innovation and succession, as well as resistance to change.[89] Of these, succession is probably the biggest challenge faced by the majority of family businesses.[90] Even though most owners want to see the family ownership of their business continue after their departure from the business, statistics worldwide show that only 30-33% of family businesses survive past the first generation, while even fewer (10-16%) survive to the third generation, while as few as 3% survive into the fourth generation.[91] According to Hugo[92], only 25% of family businesses in South Africa proceed to the second generation, and a mere 10% to the third. As chief contributors to the economic and social well-being of all capitalist societies, this fragility is a reason for concern, and raises questions as to what factors explain this lack of longevity.[93] Future research efforts should therefore focus on addressing these concerns.

---

87 H Malagas, *State of small business development in South Africa, Annual Review 2002* (Pretoria, Ntsika Enterprise Promotion Agency), 2003, p. 47.

88 "IDC support to SME sector", *SMME Tabloid*, 2(7), 2001, p. 5.

89 A Jorissen, E Laveren, R Martens & A Reheul, "Real versus sample-based…", *Family Business Review*, XVIII(3), 2005, p. 229; E Venter, "The succession process…", (Ph.D, University of Port Elizabeth, 2003), p. 72.

90 J Lee, "Family firm performance…", *Family Business Review*, XIX(3), 2006, p. 104.

91 PS Davis & PD Harveston, "In the founder's shadow: Conflict in the family firm", *Family Business Review*, XII(4), 1999, p. 312; J Lee, "Family firm performance…", *Family Business Review*, XIX(3), 2006, p. 104; JG Longenecker, CW Moore, JW Petty & LE Palich, Small business management …., p. 86; NM Scarborough & TW Zimmerer, Effective small business management…, p. 18.

92 PF Hugo, "The alternative business entities available to family businesses with succession as the ultimate goal", (MBA treatise, Graduate School of Business, University of Stellenbosch, 1996), p. 8.

93 JK Bosch, M Tait & E Venter, *Business management: An entrepreneurial* …, p. 684; F Neubauer & AG Lank, *The family business*…, p. 14.

Conclusion

The main purpose of this paper was to examine the nature of family businesses and their important role in economic development. Little consensus exists in the literature as to what constitutes a family business. Numerous definitions have been identified, but most commonly a family business is defined by the following criteria:

> at least 51% of the equity of the business must be owned by a single family; a single family must be able to exercise considerable influence; and at least two family members must be involved in the senior management of the business.

Various unique characteristics of family businesses, as well as how they differ from non-family business, have been identified. These could have either a positive or a negative influence on the success of the family business.

Apart from facing similar business and environmental challenges to those of non-family-owned firms, family-owned businesses face additional challenges because of their unique nature and familial interpersonal relationships. The lack of longevity of family businesses is a major cause for concern; few proceed to the second generation, and even fewer make it to subsequent generations.

South Africa urgently needs to create more wealth and an environment which is conducive to more successful businesses if it is to achieve its many economic, social and personal objectives. In this regard it is important that family businesses should have a mouthpiece in government, academia and in the corporate sector, so that the contributions they make and the unique challenges they face can be highlighted in policy debates and in society at large. Such a mouthpiece could lobby on behalf of family businesses in policy debates, as is the case in countries such as the Netherlands, Sweden, and the European Union, amongst others. Currently (2009), two institutions focussing specifically on family businesses are being established in South Africa, namely the Family Business Institute of South Africa (FABASA) in conjunction with Old Mutual, and the Nelson Mandela Metropolitan University (NMMU) Family Business Unit.

Despite the high failure rates of family-owned businesses, statistics still show that they make a significant contribution to the economies of their respective countries. One can only imagine the enormous contribution these firms could make should their failure rate be reduced. Family businesses, and more specifically small and medium-sized family businesses, are the backbone of the South African economy, and it is vital that all efforts be made to promote the success and sustainability of these businesses.

Annexure A: Definitions of family business[94]

NAME AND YEAR	DEFINITION
OWNERSHIP-MANAGEMENT FOCUS	
Barnes & Hershon 1976	"controlling ownership is rested in the hands of an individual or of the members of a single family" (p. 106).
Carsrud 1994	"firm's ownership and policy-making are dominated by members of an 'emotional kinship group' whether members of that group recognise the fact or not" (p. 40).
Davis & Taguiri 1985	"a business in which two or more extended family members influence the direction of the business" (quoted in Rothstein 1992:398).
Hulshoff 2001 (Flören)	"a business where more than 50% of the voting shares are owned by one single family, and more than 50% of the management (team) are drawn from the family that owns the family".

94 RH Flören, *Crown princes…*, p. 17; F Neubauer & AG Lank, *The family business…*, p. 21; P Sharma, "Determinants of the …", (Ph.D, University of Calgary, 1997); E Venter, "The succession process…", (Ph.D, University of Port Elizabeth, 2003), p. 21.

NAME AND YEAR	DEFINITION
Ward 1990	"a business in which there are two or more family members influencing the business" (p. 66).
Zimmerer & Scarborough 2002	"one that includes two or more members of a family with financial control of the company" (p. 19).
GENERATIONAL TRANSFER FOCUS	
Donnelley 1964	"..which are closely identified with two or more generations of family" (p. 2).
Churchill & Hatten 1987	"what is usually meant by family business … is either the occurrence or the anticipation that a younger family member has or will assume control of the business from the elder" (p. 52).
Goldberg 1991	"being closely identified with two or more generations of family, and usually involved in day-to-day operations" (p. 9).
Ward 1987	"one that will be passed on for the family's next generation to manage and control" (p. 252).
Ward & Aronoff 1990	"one that is intended for future generations" (p. 3).

NAME AND YEAR	DEFINITION
Litz & Kleysen 2001	"one of the defining characteristics of a family business is intergenerational involvement…" (p. 338).
INTERDEPENDENT SUBSYSTEMS	
Beckhard & Dyer 1983	"the subsystems in the family firm system … include (1) the business as an entity, (2) the family as an entity, (3) the founder as an entity, and (4) such linking organisations as the board of directors" (p. 6).
Davis 1983	"it is the interaction between two sets of organisation, family and business, that establishes the basic character of the family business and defines its uniqueness" (p. 47).
Dyer 1986	"in which decisions regarding its ownership or management are influenced by a relationship to a family (or families)" (p. xiv)
MULTIPLE CONDITIONS	
Astrachan & Kolenko 1994	"family ownership of more than 50% of the business in private firms or more than 10% of the stock in public companies; more than one family member works in the business or the owner anticipates passing the business to the next generation of family members or the owner identifies the firm as a family business …" (p. 254).

NAME AND YEAR	DEFINITION
Donckels & Lambrecht 1999	"a family business is one in which the majority of the shares are in the hands of one family, and in which the general management of the business also belongs to the same family" (p. 174).
Leach 1994	"A family business is one which is influenced by a family or by a family relationship and the family as a body may effectively control business operations because it owns more than 50 per cent of the voting shares, or because family members fill a significant number of the top management positions" (p. 4).
Neubauer & Lank 1998	"[A] company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had mutual influence on company policy and on the interests and objectives of the family" (p. 6).
Smyrnioa, Tanewski, and Ramano 1998 (Flören)	".. a business in which any one *of* the following *c*riteria hold true: 50% *or more of* the ownership is held by a single family; 50% *or more of* the ownership is held by multiple members *of* a number *of* families; a single family".
Steier 2001	"a group of persona affiliated by common ancestry or marriage who have a financial stake in a business enterprise" (p. 356).

NAME AND YEAR	DEFINITION
Stoy Hayward 1989 (Flören)	"any one of the three following criteria: more than 50% of the voting shares are owned by a single family; a single family is effectively controlling the firm; a significant proportion of the firm's senior management is drawn from the same family".