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Socio-Emotional Wealth as a Controlling Factor in Diversification Decisions in
Family Businesses in South Africa

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Abstract

To date various studies have been conducted on family business behaviour and how they survive around the world. This is owing to the high prevalence of family businesses in countries around the world and as a result the contribution family businesses make to factors such as GDP and employment. Sustainable family businesses that experience growth and diversification are therefore important in the economies that they operate in. Family businesses are however said to be risk averse when diversification opportunities arise, favouring to forgo growth in favour of the safe keeping of the families' wealth, known as Socio-Emotional Wealth.

This study seeks to discover how family businesses grow by way of diversification and given the dynamics of families and the businesses they run, how do different generations perceive such growth. Thirteen successful family businesses took part in this study, which was exploratory and qualitative in design.

Using Socio-Emotional Wealth as a lens for understanding family business decision-making we are able to discover how this framework influences the preservation mind-set. Five themes emerged from the interview data indicating the importance families place on these themes, which included growth; diversification; autonomy; environmental constructs and generational perceptions. The themes that emerged influence the way in which the family business sees growth and ultimately decisions relating to Socio-Emotional Wealth.

Keywords

Family Business

Socioemotional Wealth

Diversification

Strategic Entrepreneurship

Growth

Plagiarism Declaration

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

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1. Chapter One: Introduction to the Research Problem

5.2 Chapter Introduction

Chapter One will highlight the importance of current issues facing family business, which includes diversification and intergenerational succession. Around the globe, the contribution that family businesses make in economies has become increasingly important. This has been attributed to their role in creating employment, contributing to gross domestic product of a country, innovation and entrepreneurship (Basco & Pérez Rodríguez, 2011). The section that follows will introduce an overview of the study followed by a brief summary of family business characteristics. The rationale for the study in section 1.4 will introduce Socio-Emotional Wealth, which has been selected as the framework to be used to understand and explore family businesses.

5.2 Overview of the Research

Family business plays an important role in society. First as a major employer of labour, critical to any economy, as a contributor to innovation and the value it adds to gross domestic product (GDP) in the countries in which it operates (Parker & van Praag, 2012). The research report that follows seeks to understand how family businesses diversify their business interests to ensure that economic uncertainties will not place the business under pressure should it be reliant on a single product or service portfolio. When a business has a diversified portfolio, risk is spread across the portfolio, but literature suggests that family businesses are reluctant to take risk in order to diversify (Sieger, Zellweger, Nason, & Clinton, 2011). It is further suggested that perceptions of risk differ from one generation to the next, that is, from first generation (founder / owner) to second generation (children, nephews or nieces, etc.) (Berrone, Cruz, & Gomez-Mejia, 2012; Gomez-Mejia, Cruz, Berrone, & De Castro, 2011).

Therefore, the purpose of this study is to discover how family businesses choose to diversify as well as uncovering the dynamism of family decision-making. Such decision-making includes intergenerational perceptions of risk guided by the concept of Socio-Emotional Wealth. The element of Socio-Emotional Wealth will serve as the theoretical framework for the current study and is dealt with in-depth in Chapter Two, along with other aspects of current reviews of the literature. Chapter Three will state the research questions and propositions this paper seeks to answer. This has been achieved by borrowing elements of a grounded theory, using an inductive and qualitative approach to the methodology, explained in detail in Chapter Four. Chapter Five will then present the results of the study and will be compared to the findings in the literature in Chapter Six. Closing the study, Chapter Seven will provide concluding remarks as well as future research opportunities in this field.

5.2 Family Business

Family businesses make up roughly 80% of all businesses globally ("Global Data Points - Family Firm Institute, Inc.," 2014). In the United States for instance family business constitutes 70% of all publically traded firms while providing 80% of total employment (Gomez-Mejia et al., 2011). Further it is noted that the United States construction industry is made up of some 95% family businesses while family businesses listed on the Fortune 500 indices amounts to one-third of all listings. Lastly, 95% of all business in Asia and the Middle East can be accounted for by family businesses (Gomez-Mejia et al., 2011). Appendix A to C illustrates the contribution family businesses make to various sectors and countries globally.

The South African business landscape is no different. In a local study it was shown that approximately 80% of South African businesses fall into the family business category, with 60% of those listed on the Johannesburg Stock Exchange (Van der Merwe, 2009). Such figures correspond to that of international family business statistics and therefore imply that South African family businesses are equally important to economic growth.

It is clear to see the vital role family businesses play within the communities in which they operate, as such business is responsible for the employment of labour. Based on this information, it is necessary to facilitate an environment in which family businesses can grow and be sustainable in the long run. However it is not solely reliant on a favourable environment for survival. Internally family businesses must deal with the dynamics of family relationships, continuous growth and ensuring that there is always another generation to take over the leadership when the current generation is ready to handover succession.

Much of the literature has focused on Socio-Emotional Wealth as a rationalisation tool towards understanding family business dynamics; (see for example: Berrone et al., 2012; Carney, Van Essen, Gedajlovic, & Heugens, 2013; Gomez-Mejia, Makri, & Kintana, 2010; Moss, Payne, & Moore, 2014; Nordqvist & Melin, 2010; Olson et al., 2003; Parker & van Praag, 2012). Such dynamics include risk appetite or aversion across different generations, intergenerational succession, decision-making, strategy and the protection of Socio-Emotional Wealth.

5.2 Intergenerational Perceptions of Growth

As family business plays an important role in driving economic growth as well as ensuring that the families' wealth is preserved, emphasis must be given to ensuring that family businesses survive and grow from generation to generation (Welsh, Memili, Rosplock, Roure, & Segurado, 2013). In order for this to happen, family businesses must survive beyond the first generation. Arguments are put forward stating that few family businesses survive beyond the first generation and even less so when analysing third generation businesses (Zellweger, Nason, & Nordqvist, 2012). Growth is therefore an important factor to consider and one must ask if different generations perceive growth differently in order to coordinate family business decision-making and longevity.

Based on these facts, family business growth and long-term survival is essential

in order to keep such businesses in operation. If Socio-Emotional Wealth is factored into generational succession, first generation family members may be more risk averse than second-generation members. Employing such a stance may lead to favourable opportunities being missed as a result of decision-making being driven by opposing perceptions of risk. Conversely second-generation family members with an appetite for risk could jeopardise the families Socio-Emotional Wealth by taking unnecessary risks.

5.2 Rationale for the study

Socio-Emotional Wealth plays an important role in guiding decision-making pertaining to diversification within family businesses. Various constructs embody Socio-Emotional Wealth such as succession, wealth preservation, family wellbeing and firm survival to name but a few. In order for this research to make sense of the landscape of family business, it is vital that Socio-Emotional Wealth is understood as the balancing tool used by families. This is especially so in discovering the question of how and if different generations perceive the framework in the same way?

This information reinforces the rationale for this study as the researcher seeks to discover why and how family businesses grow by way of diversification. Additionally the study seeks to determine how different generations perceive such growth. This process affects the way Socio-Emotional Wealth is viewed and protected by the family. In founding a business, the first-generation and in case the original risk taking entrepreneurs, may be more conservative and take less risk in an attempt to protect Socio-Emotional Wealth for the next generation. In light of this proposition, will the second-generation display higher risk taking tendencies by chasing growth or will they be just as conservative as the founders, usually parents?

Diversification is a mechanism that is able to achieve growth of the family business, thereby increasing the families' wealth. In order to achieve such growth, taking risks by way of diversification puts the families Socio-Emotional

Wealth at risk of losses should it fail. Failure may come as a result of mismatching the strengths and expertise of the family business into respective investment choices, either new products or firm acquisition (Sieger et al., 2011). Due diligence must be taken into the markets that the family business will be entering as well as in acquiring other businesses. Conversely should the diversification be successful, this will further protect future possibilities of successive family members.

As family businesses constitutes a large portion of established businesses around the world it is therefore important to understand how such constructs function in order to ensure the sustainability of family businesses. If the researcher is able to discover the mechanisms by which family businesses use to survive and ensure their growth, the contribution made to future family business studies and literature will be vast. This is especially true in the South African context where high unemployment rates could be reduced my way of entrepreneurial family businesses.

5.2 Context of the study

The study will take place in South Africa with a sampled population being drawn from Gauteng and the North West Province. Purposive sampling has been used to select respective participants in the population, which consists of any family business that has two or more generations present in the business possessing decision-making power. The study follows a qualitative approach whereby face-to-face interviews will be conducted and data will be analysed using Nvivo software.

5.2 Conclusion of Chapter One

Various factors drive the dynamics in family business and the same factors can have a bearing on business survival. As family business is an integral part in societies around the world, it is important to gain an understanding as to how

such businesses grow and survive from generation to generation. In doing so, the family business is able to secure employment for the communities it operates in, for future members of family as well as preserving the wealth of the family into successive generations. As family businesses use Socio-Emotional Wealth as a lens in decision-making, the framework will guide the study as it seeks to understand how family businesses diversify, in order to protect Socio-Emotional Wealth. It will further seek to discover the perceptions of growth and risk across multiple generations.

2. Chapter Two: Literature Review

2.1 Chapter Introduction

Family business literature has focused largely on behavioural and psychological aspects in the family business. Agency theory, stewardship theory and Socio-Emotional Wealth all feature throughout literature with various models that have been developed based on these factors (Berrone et al., 2012; Ducassy & Prevot, 2010; Gomez-Mejia et al., 2010; Welsh et al., 2013). The following chapter will present a review of the literature pertaining to the characteristics of family business. Additionally, matters around Socio-Emotional Wealth as well diversification are also discussed in-depth.

2.2 Definition of a Family Business

Various studies define family business based on characteristics that are relevant to that particular body of research. Such characteristics are lent from study to study and therefore create personalised definitions derived from a generic overview of the family business.

For example, Ducassy and Prevot (2010) define family business as a “business where the founder or a member of the family is an officer, director or shareholder, restricting the definition to second or later generations” (p. 229). Similarly a firm is considered family owned when both of these criteria are met:

- Directorship consisting of two or more members in a family relationship, and
- Family members must have substantial voting stock (Gomez-Mejia et al., 2010).

Another definition offered by Casillas, Moreno, and Barbero (2010) poses two questions to determine if a business is a family business:

- Ownership – does one or more families hold control of firm ownership?
- A subjective question posed to the highest executive as to whether they thought the firm is a family business?

The need for a more unified definition of a family business is necessary in order to draw a distinction between family and non-family businesses. For instance publicly listed firms in the United States consider a business to be family owned if stockownership by the family is equal to or greater than 5% (Deephouse & Jaskiewicz, 2013). However the question is asked as to the difference between 4.9% ownership versus 5.1% and the effects it will have on decision-making should a situation such as this arise.

Another view on defining this type of business resides in the level of family involvement. Should the family possess the power to drive and define the businesses goals, this alone is an indicator that in such a situation the business is considered a family business (Deephouse & Jaskiewicz, 2013).

In a study by Basco and Pérez Rodríguez (2011), family business definitions have been disseminated and summarised by way of theoretical classification illustrated in table 1 below:

Table 1: Theoretical classification of family businesses

Authors	Assumptions used to classify firms	Types of family businesses	Dimensions to be considered in the classification
Holland and Boulton (1984)	Family–business relationship.	A classification based on family business evolution from entrepreneurial to post-family by considering the family–business relationship.	Authors distinguish four structures of relationship between family and business, which have implications for strategic and operating decisions.
Ward (1987)	Interaction of family and business systems.	Theoretical classification: Business first/Family-enterprise first/Family-first.	The family and business philosophy affects decisions in the business: entry roles, compensation, dividends, authority, governance, etc.
Dyer (2006)	Interaction of family and business systems.	Theoretical classification: Clan, group, professional/Mom & Pop/Self-interested.	Agency costs and family assets and liabilities.
Poza (2007)	Interaction of family and business systems.	Theoretical classification: family-first/Ownership first/Management first.	Relationship between systems.
Sharma and Nordqvist (2008)	Interaction of family members, ownership and management.	Based on the number of individuals occupying the four overlap areas, family firms can be classified into 72 distinct categories.	Family involvement in ownership and management.
Distelberg and Sorenson (2009)	Value orientation based on interaction of family & business systems.	Two types of family-first value emphasis. Balanced emphasis. Two types of business-first value emphasis.	Values, resources and goals.

Source: (Basco & Pérez Rodríguez, 2011)

Final arguments obtained from relevant literature to present the dichotomous nature of family business definitions include:

- The need for the founding member to still be active in the business
- At least 51% voting rights held by the family including 10% stock ownership
- A founding member is still the CEO of the family business
- The founding family is still in control of the firm (Miralles-Marcelo, Miralles-Quirós, & Lisboa, 2014)

As can be seen from the information presented thus far, we can infer from the above that no consensus is found on a definition of a family business. For the purpose of the current research, the following definition will be used, adapted from the work of Nordqvist and Melin (2010):

“A family business is a firm where one family group has control through voting shares and decision-making power, this family is represented in the management team, the firm has passed through at least one generation in ownership and / or management, the founding owner may still be present and leading representatives of the family perceive the firm to be a family business” (p. 18).

2.3 Research Framework

The frameworks that follow look at the behavioural dynamics that family businesses adopt, and the effect it has on diversification strategies. Socio-Emotional Wealth in particular, is a framework that features heavily across literature pertaining to family business and is dealt with in the text to follow. Socio-Emotional Wealth was developed solely to look at family businesses and was created by combining two other models that have also been featured throughout family business literature, namely Agency Theory and Stewardship

Theory.

The dynamics of family business is driven by behavioural constructs that play a fundamental role in diversification decisions within these firms. Ducassy and Prevot (2010), identify at least three behavioural frameworks that influence the way in which decisions are taken to diversify, namely:

- Agency theory – covered in section 2.3.1
- Stewardship theory – covered in section 2.3.2
- The strategic approach - covered in section 2.3.5

Significance has been placed on stewardship theory and its effects on entrepreneurial behaviour emphasising collectiveness in which all family members work towards a common goal (Eddleston, Kellermanns, & Zellweger, 2012). By adopting such an approach, the firm will benefit from innovative and proactive behaviours improving overall performance (De Massis, Chirico, Kotlar, & Naldi, 2014; Eddleston et al., 2012). Lastly, Berrone et al. (2012), Gomez-Mejia et al. (2011), and Gomez-Mejia et al. (2010), use Socio-Emotional Wealth as a framework in understanding how and why family businesses make decisions.

2.3.2 Agency Theory

A firm that favours an agent - principal approach to diversification, tends to show lower levels of diversification as a result of higher personal self-interest (Ducassy & Prevot, 2010). From a family business perspective actions will aim to minimise losses whilst maximising efficiencies (Eddleston et al., 2012). Such behaviour leads to risk aversion, diminishing the likelihood of diversification and ultimately growth. Furthermore, if an agent's interests are not aligned with that of the organisation, this could result in a further disconnect between the goals of the family members within the business.

Gomez-Mejia et al. (2011), as well as Puri and Robinson (2013), emphasise the importance of family business growth, as the lack thereof can hamper a countries economic growth due to the potentially high number of family owned firms present in countries globally (Nordqvist & Melin, 2010). It is therefore important to ensure that the goals of the family are aligned with that of the family business, linking back the literature discussed in section 2.5.1 and 2.5.2. A solution to this problem is aligning interests of family owners and managers by viewing the family as the internal decision agents across all facets of the business enabling oversight of other decision agents i.e. managers (Liang, Li, Yang, Lin, & Zheng, 2012).

2.3.2 Stewardship Theory

Here family business members act as collectivists, placing greater value in cooperative behaviours as opposed to self-interest as mentioned above. It can be said that the interests of the individuals within the family business are closely aligned to that of the firm (Welsh et al., 2013). By implication, family members will strive to retain the family's wealth and firm survival. Stewardship Theory can therefore be said to be a model better suited to family business as the collectivist notion implies that family members have aligned the goals for the business and the family.

De Massis et al. (2014), emphasise that family businesses which adopt this type of approach, tend to have a greater pursuit of business diversification than those that do not. Again it is for this reason that stewardship theory may be better aligned to diversification strategy studies in family businesses as opposed to the agency framework.

An entrepreneurial dynamism is possible, though dependant on the degree of stewardship taken on by the firm as outlined by Eddleston et al. (2012). The authors further state that "increased goal congruence motivates stewards to

adopt innovative and proactive behaviours that involve calculated risks” (p. 353). This in turn, could lead to diversification, spreading the firm’s risk and improving performance, which falls in line with the research questions.

The table on the following page summarises the attributes of both Agency Theory and Stewardship Theory. As can be seen, Stewardship Theory is guided by collaboration and trust versus the individualistic approach of Agency Theory. Collaboration is an important factor as it provides a stimulus for innovation and an entrepreneurial mind set (Huang & Wang, 2011). Expand – can family be seen as the agents and other staff principles.

Table 2: Agency and Stewardship Theory comparison

<u>Variable</u>	<u>Agency theory</u>	<u>Stewardship Theory</u>
Foundations	Economy	Sociology & psychology
Model of human behaviour	Individual Interests	Collective interest
Incentives to motivate managers	Financial	Commitment
Relationship between shareholders and managers	Divergence of interest's	Convergence of interests
Organisation of the relationship	Control	Confidence
Control mechanisms	Financial incentive Governance founded on external control	Participation of managers in governance
Reasons for diversification	Reduction of managers risk; Prestige and power; Remuneration; Entrenchment	Financial performance Interest's of the business
Connection between shareholder control and diversification	Negative	Negligible

Source: (Ducassy & Prevot, 2010)

2.3.3 Socio-Emotional Wealth

The Socio-Emotional Wealth model was first suggested by Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, and Moyano-Fuentes (2007) and has been featured widely as it serves as the best framework for family business studies. Socio-Emotional Wealth refers to the emotional value, but not excluding financial goals, that family members derive from the family business. Such value is derived by way of positions as shareholders, management and espoused family relationships (DeTienne & Chirico, 2013; Ducassy & Prevot, 2010).

Berrone et al. (2012), goes further by stating that Socio-Emotional Wealth is related to the value that a family derives from the controlling stake in the firm in question. Such value is derived from constructs such as:

- Unrestricted use of personal authority
- Family influence in the organisation
- Close identification with the family business name
- Preservation of family values
- Social capital
- Obligations based on blood ties
- Monetary security

To make better sense of Socio-Emotional Wealth the inception of the business serves as a reference point in understanding the importance of this construct. As a founder of a business goes through the process of start-up or acquisition an intention may exist to provide a sustainable resource for the families wellbeing. This is known as Socio-Emotional Wealth, the formation of a method to preserve the families' wealth and create a legacy for future generations (Mussolino & Calabrò, 2014). In defining the term wealth in a family business setting, literature refers to not only financial gain but also the non-financial goals

such as employment for future generations (Zellweger et al., 2012). The table below summarises the latter points:

Table 3: The Developmental Model of Family Business

Cycle stage	Founder and entrepreneurial experience	The growing and family business	Complex family enterprise
Ownership	Controlling owner	Sibling partnership	Cousin consortium
Business development	Start-up	Expansion formalisation	Mature
Family development	Young family business (1 st generation)	Entering the business (2 nd generation)	Numerous family development stages (3 or more generations)

Source: (Rutherford, Muse, & Oswald, 2006)

It is paramount to understand the constructs of the protection of Socio-Emotional Wealth in order to fully understand diversification strategies in family businesses. This further enables us to answer the research questions posed in Chapter Three. In order to strengthen the understating of the constructs modelling the Socio-Emotional Wealth framework, diversification and strategic entrepreneurship as methods of growth will be explored in relation to Socio-Emotional Wealth.

The Socio-Emotional Wealth framework conceptualises the thought process that family businesses use when diversification opportunities arise and are either capitalised on or rejected. In their study, Gomez-Mejia et al. (2011), showed how Socio-Emotional Wealth's influence over preservation of wealth as a reference factor when making decisions in family businesses. Put simply, the reference factor describes how risk-bearing decisions will be assessed through the Socio-Emotional Wealth lens in assessing what the effects of such

decisions will be on the families Socio-Emotional Wealth. Theory on the framework states that in times of diversification opportunities, families protect Socio-Emotional Wealth if the perceived risk outweighs the future benefits (Morgan & Gomez-Mejia, 2014).

By way of example, diversification suggests that an entrepreneurial orientation may be present within the family business. As a result the family business may experience an increase in risk when taking on a new venture, especially when diversifying into unfamiliar industries or product portfolios (Chung, 2012). The extent of the risk is dependant on the families' perception of how this risk will affect Socio-Emotional Wealth. If the risk is viewed as high, diversification will be rejected in favour of protecting Socio-Emotional Wealth and conversely, if risk is viewed as low diversification may be accepted depending on the impact on Socio-Emotional Wealth.

Should economic conditions be favourable, family businesses would rather preserve Socio-Emotional Wealth, even if the result were poorer firm performance in the short to medium-term, hence making them risk averse (Astrachan, 2010; Gómez-Mejía et al., 2007). By implication, no diversification could see the erosion of Socio-Emotional Wealth as a result of declining performance. Should family businesses see that Socio-Emotional Wealth could potentially be lost due to unfavourable economic conditions or declining firm performance, the decision to increase risk appetite will be taken (Habbershon & Pistrui, 2002). While this may seem somewhat contradictory to the framework, the family will attempt to preserve Socio-Emotional Wealth by way of diversification, risking short-term negative effects in order to obtain long-term positive effects to Socio-Emotional Wealth (Memili, Eddleston, Kellermanns, Zellweger, & Barnett, 2010; Webb, Ketchen, & Ireland, 2010)

Given that Socio-Emotional Wealth is a framework developed specifically for family businesses, incorporating financial as well as non-financial goals, it also covers aspects from agency and stewardship theories. What this means is

behaviour towards an individualistic culture may be unsuitable for a family business if it wishes to succeed in generations to come. As families act as principles in their own interests, principles in the form of employees may be subjected to information and opportunities being withheld in favour of family advancement (Moore, 2009).

A more inclusive mind-set is therefore desired in order for the firm to meet the families' ultimate goal of Socio-Emotional Wealth preservation (Granata & Chirico, 2010). Socio-Emotional Wealth is therefore the preferred framework to be used in order to garner understanding for instruments of growth, namely diversification.

2.3.4 Diversification

Diversification plays a crucial role in ensuring that a firm is able to remain relevant, competitive and experience growth by spreading the risk of relying on a single product or firm portfolio (Michael-Tsabari, Labaki, & Zachary, 2014; Sieger et al., 2011). Diversification occurs in various formats such as penetrating the existing market with refreshed products or services, finding new markets or new and innovative ways of product usage and finally diversifying by way of new product into an existing or new market (Sieger et al., 2011). Whichever method the family business decides to follow, diversification is a key element in ensuring that the business is sustainable, ensuring future generations will benefit from the Socio-Emotional Wealth generated by the family business.

Diversification can be seen as product diversification whereby the firm will expand its current product base, venturing into new products or by way of new business acquisition (Ducassy & Prevot, 2010). Family businesses are said to follow conservative attitudes towards risk taking, a conflicting view as family businesses also seek the survival of the firm. Lending on the previous section, if diversification could result in the loss of Socio-Emotional Wealth family

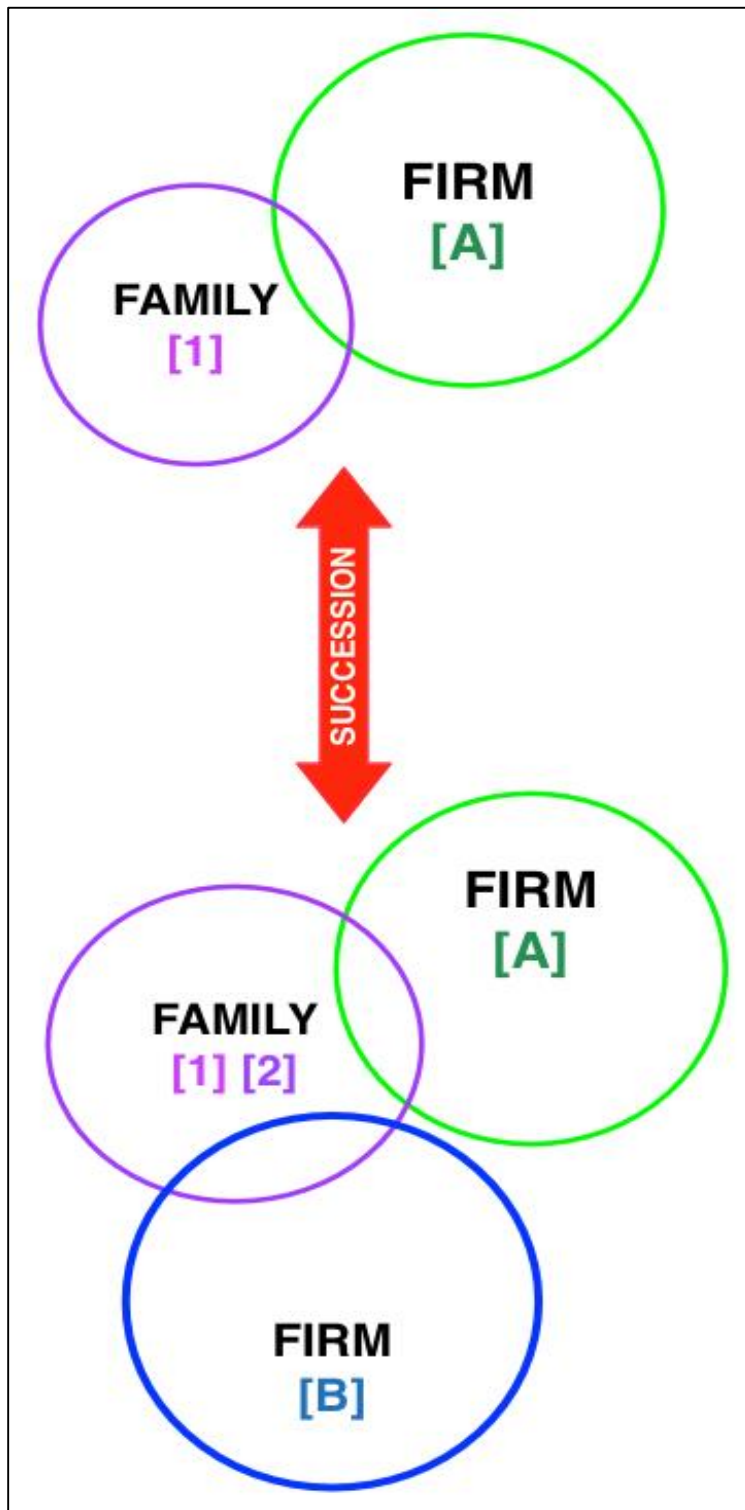
businesses would prefer to avoid such a strategy even if risk diversion is possible by increasing the firms basket of goods (Gomez-Mejia et al., 2010).

However diversification should not be limited to a family business owning a single firm that provides a portfolio of goods and services to the market. Family businesses should also consider diversification by way of start-up or acquisition of firms that complement strengths and skills matched with market opportunities that the family business possesses. While both of the afore mentioned diversification strategies require that a family business take ownership of a new firm through different processes, shared benefits exist as a result (Carter, Tagg, & Dimitratos, 2004; Parker & van Praag, 2012).

In both instances the family business is able to rebrand and position the identity of the new firm, new products or products acquired could compete within the family business portfolio forcing innovative and healthy competition. The reliance placed on a single business to look after the wellbeing of the family is spread across two or more family businesses, alleviating the risk of the loss of Socio-Emotional Wealth (Granata & Chirico, 2010).

In order to illustrate how diversification can benefit Socio-Emotional Wealth, the following argument borrows from the cluster model as described by Michael-Tsabari et al. (2014). The cluster model explains how a business system evolves from a two-circle model consisting of a founder and business to a three-circle model. The successive generation may enter the family business at either a two or three-circle cluster. The three-circle cluster model sees the introduction of the additional businesses either acquired by the family or by new start-up ventures.

Figure 1: Two and three circle cluster model



Adapted from Michael-Tsabari et al. (2014)

The diagram illustrates how a family business could increase and protect the

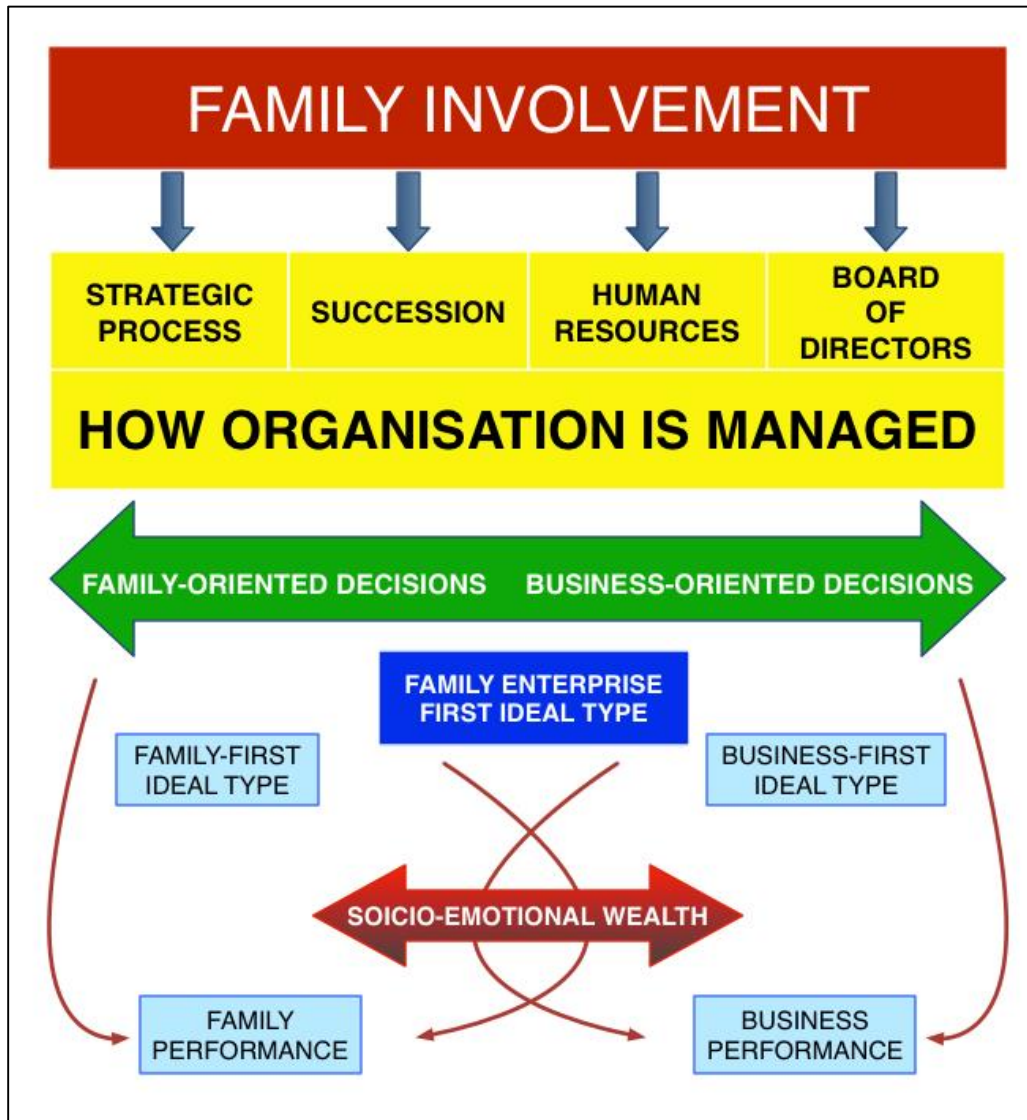
families Socio-Emotional Wealth through diversification strategies emphasising the ownership of multiple firms (Michael-Tsabari et al., 2014; Sieger et al., 2011). Firstly a founder starts a business as is shown by family 1 and firm A. The second generation may enter the business during the two or three-circle cluster. Organic growth will potentially be experienced in the two-circle cluster given favourable market and business environment (Michael-Tsabari et al., 2014). The family business will move from organic growth to portfolio growth as shown in the three-circle cluster when the family takes on risk and initiates diversification strategies.

Diversification could be as a result of a potential long-term loss of Socio-Emotional Wealth or perhaps either one of the generations has an appetite for risk, taking on opportunities knowing that wealth may be lost should it fail. Diversification may also occur should the business be faced with too many family members and not enough positions or leadership roles to support them (Discua Cruz, Howorth, & Hamilton, 2013). Lastly portfolio diversification or growth may be initiated as organic growth slows and put the families Socio-Emotional Wealth under threat. Each time the family business acquires a new business (portfolio growth); a circle cluster is added illustrating the families' spread of Socio-Emotional Wealth. Additionally clusters may be merged or sold off and hence decreasing the numbers of circle clusters.

While diversification can be seen to be a positive process leading to the security and growth of the families Socio-Emotional Wealth, family businesses tend take such risks only when the loss of Socio-Emotional Wealth is imminent. Based on the argument thus far, an important factor to protect family businesses Socio-Emotional Wealth resides in the notion of portfolio entrepreneurship, defined as the simultaneous ownership and management of various firms, is (Carter et al., 2004; DeTienne & Chirico, 2013). Portfolio entrepreneurship provides diversification options in order to minimise risk, stimulate growth and ensuring that family members have career opportunities.

As the nature of family businesses is made up of various characteristics that influence the decision making process Basco and Pérez Rodríguez (2011) present the following model as an explanation to the decision making process:

Figure 2: Typological model of family business decision-making



Adapted from: (Basco & Pérez Rodríguez, 2011)

As can be seen from figure 2, the level of family involvement in the business influences factors such as the strategy and succession. As the family leads the firm it is faced with decisions that affect both family and the business. Opportunity costs may arise as a result of sacrificing performance through decisions in favour of either the business or the family. The ideal type of family

business in which decision-making is balanced as per Basco and Pérez Rodríguez (2011) is called the family enterprise first ideal type. It is at this point that Socio-Emotional Wealth is balanced between decisions made in favour of growth and those that protect Socio-Emotional Wealth.

There is thus a need to focus on strategy in family businesses given that the strategic context is unique to each firm along with different dynamics that drive each family business. Given these dynamics, family businesses may find strategy to be a cumbersome activity and would rather focus on day-to-day issues facing the firm (Nordqvist & Melin, 2010).

Moss et al. (2014) suggest that strategic consistency be used to improve firm performance and increase chances of survival. Strategic consistency is defined as “continuity with past strategies stemming from managerial intentionality” (p. 51). This type of approach adds to previous works mentioned stating that family businesses value survival in order to protect Socio-Emotional Wealth, however without diversification, the firm’s decision to be risk adverse could see performance decline beyond turnaround.

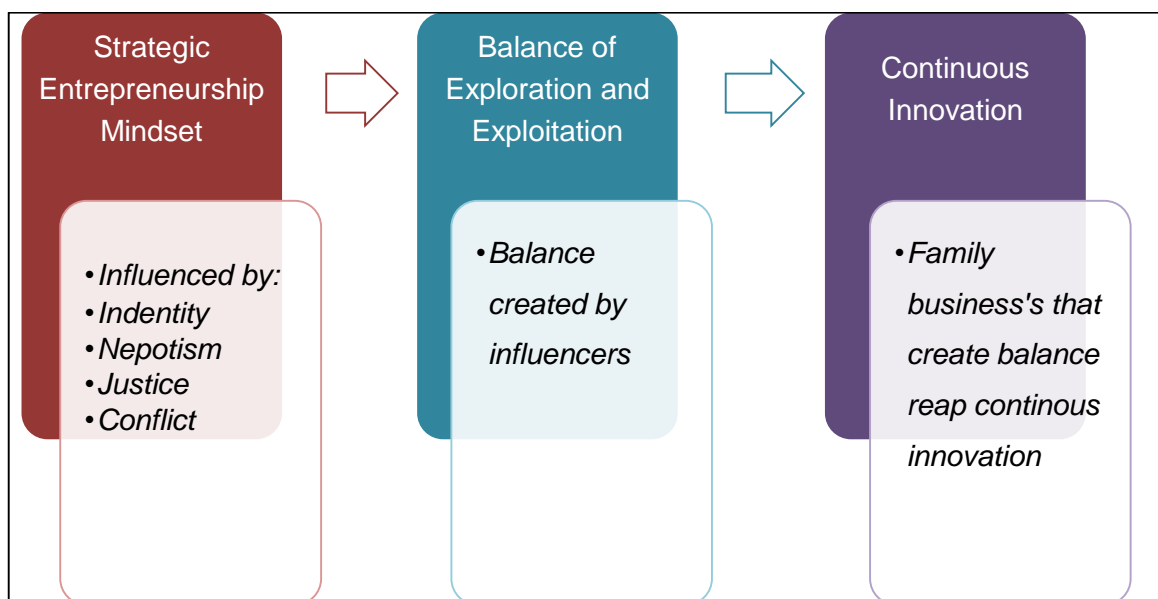
Based on the information above, research question one seeks to determine if the same principals hold true in South African family businesses. As will be noted in the limitations, the study is restricted to South African borders. Section 2.3.5 builds on the argument for Socio-Emotional Wealth by introducing strategic entrepreneurship as a construct. This allows a family business to choose to simultaneously explore or exploit opportunities in the market place enabling growth as well as securing Socio-Emotional Wealth in the long run.

2.3.5 Strategic Entrepreneurship

The notion of exploration of future business opportunities and the exploitation of current markets by a firm is defined as such by Webb et al. (2010) as strategic entrepreneurship. When a family business engages in strategic

entrepreneurship, they are concomitantly performing their usual tasks as well as seeking diverse ways in which to preserve Socio-Emotional Wealth. However based on the fact that family businesses explore only when Socio-Emotional Wealth is under threat, when the firm is not under threat, exploration is left to competitors or other businesses that are less risk averse resulting in lost opportunity for the family business.

Figure 3: Strategic Entrepreneurship within Family Business



Source: (Webb et al., 2010)

Webb et al. (2010) propose that a strategic entrepreneurial mind-set influenced by family business constructs (identity, nepotism, justice and conflict), will lead to a balancing of both exploration and exploitation allowing for continuous innovation. The main concern with the model is convincing family businesses to explore not only when Socio-Emotional Wealth is under threat but to do so in favourable economic conditions. Both positive and negative aspects of the strategic entrepreneurship model have been adapted from Webb et al. (2010) and summarised in table 4 below.

Table 4: Positive and negative implications for strategic entrepreneurship in family business

Dimension	Nature within the family controlled firm	Potential positive implications for strategic entrepreneurship	Potential negative implications for strategic entrepreneurship
Family Business identity	As the family is the dominant, if not only, voice of the top management team, the family's values define and permeate the firm	Strong loyalty to the firm can motivate family members to ensure the firm's long-term prosperity via strategic entrepreneurship	Inertia that undermines strategic entrepreneurship can arise from the tight alignment of family and firm identities
Nepotism	Nepotism is more common than in other firms, as is the potential for negative consequences	Unity and consistency of purpose enhances exploitation efforts; the relative security of family affiliation encourages the experimentation that underlies exploration	Non-family members tend to withhold their energy and creativity when the rewards are dispensed based on family membership rather than work performance
Justice	Lack of formalized procedures, voice for non-family employees, and communication from family to non-family employees create justice concerns	Informal approach can facilitate, among family members, the experimentation that underlies exploration	Perceived injustice among non-family employees, discouraging them from innovative thinking and behavior
Conflict	Avoid the negative implications of affective conflict but risk missing out on benefits of cognitive conflict	Lack of affective conflict prevents distractions and enables a strong focus on exploration and exploitation	Lack of cognitive conflict inhibits the creativity needed for innovative thinking and behavior

Source (Webb et al., 2010)

Other proponents of the exploration and exploitation methodology include De Massis et al. (2014) who state that the combination of exploration and exploitation is a key source of sustained growth and performance in family business. The balance between exploration and exploitation is further emphasised in literature. A family business that relies too heavily on exploitation is at risk of becoming complacent and may be slow to react to changing market environments (Zellweger et al., 2012). Conversely criticisms pertaining to exploration have been mentioned as a family business could lose focus of the balance required as high levels of exploration and may spark unsuccessful cycles of trial and error.

Section 2.4 will provide further information pertaining to family business and put forward arguments with respects to intergenerational ownership, decision-making power across generations and relevant skills required for succession.

2.4 Multigenerational Ownership

The definition of a family business used for the current study states that at least one generation must have passed through the firm and the founding member can still be active within the organisation (Nordqvist & Melin, 2010). From this point, the literature review seeks to find factors that affect diversification decisions based on multiple generations having different perspectives about the organisation. In particular, this section of the review relates to how different generations perceive growth and diversification?

2.4.1 Intergenerational Perceptions of Growth

When an entrepreneurial venture leads to a successful family business, the founder or first generation is usually the parent of a family consisting of potential successors to the business. As the first generation founded and built the business, their experiences, skill sets and aspirations for the businesses

direction may differ from that of the second generation (Michael-Tsabari et al., 2014). There is possibility that the second generation may have a different skill set to that of the founder, be more willing to take risk or as risk averse and view growth of the said business differently (Spriggs, Yu, Deeds, & Sorenson, 2013).

Perception is therefore an important facet to understand in family business as it ultimately affects the firm's strategy towards exploration and exploitation. Strategic entrepreneurship across different generations is accordingly important as long-term survival of the firm provides enhanced wealth creation, leading to investments into new entrepreneurial ventures or expanding existing portfolios (Welsh et al., 2013). Ultimately, this translates in sustained growth for both family and business interests.

In a recent study investigating differences in life stages in family businesses, results show that strategic planning is associated with continuity and coordination amongst family members. Coordination in this regard is dependant on the generation managing the business (Eddleston, Kellermanns, Floyd, Crittenden, & Crittenden, 2013). Succession planning becomes relevant during the tenure of the first generation and becomes less relevant to second generation. It is only in the third generation that succession planning re-emerges as a critical factor in firm longevity (Eddleston et al., 2013).

In approaching intergenerational family business growth strategies, it is estimated that family firms are not able to transition successfully to a second generation, much less a third or later generation given that only 30% continue to the second generation and only 15% to the third respectively. Thus the perceptions towards growth is important as the second generation will be partly responsible in ensuring that the family business is sustained to the third generation.

As presented in section 2.3, when a family business ventures into ownership of multiple firms, it is essential that the family share the same perspectives

towards the shaping of strategy. A strategy as such should focus on the family business as a whole and not as individual business units given that each facet of the portfolio of businesses adds to the families' wealth (Zellweger et al., 2012).

Furthermore, some studies suggest that family business success begins to diminish beyond the first generation and even more so when entering the third generation (Au, Chiang, Birtch, & Ding, 2012; Carnes & Ireland, 2013; Jaskiewicz, Combs, & Rau, 2014; Puri & Robinson, 2013; Zellweger et al., 2012). When conducting research into large family businesses one must not fail to remember that family members involved in the business may span across multiple family lines such as the children of the founders, their cousins and more distant family member's. Should such a structure exist, Chung (2012) states that diversification may decline as a result of conflicting perceptions, when more family members join the firm.

There is agreement that the founding generation must show a leadership imperative driving entrepreneurship whereas the second-generation initiates a more external orientation towards growth (Casillas et al., 2010).

2.4.2 Succession and Skill Set

As family businesses age, they are said to make less investment in strategic planning and growth. Successful succession planning is therefore a key element in ensuring firm survival (Eddleston et al., 2013; Zellweger et al., 2012). Again it can be seen that the preference of risk aversion for wealth preservation will work against diversification and potential growth of a firm. Recommendations are put to a forward-looking approach to strategic planning and succession (Eddleston et al., 2013). Succession planning involves factors such as:

- Grooming of family business leaders
- Transfer of tacit knowledge
- Transfer of assets, contacts, skill, power, and
- Acceptance of authority.

Continuity is the term used to describe the transfer of ownership from one generation of the family business to the next in order to retain family wealth (Carnes & Ireland, 2013). Wealth retention across generations is an important component to families as stated earlier in the study. Family businesses are incubated with the aim of long-term survival induced by the family members managing the business creating provision for current and future generations (Deephouse & Jaskiewicz, 2013).

An important element to intergenerational ownership is the understanding that markets change. Consequentially, competitive advantages held by the firm will erode over time if the firm does not change with its markets (Astrachan, 2010). The succession process must thus include entrepreneurial abilities in order to develop and seek opportunities as and when they present themselves (Naldi, Nordqvist, Sjöberg, & Wiklund, 2007)

Adding to the argument pertaining to succession, the transfer of tacit knowledge is critical should the family want to continue perusing its core purpose. To a large extent, the founder is in most cases the key knowledge holder and strains in family ties could hamper information transfer. Essentially the likelihood of family members not receiving adequate training, particularly in technically oriented business, will result in key tacit knowledge being lost (Mazzola, Marchisio, & Astrachan, 2008). The end result is the family business attempting to remain competitive in changing business environments without key information (Granata & Chirico, 2010).

Decision-Making power in family business is another important facet to consider. Thought must be given to what processes family businesses follow when more

than one family member has authority to make decisions that influence Socio-Emotional Wealth. Furthermore one must also deliberate over the possibility of non-family CEO's and senior management in decision-making roles, as they will require autonomy to carry out their duties whilst Socio-Emotional Wealth is driven by such decision-making.

2.5 Conclusion of Chapter Two

Many factors influence the dynamics and decision-making processes within family businesses. The main theories and bodies of work that will assist in answering the research questions have been reviewed above with Socio-Emotional Wealth as the framework used by families when making decisions. Socio-Emotional Wealth is made up of many facets, which that influence the way in which family businesses view risk and growth opportunities. The next chapter will present the research questions and propositions, which the study seeks to understand.

3. Chapter Three: Research Questions and Propositions

3.1 Chapter Introduction

Chapter Three will present the foundation for the research questions that the current study seeks to address. The research questions have been developed as a result of a review of relevant literature as well as the researcher's own interest in family business growth.

3.3 Research Question 1

Question: *How do family businesses diversify their interests and business activities?*

Proposition: *Family businesses will favour Socio-Emotional Wealth preservation over high growth or diversification strategies.*

The longevity of the family business is dependant on the products and services that the business sells and delivers to the market. Should the business only sell a single product, this places increased risk on the business and the families Socio-Emotional Wealth. Strategies must therefore be employed in order to spread the risk of the businesses reliance in a single product portfolio. Diversification by way of product extension, new product development, new markets or complete diversification of the business itself works to spread the risk based on the reliance of one product. Research question one therefore seeks to discover what strategies family businesses use to diversify, which in turn results in the spreading of risk.

3.3 Research Question 2

Question: *How do different generations of a family business perceive the risks of diversification?*

Proposition: *Second or later generations will be display more risk appetite in good business conditions than founding or first generation family members.*

Chapter Two highlighted the possibility that generational perceptions towards diversification and risk differ. As the first generation may be more risk averse than the second generation, it can be deduced that the older generation may be unwilling to take risks when times are good and may only choose to diversify when Socio-Emotional Wealth is under threat. If this is the case it is safe to say that growth of family business may be hampered if generation one is unwilling to grow the business when times are good. Additionally, if the second generation is willing to take more risk, how will this affect decision-making especially if the first generation is still involved in the business.

4. Chapter Four: Research Methodology

4.1 Chapter Introduction

Based on the research questions proposed in the previous chapter, the current chapter will focus on the methodology and design of the research. There is often confusion between research methodology and research method, with the two terms often used interchangeably. However the two terms are descriptors of different inputs into a research study and will be dealt with in two parts. Firstly, it is shown how the methodology has been influenced by an interpretivist philosophy, which has led to a qualitative research study being designed by way of a Grounded Theory. The second part of this chapter describes the methods utilised to collect the data such as the pilot test, population, sample selection and size, unit of analysis, data collection and analysis and finally research limitations.

4.2 Research Methodology

Methodology is concerned with the philosophical approach to a study, emphasizing the importance of the assumptions taken by the researcher that will underpin the methods chosen in conducting the research (Thornhill, Saunders, & Lewis, 2009). As the current study seeks to understand the diversification strategies as well as the perception of diversification across generations, face-to-face interviews were selected in order to engage with the respondents, and enable a deeper understanding of the research problem.

4.2.1 Qualitative Research

Qualitative research stresses the features of entities under study, by way of the meanings and processes that occur instinctively in the natural environment.

Such studies place emphasis on social actor's interactions within the natural environment to understand phenomena, in this case, the research matter being undertaken (Gephart, 2004). Put simply, qualitative research lends itself to the study of subject matter in a natural setting. In the study presented in this paper, qualitative research takes the form of semi-structured, in-depth interviews, in which the researcher seeks to understand the inherent actions taken, if and when diversifying in a family business.

4.2.2 Interpretivism

Reinforcing the decision to use a qualitative approach in which semi-structured, face-to-face interviews had been conducted stems the notion of interpretivism. By definition interpret or interpretive serves as an action of understanding information by way of a particular meaning and experience. Put simply the interpreter understands actions in the environment in which he or she is interacting in by using his or her own experiences to understand the said actions. We can therefore suggest that interpretivism is a method of understanding by way of context in a qualitative study (Gephart, 2004; Nordqvist, Hall, & Melin, 2009).

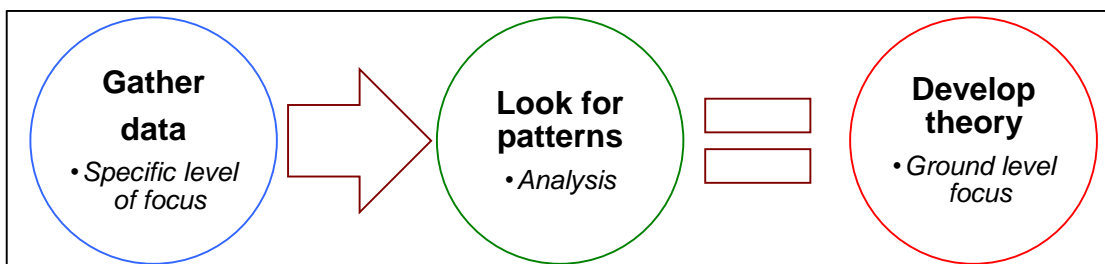
Thornhill et al. (2009) suggests that interpretivism helps to understand the interactions humans create as social actors and how such a methodology is suited to people versus objects. When broken down, the term 'social actor' makes reference to the social function (interaction) taken by the actor's environment (human). The current study will therefore view the social function as being the diversification in the family business as played by the actor that is naturally the family member in question.

4.2.3 Grounded Theory

In concluding part one of this section, it is required that a tool be used to guide

the data gathering and disseminating process in order to conduct the qualitative research for this study. The study has borrowed elements of a Grounded Theory. Anselm and Corbin (1998) suggest that Grounded Theory is the process of collecting data, analysis and theorising of findings in an interlinking process. The authors also state that due to the data gathering nature of grounded theories, they are more likely to offer insight, improve understanding and exploit meaningful information. This further demonstrates that the researcher has selected the correct methodology for a study into family business in that greater insight will come from a qualitative approach to reap in-depth data collection. Figure 3 below illustrates a simplified Grounded Theory informed research process:

Figure 4: Grounded Theory process



Source: (Blackstone, 2012)

The process begins with data gathering focusing on family business diversification and perceptions across different generations. Analysis of the data gathered from the interviews will allow us to identify key themes or patterns resulting in a theoretical dispensation towards answering our research questions. Put simply the researcher will begin developing theories once data has been collected and analysed, true to a Grounded Theory study (Blackstone, 2012)

4.3 Research Method

The next section elaborates on the methods employed. This includes a

description as to how the population was identified, how sampling was conducted and how data was gathered and analysed. The section then concludes with limitations to the research study.

4.4 Interview Design

As stated in section 4.2, the research process followed a qualitative approach whereby semi-structured, face-to-face interviews were conducted with the selected sample. Semi structured interviews allow for respondents to give historical accounts of the subject matter as well as allowing the researcher to probe statements to obtain a deeper understanding of meaning (Creswell, 2009). In order to provide basic structure to each interview, a questionnaire was developed to guide each interview and can be found in appendix D. Open-ended questions were used and had been developed from the literature reviewed in Chapter Two. The interview design was tested in a pilot study, which can be found in section 4.6 of this chapter.

4.5 Interview Schedule

Primary data was collected by way of semi-structured interviews. Based on the definition of the family business, the researcher attempted to conduct at least two interviews per business in the sample, that is two different generations of family members. Firstly this allowed for the gathering of information to answer the first research question pertaining to diversification strategies. Secondly, by interviewing two generations, intergenerational perceptions towards diversification could be better understood. The interview process allowed the interviewees to speak their minds, but also followed the questionnaire in order to maintain some form of structure. A sample of thirteen companies was targeted to collect the data as outlined in section 4.8.2.

Once access was granted into the business, each respondent was given

background information to the study. A consent form was signed by each respondent and can be found in appendix E with a signed example form in appendix F. Permission to capture the interview by way of audio recorder was also attained verbally allowing the researcher to transcribe each interview for coding and analysis purposes.

4.6 Pilot Test

The pilot test was conducted with the researchers own family business. This allowed the questionnaire used in the interviews to be fined tuned and evaluated, overcoming any time constraints that may have been experienced if another test sample was used. Two interviewees took part in the pilot test, namely:

- The founder and current Chief Executive Officer (CEO)
- His son (not the researcher) who is the General Manager (GM).

Separate interviews were conducted for each respondent, lasting roughly one hour. The researcher allowed the respondents to talk freely, but was cautious not to let the conversation drift off theme.

4.7 Population

The population in question for this study consisted of any family business that met the criteria set out in the definition of a family business in Chapter Two. Therefore each family business was required to have two or more generations present within the business as well as requiring decision-making power between the said family members.

4.8 Sample

Trobia (2008) define sampling as the selection of a number of units acquired from the population. The author further states that a sample is used in order to recreate some of the qualities displayed by the whole population but on a smaller scale. This therefore allows the researcher to generalise across aspects of the population relating to the outcomes of the study.

4.8.1 Sampling Method

For this study a non-probability sampling method was used as the researcher has employed subjective criteria in selecting the sample, that is, no attempt was made in selecting a random sample (Battaglia, 2008). Purposive sampling has been used whereby the researcher has obtained the sample in question based on the characteristics and purpose of the study. Characteristics of convenience sampling include:

- Cost of locating sample elements
- Geographic distribution
- Time constraints; and
- Obtaining access to potential candidates (Battaglia, 2008)

Based on the above, the researcher relied on purposive sampling in obtaining potential family businesses that fit the definition. In addition to purposive sampling, snowball sampling has also been used. This process is marked by the researcher asking participants if they could refer other family businesses with characteristics similar to their own, that may be willing to take part in the study. In essence this creates a snowball effect (Chromy, 2008).

4.8.2 Size of sample

A total of thirteen family businesses were interviewed for this study as illustrated

in table 5 below. The specific size of the sample was selected in order to avoid data saturation, which is defined as the point at which scientific enquiry begins to diminish (Henry, 1990).

Table 5: Participating sample information

<u>No.</u>	<u>Name</u>	<u>Sector</u>	<u>Current Generation</u>
1	Acme Brothers	Insurance brokers	Fourth
2	Bates Mining	Manufacturing	Second
3	Coleman Co.	Manufacturing	Third
4	JB Refrigeration	Refrigeration	Second
5	Midas Klerksdorp	Retail	Second
6	Pick 'n Pay	Retail	Second
7	Torbens Electrical	Electrical contractors	Second
8	Elen Enclosures	Manufacturing	Second
9	Flow Systems	Manufacturing	Second
10	Times Two Flooring	Installations	First
11	Nico Vander Meulen	Design	Second
12	M'hudi Wine	Wine Farming	Second
13	Mega Risk	Insurance brokers	Second

4.8.3 Sample description

Acme Brothers

Currently on the third generation, Acme Brothers is a brokerage firm specialising in short term insurance. Having gained experience in the insurance industry, Louis' father started the business in 1968. Acme Brothers currently employs mainly family members, four of which are direct family members and the remaining being extended family.

Bates Mining Specialists

Bates Mining Specialists consists of two generations, namely a mother (founder) and son. They specialise in supplying a wide range of products to specific to the mining industry. The majority of the product portfolio is manufactured in house with the balance being outsourced. The family has also diversified their interests in other businesses, some of which are still operational.

Coleman Co.

In its third generation, Coleman Co manufactures underground ventilation fans for the mining industry. Coleman Co wholly owns the manufacturing process i.e. bending, rolling, cutting and assembly of ventilation fans. The family consists of four family members in Coleman Co and another two in diversified farming and property interests.

JB Refrigeration

Two generations of father and two sons make up this firm that specialises in air-conditioning and refrigeration installation as well as maintenance. Diversified interests reside within construction.

Midas Klerksdorp

Midas is a franchised auto spares retailer that can be found throughout South Africa. Midas Klerksdorp is comprised of three family members namely the founder and father, mother and son. The family owns more than one Midas retail outlet.

Pick 'n' Pay Klerksdorp

Pick 'n' Pay Klerksdorp is another franchised business within South Africa, with a focus on grocery items as well as other household goods such as DIY, electronics and clothing. Various Pick 'n' Pay concepts exist such as mini-marts and super markets. Three family members constitute this family business namely the founder and father, brother and the founders' son.

Torbens Electrical

Torbens Electrical is a family business specialising in electrical construction work and had previously also serviced the mining industry. In its earlier days the family business had diversified into retail in the form of a store selling end products such as light fittings. The business comprises of two brothers one of which is the founding member. The second generation (son-in-law) is currently employed in the business and the succession process has begun in which the first generation will be handing over to them.

Elen Enclosures

In 1976 the founding member (father) opened Elen Enclosures, a distributing agent for high-end enclosure systems. During this time, the need to customise the enclosures was presented. This included populating chassis plates and other internal components. The company is now in its second generation in the form of the founders' son. Elen Enclosures presents a special case whereby international stakeholders own a portion of the company. This in turn restricts their options to diversify as a result of legislative conditions.

Flow Systems

Flow Systems pioneered access control systems in South Africa as a result of an opportunity presented by a mining company. This was a shift from the original business that had been founded to supply the mines with material handling systems. The founding members consisted of two partners, one of whom has brought in two of his sons as the succession to the first generation. The company currently manufactures access systems such as turnstiles, access control booths, revolving doors and vehicle access controls.

Times Two Flooring

Times Two Flooring presents us with another unique case. We have discovered that a parent, which would therefore make them the first generation, had started the majority of the family businesses interviewed. However the first generation and founder in this case was in fact, the eldest son of the family. Mark's father

and brothers joined the business at a later stage. Times Two Flooring specialises in the installation of carpets and laminate flooring and is part of a larger buying group known as Top Carpets. Times Two Flooring diversified into retail three years ago when afforded an opportunity by Top Carpets. The retail store offers designer blinds and flooring to the general public.

Nico Vander Meulen Architects

Nico Vander Meulen Architects is a world renown architectural and design firm started thirty one years ago by the founder and father of the family business. Currently two of the three sons are architects themselves and work in the family business. The third son having a background in sculpting is now becoming more involved in the business. The family business specialises in contemporary design and conducts its services around the globe in regions such as Russia and the Middle East. Additionally, the firm's design work is published in magazines internationally on a weekly basis. Branching out from its core design business, Nico Vander Meulen Architects began offering interior design to clients. The firm soon realised that products offered by suppliers was not meeting Nico Vander Meulen Architects high quality standards, which in turn led them into opening their own retail store (MSquared) importing and selling top luxury brands.

M'huDi Wine

M'huDi Wine is a black owned wine farming business run by the Rangaka family. The founders and first generation being mother and father began the business out of a desire to enter into the farming industry at the dawn of South Africa's democracy. M'huDi Wine offers a range of red and white wines and has won awards both locally and internationally. Other members of family include two sons and daughter all of which are active within the business. When the agricultural land was acquired, the farm not only included a vineyard but the largest guava orchard in the region. The guava orchard makes and a vegetable export business constitutes additional business activities that the family has interests in.

Mega Risk

Mega Risk is comprised of a mother (founder) and son team specialising in personalised and commercial short term insurance broking. Both first and second generation have previous experience in the insurance industry and hence the progression into an entrepreneurial venture by the founder. While the family business is comprised of only two members at present, they are expected to increase this number to three by years end. The effect of the additional member will allow the business to venture into new business opportunities that have been discussed amongst the family.

4.9 Data Collection

Primary data was collected by way of semi-structured interviews. The decision to use primary data stems from the premise that primary data collection lends itself to qualitative and inductive research methods (Thornhill et al., 2009). In addition, obtaining secondary data from the sample could prove to be difficult as some firms were not willing to share proprietary information such as financial data.

As each interview was conducted face-to-face, the researcher was granted permission to record the audio via an audio recorder. This allowed the interviewer the freedom to engage and be fully attentive to each interview. To ensure that no audio was lost due to malfunction or some other unforeseen event, two different audio recorders were used in each interview. All audio that has been recorded has been saved across multiple devices and platforms to minimise the risk of loss. Each recording will be kept for a period no less than five years.

Once interviews had been completed, the audio is exported to the relevant device and sent for verbatim transcription. To ensure that no misinterpretation occurred the researcher read through all transcriptions whilst listening to the audio. This process guaranteed that data analysis was not compromised by

way of confusion between the researcher and the transcriptions.

4.10 Data analysis

As the study took the form of qualitative research, the data collected was descriptive. Defined, this is data that will have no rank, which lends itself to the semi-structured interview approach, as the respondent may pre-empt certain questions as an example (Saunders & Lewis, 2012). Inline with the research methodology, an inductive method was used to begin data analysis. This entailed collecting data and analysing it to identify themes and begin building a framework to guide the research study (Thornhill et al., 2009).

Computer-aided qualitative data analysis (CAQDAS) software will be used. Nvivo has been selected as the preferred software for this study. For the data to make any sense it must be coded for analysis and the process followed included:

- i. Categorise data – develop categories and assigning it to chunks of data
- ii. Unitise data – words, lines of transcripts, paragraphs or combinations will be given unit measures and assigned to the various categories
- iii. Recognise, reorganise and categorise – here units of data begin to present themes as the CAQDAS information becomes richer

The above points have been adapted from Thornhill et al. (2009)

4.11 Confidentiality

Confidentiality of the respondents was guaranteed and explained during the research process. While the names of the firms that were interviewed have been disclosed in section 4.8.2 and 4.8.3, chapter five will refer to the respondents as case numbers. The case numbers in question have been

randomly assigned to the results, thereby insuring anonymity of the respondents.

4.12 Limitations

The proposed research will have a regional limitation. The businesses used in the research sample were based in Gauteng and the North West Province, South Africa.

Other factors to be considered in family businesses pertain to the leadership within these firms. This includes family CEO versus non-family CEO and other senior management as well as decision making influence of family members that are not employed by the firm but have a vested interest in the firm's performance. This inherently speaks to the characteristics of Socio-Emotional Wealth and the bearing of non-family management on family members well being as provided for by the business.

All measures will be taken to ensure the validity of the study by following a pre-developed interview plan. However some family firms may not be open to discussing sensitive company information such as turnover or current diversification strategies.

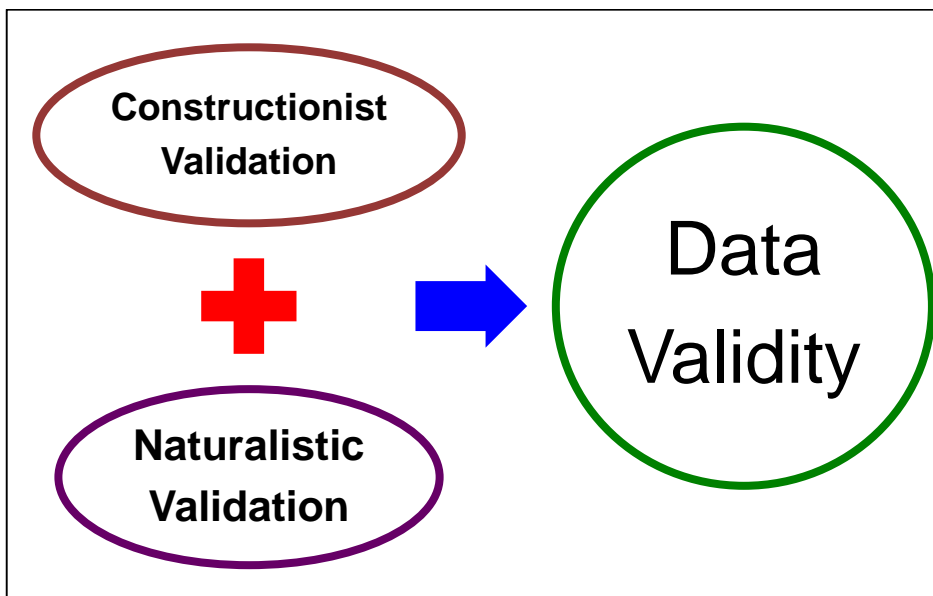
Due to the subjective nature of the research approach (exploratory, induction, semi-structured) a quantitative study should be conducted in the future to provide a solid base of knowledge by way of statistical inference (Saunders & Lewis, 2012)

Given time constraints of the study, not all participants may have the chance to be interviewed. Reliance will thus be on more depth with fewer participants.

4.13 Validity

In order to validate the data used in analysis against the evidence collected the researcher has proposed two approaches, namely a combination of naturalistic and constructionist perspectives as illustrated below:

Figure 5: Data Validation Process



Validation via a naturalistic perspective proceeds by way of observation and participation in the study with actors by way of open and unstructured interviews. This has been outlined in Chapter Four. A constructionist perspective allows for the analysis of the interviews performed in the study and will relate back to the framework of the study being that of Socio-Emotional Wealth (Sapsford & Jupp, 2006).

4.14 Conclusion of Chapter Four

Chapter Four has laid the foundation for the data collection of the current study by defending the choice of the research methodology and methods employed. In order to gain a deep understanding from the respondents, a qualitative

approach was selected by way of a grounded theory. This allows the researcher to view each interview subjectively and interpret the information based on the literature that has been reviewed. Each interview was allowed to flow in a semi-structured manner with the researcher having the ability to direct the conversation should it begin to wander. Lastly each interview has been transcribed, quality assured and coded in order to derive an analytic result in an attempt to answer the research questions.

5. Chapter Five: Results

5.2 Chapter Introduction

Thus far the reader has been guided through the research in the form of a literature review, an argument for the questions forming the basis of the study and the method upon which the study has been conducted. The results will now be presented in Chapter Five and will follow a similar structure to that of Chapter Two given that the said Chapter was used in forming the research questions and questionnaire design.

To recap, the purpose of the study is to determine how and why family businesses decide to diversify in order to achieve growth or some other goal set by the family. Additionally the study attempts to determine if there is a difference in perception towards growth between different generations of a family business.

5.2 Descriptive Characteristics of the Sample

The sample was selected using purposive sampling from a population consisting of family businesses meeting the criteria set out in the definition of a family business, specifically:

“A family business is a firm where one family group has control through voting shares and decision-making power, this family is represented in the management team, the firm has passed through at least one generation in ownership and / or management, the founding owner may still be present and leading representatives of the family perceive the firm to be a family business” (Nordqvist & Melin, 2010, p. 18).

The names and sectors of the family businesses participating in the study can be found in section 4.8.2. A detailed description of each business can be found in section 4.8.3. Table 6 below calls attention to which generation the business is currently in as well as which generation of family had been interviewed. Clarity is also provided as to whether the founding members were still involved in the respective cases. It is important to note that business names have been excluded for anonymity purposes and each business has been assigned a random case number. As the results are presented, quotes from the interviews conducted will be referenced to the case number.

Table 6: Participating Sample Characteristics

<u>Case No.</u>	<u>Generation</u>	<u>Family Member Interviewed</u>	<u>Founding Member</u>	<u>Founder Involvement</u>
Case 1	Fourth	Second – Mother Third - Sons	N	None
Case 2	Second	Second - Son	Y	Medium
Case 3	Second	Second - Son	Y	Medium
Case 4	Second	First – Mother Second - Son	Y	High
Case 5	Third	Second–Father Third - Daughter	Y	High
Case 6	Second	Second – Son	Y	Medium
Case 7	Second	Second – Son	Y	Medium - High
Case 8	Second	First – Father Second – Son	Y	Medium - High
Case 9	Second	First - Son	Y	High
Case 10	Second	First - Father	Y	Low
Case 11	Second	First – Mother Second – Son	Y	Medium
Case 12	Second	Second – Daughter	Y	Medium
Case 13	Second	First - Father	Y	Medium

Table 6 summarises the characteristics of the participating sample. The sample is made up predominantly of second-generation families with either a son or daughter in line for succession. Excluding case 1, each family business still has an active founder member with decision-making authority i.e. autonomy has not yet been ceded to the successive generation. A first generation family member is defined as the founder of the family business with the second generation being the children of the said founders. Distinction of age has not been made between siblings as siblings of different ages were classed and second-generation successors having equal power.

In terms of founder involvement, low involvement indicates that the founder is still present within the business but decision-making power has been almost completely ceded to the successors of the business. Medium indicates that some decision-making has been handed over, reflecting expertise in a particular field by the succession or a matter of trust as the founder moves towards lower involvement. Lastly high involvement indicates little decision-making power by the succession. The founder is still highly involved in most aspects of the business and the founder conducts decision-making only.

5.3 Emergent Themes

Coding of respective themes from interview transcriptions was structured according to the research questions set out in Chapter Three as well the information argued in Chapter Two. Coding nodes were broken up into two categories: main nodes and sub nodes located within the main nodes, illustrated in table 7. By way of example, the main coding node 'Growth' records participants mentions of some form of past, present or future growth aspirations. The sub-nodes in this category record what type of growth was spoken of such as the type of diversification, if barriers to growth had been faced resulting in no growth, opportunities or networking resulting in growth, entrepreneurial behaviour by family members, if a strategy is present in the business, legislative facets affecting growth and whether or not the firm thought it had a competitive

advantage.

Table 7: Coding Main and Sub-Nodes

Main Nodes	Sub Nodes
Growth	Diversification
	Opportunity
	Barrier to growth
	Entrepreneurship
	Strategy
	Network
	Legislation
	Competitive Advantage
Autonomy	Decision-making
	Yes
	No
	Trust
Diversified Portfolio	Core Business
	Non-Core Business
Environmental Scenarios	Risk
	Risk Averse in Good Times
	Risk Taker in Bad Times
	Risk Taker in Good Times
Generational Constructs	Skills
	Succession
	First Generations Perceptions
	Second Generations Perceptions
	Third Generations Perceptions

5.4 Main Node Results

This section of the study will present the main coding nodes used to capture the interview data. Five main themes emerged from the analysis and subsequent

sub-nodes were created in order to record contrasting or complimentary themes relating to the main node. Each node will be discussed independently with an analytical summary after each main node.

5.4.1 Growth

Growth featured the most sub-nodes due to growth being a main focus of this study. Growth as a node attempted to capture respondent's feelings towards growth strategies both present and future within the business. Sub-nodes captured specific information in relation to growth. We can therefore infer that the high response rate towards growth indicated that some form of thought had gone into the family business diversifying. Table 8 below illustrates the growth node as well as sub-node:

Table 8: Growth Node and Sub-nodes

Main Nodes	Sub Nodes	Sources	References
Growth	Diversification	13	40
	Opportunity	10	39
	Barrier to growth	11	35
	Entrepreneurship	10	32
	Strategy	11	32
	Network	6	19
	Legislation	5	15
	Competitive Advantage	5	12

Growth enables all businesses to thrive and prosper, acting as an indicator of success in a family businesses efforts in the market. Growth can either be organic, in that the family business sells more of its goods to the market, or reflecting diversification strategies of the firm. Diversification allows the family business to mitigate the risk of relying on a single or small product offering.

In some instances, respondents had experienced growth through diversification, which was not core to the business such as property rental income or investments into other businesses. In other cases respondents had experienced organic growth with the market that they had been serving, usually at the same speed of the said market.

- **Case 1:** *“We have other properties, like this building pays the family rent.”*
- **Case 3:** *“This is the right size that we are looking for. Now it’s time to either look for another store or to diversify. Maybe try different avenues of business – especially considering the economy of the town, one would like to spread your eggs a bit.”*

A number of cases presented growth by way of opportunities that presented themselves and were capitalised on by the family. Such opportunities were presented by the company’s position as a market leader, an extensive business network or a planned strategy. We can infer that an entrepreneurial orientation was present and that risk aversion was low and perhaps calculated at such a time. In most cases, the founder of the family business had identified the opportunity. What we take from this is that the founding member still holds much of the decision-making power or such opportunity occurred when only one generation had been present at that time. We can additionally theorise that the next generation has not yet been presented with opportunity or faces barriers in the form of other family members.

- **Case 4:** *“We have been always been diversifying. We have never sat still – I have land and properties, a fertilising company. We bought another company a few years back.”*
- **Case 8:** *“My wife and oldest son then started a shop where we would normally get the furniture that we would want to use, so we started a shop then.”*

“With this product, we found that for certain applications, that wasn’t working so well, so we started designing our own stainless boxes, we make profit on this. We get the orders from the builders and if necessary we adjust the design – this is one part of the business that we would really like to start pushing to contractors and builders, as it is not commercially available. We can also custom design if necessary.”

Respondents also noted barriers to growth, which they faced resulting in lost potential for growth. Such barriers were as a result of circumstances of organic growth and legislative factors in the environment such as industrial action and laws governing the businesses operations.

- **Case 1:** *“For us to grow now, we would have to increase staff, which would be a major cost to the company. So you are growing but you are not growing, you are just adding head count.”*
- **Case 6:** *“So at this point, my hands are tied in terms of doing business, of that nature, with any other business as the companies act prevents me as the director of this company to get involved in a business that might be competitive to our business.”*

In summarising growth, respondents noted that growth and diversification were possible by identifying and acting on favourable opportunities. Network effects, an entrepreneurial mind-set and a firm’s competitive advantage are some factors that emerged from the discussions. Conversely some family businesses found restrictions to growth due to factors related to organic growth such as headcount as well as legislative inhibitors to growth.

5.4.2 Autonomy

As more than one generation is present in the business, and active founding

members constitute 92% of the sample, autonomy in decision-making is an important construct that merged from the interviews. Emergent sub-nodes included decision-making with a yes or no answer as well as trust being instilled upon a said generation. The table below illustrates a summary of the data collected from this node.

Table 9: Autonomy Node and Sub-nodes

Main Node	Decision-making	Sources	References
Autonomy	Yes	11	21
	No	5	11
	Trust	6	9

Decision-making amongst second or later generations varied as some interviewees stated that they had full decision-making power, but when probed further were unsure of their position in this regard. In other discussions, second or later generations stated that decision-making was based on trust implying that they had the freedom to make decisions but felt that it was still necessary to get approval from the founder. Additionally some founding members ceded no decision-making power to later generations and in some instances on departmental or functional power were given to specific areas of the firm such as finance.

- **Case 1:** *All of the decision making will still be ours, but they will probably still have certain rules and regulations that we'd have to adhere to, however, we'll still have the full run of our business.*
- **Case 9:** *A lot of our decisions come from a group that we belong to – Top Carpets Group – it is just a group, not like a franchise. We don't get told what to do.*
- **Case 7:** *At the end of the day, my dad has the final say. I had brought up a*

few times, were I felt we could have gone a different route – he however disagreed, so I had no choice and had to stand back. He is the owner and MD – at the end of the day, I am still just a Director – things may change in the future, but that’s how it stands at the moment.

Autonomy responses varied across the sample with the bulk of respondents stating that decision-making power lay in the family as a whole but the founding member usually had the greatest influence on decision-making and in hindsight the power lay with this family member when considering diversification options. When faced with important decisions, the majority of families discussed the pros and cons as a unit, but ultimately the founder had the last say.

5.4.3 Diversified Portfolio

Emerging from the questions asked in the interviews was the notion of whether or not a business had diversified along with its core business, which entails the benefit of using existing expertise and skills. The second sub-node, non-core business, reported instances whereby companies diversified outside of their core business.

Table 10: Diversified Portfolio Node and Sub-nodes

Main Node	Sub-Nodes	Sources	References
Diversified Portfolio	Core Business	13	21
	Non-Core Business	6	9

By engaging in either core or non-core diversification, the family business is able to alleviate risk. Some cases reported that the family had diversified into property rental income, with no formal links to the family business.

Case 3: *“That was his approach to diversification – with his extra cash, he was always looking for bargains and buying them to rent. He has a few townhouses*

and flats.”

Case 11: *“Yes, just short, we don’t do life – personalised and commercial.”*

Only a few cases had diversified from their core businesses indicating a propensity towards risk. Of these cases, some had also diversified in both core and non-core business functions with some non-core functions being complimentary to other parts of the family business.

Case 8: *“It basically goes through the interior design side. We also started designing stainless steel roof outlets.”*

Case 12: *“We have guava on the farm, besides the wine. We have also gotten into the vegetable export market. We also rent out the tasting room for people who want to do small workshops and seminars. We are not doing it currently, as we are closed for the winter period to do renovations.”*

It would seem that in most cases, family businesses tend to stick to what they know and choose growth opportunities based on the level of expertise of the family members in the business. When diversifying outside of the core skill set, it is usually the founding member that drives such a decision into a new venture. It appears the founder makes a calculated decision based on the strengths available in the family business as well as displaying an entrepreneurial drive which was more than likely present when founding the original business.

5.4.4 Risk Scenarios

When respondents were questioned about their perceptions towards different economic situations, the respective sub-nodes emerged as shown in table 11 below:

Table 11: Environmental Scenarios Node and Sub-nodes

Main Node	Sub-Node	Sources	References
Environmental Scenarios	Risk	9	22
	Risk Averse in Good Times	7	13
	Risk Taker in Bad Times	7	10
	Risk Taker in Good Times	5	8

All cases made mention of succession being an important facet in the growth of the business. In some cases, the first generation (founding generation) believed that risk was a construct for the first generation to deal with, as the next generation had not built the business thereby indicating an emotional attachment to the firm. This ties in with the data presented in section 5.3.2, in that second or later generations have little autonomy ceded to them.

Risk appetite or aversion was another element that had emerged from the data. Most cases stated that they would not take unnecessary risk when economic and business conditions are favourable. If the family business is providing for the family then taking on extra risk that could result in the loss of that provision is therefore avoided. Conversely only two or three cases stated that favourable conditions were an opportune time to take bigger risks as the business had less to lose.

Case 1: *“You are likely not to take the risk to expand when you are comfortable. If the business is doing well then why must we change and grow.”*

Case 2: *“If you have the cash flow to throw at new ventures, I’ve always been of the mind-set that you have done the research of the risks and the rewards; I would most certainly say that it is a good idea.”*

Case 2: *“My dad poached me to come in and help with Potch. I was in Potch full time. I’m 40, he’s 67 and he is at the end of his path. He didn’t want me here. He wouldn’t have wanted me here unless I wanted to be here.”*

Case 7: *“The only time we would look at doing something different is when times are tough. So yes I would agree with that.”*

Case 9: *“I’d say its right. I’ve never sat still – the moment you sit still everything stagnates. No, I wouldn’t want another one – I am not the kind of person that wants 50 stores. I want to make sure that this one is a success and that I feed out of it.”*

Case 12: *“The family business is the future for me and for my kids.”*

5.4.5 Generational Constructs

The last node that transpired from the data was that pertaining to intergenerational issues affecting the growth and longevity of the family business, and how each generation perceived such issues.

Table 12: Generational Constructs Node and Sub-Nodes

Main Node	Sub-Node	Sources	References
Generational Constructs	Succession	13	42
	Skills	12	27
	First Generations Perceptions	4	11
	Second Generations Perceptions	8	22
	Third Generations Perceptions	2	5

In order for the business to be sustainable the next generation must have the required skills or expertise in order for succession to take place. In some cases skills had been learnt on the job while in others skills obtained were as a result of undergraduate studies combined with on the job training.

It was found in one case that the second generation had no expertise in a

technical manufacturing environment. Administratively, the second generation was highly competent in taking over that side of the firms operations, but no technical skills had been learnt in order to keep the manufacturing running. This particular case had interests spread across various other businesses such as property and farming. As the family has lessened the risk by diversifying, it could be for this reason that the next generation did not see the need to gain technical expertise as the focus was on other parts of the family business.

In summarising, it was found that skills must be present in order for succession to be successful. This enables the new generation to continue operating the business by gaining the required expertise on the job as well as studying a respective trade. It can also be said that opposing views are present when one generation is asked to comment about the other. The result is a disparity between views on issues such as growth, which may have a negative long-term effect on the businesses decisions towards growth.

5.5 Socio-Emotional Wealth

As defined in Chapter Two, Socio-Emotional Wealth refers to the emotional value, but not excluding monetary reward, that family members derive from the family business. Risk appetite, which is linked to growth and diversification, allows us to understand how family businesses see such risk and their point of views relating to the protection of Socio-Emotional Wealth.

When analysing the data what transpired was more family businesses were found to be in favour or in agreement of the Socio-Emotional Wealth framework, that is, most cases agreed that the business would not take unnecessary risk if the family business was doing well. Such cases did not view the additional risk, in the form of diversification, as bearing greater benefit than what the family business was already providing. It must however be noted that of these businesses some had already pursued diversification strategies as was mentioned earlier in the report and perhaps viewed all these businesses as one

unit protecting the families Socio-Emotional Wealth.

Case 6: *“When you are doing well – we’re happy and we plod along, but you feel you are doing the right thing, the money is coming in and there is no point in doing something different.”*

Case 12: *“My parents are very much risk averse, more so than us. Mostly because they are the ones that have the most to lose.”*

There was also a notable difference in how Socio-Emotional Wealth was perceived from generation to generation as the founding generation was more risk averse than the second. Of all the cases only one case of second generation family stated outright that good business conditions should be capitalised on as the business is in actual fact able to take risk and loose less, as a loss would be outweighed by the gains of favourable business conditions. The remainder of the second generations had mixed feelings towards this topic with some stating that risk appetite was dependant on the opportunity and the gains or losses that would be experienced.

Case 3: *“So, we have the kind of relationship where I always want to take the risks and he is always reigning me in.”*

Case 12: *“We are more willing to jump in and try new things – like hey, if someone wants to buy a stake in the business, then let’s do that. But my parents aren’t like this.”*

As autonomy in decision-making had not been ceded to all second or later generations, it is difficult to state whether or not Socio-Emotional Wealth guided the thought process of the main decision-maker or if all family members played a part in driving decisions.

In summarising this section, founders stressed the importance of succession in

order to keep that family business alive and provide for current and future generations. There are instances in which differences in the perception of risk differ amongst generations, with a few founders still possessing risk hungry tendencies, while the others are risk averse. The converse can be said about second or later generations in that some are risk averse but the majority are seemingly more risk hungry than the founders of the respective businesses.

Case 2: *“My dad poached me to come in and help with Potch.”*

Case 4: *“If I am not here, I would want Barry and my girls to have the skills and spirit to continue. Barry looks into everything, and my girls know why I do certain things, because he doesn’t have to sit with me in all decision making so if I am not here he knows what to do.”*

Case 7: *“During varsity and school holidays we would come and work with the technicians to earn extra money. We would help the technicians drill and install equipment – we would also help with the welding and the grinding. That way we got used to the company.”*

5.6 Conclusion of Chapter Five

Chapter Five presented the research results by way of coded nodes captured from transcribed interviews. Main themes emerged and gave way to sub-node, which complimented the main node by way linking data together to create a coherent picture of the data. Socio-Emotional Wealth is seen differently from generation to generation with the exception of a few cases in which the founding member has an entrepreneurial orientation that drives a risk appetite that differs from other cases. Second or later generations also seem to have contrasting views on when to take risk with the bulk of cases adhering to the Socio-Emotional Wealth framework. Chapter six will now attempt to explain the results by comparing and analysing them against the literature review presented throughout Chapter Two.

6. Chapter 6: Discussion of Results

6.1 Chapter Introduction

Chapter Five presented the results that emerged as themes from the research interviews and coded in Nvivo as nodes. This has been done in an attempt to discover the strategies employed by as well as intergenerational perceptions towards growth in family owned businesses. A sample of 13 family businesses participated in the study by way of semi-structured, face-to-face interviews. The following chapter discusses the results in view of the literature assessed in Chapter Two. In an attempt to answer the research questions and propositions given in Chapter Three, this section will structured as such in order to discover possible linkages between the literature review and the relevance to the study results.

6.2 Discussion of Research Question 1

How do family businesses diversify their interests and business activities?

Proposition: family businesses will favour Socio-Emotional Wealth preservation versus high growth or diversification strategies.

Research question one attempted to ascertain how family businesses diversified their business portfolios. As diversification is a tool that can be used in order to diminish the risk of small portfolios, the study sought to understand how family businesses managed such risk and in turn ensuring growth and Socio-Emotional Wealth preservation.

6.2.1 Growth and Diversified Portfolios

Growth is associated with measures such as increases in revenue, gaining market share or introducing new products and services to a respective market. This is no different in family business with the exception that family businesses may measure growth differently (Achtenhagen, Naldi, & Melin, 2010). Whichever measure is used, growth entails that the family business put forth strategies that ensure that it is able to provide for the present family as well as for future generations, ultimately preserving Socio-Emotional Wealth (Mussolino & Calabrò, 2014). Diversification is the method of growth that this study attempted to identify as it allows the family business to mitigate risk by broadening its market offerings.

The study found that in most cases, family businesses had chosen a growth strategy that was an extension of or complimentary to the businesses core offering. When the family business chose to diversify this way, it was due to organic market growth and opportunities presented through networks held by the business. As presented by Ducassy and Prevot (2010), diversification is possible should the family believe that their key strengths will lessen the risk of the unknown as well as using such strengths to create a competitive advantage.

Case 8: *“At some stage, we got fed up with the interior designers that we were dealing with, so we decided to open up a second business focused on interior design.”*

Case 12: *“We would have to decide on who would run the new venture – who has the skills to get that up and running and depending on who that is – we would have to start researching. We would probably start with something that looks and smells like what we are doing now.”*

Of the thirteen family businesses interviewed less than 40% had diversified in non-core business activities. Put simply, that is buying new firms or venturing

into foreign business activities that bared unknown risk to the families Socio-Emotional Wealth and levels of expertise (Sieger et al., 2011). This is an indication of strategic entrepreneurship present within the business and in most of the cases held by the founder.

In these cases, an entrepreneurial approach to diversification has been matched with opportunities presented through some form of network held in this instance by the founding generation. Success and failures of new ventures featured in these cases of complete diversification, with the number of successes outweighing that of failure.

Case 3: *“That was his approach to diversification – with his extra cash, he was always looking for bargains and buying them to rent. He has a few townhouses and flats.”*

Case 4: *“We’ve never just had one business.”*

Case 5: *“I did that years ago, we bought a firm. We bought that firm and we got burnt – it just didn’t work for us.”*

Taking the cluster model presented in section 2.3.4, figure 1 into account some cases displayed multiple circle clusters as high as three to four which translates into additional businesses owned that particular family. Michael-Tsabari et al. (2014) as well as Sieger et al. (2011) agree that portfolio entrepreneurship not mitigates the risk of single business portfolios, but it also secures Socio-Emotional Wealth for future generations.

No link was found in the results between family business success and formal strategies set by the family. In most cases family members had not set formal meetings in order to discuss the strategy and direction of the business. Instead informal meetings were held between some members on occasion and all family members in other instances. This is in line with arguments by Astrachan

(2010), stating that such practices may only apply to large non-family businesses family businesses that have shareholding by non-family members. As is discussed in section 6.2.2, decision-making power held by founding members may act on strategic decisions without the consent of other family members (Astrachan, 2010)

6.2.2 Autonomy and Diversification

Each family business interviewed still had a founding member present and active with in the business. Levels of autonomy emerged as a theme when respondents were asked to describe the decision-making process within their respective businesses. The results show that little or no autonomy is given to generations succeeding the founding generation, which could have a stifling effect on entrepreneurial activity of the successors.

Based on the results it shows that second or later generations believed that they had little power to make complex decisions without the first generations consent. This is an important facet as it is the succession that will ultimately have the responsibility in ensuring the longevity and preservation of the families Socio-Emotional Wealth (Björnberg & Nicholson, 2012; Glover & Reay, 2013).

Decision-makers in the form of the first generation may however display this type of behaviour purposively while it may not seem as such in the short term. The founder does this in an attempt to ensure that succeeding generation has a secure future as a result of experienced and calculated decision-making (Zellweger et al., 2012).

6.3 Conclusion to Research Question 1

Research Question 1 sought to understand how family businesses diversified their businesses and as a result experience growth. In doing so, a family is able

to further preserve wealth and secure future possibilities for successive generations. The data obtained from the study indicated families' preferred related diversification, that is, diversification in line with core activities and strengths of the firm. While few businesses had ventured into complete diversification, most had also diversified into related industries as a result of network opportunities.

An interesting finding is that most founders left little or no autonomy in decision-making power to successive generations. The research proposition for Research Question 1 appears invalid. The data shows us that a balance between Socio-Emotional Wealth protection and preservation as well as related diversification was displayed amongst respondents.

6.4 Discussion of Research Question 2

How do different generations of a family business perceive the risks of diversification?

Proposition: second or later generations will be display more risk appetite in good business conditions than founding or first generation family members.

Given the dynamics of family business, individual family members, succession and skill, research question two made an attempt to discover how different generations of family members perceived risk with respects to Socio-Emotional Wealth. Additionally respondents discussed how other generations of family within the business perceived growth in comparison with their own views.

6.4.1 Environmental Scenarios

Emerging as a node from the interviews, environmental scenarios suggested that respondents were aware of business conditions as changes occurred such as industrial action. Socio-Emotional Wealth literature states that family

businesses are reluctant to take risk in order to preserve family wealth. It is only in times of distress, (when Socio-Emotional Wealth under threat) that those family businesses take action and increase the appetite for risk by implementing diversification strategies (Chung, 2012; Mussolino & Calabrò, 2014). Such strategies are put in motion in order to ensure that Socio-Emotional Wealth is not lost completely.

This was found to be true when analysing the data as most respondents agreed that they would not take unnecessary risks if perceived business conditions were favourable. In all instances, each case stated that they would look to take on risk should they feel that Socio-Emotional Wealth was under threat. Again this in line with arguments put forward in the literature.

Case 1: *“Our problem now is keeping this business, especially with the trend of customers going directly to the insurance companies
This is the big trend, dealing direct.”*

Case 3: *“I suppose he likes to protect what he’s built. He has got a much safer, conservative approach to business.”*

Case 7: *“When you are doing well – we’re happy and we plod along, but you feel you are doing the right thing, the money is coming in and there is no point in doing something different.”*

There was however instances whereby some respondents felt that the best time to diversify in actual fact would be when business conditions favoured the market. Simply put, the perception was that the family business has a steady stream of profitability and hence could perhaps afford to take some additional risk. Should the venture fail in such a time, the losses would be outweighed by favourable operations.

Case 2: *“If you have the cash flow to throw at new ventures, I’ve always been*

of the mind-set that you have done the research of the risks and the rewards, I would most certainly say that it is a good idea.”

Case 3: *“I say investing in bad times you truly reap the rewards more. In good time one should always make provision for bad times. I wouldn’t put a rule to it. I would say that investing in bad times is the norm, but one should also diversify and invest in good times.”*

Case 6: *“However, if things are going well then it may be the best time as you have the security, it all boils down to do you want to grow the business at a (Zellweger et al., 2012)greater rate than what you would when you are under strain.”*

Succession and skill featured throughout discussions especially when the market offerings made by the family business was of a technical nature. There was a balance of training required for succession in some instances while in others on the job learning would suffice. To fulfil the ultimate goal of firm survival and longevity in order to preserve and nurture Socio-Emotional Wealth, succession planning is an important facet to consider. As discussed in section 2.6.2, some studies suggest that family business performance suffers in second-generation successions and only improves in third generations should the business survive (Carnes & Ireland, 2013; Eddleston et al., 2013).

6.4.2 Generational Constructs

In all the cases interviewed, the process of succession had begun with the successive generation already active in the day-to-day operations of the business. In order for the family business to continue being defined as such, succession to the next generation of family is essential (Carnes & Ireland, 2013). Not only does this ensure continuity but also future generations having the opportunity to join the family business and benefit from Socio-Emotional Wealth preserved for the family.

Case 8: *“Yes, most certainly. This son is meant to take over this side. My eldest son will take over the shop, and my youngest who is a sculptor went on his own immediately after university, is also getting involved now.”*

Case 2: *“I’m 40, my dad’s 67 – he’s at the end of his path.”*

Only one case showed that succession in the core business of the firm might be an issue as the technical skills required for continuity lay solely with the founder. While this case had diversified portfolios in other businesses that could better suit the successors, the families emotional attachment to the core business would need to shift to other businesses (Michael-Tsabari et al., 2014).

Case 5: *“Businesses of this nature are driven purely on the technical side of things. We always have a saying that our workshop carries the office, the office doesn’t carry the workshop, so we have always said the workshop is number one priority and that’s got to keep on going.”*

6.5 Conclusion to Research Question 2

Socio-Emotional Wealth is a framework that features heavily throughout family business literature since its inception in 2007. Based on the findings from the data it appears that the sample interviewed in this study fits the family business profile set out in the framework.

It has been found that family businesses in this study do in fact avoid risk taking when the conditions favour the business. While some have diversified during such conditions, growth seems to have been natural and organic. This behaviour is contrary to that of forced diversification as seen when business conditions put the family at risk of losing Socio-Emotional Wealth.

With respects to succession and skills, many of the cases had succession

involved in the business and hands-on-training was acquired through this process. Other cases had family succession formally trained in order to develop the skills required for the business. As seen in case 5, skills set is an essential part of a family business if continuity is to be successful.

The proposition that has been set is therefore somewhat disproved in this instance as both first, second generation and later generations agree that there is no need to diversify if the family business is providing to the wellbeing of the said family. It is only seen in a small sample cases that second or later generations see the potential in diversifying when the business is profitable.

7. Chapter Seven: Conclusion

7.1 Chapter Introduction

Chapter Six discussed the results obtained from the study as given in Chapter Five, with respects to the literature reviewed in Chapter Two. The following chapter will restate the purpose of the study followed by a summary of the research findings. The significance of the study for business and academia will also be highlighted. The chapter will conclude with the researchers view on the limitations faced in the study as well as future research possibilities for scholars.

7.2 Background to the Research Problem

It has been argued that in most countries, family businesses constitute the largest collective of business within the said environment. Figures estimate that family businesses make up for more than 70% of businesses globally and by implication possibly employ the greatest number of people (Gomez-Mejia et al., 2011). It is important for family businesses to remain competitive and experience growth for both the family members as well as other stakeholders.

The study therefore sought to discover how family businesses diversified their business interests. Using Socio-Emotional Wealth as a framework, the study attempted to uncover how family businesses react to risk taking under certain conditions. Put simply, how do family businesses balance the decision-making process when Socio-Emotional Wealth was a key factor to the businesses success?

7.3 Key Findings

Thirteen in-depth face-to-face interviews were conducted with family members

from varying industries. Interviews were transcribed and data was coded using qualitative data analysis software, namely Nvivo. Emergent themes from the data were recorded as nodes and used in an attempt to shed light on the two research questions given in Chapter Three.

7.3.1 Research Question 1 - Key Findings

Question: *How do family businesses diversify their interests and business activities?*

Proposition: *Family businesses will favour Socio-Emotional Wealth preservation over high growth or diversification strategies.*

The data showed that family businesses preferred a balanced approach to diversification and most experienced organic or natural market growth. Of the thirteen respondents only a few had ventured into non-core business ventures and seemingly had a higher tendencies towards strategic entrepreneurship. All cases showed the founding member held the most decision-making power.

7.3.2 Research Question 2 - Key Findings

Question: *How do different generations of a family business perceive the risks of diversification?*

Proposition: *Second or later generations will be display more risk appetite in good business conditions than founding or first generation family members.*

The proposition here had not been met as the data showed that all generations of family perceived risk in a similar way. Most cases found that diversifying when business conditions were favourable would constitute an unnecessary risk as the family business could lose more than it gains. Only one, second generation family member stated that good business conditions would be an opportune time to take on extra risk.

7.4 Significance of Findings

7.4.1 Business

As the importance of family business survival has been argued throughout this research study, family businesses must take heed of the constructs within such businesses. The importance of factors such as succession, autonomy and trust in decision-making, diversification and the role Socio-Emotional Wealth plays in decision-making must be well understood. The constructs of family business is significant in the South African context given the high unemployment rates and the impact entrepreneurial families could have in improving this situation.

7.4.2 Academia

The study adds to the existing literature by illustrating the importance of succession in light of Socio-Emotional Wealth. While studies have been conducted relating to this topic, the South African businesses participating in this study showed how first generation members controlled decision-making of the firms they founded. Therefore what this study has achieved is highlighting the perceptions around such constructs and perhaps laying foundation into future research. It is vitally important for future scholars to look into such areas of family business study, as it will add to the literature surrounding practical application of strategy to ensure growth in both the field of study and business itself.

7.5 Research Limitations

In most cases, only one family member was present for the interview and the researcher had to draw on comments of perception around other family members.

The family businesses participating in this study were positioned in various industries and thus the study is not able to pinpoint data to one specific industry in which family businesses operated.

All measures were taken to ensure the validity of the study by following a pre-developed interview plan. However some family businesses were not open to discussing sensitive company information such as turnover or current diversification strategies.

Respondents were based in two provinces within South Africa, namely Gauteng and the North West Province. The data may therefore not apply to remaining provinces within the countries borders.

The family businesses that took part in the study varied from small to medium sized businesses, with the founder as the head of the firm. We cannot therefore determine if this data would apply to larger businesses or those run with non family CEO's

7.6 Future Research

In all cases the founding member was the CEO of the respective family business in question. Future research studies should focus on the performance of growth in organisations lead by non-family CEO's.

As founders command the decision-making power, studies into how successful multigenerational family businesses have survived. Given that strategic entrepreneurship is essentially driven by the first generation, how has succession dealt with low decision-making power and retained interest in the business.

Due to the subjective nature of the research approach (exploratory, inductive, semi-structured) a quantitative study based in South Africa should be

conducted in the future to provide a solid base of knowledge for this particular context.

Practical growth strategies that have led to the success of family businesses could form the basis of a study again looking at the South African business landscape. An emphasis must be placed on multigenerational strategic entrepreneurship and how families develop such skills.

It may be beneficial for future research to focus on family businesses from a particular industry or sector. This would enable future studies to add clarity to the subject, allowing us to better understand the various facets making up family businesses. For instance is formal skill development necessary in technical environments?

Lastly research on other African countries could enable scholars to understand dynamics across the continent with a good starting point being the Southern African regions.

Future researchers have the opportunity to study practical examples of family business strategy development across multigenerational businesses. The sources and execution of such diversification strategies would add an abundance of knowledge to this important facet of the business environment.

As succession in a family business is essential in order for the family to retain Socio-Emotional Wealth, a study pertaining to first generations successfully introducing and retaining next generation family members.

7.7 Conclusion of Chapter Seven

The research study found that family businesses preferred balanced diversification in the form of organic growth. This approach mitigates the risk of losses of Socio-Emotional Wealth. Those businesses that were more open to

portfolio growth displayed behaviour aligned with strategic entrepreneurship. The second research proposition had not been met as founder and successor generations viewed risk similarly. Cases felt that Socio-Emotional Wealth was a construct that should rather be protected in favourable business conditions and as literature states that risk will only be taken when Socio-Emotional Wealth is under threat.

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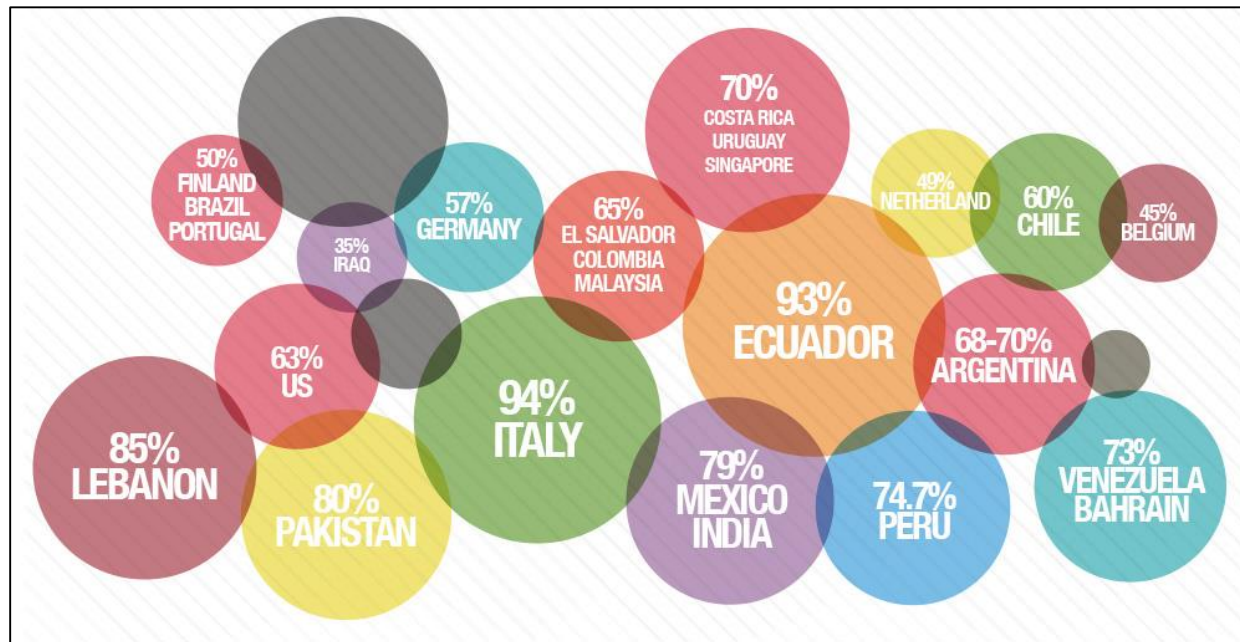
4(3), 213-226. doi: 10.1016/j.jfbs.2013.07.003

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8. Appendices

8.1 Appendix A

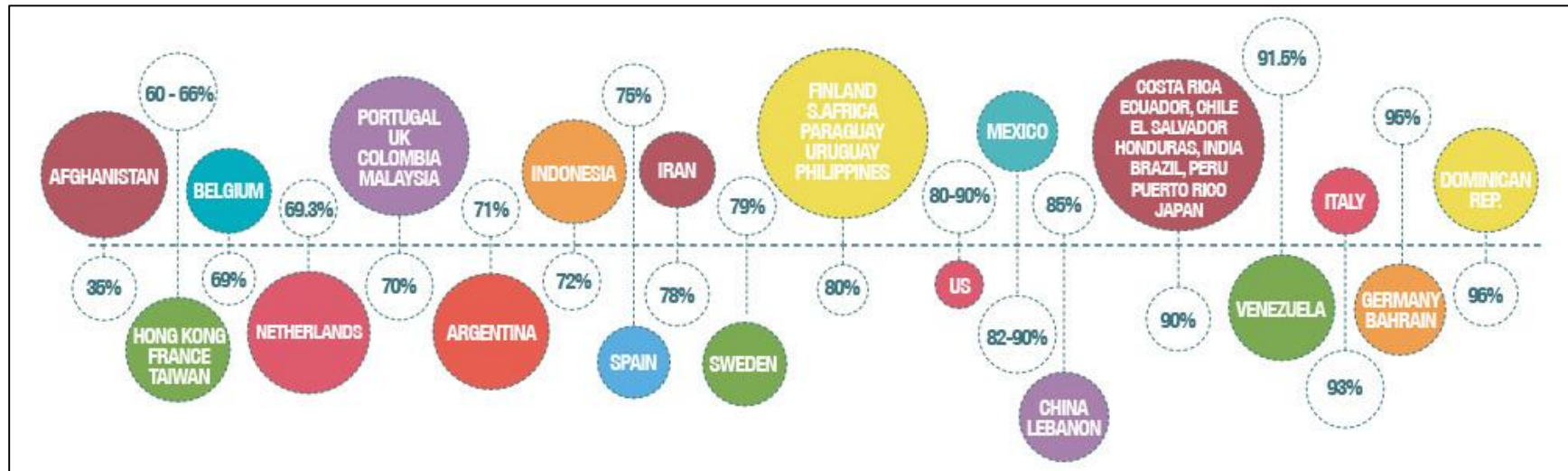
Figure 6: Percentage of Family Business Contribution to National GDP



Source: ("Global Data Points - Family Firm Institute, Inc.," 2014)

8.2 Appendix B

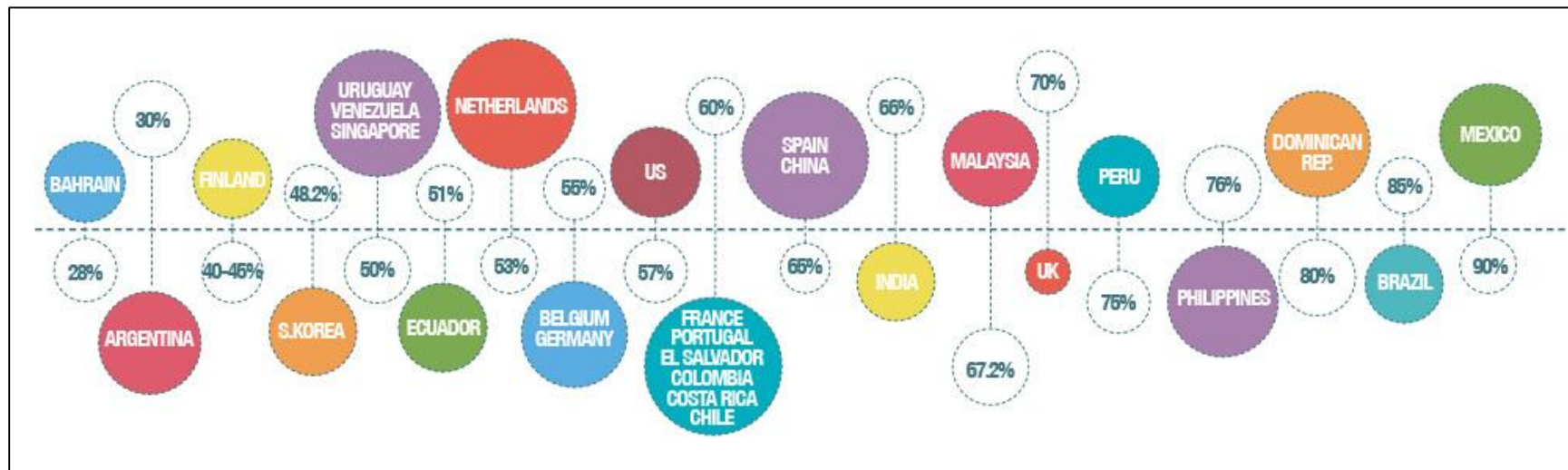
Figure 7: Percentage of Family Businesses in the Private Sector



Source: ("Global Data Points - Family Firm Institute, Inc.," 2014)

8.3 Appendix C

Figure 8: Percentage of Workforce Employed by Family Businesses



Source: ("Global Data Points - Family Firm Institute, Inc.," 2014)

8.4 Appendix D

Table 13: Interview Questionnaire

Q1	Business background (Age, history, family structure, purpose of business, size)	Q7	How does the business allocate resources to a diversification strategy?
Q2	Tell me about your product mix and how that developed over time. Sub - Ask interviewee when diversification occurred.	Q8	How do you perceive each generation of the family to understand growth opportunities in the business?
Q3	How did you go about deciding to diversify? Sub - How did you go about implementing this?	Q9	When faced with an opportunity for the business to grow/diversify – how do you manage the decision making process? Sub - In what way do you see risk emerging as a discussion point/ point of disagreement in inter-generational discussions?
Q4	What were the business conditions, both internally & externally when you began to?	Q10	How does an older generation instil an environment of entrepreneurship when grooming the next generation?
Q5	What is the decision making process regarding diversification at your company?	Q11	There is a theory that states that younger generations are more willing to diversify and take risk, what are your thoughts and experiences with regards to this theory?
Q6	How is innovation or entrepreneurial intent encouraged in the business? Sub- What process is followed when an opportunity is identified?	Q12	How much autonomy do younger generations have when making decisions.

8.5 Appendix E

Table 14 Consent form

Letter of consent for interviews

I am conducting research on diversification strategies in family business, and am trying to determine how and when families decide to diversify. As family business is considered to be a large employer within industries, it is important that business succeed from generation to generation.

Our interview is expected to last about an hour, and will help us understand how families diversify their businesses and how this pertains to different generations.

Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential. If you have any concerns, please contact my supervisor or me. Our details are provided below.

Researcher name Email Phone:

Angelo Oliveira; angelo@eddmc.com; 0823730871

Research Supervisor Name Email Phone:

Dr. Jonathan Marks; marksj@gibs.co.za; 0824690104

Signature of participant: _____ Date: _____

Signature of researcher: _____ Date: _____

8.6 Appendix F

Figure 9: Example of signed consent form

Letter of consent

I am conducting research on diversification strategies in family business, and am trying to determine how and when families decide to diversify. As family business is considered to be a large employer within industries, it is important that business succeed from generation to generation.

Our interview is expected to last about an hour, and will help us understand how families diversify their businesses and how this pertains to different generations. **Your participation is voluntary and you can withdraw at any time without penalty.** Of course, all data will be kept confidential. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher name Email Phone:

Angelo Oliveira; angelo@eddmc.com; 0823730871

Research Supervisor Name Email Phone:

Dr. Jonathan Marks; marksj@gibs.co.za; 0824690104

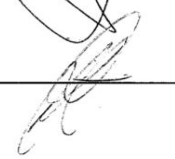
Signature of participant: _____



Date: _____

14/08/2014

Signature of researcher: _____



Date: _____

14/08/2014