



**THE VALUE OF GOVERNANCE STRUCTURES
IN PRIVATE FAMILY ORGANISATIONS**

by

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submitted in accordance with the requirements
for the degree of

MASTER OF PHILOSOPHY IN ACCOUNTING SCIENCES

in the subject

MANAGEMENT ACCOUNTING

at the

UNIVERSITY OF SOUTH AFRICA

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DECLARATION

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I, Rolandi van der Westhuizen, declare that:

**THE VALUE OF GOVERNANCE STRUCTURES
IN PRIVATE FAMILY ORGANISATIONS**

is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references. (The proposal will not be examined unless this statement has been submitted.)

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Acknowledgements

Firstly, I would like to acknowledge my Heavenly Father for giving me the courage to start this journey and the perseverance to finish it.

I would then like to thank my mother who motivated me to embark on this journey, even though there were times during this process that I did not feel so thankful to her! Thank you for your direction and encouragement.

I would also like to acknowledge and thank my supervisor, Albert de Graaf. Thank you for your time, your continued support, and the guidance that you gave me all the way from the proposal stage up to the completion of this dissertation.

Charmaine Williamson, thank you for your willingness to share your knowledge and experience. I have benefitted greatly from your qualitative research knowledge.

Roxanne Northover, my editor, thank you for your ingenuity and your willingness to help, even after hours.

A special thanks to the representatives from the two family organisations, who were willing to share your knowledge and experience with me.

Thank you to my father, family, friends and colleagues for your continuous encouragement and support.

Last, but not least, I would like to acknowledge and thank my husband and two sons, Gerhard and Roland, for your patience and loving support during this journey.

Abstract

Although private family organisations are prevalent role players in both the South African and international economies, limited research has been performed with regard to them. In terms of regulatory requirements, South African private organisations are neither legally required to comply with corporate governance principles, nor are they required to make their financial data available to the general public. Lack of available data, and limited available research, have resulted in an absence of clarity with regard to whether governance structures in private family organisations add any value to these organisations. This study therefore explores, through the use of a multiple-case study, how the individual private family organisations have structured their governance mechanisms, and the reasons as to why they chose to implement these structures. Both case studies revealed that governance structures, in general, add value. The implemented governance structures may even have contributed to the increase in financial performance over time.

Key Terms

family organisation, family business, corporate governance, governance structures, board of directors, independent directors, management, ownership, private company, financial value, non-financial value, performance, case study, qualitative research, socio-emotional wealth.

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Acronyms and Abbreviations

CEO	Chief executive officer
CFO	Chief financial officer
CIPC	Companies and Intellectual Property Commission
COO	Chief operations officer
EVA	Economic value added
GDP	Gross domestic product
IoDSA	Institute of Directors Southern Africa
ROA	Return on assets

CHAPTER 1 – INTRODUCTION

1.1. OVERVIEW

Family organisations are ever-present. Ernesto Poza (2009:1-2), a renowned professor in entrepreneurship at the Thunderbird School of Global Management, suggests that there are roughly 17 million family organisations in the United States of America (US) alone and that they account for the majority (in the region of 90%) of incorporated businesses in the US. Approximately 33% of the *Fortune 500* (US) companies are under family control and roughly 60% of publicly traded organisations in the US are under family influence. Poza (2009:2) also notes that, in spite of the perception that family organisations are underperforming due to internal conflict and favouritism, their financial performance still exceeds that of non-family organisations. Notwithstanding their obvious contribution to international and local economies, as well as their crucial role in society, limited research (Van der Merwe 2009:2) has been done on family organisations, and more specifically, on private (unlisted) family organisations' governance structures and the effect thereof on organisational value. This study on the governance structures of private family organisations will therefore be contributing to the current body of knowledge.

Family organisations are unique organisations in that they do not only need to consider the demands of their ownership structure and the management of strategic and operational activities of the business, but they also need to incorporate and manage family dynamics (Schwass 2008:2). The composition of family organisations therefore requires a unique form of governance.

One of the reasons for having governance structures in place in any organisation is to ensure that the various risks identified by the organisation are managed effectively. Agyei-Ampomah and Collier (2009:78), as well as Zalewska (2014:1), highlight the fact that the failures of well-known international companies such as Enron and WorldCom—and in South Africa, companies such as Fidentia and Sharemax—have drawn the attention of the public and management, and the shareholders of organisations, to the need for adequate corporate governance.

Since unlisted family organisations' financial and other proprietary information is not made available to the general public and the media, information pertaining to the failure rate of these organisations as a result of ineffective governance structures is also not

available. This study is important and necessary because it has access to the financial information of the featured private family organisations and therefore might contribute to lessen the gap in the current body of knowledge.

1.2. BACKGROUND INFORMATION

1.2.1. FAMILY ORGANISATIONS

International research has revealed that family businesses contribute between 64% and 59% to the gross domestic product in the US (Astrachan & Shanker 2003:217). In terms of developing countries, family businesses contribute 63% of the gross national product in Brazil and 65% of the gross national product in India (Timmons & Spinelli 2007, in Van Buuren 2007:3). In the US, family organisations represent approximately 89% of all incorporated businesses (Astrachan & Shanker 2003:216). In Brazil and Chile, family organisations represent 90% and 75% of all incorporated businesses respectively (Timmons & Spinelli 2007, in Van Buuren 2007:3). These contributions are supported by Björnberg, Dias and Elstrodt's (2014:1) research, which indicates that 60% of emerging-market companies are owned by founders or their families. Some of the biggest, or more well-known, international family businesses include the following: Walmart (Walton family), with a revenue of \$476.3 billion, founded in 1962 (Bain 2015); BMW (Quandt family); Estée Lauder (Lauder family); and LG (Koo family).

Family organisations are also pivotal to the South African economy. Based on a quarterly statistical survey (Statistics South Africa 2012), small and medium enterprises (SMEs) contribute 34.6% of all organisational revenue generated in South Africa. Further research shows that approximately 80% of businesses in South Africa fall within the family business framework (Diederichs & Maas 2007:4). According to KPMG, family businesses constitute 70% of all businesses in Africa and 65% of all companies in South Africa (KPMG 2015:2). The financial and social contribution of family businesses to the welfare of the South African and African economies should, therefore, be given due consideration. Well-known family businesses in South Africa include Remgro (Rupert), De Beers (Oppenheimer), Pick n Pay (Ackerman), Altech (Venter), Van Loveren (Retief), and Hirsch's (Hirsch). The oldest family business in South Africa is Boplaas, a wine producer in the Koue Bokkeveld, Western Cape. Boplaas has been managed by the Van der Merwe family since 1743 (Family Business Association of South Africa 2016).

1.2.2. GOVERNANCE STRUCTURES

The draft King IV report states that “Governance is indispensable for growth and prosperity” (IoDSA 2016:1). It continues to report that organisations that implement good corporate governance support “sustainable value creation in South Africa, Africa, and ultimately, globally” (IoDSA 2016:1). Good governance is therefore critical to all organisations since it provides structure and control to organisations, which then leads to accountability and responsibility of the various role players within the organisations. Since family organisations are complex in terms of the various roles played by its internal stakeholders, good governance structures assist in clarifying and demystifying these roles and responsibilities. It creates a transparent environment and therefore builds trust, not only as far as internal stakeholders are concerned, but also in the marketplace (Gallo & Kenyon-Rouvinez 2005:45). Governance, as a prerequisite for successful trans-generational family organisations, also provides contextual structure within which “roles, policies, processes and controls” (Deloitte 2016:13) can be developed and applied. This is important since the growth and potential expansion of the family organisation, and the resultant need for more resources (e.g. financial and human resources), calls for a more structured governance framework within family organisations (Deloitte 2016:13).

Accounting and finance researchers have, until recently, mainly been focusing their corporate governance research on listed companies. Therefore, it could be reasoned that sufficient effort has not been bestowed on the research of governance in private companies (Brennan & Solomon 2008:889). This might be due to the general perception that corporate governance is exclusively relevant to large organisations that trade their shares publicly. Leanordo Viegas (Jordaan & Viegas 2012:1), a founding member and deputy chairman of Brazil’s Institute of Corporate Governance (IBGC), challenges the current status quo by stating that improved governance is even more important in private family organisations than in listed organisations.

1.2.3. ORGANISATIONAL VALUE

Governance structures in a family organisation context influence internal stakeholders’ stewardship attitudes, agency costs and consequently, organisational value (Greene, Guidice & Mero 2013:233). Therefore, the question that needs to be raised should be as

to what constitutes organisational value in terms of private organisations and, more specifically, as to what constitutes organisational value in terms of private family organisations, as defined in Chapter 2.2.

According to Pindado & Requejo (2015:285), organisational value in a family organisation context encompasses value from both a financial and a non-financial viewpoint. This can include financial performance which is measured through traditional accounting methods, *e.g.* net profit and return on assets (ROA), or alternatively, through more market orientated methods, *e.g.* economic value added (EVA) and market capitalisation. In addition to financial value, it might also include value from a non-financial or socio-emotional—the “utilities family owners derive from the non-economic aspects of the business” (Gottardo & Moisello 2015:67)—viewpoint, *e.g.* ownership transfer over generations, sustainability, and socio-economic contributions to the organisation’s contiguous community and/or that of society as a whole.

At present, literature on family organisations and firm performance presents conflicting results. Some studies of family organisations indicate a correlation between the concentrated ownership structure and firm performance, whereas others cannot conclude any direct correlation between these two elements (Duran-Encalada & San Martin-Reyna 2012:107). The reasons for the differences in the results have not yet been properly explained by researchers and therefore require further investigation (Giovannini 2010:149). In order to gain a better understanding of why contradicting results are obtained in the investigation of value as it relates to family organisations, researchers might need to consider the heterogeneity of family organisations (Mengoli, Pazzaglia & Sapienza 2013:374), as well as the potential impact of family organisations’ socio-emotional wealth attitude on the value of these organisations. Socio-emotional wealth has therefore become a prevalent topic in family organisational research (Dou, Su & Zhang 2014:260).

1.3. PROBLEM STATEMENT

“The idea that underlies the moderating effect of corporate governance mechanisms is that the impact of family control on business conduct and performance, in terms of strength and sign, depends on whether family firms adopt an adequate corporate governance structure.” (Pindado & Requejo 2015:292)

Family organisations are prevalent role players in both the South African and international economies. Family organisations are not restricted to small and medium-sized enterprises, but also include large corporations and business groups where business families exercise control over these organisations (Pindado & Requejo 2015:280). Should all of the organisations' financial value be optimised, it may have a direct impact on, not only the shareholders and internal stakeholders, but also on external stakeholders and society as a whole. One area that can be considered to play a defining role in the maximisation or decline of a family organisation's value is its governance structures.

Publicly traded companies are operating in an extremely regulated environment, with specific reference to listing requirements,—and in South Africa—the Companies Act No. 71 of 2008 (Government Gazette No 32121, 2009), hereafter referred to as “the Companies Act”, and good corporate governance principles laid down by King III (IoDSA 2009). The composition of their governance structures is therefore regulated and do not allow for much innovation. Private companies, as defined in terms of section 8 of the Companies Act, tend to comply to a lesser extent with any of the governance regulations or principles that are applicable to public companies as they do not necessarily see the benefit of incurring the related additional costs. This is confirmed by the KPMG *Family Business Survey 2011* which indicates, in its key findings, that less than half of the participating organisations are governed by a board of directors, and just more than 20% ensure that the members of management are evaluated objectively (KPMG & Family Business Australia 2011:14).

To comply with good corporate governance practices as presented in King III, public companies normally have independent directors on their board of directors, as well as independent non-executive chairpersons (IoDSA 2009:24). In private family organisations this might not be the case as most family members prefer to keep control of the organisation's resources, financial information, and decision making powers (Daily & Dollinger 1992:133).

Referring to the earlier discussion on contradicting findings regarding the impact of the governance structures on organisational value, prior international studies (which focuses mostly on publicly traded companies) have indicated that family members in

management, executive management, and on the board of directors, have a positive effect on organisational value because they act as stewards, which therefore supports the stewardship theory (Andres 2008:432), lowers agency costs (Adiguzel 2013:17), allows longer investment and strategic views (Kenyon-Rouvinez & Ward 2005:3), and lessens the appetite for undue risk. They also have more insight into, and knowledge of, the business than professional managers have (Duran-Encalada & San Martin-Reyna 2012:107).

Notwithstanding the above, other studies indicated a negative correlation between governance structures and organisational value. The reasons given include nepotism (Duran-Encalada & San Martin-Reyna 2012:109), increased agency cost—as described under the agency theory in Chapter 2.3.1 (Poza 2009:13), limited access to financing or new capital (PwC 2012:11), lack of independent views or external experience incorporated on an executive management or board of director level (Brenes, Madrigal & Requena 2011:281; Duran-Encalada & San Martin-Reyna 2012:109), reservation of senior positions for family members whether or not they are qualified for the position (Ehsan, Jabeen & Kaleem 2012:10305), family conflict (Franco & Haase 2012:10874; Jimenez, Martinez & Palacios 2013:60), and family dynamics that are not attended to (Fishman 2009:3).

The three-circle model of family businesses (see Figure 4) highlights the interaction between ownership, management, and family. Family businesses can be classified based on their tendency to lean more towards one of the three spheres (Poza 2009:9). Their inclination towards ownership and family, instead of management, might also limit their ability to perform financially at an optimal level.

In order for family organisations to be successful, it is vital to ensure that the three circles are in equilibrium. Pindado and Requejo (2015:287-288) explain that, in addition to the above, control structures and management impact upon family organisational value. Having a management team that is proficient (and where necessary independent), owners that are accountable—not only to other shareholders and societal stakeholders, but also to the extended family and the business—as well as having consistent, affable interpersonal relationships between family members, might contribute to this success. Prosperous organisations normally have formal policies governing the structure, selection, appointment, and performance management of

executive and operational management. The above policies need to make provision for family and non-family members (PwC 2011:9).

Unlike family organisations that are publicly traded, limited research has been done on family organisations that are not publicly traded (Pindado & Requejo 2015:284-285). This may be due to the challenge of obtaining private organisations' financial and other relevant data. Another potential reason for the limited research on private family organisations may be the presence of unique non-financial goals of small family organisations (Pindado & Requejo 2015:285). These goals may result in findings that are not generalisable to the remainder of the family business arena.

In certain countries, private companies are required to make their financial statements available to the wider public, whereas in South Africa this is not the case. Except for the submission of financial data to the Receiver of Revenue, and the requirement to submit revenue figures to the Companies and Intellectual Property Commission (CIPC), no regulations could be identified that require South African private companies to submit detailed financial statements to any person or institution outside of their organisation or direct financiers. As per CIPC's website, on the "Financial Statements and Independent Reviews" page, it is stated that private companies "may elect to *voluntarily* file their audited or reviewed statements with their annual return" (own emphasis) (Companies and Intellectual Property Commission (CIPC) 2014).

Because of the limited research on private family organisations, the lack of available financial data, and the resulting difficulty of comparison, there is presently no clarity on whether, or to what extent, the governance structures of a private family organisation—especially in a South-African context—adds value to the organisation. This problem therefore necessitated the need for this study.

1.4. RESEARCH OBJECTIVES

The main research objective of this study is as follows:

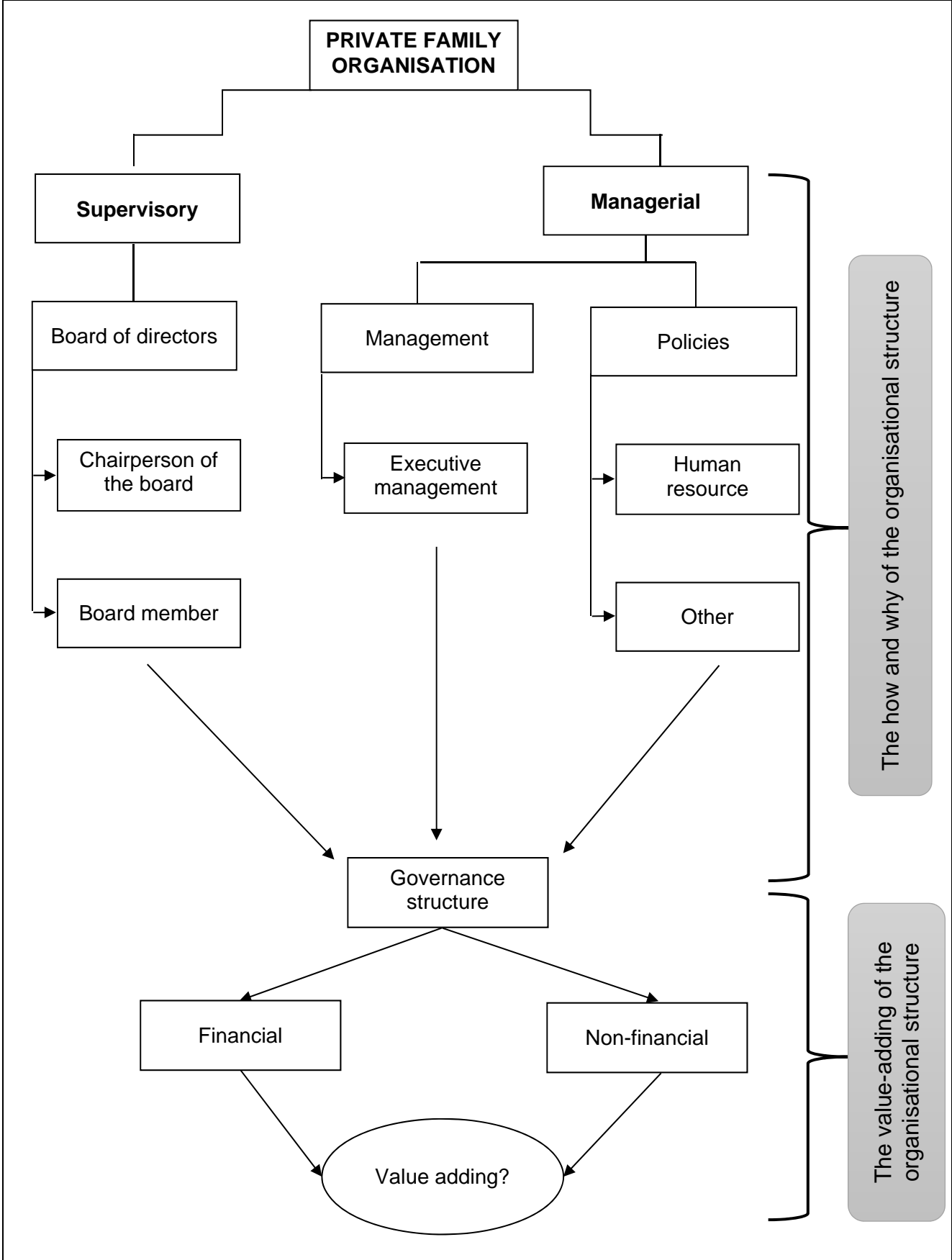
- A. To determine how the governance of the selected private family organisations is structured, why it is structured as such, and whether or not these implemented structures add any value to the selected private family organisations. The conceptual framework within which this research objective will be explored is visually represented in Figure 1.

The main research objective can be broken down into a number of sub-objectives:

- A.1. To determine a theoretical framework, through a detailed literature review, of proposed governance structures within private family organisations. The literature review includes the minimum legal requirements, or recommendations, for the composition of a board of directors, the make-up of executive management teams, as well as the policies (if there are any) that govern private family organisations;
- A.2. To identify, through a multiple-case study analysis, the format and levels of governance structures in the selected private family organisations;
- A.3. To gain an in-depth understanding, through a multiple-case study analysis, as to why the relevant governance structures were implemented in the respective private family organisations; and
- A.4. To determine, through a multiple-case study analysis, whether or not the implementation of governance structures in the selected private family organisations added any value to the respective organisations.

The conceptual framework, as depicted in Figure 1, illustrates the analytical context within which this study on private family organisations is located. The analytical context includes the supervisory and managerial governance structures within private family organisations. Supervisory governance structures refer to the board of directors, more specifically, the chairperson of the board and the individual board members. Managerial governance structures refer to the composition of management, as well as the relevant policies governing the affairs of the organisation. The value-adding of the governance structures as discussed, is considered from both a financial and a non-financial view point.

Figure 1: Visual presentation of the conceptual framework



Source: Own observation (based on information obtained during the literature review)

1.5. RESEARCH METHODOLOGY

Research on unlisted or private family organisations displays inconsistent results when compared to the results found in publicly listed organisations (Mazzi 2011:172). This therefore necessitates a more in-depth investigation into the structure and objectives of private family organisations and their effects on the value of private family organisations. Chrisman, Gersick and Sharma (2012:8) allude to the fact that there is currently a gap in the body of knowledge about the “why” and the “how” of family-business relationships. This is partly a result of the difficulties that surround the definition and measurement of family-business relationships.

A literature review and a qualitative multiple-case study were performed to address the research objectives as formulated in Chapter 1.4. Based on the discoveries made during this process, certain conclusions were drawn and recommendations were made.

In order to enhance the family business discipline, it is important to build on the foundation of prior research (Pindado & Requejo 2015:280). It was therefore deemed important to review and comprehend the current body of knowledge as it relates to family organisations, governance structures, and the effect of these on the value of private family organisations.

The multifaceted nature of private family organisations necessitated an in-depth review of their organisational structures. A qualitative multiple-case study design was therefore decided upon because it might be able to shed light on how and why family organisations are structured. It might also be able to shed light on the effect of these structures on the organisational value of family organisations.

1.6. DELINEATION AND LIMITATIONS

The study is demarcated as follows:

Subject area:	Family organisations
Country:	South Africa
Legal form:	Privately-held companies and closed corporations
Industry:	Agricultural manufacturing industry—specifically dairy
Turnover:	> R100 million per annum
Minimum years in business:	6 years

The target organisations were South African family organisations which operate in the agricultural manufacturing industry (as defined in terms of the Standard Industrial Classification of All Economic Activities (SIC)). These organisations were in business for at least six years and their 2012 financial year-end turnover exceeded R100 million. The financial data collected was for a period of at least five consecutive financial years. This was done in order to control for any short-term, non-continuous, or out of the ordinary changes in financial information.

The following limitations played an important role in the decision to follow the specific research design:

Theoretical limitations

- The objective of this study is to determine the value that governance structures add to private family organisations. The objective is not to determine the value that is added to the market place and society in general. The findings are accordingly aimed at expanding current theories in order to perform analytical generalisation and not statistical generalisation.

Methodological limitations

- There is no national database on family organisations available in South Africa. It is therefore difficult and not cost-effective to identify a large enough population on which to perform a quantitative study through empirical surveys.
- Financial information is not easily accessible because private organisations in South Africa are not required by law to disclose their financial data to external parties.
- The potential impact of different accounting frameworks, used in the preparation of the annual financial statements, should be considered when performing any financial statement analysis. This confirms that a pure quantitative approach will not be ideal as the financial data cannot be compared without studying the underlying assumptions and policies that were applied in the preparation of the relevant sets of financial statements.

1.7. DEFINITIONS OF TERMS AND CONCEPTS

Corporate governance: The system of rules, practices, and processes by which organisations are directed and controlled (Chauhan & Chauhan 2014:211). This system includes effective and ethical leadership (responsibility, accountability, fairness and transparency); business, societal and environmental sustainability; and responsible corporate citizenship (IoDSA 2009:9).

Family organisation: See definition as described under chapter 2.2 (literature review).

Governance structures: Stipulate the rights and responsibilities among various stakeholders in the organisation, and specify the rules and procedures for decision taking in corporate matters. (Chauhan & Chauhan 2014:211).

Independent director: With reference to the Companies Act and King III, an independent director should not have a material direct or indirect shareholding in the organisation, should not be involved in the day-to-day running of the organisation, should not be a prescribed officer or full time employee of the organisation and should not have been as such during the previous three financial years. The director should also not, currently and during the preceding 3 financial years, be a material supplier or customer of the organisation, or any professional advisor or auditor (PSG Capital 2014:39).

In addition to this, the individuals should not have any prior or current relationships with the organisation or any of its employees that may impair their ability to act in an independent, ethical, and professional manner (McHugh & Perrault 2015:8).

Value: The relative worth or importance to the stakeholders of an organisation. Value can include financial and non-financial value. See detailed discussion under chapter 2.4 2.2 (literature review).

Value-adding: The increase in value, or the value creation, resultant from the presence of certain structures, processes, and/or systems in an organisation.

1.8. SIGNIFICANCE OF THE STUDY

Family organisations are unique organisations wherein business and family dynamics play a reciprocal role. The study of these organisations expands on current cross-disciplinary research because it addresses not only the family research discipline or the business discipline, but a combination of these disciplines (Chrisman et al. 2012:8).

As the majority of existing research focuses on listed companies, due to the ease of access to data, this study will contribute to the limited research on unlisted family organisations, their governance structures, and their organisational value. The study might also provide insight into privately held family organisations which would assist them in the identification of an optimal governance structure to facilitate enhanced organisational value.

Family organisations' contributions to the country's gross domestic product are material and, therefore, increased organisational value could have a positive effect on the South African gross domestic product. In addition to financial contribution, governance structures, as an element of effective corporate governance, improve ethical behaviour within family organisations and thus allow society to trust the business sector which consequently results in social justice.

In addition to the above, academics and future researchers will benefit from the additional knowledge created in the fields of family organisations, governance, and organisational value.

1.9. CHAPTER OVERVIEW

The dissertation is divided into five chapters and will be structured as follows:

- Chapter 1: Introduction
- Chapter 2: Literature review, within the organisational framework of family organisations, governance structure, and organisational value
- Chapter 3: Research methodology
- Chapter 4: Presentation and analysis of data gathered
- Chapter 5: Summary, conclusions and recommendations
- Reference list
- Annexures

Chapter 1 provides a brief outline of the project as a whole. It also explains the structure of the dissertation.

Chapter 2 entails a thorough literature review of articles in academic journals, subject-related books, surveys performed by academic and non-academic institutions, and other relevant sources. It will be broken down into three main focus areas, namely family organisations (including the theories applicable to these types of organisations), governance structures, and a discussion on financial and non-financial value.

Chapter 3 will discuss the research design and the methodology followed, which includes the identification of the units of analyses, as well as, the data collection and research instruments. It will also discuss the data analysis, the limitations and the ethical considerations.

Chapter 4 will present and analyse the case data as gathered from the respective family organisations. These findings will be discussed under the featured cases, after which, a cross-case analysis will be presented.

Chapter 5 will discuss the final conclusions and recommendations that may assist private family organisations in identifying an optimal governance structure that would facilitate improved organisational value. It will also make suggestions for further research.

CHAPTER 2 – LITERATURE REVIEW

This section is in response to research objective A.1. which reads as follows:

To determine a theoretical framework, through a detailed literature review, of proposed governance structures within private family organisations. This includes the minimum legal requirements, or recommendations, for the composition of a board of directors, the make-up of executive management teams, as well as the policies (if there are any) that govern private family organisations.

The literature review will provide an overview of the body of knowledge against which the study is theoretically positioned. It is also important to show the varying schools of thought and the current debates within the scholarship of this study. As such, this chapter then affirms the theoretical and applied areas which this study seeks to address.

2.1 INTRODUCTION

Globally, family organisations play an important role in wealth creation. As per Ernst and Young, family organisations account for 66,7% of all businesses worldwide and contribute up to “80% of jobs in the majority of countries” (Ernst & Young Global Limited 2015:5). Family organisations are mostly socially responsible organisations that, in addition to their material contributions to job creation, generally have a transgenerational approach to the economic welfare of their organisations and stakeholders; they therefore contribute substantially to the long-term economic development in both their local communities and regional economies (European Parliament 2015).

Family organisations can take various forms and can also present themselves in different sizes, namely small businesses, small and medium-sized enterprises, large enterprises, listed companies, and multi-nationals (Carayannis, Del Giudice & Della Peruta 2011:115; European Parliament 2015; Kenyon-Rouvinez & Ward 2005:1). They are therefore exposed to different challenges which range from estate planning for founder members of small businesses, to corporate legislation, and listing requirements of stock exchanges.

Research on family organisations, and the implementation of relevant findings, can therefore be of significant value to the shareholders and management of family organisations, as well as to the other stakeholders connected to family organisations. It can also add indirect value to local communities and regional economies because better performing family organisations may increase job-creation and may make greater contributions to the gross domestic product (GDP).

The literature identifies a number of themes that relate to family organisations, which include, but are by no means limited to, interpersonal dynamics and family conflict, leadership and management, succession planning and continuity, transgenerational wealth creation, and governance (Benavides-Velasco, Guzmán-Parra, Quintana-García 2013:47; Filser et al. 2015:118). The remit of this study was established through searching academic databases including Emerald, EBSCO (data bases for Accounting Science) using key search terms such as governance, family business, performance, etc.

This chapter will provide a detailed discussion on the literature as it relates to the nature and characteristics of family organisations and the relevant governance structures in a family organisational context. It will also provide a discussion on the objectives of these organisations to create financial and non-financial value.

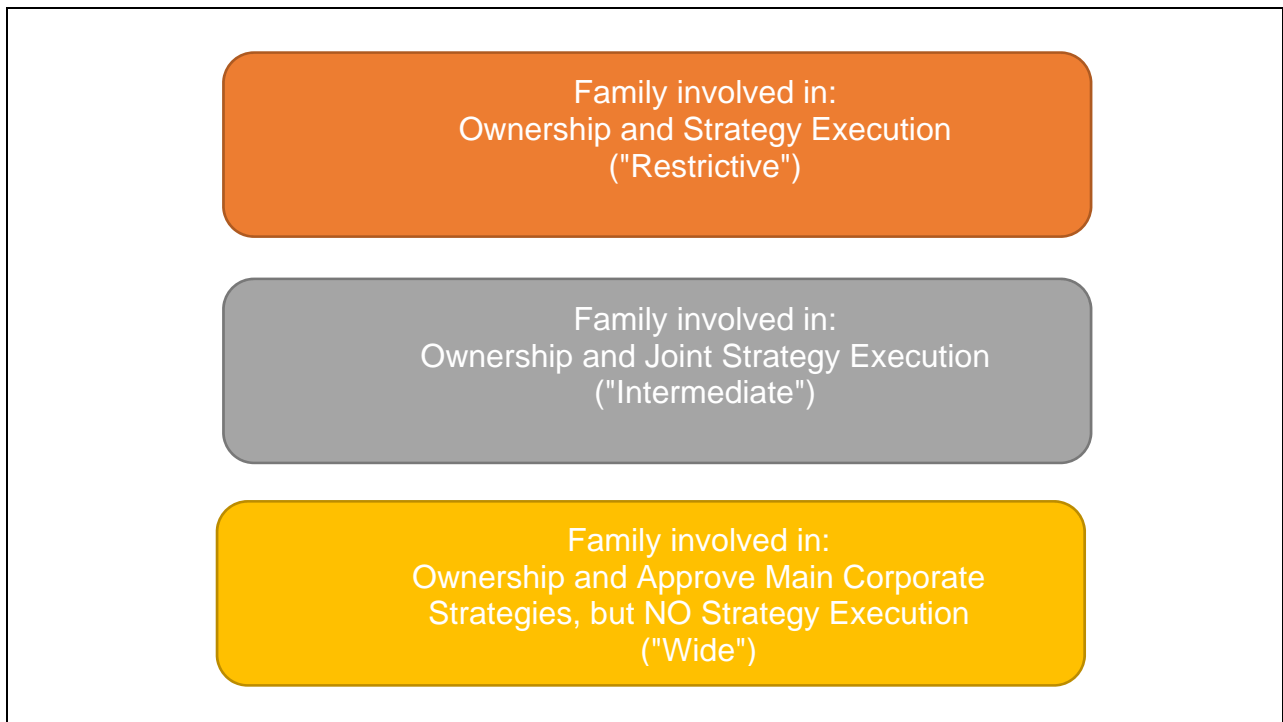
2.2 FAMILY ORGANISATIONS

Various definitions for family organisations can be identified in the literature (Astrachan & Shanker 2003:211-212; Chrisman, Chua & Sharma 1999:21; Hewitt, Janse van Rensburg & Ukpere 2012:11866). This inconsistency in the definition of a family organisation is cited in the literature, as one of the main reasons for the contradicting results found in this field of research.

Classification of a family organisation

Central to the debate on the definition of a family organisation are the three different types of family organisations, that are discussed in the highly-cited work of Astrachan and Shanker (2003:211-212). They classify these types of family organisations as “restrictive”, “intermediate”, and “wide”. These are depicted as such in Figure 2:

Figure 2: Classification of family organisations and related levels of restrictiveness



Source: Adapted from Astrachan and Shanker (2003:211-212)

The “restrictive” class, as depicted in Figure 2, indicates that the family members do not only have control over the organisation but also dominate management and the execution of corporate strategies. The “intermediate” class relates to an organisation where the strategic decisions and, in a lesser way the implementation thereof, are under the control of the family members. The family is therefore involved in the management of the organisation, but does not play a central role. Organisations where the family members have control over the organisation and the determination of corporate strategies, but are not represented on management level and therefore not involved in the execution of corporate strategies, fall under the “wide” classification.

Definition of a family organisation

The different classifications of family organisations, as discussed above, have a direct impact on the definition of family organisations. Family organisations are defined by Ali, Chen and Radhakrishnan (2007:238) as organisations where the founding family owns the organisation and is responsible for the management thereof. These two elements (family ownership and family management) were distilled by Chrisman, Chua and Sharma (1999:20) as the main elements in the definition of family organisations, after

identifying 21 different definitions for family organisations through their review of 250 relevant articles.

In the *Final Report of the European Commission Expert Group* (European Commission - Enterprise and Industry Directorate-General 2009:9-10) the following definition, as it relates to unlisted family organisations, is proposed:

A firm, of any size, is a family business, if:

- 1. The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.*
- 2. The majority of decision-making rights are indirect or direct.*
- 3. At least one representative of the family or kin is formally involved in the governance of the firm.*

The golden thread running through all the definitions discussed above can be summarised to indicate that family ownership, and therefore the family's right to determine direction or to make decisions, and their role (whether direct or indirect) in the governance structures, are the predominant factors in defining a family organisation. Poza (2009:6) suggests a third element, namely that the owners and management of a family organisation should have the vision to transfer the organisation across various generations, thus they should be able to visualise transgenerational ownership. Based on these arguments, and to avoid confusion for purposes of this study, the European Commission's definition of a family organisation will form the basis of the definition of family organisations, adapted to bring into account Astrachan and Shanker's (2003:211-212) reference to strategic and operational involvement, as well as Poza's (2009:6) vision of a multi-generation organisation.

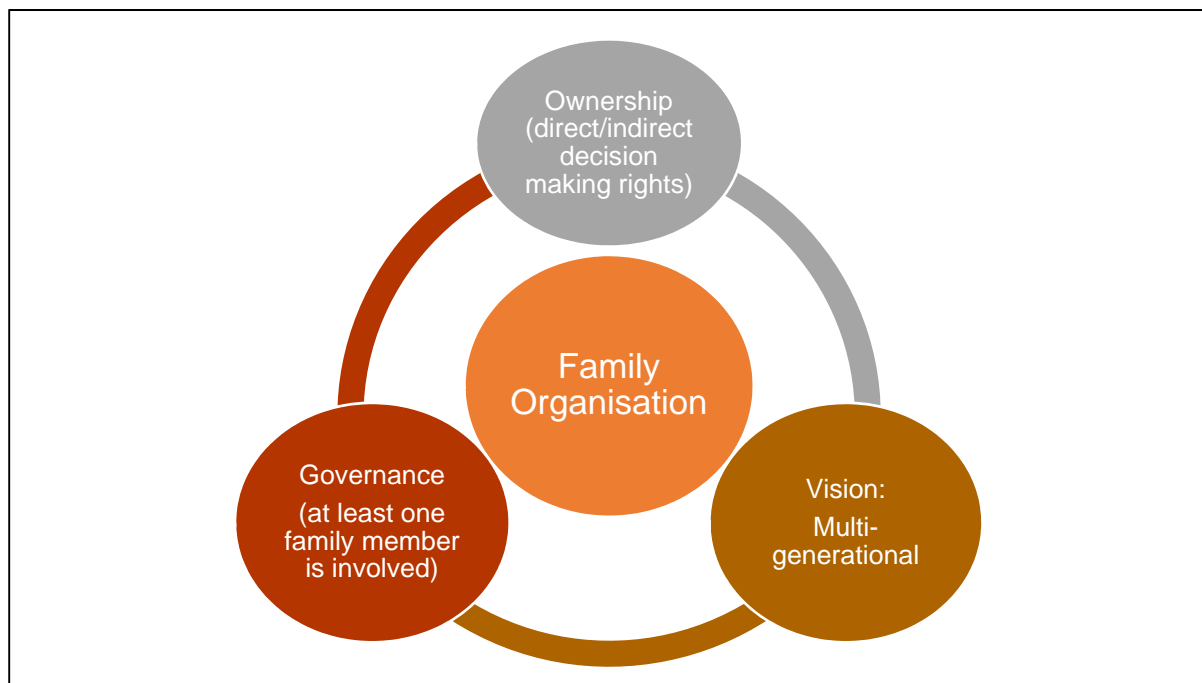
The definition of a family organisation for purposes of this study will therefore be as follows:

A firm, of any size, is a family organisation, if:

- 1. The majority of direct or indirect decision-making rights are in the possession of the natural person(s) who established the firm, or who has/have acquired the share capital of the firm, and/or their spouses, parents, children or children's direct heirs;*
- 2. At least one representative of the family or kin is formally involved in the governance (strategic and/or operational level) of the organisation; and*
- 3. The organisation's vision is to ensure the transfer of ownership and, where applicable, management of the organisation to next generations.*

Figure 3 visually depicts the various elements of the definition of family organisations as adapted for the purposes of this study, and includes the three following elements: ownership (decision-making rights), governance, and the transfer of the organisation from one generation to the next.

Figure 3: Definition of a family organisation as adapted for purposes of this study



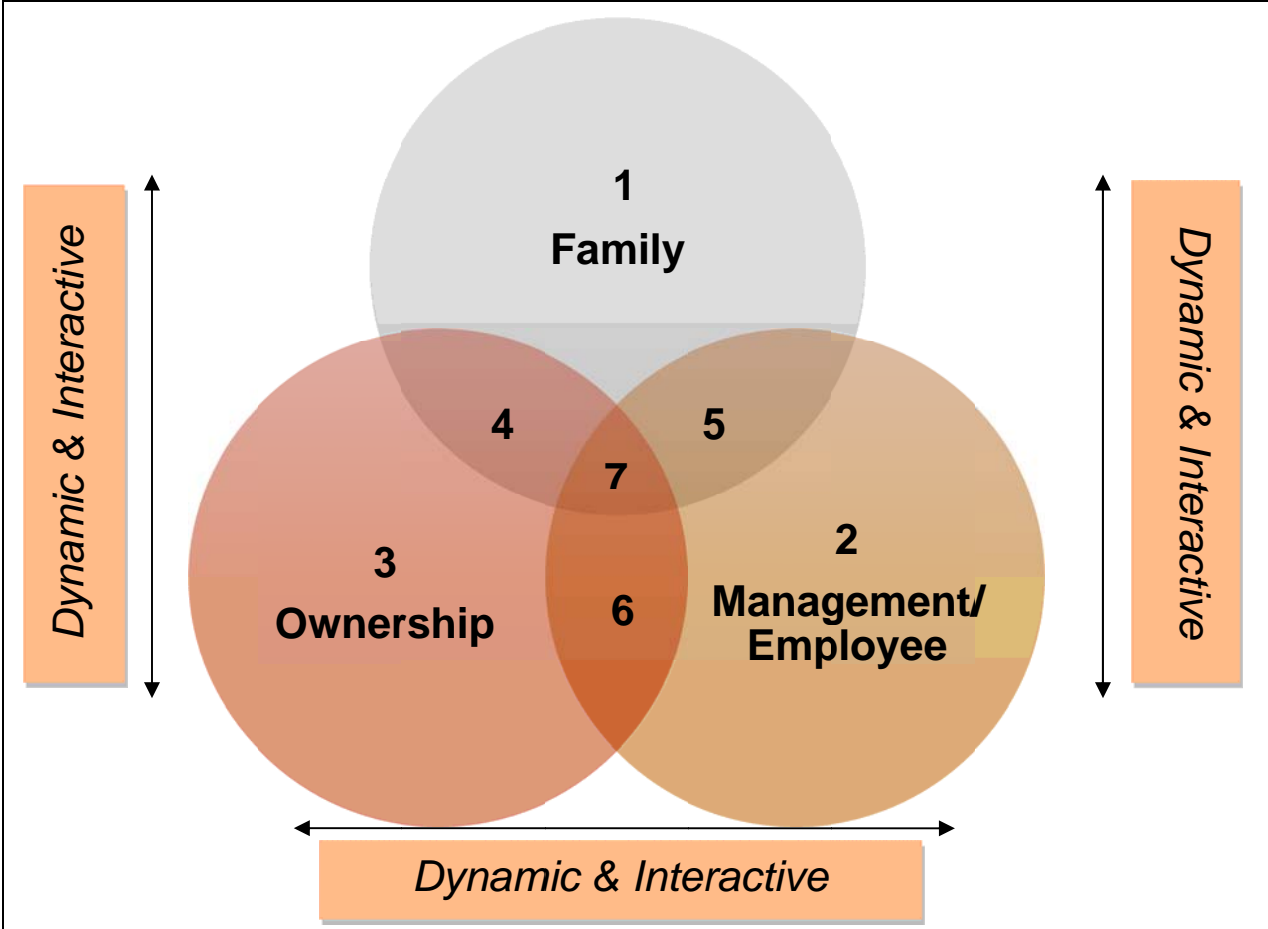
Source: Adapted from the European Commission - Enterprise and Industry Directorate-General (2009:9-10); Astrachan & Shanker (2003:211-212) and Poza (2009:6)

The visual presentation in Figure 3 links the three main elements—namely, ownership, governance, and a multi-generation vision—to the central concept: the family organisation. It emphasises the family organisation in the centre circle and illustrates how the elements in the outer ring of circles contribute to the definition of a family organisation.

Elements of a family organisation

In line with the definition above, leading authors Davis and Tagiuri (1996:200), suggest that a family organisation includes three unique elements: the family, the management/employees, and ownership. This can also be encapsulated by a three-circle model that indicates an overlay of family, management, and ownership. Family organisations differ from other SMEs in the sense that these elements frequently overlap and are interdependent on, and interrelated to, one another (Poza 2009:7-8). These interactions resulted in the identification of four additional key elements (Matser 2013:2), namely various combinations of family, management, and ownership. All seven elements are depicted in Figure 4 and Table 1 below and are discussed thereafter.

Figure 4: The overlay of family, management, and ownership



Source: Adapted from Davis & Tagiuri (1996:200), Matser (2013:3) and Poza (2009:7-8)

Figure 4 was adapted in order to illustrate the dynamic and interactive nature of the various elements. The detailed explanation of the elements is discussed below and the explanation is then summarised in tabular form in Table 1. As presented by Matser (2013:3), the relationships between family, management, and ownership, as depicted in Figure 4 and Table 1, can be described as follows:

Element number 1 describes a member of the family, e.g. the main shareholder's spouse, who does not own any share capital and is also not employed by, or involved in, the management of the organisation. Being the spouse of the main shareholder, he might have an indirect, but significant, influence on the strategic direction of the organisation.

Element number 2 represents the professional manager who is involved in the operational management, and might even be involved in the executive management, of the organisation. He is not a family member and also does not own any share capital.

Element number 3 indicates an individual who owns share capital (since it is a family organisation he probably owns a minority stake), but is not a member of the family and is also not involved in the management of the organisation.

Element number 4 represents a member of the family who owns share capital, but is not employed by the organisation, e.g. a child of the founding member that is either a minor or not interested in working for the organisation.

Element number 5 represents a member of the family who is employed by, or involved in, the management of the family organisation, but who does not own any share capital, e.g. a son-in-law or daughter-in-law of the majority shareholder. These members (although they are not owners) have a direct influence on the strategic direction and decision-making function of the company as they are involved in operational or executive management and are related to the owners of the organisation.

Element number 6 represents the professional manager who has shareholding in the organisation, but no family connection.

Element number 7 represents a member of the family who owns share capital and plays a role in the management of the organisation, e.g. the founding member who also performs the function of chief executive officer in the organisation.

Table 1: The interaction between family, management, and ownership

	Family	Management	Ownership
Element #1	X		
Element #2		X	
Element #3			X
Element #4	X		X
Element #5	X	X	
Element #6		X	X
Element #7	X	X	X

Source: Own observation (based on information obtained during the literature review)

The complexity, interactive nature, as well as a lack of balance in these elements, may contribute to the various challenges experienced by many family organisations. The first element, *family*, adds a unique element to the governance roles of an organisation and according to Eybers (2010:2), this can lead to role-confusion and conflict, which could ultimately have a negative impact on the organisation's financial performance.

Challenges associated with family organisations

In addition to normal market-related challenges, family organisations face unique challenges which result in dynamic and complex organisations (Hall 2012:12). These challenges are widely discussed in the literature and include family conflict and nepotism (Boshoff, Farrington & Venter 2010:34; Dyer 2010:270; Hall 2012:12; Taylor & Tucker 2013:28), the role of non-family members within the family organisation (Boshoff et al. 2010:38,41), and succession (Ferguson, Hair & Smith 2014:256; June, Kheng & Mohamed 2015:5).

Family conflict normally arises because of family members' inability to separate their personal lives from their professional roles within the business (Hall 2012:37). The inability to separate these two factors sometimes leads to emotional decision-making which can result in negative financial performance within the family organisation. It can also lead to the deterioration of family relationships and harmony. Additional factors contributing to family conflict are the definition of the family concept, as well as the roles assigned to the various family members within the business context.

The definition of family is complex and is influenced by matters such as spouses or in-laws; divorcees or ex-in-laws; individuals who are cohabitating with blood relatives, but are not family through blood or wedlock; children of previous marriages and adopted children (Hoy & Sharma 2014:116). Defining family members' roles within the business can also contribute to family conflict. This is because the business needs to establish whether the specific family member's involvement will be limited to shareholding, or whether the family member will be allowed to be operationally involved in the business. Sibling hierarchy (or birth order) within the family context (Hoy & Sharma 2014:116) is not necessarily mirrored by the individual siblings' roles and responsibilities within the organisational structures of the organisation and this can also create tension and lead to conflict between family members. The presence of the founding member and his/her role as parental figure and family mediator, versus his/her role as a business mentor, as well as his/her reluctance to step down, should also not be underestimated as a source of family conflict (Rosplock 2014:151).

Nepotism in a family organisation context refers primarily to the appointment of family members based on their family status and not necessarily based on their qualifications, skills, strengths or experience. It also refers to the lack of suitable and fair performance management of family members which, in addition to the pro-family appointment criteria, results in a system that lacks meritocracy (Dyer 2010:270).

Nepotism might also have an impact on non-family employees. These non-family employees are essential to the success of family organisations (Boshoff et al. 2010:50; James 2013:5), and employment practices that limit the career development of, and the growth opportunities for, non-family employees might negatively affect their individual performances, as well as the performance of the family organisation. Non-family employees are normally held more accountable for their actions than their family counterparts (Greene et al. 2013:238). It is crucial to meet the expectations of non-family employees and to ensure that they remain committed to the family organisation because non-family members in most instances contribute significantly to the knowledge base and the professionalism of the family organisation (Boshoff et al. 2010:50; Eijssen 2014). Non-family employees should not only be appointed based on their technical expertise but, even more importantly, they should also be appointed based on their cultural fit and commitment towards the values, standards, and objectives of the family organisation (Eijssen 2014:2).

Many authors proclaim that the majority of family organisations do not survive past the third generation (Carlock & Ward 2010:157; Friedrich & Isaacs 2011:283; Gnan, Malmi & Songini 2013:78; Prior 2012:96). The lack of succession planning is highlighted as a major concern in terms of these organisations' long-term survival. Founders of family organisations are emotionally attached to their organisations, due to the fact that they devoted all their time and effort to the establishment of the organisations and to the initial growth of the organisations (Hall 2012:39). They therefore try to keep control of the organisations by resisting transfer of ownership and/or management of the business to the next generation (Hall 2012:38; Prior 2012:23). The succession process is also influenced by matters such as family structure, relationships amongst family members (Boshoff & Venter 2006:17), existence of able and willing family successors, financial considerations, and legal issues (Baù, Hellerstedt, Nordqvist & Wennberg 2014:167).

Notwithstanding the above, effective governance structures have the potential to address the challenges experienced by family organisations. As stated by the Jordan Institute of Directors (2014:2), corporate governance can assist these family organisations with the identification of challenges and the development of strategies to ensure the longevity and success of family organisations.

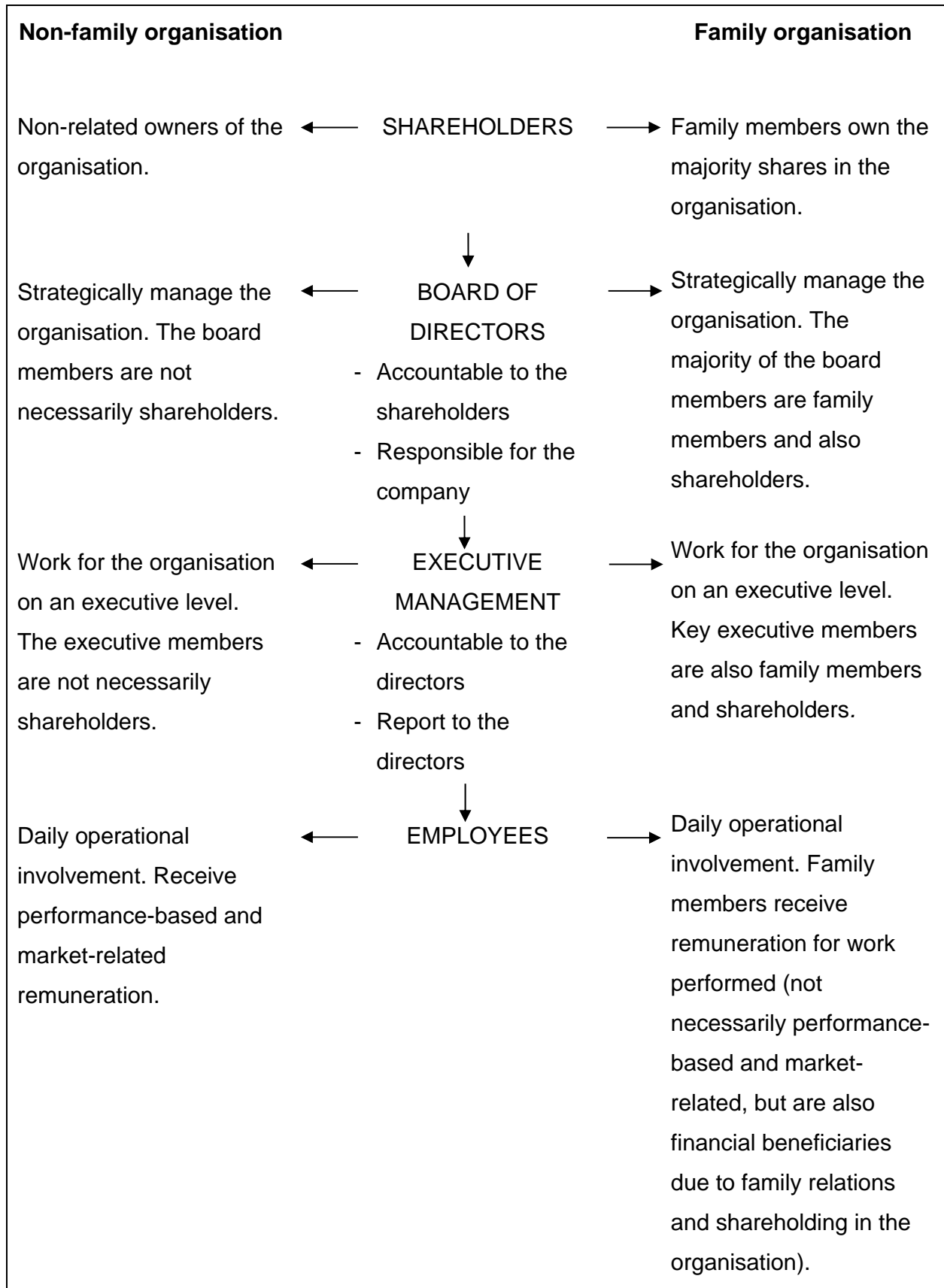
2.3 GOVERNANCE STRUCTURE

Abraham Lincoln once said: "Nearly all men can stand adversity, but if you want to test a man's character, give him power" (Weiss 2006:32). The ability to exercise power is especially relevant in the context of a family organisation given its complex and integrated structure. In order to achieve success in any organisation, there needs to be "honest business behaviour" and "sound shareholder-stakeholder relations" (Hefer-Hendrikse & Hendrikse 2012:104). This can be facilitated by incorporating corporate governance measures which are aimed at aligning management's behaviour and the organisation's actions, and which help to uphold the vision, mission, and other objectives of the organisation (Hefer-Hendrikse & Hendrikse 2012:104).

Power relationships and governance structures

Before investigating the need for, and the required format of, governance measures (as referred to above) in a family organisation, it is essential to discuss the power relationships and governance structures that can generally be found in a non-family organisation, as reflected on in the relevant literature. The main role players in a non-family organisation mostly comprise shareholders, a board of directors, executive management, and employees (Hefer-Hendrikse & Hendrikse 2012:3). The relationship between an organisation, its shareholders, and its internal stakeholders (directors, managers, and employees), as described by Hefer-Hendrikse and Hendrikse (2012:3), is illustrated in Figure 5. The family organisation's unique features and the impact of these features on governance structures should be deliberated by comparing them to that of non-family organisations. Figure 5 has therefore been adapted to include a family organisational perspective of the power relationships and roles in family organisations.

Figure 5: The relationship structure of main role players in an organisation



Source: Adapted from Hefer-Hendrikse & Hendrikse (2012:3)

From Figure 5 above, and with reference to the discussion as depicted in Figure 4, it is clear that there might be a high risk of role confusion in family organisations due to the integrated nature of the various roles to be played by any individual family member. These roles can include the role of the *owner* of the organisation whose main goal is generally to optimise his return on investments; the role of the *director* of the organisation who carries the responsibility for *strategic management*; the role of the *leader* who is part of *executive management*; and then also the role of the *employee* who is responsible for the execution of certain daily routine functions which are usually expected of any normal employee of the organisation.

The role confusion is not only relevant to the specific family member himself, but it might also result in role confusion being experienced by other family members or even non-family members with respect to the perceived role of the family member in the organisation. The flexibility of boundaries in family organisations can lead to individuals' inability to prioritise the most relevant role at a specific point in time (Hall 2012:32) and therefore, as it has been suggested, there is a need for formal governance structures in a family organisation.

Corporate governance definition

The Cadbury Report (Cadbury Committee 1992:5) and the UK Corporate Governance Report (Financial Reporting Council 2012:1) define corporate governance as “the system by which companies are directed and controlled”. The definition continues by indicating two main governance role players, namely the shareholders and the board of directors. The shareholders' main responsibility, as per the definition, is to ensure that the appropriate governance systems exist in the organisation. These include the appointment of both a board of directors and external auditors. It is also indicated in the definition that the directors are accountable to the shareholders with respect to the implementation of these organisational governance systems. The board's duties include determining strategic objectives for the organisation; the execution of these objectives (*i.e.* they provide leadership); the supervision of management; and the regular reporting to the shareholders on their stewardship (Cadbury Committee 1992:5; Financial Reporting Council 2012:1).

From deliberating on the underlying elements included in the above definition, it becomes apparent that there are a number of important factors to be considered in the

study of corporate governance:

- Corporate governance can be seen as a *system* and is therefore not an unstructured nor an uncoordinated concept, but it is rather a procedural approach and process;
- *Direction* and *control* is implied;
- The *shareholders* are ultimately responsible for appropriate governance in an organisation;
- The establishment of a *board of directors* is one of the tools that should be used by shareholders in order to manage the implementation of governance measures; and
- The definition assumes that the board of directors will act as *stewards*.

When discussing the above underlying elements in a family organisation context, the following should be kept in mind:

- Family organisations, especially during the founding and sibling stages, prefer to keep matters unstructured, and to avoid any bureaucracy as far as possible. This results in limited, clearly pronounced policies and procedures (International Finance Corporation - World Bank Group 2008:14);
- The control of an organisation lies with the shareholders, who then also determine the general direction of the organisation. Therefore, in a family organisation, the control will typically be settled in the founding family, and the family (whether formally involved in the activities of the organisation or not) will either directly or indirectly determine the direction of the organisation (Astrachan & Shanker 2003; Carlock & Ward 2010:20);
- The family is ultimately responsible for implementing and maintaining appropriate governance in the organisation (Degadt 2012:11);
- Family organisations, especially in the first generation, do not necessarily make use of a board of directors as part of their governance structures (Brenes et al. 2011:281);
- In the event that a board of directors does exist in the family organisation, it is widely assumed that the family members on the board of directors will act as stewards. Non-family members on the board of directors are not necessarily viewed as stewards of the family organisation, but rather as agents (Mazzi 2011:169). Contrary to this view, some researchers state that agency costs increase as family members' emotional attachments to the organisation decrease with each successive generation (Duller, Feldbauer-Durstmüller & Mitter 2011:32,41). This

therefore indicates that the generation at play should be considered when looking at agency versus stewardship assumptions.

In addition to the Cadbury Report and the UK Corporate Governance Report, as discussed above, the US issued one of the most prominent pieces of legislation on corporate governance, namely the Sarbanes-Oxley Act of 2002. This was done in response to the corporate failures like Enron and WorldCom, and it aimed to strengthen the monitoring function of boards (Baldenius, Melumad & Meng 2014:53) and to improve financial disclosure.

Governance in a South African context cannot be discussed without reference to *The King Report on Corporate Governance for South Africa* and *The King Code on Corporate Governance for South Africa*, collectively referred to as King III (IoDSA 2009). King III has been effective in South Africa since 1 March 2010 and is applicable to all organisations regardless of their manner or form of incorporation. A draft King IV report was issued for public comment during March 2016 and the final report was released on 1 November 2016. King IV is more principle based and its release is unlikely to drastically change the highlighted impact of King III, as discussed in this study (IoDSA 2015:1). Therefore, and since King IV was only recently released, the author takes note of its content, but will not elaborate on it.

Organisational governance

King III (IoDSA 2009) is a code of principles and practices, and is therefore not legally enforceable. One of the key aspects of the Report is that it highlights the fact that “good governance is essentially about effective leadership” (IoDSA 2009:9). It further highlights the fact that “Responsible leaders direct company strategies and operations with a view to achieve sustainable economic, social and environmental performance” (IoDSA 2009:9).

Except for its significance as it relates to the definition of a family organisation, this study does not concentrate on the *shareholder's role* in governance (Cadbury Committee 1992:5; Financial Reporting Council 2012:1). Rather, it specifically focuses on the *governance structures* to be implemented and, therefore, it also focuses on the effective leadership that is highlighted by King III (IoDSA 2009). Effective leadership, in this study, includes the board of directors (as referred to above), the management of the

organisation, as well as the presence of any relevant policies and procedures. The focus of this study is therefore not on “family governance”, although it is also very important in the effective management of a family organisation, but it is rather on “organisational governance”.

Family governance refers to the implementation of contracts, policies, and other documentation and processes that regulate the family’s interaction and commitment to the organisation and each other (Kammerlander, Sieger, Voordeckers & Zellweger 2015:69). Organisational governance refers to the governance matters that have a direct impact on the family organisation as a separate legal entity.

The literature discussion in the following sections will focus on relevant theories, with specific emphasis on agency versus stewardship theory, and will then further discuss any organisational characteristics, legal requirements, and best practices as they relate to good corporate governance and governance structures.

2.3.1 THEORIES APPLICABLE TO CORPORATE GOVERNANCE

Corporate governance structures of an organisation are mostly grounded in one of two organisational theories—either that of agency or that of stewardship. Depending on the owner’s risk assessment, with regard to the interest alignment of the individual managers in the organisation, an organisation will follow a governance structure either informed by agency theory or stewardship theory. These theories are relevant as they try to explain the personal interactions between individuals within an organisation. Taking into account the uniqueness of family organisations—for example, the interaction between family managers and other non-management family members, and the interaction between family managers and non-family management—the theories, as referred to above, should therefore also be explained in a family organisational context.

Agency theory

Agency theory is a foundational management theory and one of the prevailing theories in corporate governance (Bendickson, Davis, Liguori & Muldoon 2016:175) and family business studies (Pindado & Requejo 2015:283). It focuses on the relationship between two parties, namely the principal and the agent. This theory typically applies to an organisation where the principal (owner) appoints an agent (manager) and then

delegates certain functions (including the decision-making authority function) that affect the organisation, to the agent (Jensen & Meckling 1976:310). Because the agent does not have an equity interest in the organisation, there exists a risk that the agent's objectives are not aligned with those of the principal, and even more importantly, with those of the organisation. As discussed by Davis, Donaldson and Schoorman (1997:27), the agent's first priority might be self-enrichment, or personal wealth, which may result in the financial wellbeing of the business taking second place in the agent's list of priorities. Therefore, this theory assumes that should there be any conflict of interest between the agent and the principal and/or the organisation, the agent might behave opportunistically (Meacham & Mitchell 2011:151) and with an agenda of self-interest (Madison 2014:9). The agent will therefore be motivated by external rewards, for example, monetary compensation and external recognition, instead of internal, or intrinsic motivating factors like personal accomplishment and job satisfaction.

Information asymmetry between the principal and the agent can also lead to typical principal-agent problems and may therefore, in addition to the risks as discussed above, result in agency cost. Information asymmetry refers to the situation where the agent and principal do not have access to equal information, this then has an effect on both the principal and the agent's decision-making process (Shuttleworth 2009:151). An agent, as the manager who is actively involved in the running of the organisation, might be aware of information that could be beneficial to himself, but detrimental to the principal and/or the organisation if not shared. This consequently increases the risk of agency loss. It is suggested by Smith (2011:18) that the more effective the monitoring controls are in obtaining information about an agent's conduct, which therefore decreases information asymmetry, the higher the probability of the agent acting in the interest of the principal.

In order to mitigate the agency risks—as discussed under the agency theory—the principal needs to implement various monitoring controls, governance structures, and suitable incentives in the organisation to align the agent's interests with those of the business. This ensures that the agent will act in the best interest of the entity or, alternatively, this prevents behaviour that is not aligned with the interests of the principal (Jensen & Meckling 1976:310; Madison 2014:2). These controls, structures, and incentives can, unfortunately, result in agency costs that could have a negative impact on the financial performance of the organisation. The opposite is also true—if the entity

does not implement the necessary monitoring controls, governance structures, and incentive schemes, the goal misalignment and self-interest of the individual agent might have an even greater negative impact on the financial performance of the entity (and, ultimately, on the value of the entity) than the monitoring, governance, and goal-alignment costs that might have been incurred (Madison 2014:2; Mazzi 2011:168). It is therefore important for the principal to determine the point where the financial performance of the organisation will benefit from the controls implemented and therefore, ensure a positive net contribution to financial performance, thus increasing the value of the organisation (Chang, Chrisman, Chua & Kellermanns 2007:1031).

Agency theory is relevant to organisations where there is a contractual relationship between the principal (owner/shareholder/residual claimant) and the agent (manager) because of the fact that there is separation between ownership and control (Smith 2011:16). In a family-controlled organisational context, it can be argued that agency theory is not relevant since there is no separation, or there is limited separation, between ownership and control. This often results in agency costs being regarded as immaterial (Holt, Madison, Kellermanns & Ranft 2016:65). The interests of the organisation's management team should be (by default) aligned with the vision and the direction of the shareholders, because the management team, or at least the majority of senior members of the management team, is, in many cases, also the equity holders of the organisation. There should therefore be limited conflict of interest, or limited information asymmetry, and the need for controlling mechanisms should therefore be negligible.

The reality is, however, that all family members in management, although they are family, might not have the same vision for the organisation, since some might be driven by self-interest and therefore might not act in the best interest of the organisation nor in the best interest of the family as a collective (Chang et al. 2007:1030,1031; Williams 2015:74). An example of this is where the family members in management might be guilty of nepotism because they hire unsuitable family members in senior positions simply because they are relatives (Bau & Chirico 2014:212). This, therefore, benefits the selected family members but not the organisation. Alternatively, some of the family managers might, for instance, have a vision of short-term profit-making for the business (e.g. building the business in order to sell it at a profit in the foreseeable future), whereas the founding member or other family members in management might have a

long-term vision that includes transferring ownership to many generations to come. In addition to these agency issues, Holt et al. (2016:66) indicate that agency issues can also be created because of the family-nonfamily shareholder relationships, e.g. where the organisation has both family (majority) and non-family (minority) shareholders.

Heterogeneous interests of multiple family shareholders sometimes necessitate the implementation of family structures, for example, family offices or family trusts, as a medium to manage these discordant interests or blockholder conflicts. The risk exists—especially where there are multiple generations involved—that the interests of those entrusted with the management of the family office or trust are at odds with those of the individual shareholders/beneficiaries, and/or the management of the family organisation, which could result in double-agency cost (Kammerlander & Zellweger 2015:1282-1283).

Bau and Chirico (2014:212) summarise all of the above by noting that, although family organisations generally might have an insignificant principal-agency cost, it is clear that this type of organisation might be exposed to a different kind of agency cost as explained above.

Stewardship theory

Contrary to agency theory, stewardship theory describes the steward (or manager) as an individual who acts in the best interest of the organisation (Davis & Donaldson 1991:51). His actions are as such, not because of the structures and monitoring mechanisms that were put in place by the shareholders of the business, but they are rather as such because of the steward's internal motivation (Davis et al. 1997:27), his inherent strive for the business to be successful, and his sense of belonging within the business. Based on this description, the assumption is therefore that the interest of the steward is aligned with that of the principal and the organisation.

The steward is not motivated by his personal financial wealth (Chang et al. 2007:1031-1032), but he is typically motivated by structures that empower the individual, and facilitate management's discretion and authority. According to Chang et al. (2007:1032), the implementation of monitoring controls, structures, and incentive schemes, might have a negative impact on the morale of the steward (or family manager), and therefore might contribute to a decrease in the financial performance of the family organisation. The implementation of stringent monitoring controls and legislative requirements will

only lead to better financial performance if the benefits exceed the direct and indirect costs incurred (Bruno & Claessens 2010:462). Davis et al. (1997:28) indicate that the steward focuses on intrinsic rewards, e.g. growth and achievement. Because the steward is motivated by these factors, he will be able to perform much better in an environment that allows the steward the authority to make decisions, for which he is then responsible and accountable for (Davis et al. 1997:28). This will, in turn, result in a high self-esteem and will also ensure respect from sub-ordinates and fellow managers (Madison 2014:141-142). In addition, this gives the steward the opportunity to excel in his personal and professional capacity.

Looking at the characteristics of a steward, one can motivate the idea that family managers are more likely to conduct themselves like stewards, as opposed to agents, because they have a vested interest in the well-being of the company and that of the family. They might therefore be driven by their devotion to the organisation, by the long-term financial performance of the organisation, as well as by non-financial objectives, e.g. healthy family relations (Holt et al. 2016:66). If this is the case, theoretically, there should not be a need for the implementation of monitoring controls, governance structures, and suitable incentives—as described under agency theory—in order to align the family managers' actions and goals to those of the organisation (Siebels & zu Knyphausen-Aufseß 2012:285).

The implementation of the above controls, structures and incentives, might lead to agency costs with limited associated benefit and lack of management innovation and entrepreneurial activities, and will therefore result in a potential decrease in financial value. It is argued in the literature that family organisations with virtuous stewards attain positive financial outcomes as the family organisation can direct the monitoring and control resources that it would have used to avoid agency cost, directly into performance maximisation (Allen, Davis & Hayes 2010:1094). These authors also indicate that family organisations perform better because superior stewardship attitudes by leaders lead to less conflict in the family organisation, more strategic flexibility, and a focus on the wellbeing and success of the organisation. Stewardship theory is, therefore, found to be suitable as a theoretical basis for family organisations.

The impact of agency and stewardship theories on the structuring of governance measures

In reality, however, both the agency and stewardship theories are likely to apply to family organisations to a greater or lesser extent. Depending on the behavioural assumptions and governance structures in the organisation, it could predict enhanced organisational performance (Madison 2014:iv). Different approaches to the structuring of governance measures, as grounded in agency and stewardship theory, are therefore demonstrated in Table 2 below.

Table 2: The approach to governance structures based on agency and stewardship theory

	Agency Theory	Stewardship Theory
The shareholder's objective:	To maximise the principal's (shareholder's) return on investment.	
How to achieve it?	<p>a. Financial investment by the principal; and</p> <p>b. Reducing agency cost through designing and implementing governance structures and systems of control, monitoring, and incentives, e.g.</p> <ul style="list-style-type: none"> ○ Board of directors with a non-executive as the chairperson ○ Delegation of authority ○ Financial and other incentive schemes 	<p>a. Financial investment by the principal; and</p> <p>b. Reducing agency cost through empowering governance structures and a shared organisational vision, e.g.</p> <ul style="list-style-type: none"> ○ Board of directors where the chief executive officer is the chairperson ○ Management empowerment ○ Growth and other career opportunities for the steward
Why use the above approach?	The governance structures and control systems facilitate the alignment of the agent's (manager's) interest to that of the principal (shareholder) and the organisation.	The steward is self-motivated by his/her sense of responsibility and belonging, as well as the principal's confidence in the steward's decision making abilities and management skills. Controlling mechanisms instead of empowering mechanisms will demotivate the steward.
Financial performance	Contradicting results on the financial performance of organisations under both these theories.	
	Cost minimisation	Wealth maximisation

Source: Adapted from Davis, et.al (1991), Davis et.al (1997) Madison (2014) and Holt et.al (2016)

Taking into account the theories discussed above, an organisation needs to structure its business in such a manner so as to avoid the pitfalls that are associated with agency theory. At the same time, the organisation should take cognisance of the opportunities that are created by the family organisational environment which are a result of the stewardship characteristics presented by some family and non-family management members. The following sections will consider these underlying theories as part of the discussion on supervisory and managerial governance structures. For purposes of this study, the phrase “supervisory governance structures” refers to the board of directors or to a similar governing body that can be found in a private family organisational context. The phrase “managerial governance structures” will refer firstly to management, and secondly to policies and procedures.

2.3.2 SUPERVISORY GOVERNANCE STRUCTURES

Both agency theory (Smith 2011:18) and stewardship theory (Napoli 2012:10985) support the presence of a board of directors as one of the performance enhancement mechanisms in an organisation. Under agency theory, the board of directors is seen as the main controlling mechanism in an organisation. It is responsible for ensuring the alignment of the manager’s (agent) interests, to those of the organisation. This is done through the regular monitoring, and the effective gathering, of agent behaviour information (Smith 2011:18). Contrary to this, stewardship theory implies that the board can play more of a management support role which could result in positive, strategic, and innovative change (Napoli 2012:10985). The behavioural assumptions about the individual managers at play will, however, determine whether the board of directors will be established for controlling purposes (agency theory) or whether it will be established as a tool to empower steward managers (stewardship theory) (Madison 2014:16).

The need for controlling and monitoring mechanisms—as discussed under agency theory—and the need for motivational schemes—as discussed under stewardship theory—are relevant to all forms of incorporation. In the context of this study, when a private family organisation is discussed, it will be with specific reference to organisations that are incorporated as close corporations or private companies. Therefore, in addition to the underlying theories, this study needs to refer to any relevant statutory requirements applicable to these methods of incorporation. The common law and the Companies Act will form the legislative framework for this study and, in addition to them, the recommendations of King III (IoDSA 2009) will be discussed.

Legislation and best practice

The common law duties of the directors of a company include firstly, to perform their duties with the necessary care, skill, and diligence; secondly, to act in the best interest of the company; thirdly, to act within their powers and for a proper purpose; fourthly, to exercise independent judgement and therefore, to make independent and unbiased decisions; and lastly, to avoid conflict of interest (Bowman Gilfillan 2014:5-6; Grant Thornton 2011:12). These common law duties have been enacted in section 76 of the Companies Act. Based on previous discussions relating to the overlay of family, management, and ownership, these duties might pose a challenge to certain family directors as they, for example, might act in the best interest of the family and not necessarily in the best interest of the organisation and all its stakeholders. Alternatively, they might not exercise independent and unbiased judgement, since they might support the view of other family members purely based on the fact that they are family. The family organisation's long-term strategy may also be distorted by the personal strategies of individual owners or family members. As with non-family organisations, it is therefore clear that there is a need for formal governance structures in order to determine the direction and strategy of the family organisation, and to take cognisance of shareholder and other stakeholder requirements (Adams & Spinelli 2012:538; Gallo & Kenyon-Rouvinez 2005:45).

Sections 1 and 2 of Article 66 of the Companies Act requires companies to establish a board of directors which must, in the case of a private company, consist of at least one director. Section 3 states that this number can be increased, if so required, by the company's Memorandum of Incorporation. These sections only state the required number of directors on the board, but do not prescribe more details in terms of the composition of the board. King III (IoDSA 2009:25-31), on the other hand, is very explicit in its recommendations for the composition of a company's board of directors. For example, it is recommended that the majority of board members be independent non-executive directors, that the chairperson of the board be an independent non-executive director, that the chief executive officer and the chairperson of the board not be the same person, and that disclosure of board members' remuneration also be required. However, these regulations and codes of best practice do not provide guidance on how an organisation should structure executive and operational management.

The requirements of King III could be applied to private family organisations, but they

are not legally enforceable, because King III is a “code of principles and practices” based on an “apply or explain approach” (IoDSA 2009:6). Companies listed on the Johannesburg Stock Exchange (JSE) is however required, in terms of section 8.63 of the JSE Listing requirements (JSE 2014:128,411; IoDSA 2013:2) to report as to how they applied and to what extent they applied, the principles of the King Code. This raises the question as to whether compliance with King III is in fact legally enforceable in so far it concerns listed companies. Considering this, it is clear that private family organisations have more flexibility than listed companies in the configuration of their governance structures. This could result in private family organisations with the majority of their board members consisting of executive, non-independent directors, instead of non-executive, independent directors as recommended by King III (IoDSA 2009). Brenes et al. (2011:281) support this view in that they argue that some family organisations do not even have a board of directors and, if they do, it might only consist of family members. They add that this all-family board impairs the board’s ability to manage the organisation objectively which is normally to the detriment of the organisation’s performance (Brenes et al. 2011:281).

Generation in control and the organisational life-cycle

In addition to legislative requirements and best practice, the board composition and management structure could also be influenced by the current phase within an organisation’s generational timeline and the relevant life-cycle stage.

The first generation of a family organisation is usually owned and managed by the founders who are actively involved in the day-to-day running of the business. Because of the founders’ involvement in the organisation, their in-depth knowledge, and the assumption that their interests are generally aligned with those of the organisation (therefore indicating a lack of agency relationship), there is a limited need to argue for monitoring and control structures (Arosa, Iturralde & Maseda 2015:1206; Brenes et al. 2011:281). That being said, it should be realised that the first generation private organisation might have a limited number of human resources available. These limited human resources might result in the need to incorporate both internal (executive) and external (non-executive) non-family board members who could add to the knowledge and experience of the all-family board. This might then further result in the broadening of the resource base. This has come to be known as the resource-based view (RBV) theory. The integration of the family members’ internal business knowledge with the

industry knowledge, and other relevant experience and expertise of the external board members, can lead to improved strategic thinking and decision-making in the organisation (Arosa et al. 2015:1212).

According to PwC's *Family Business Survey 2014* (2014_b:13), 63% of South African family organisations have non-family members on their board of directors. This compares favourably to the 50% of non-family members identified in the 2012 survey. The 2014 survey indicates that South African families are beginning to realise the value of experienced non-family members on their boards. This also indicates that families increasingly appreciate the importance of professionalising the family organisation which then results in organisations being "owned by family" but "managed professionally". It should, however, be noted that according to the survey, the perceived value created by the appointment of non-family board members is diluted when appointing the same individual as both the chief executive officer of the organisation and the chairperson of the board (PwC 2014_b:13). Unfortunately, this survey does not distinguish between generational timeframes and it is therefore assumed that it refers to a combination of firms with various generations in control.

As family organisations begin to move towards the second generation, the risk of conflict with regard to the position of the next chief executive officer and/or chairman of the board becomes a reality. Van den Heuvel, Van Gils and Voordeckers (2007:143) hypothesise that the likelihood of a non-family board coming into being increases when a family organisation moves towards the point where the next generation will need to take over. A reason for this is that, often, the non-family board member will act as an arbitrator and a conflict resolution consultant during the generational transfer. The board of directors can therefore fulfil various potential governance roles at distinct stages in an organisation. Therefore, the value add of well-functioning boards cannot be ignored. These roles include strategic thinking, technical advice, networking, as well as mediation, and conflict resolution between family members (Van den Heuvel et al. 2007:138).

It is observed by Boshoff et al. (2010:50) that non-family board members, by being non-family employees and/or external professional consultants, play a vital role in the growth and performance of a second generation organisation. The non-family members' experience gained outside of the family organisation, their knowledge, their

qualifications, and their objectivity are all important ingredients in the family organisation's governance structure. Contrary to popular belief, Van den Heuvel et al. (2007:148) conclude, after using survey data of 295 family organisations, that a second generation family organisation is less likely to have an external independent board of directors than a first generation family organisation. They motivate this by suggesting that, although the second generation might have more agency problems than the first generation—and one would therefore argue that there is a greater need for external directors in order to limit the agency cost—the higher level of internal business knowledge of the second generation (generally referred to as the “familiness” in family business literature) outweighs the need for control mechanisms facilitated by external directors (Van den Heuvel et al. 2007:151).

This view is confirmed by Arosa et al.'s (2015:1212) findings after the testing of 341 Spanish firms. They found that the optimum percentage of independent directors on the board of directors for a first generation organisation amounts to 47% compared to 39% in the second generation. The reason for this is attributed to the role that the independent directors are required to play on the board of directors. During the first generation, it is more a control role (as informed by agency theory), as well as a value add in terms of knowledge and experience. During the second generation, the role of the independent director is more a service role and a strategic role, which therefore assists the organisation in determining its strategic direction.

When moving on to the third generation (sometimes informally referred to as the ‘cousin stage’) the risk of family members—in management and on the board of directors—having alternative or different objectives that are not necessarily aligned with of the majority shareholders, and the business as a whole, may increase the need for control mechanisms as mentioned under agency theory. This again necessitates the increased need for external directors (Le Breton-Miller & Miller 2013:1395). In addition to this, the shareholders' focus will also be less on family and more on business success, thus increasing the probable need to appoint objective, experienced, external board members (Van den Heuvel et al. 2007:151).

The composition, roles, and objectives of the board of directors are dynamic and will, in countries where there are no legislative requirements on the structuring of private organisations (or where legislative requirements are limited), also be influenced by the

organisation's current stage within the life-cycle framework. Family firms, in their first stage—the entrepreneurial stage—will either initially have no formal board, or they will have a small board with the majority of the board members being founders or family members (Brenes et al. 2011:281). Reasons for this might include the founder's requirements for control; less stakeholders in the organisation (as it will still be a small organisation and the need for monitoring will still be low); the requirement for quick decision-making and effective strategising; or, the belief that the chief executive officer's interests are generally aligned with those of the organisation's shareholders (Filatotchev, Toms & Wright 2006:261; McHugh & Perrault 2015: 2-7).

The second stage can be classified as the growth stage and it follows directly after the entrepreneurial stage. Filatotchev et al. (2006:261) indicate that the requirements for strategic direction and internal effectiveness are high in the growth stage. It can therefore be assumed that since the board of directors, in conjunction with the shareholders, is the driver of strategy, it is essential that the board of directors is structured in such a way so as to facilitate growth and effectiveness. This view is confirmed by Solomon Potgieter, the co-founder of the MadWorld Group: a South African family business in the communications industry. He stated that, in his experience, a board consisting only of family members leads to “a degree of complacency” (Entrepreneur Magazine 2015:42). The moment his company appointed non-family directors, it forced the executive family members to be more professional and clearer in their thinking and decision-making. Solomon believes that the MadWorld Group's business has grown by approximately 15% since the appointment of the non-family members to the board of directors. He attributes this to a more focused board of directors and an improved business model. In addition to this, they also benefited from “fresh perspectives, fresh ideas and a challenge to convention” (Entrepreneur Magazine 2015:42).

Format of boards in family organisations

It is important to note that the board of directors in a family organisation can take various forms: firstly, that of a pure family member board; secondly, that of an internal board consisting of family members and other non-family employees; thirdly, that of a board consisting of family members, non-family employees, and external affiliated professionals (e.g. an organisation's lawyer or auditor); and fourthly, that of a board consisting of family members, non-family employees, and external independent

professionals not affiliated with the organisation (Van den Heuvel et al. 2007:141). As alluded to in this literature review, the board's main role can either be a monitoring role or it can be an advisory role, depending on the agency or stewardship characteristics of the family organisation.

Summary

Based on the above discussion, it is clear that, before determining the board composition, one should first determine the role that the board of directors of a specific private family organisation should play, while taking into account the agency or stewardship tendencies, the relevant legislative requirements, the generation in control, and the stage within the organisation's life-cycle. In determining the board composition, one should also consider the current ownership and management structure, the knowledge and experience of human resources in the structures, as well as any independence gaps identified, before deriving the optimum supervisory governance structure.

Supervisory governance structure can be seen as the first pillar of an organisational governance structure. The second pillar to be discussed is that of managerial governance structures.

2.3.3 MANAGERIAL GOVERNANCE STRUCTURES

Managerial governance structures include the structures that are put in place in order to control and align the executive management and employees' behaviour with the best interest of the family organisation, the shareholders, and other relevant stakeholders. Managerial governance is more inward-looking than supervisory governance structures, and the discussion will focus on the executive management of a family organisation, as well as any relevant policies and procedures.

2.3.3.1 EXECUTIVE MANAGEMENT

Management's role in an organisation is the execution of strategy, as formalised by the board of directors, in conjunction with the shareholders. As previously discussed, family members on the management team of a private family organisation might overlap with the board of directors and the shareholders, making the identification of roles and responsibilities more complex than in the situation of non-family organisations, which might therefore lead to role confusion.

Legislation and best practice

Family members in management positions might, in addition to role confusion and in line with agency theory principles, not always act in the best interest of the company as a separate legal entity (Adams & Spinelli 2012:525). This might result in non-compliance with their fiduciary responsibilities as prescribed officers of the organisation, which are required by section 76 of the Companies Act. A prescribed officer is seen as a director of a company for the purposes of (but not limited to) section 76 “Standards of directors conduct” and section 77 “Liability of directors and prescribed officers” of the Act. This therefore requires these individuals to have the same standards of conduct as a registered company director would have and it would also expect to hold them liable in the same manner.

Chapter 1, Part A of the Companies Act, defines a “prescribed officer” as “the holder of an office, within a company, that has been designated by the Minister in terms of section 66(11)”. In terms of this authority, Regulation 38 (Department of Trade and Industry, 2011) was promulgated and it states that -

- (1) *Despite not being a director of a particular company, a person is a ‘prescribed officer’ of the company for all purposes of the Act if that person -*
 - (a) *exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the company; or*
 - (b) *regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the company.*

Based on the above definition, it is safe to assume that the chief executive officer, the chief operations officer and the chief financial officer will, among other senior or executive managers, be implied prescribed officers due to their ability to exercise control and to manage a significant portion of the business or the activities of the organisation. This assumption is confirmed by PwC in their report on “Duties of directors and prescribed officers under the Companies Act” (2014_a:21), as well as Mazars in their report “Prescribed officers – Do you know who you are?” (Van Heerden 2012:1). Being defined under the Act, these individual managers need to ensure that they act, at all times, in the best interest of the organisation. Again, with reference to conflicts as identified under agency theory, the Act requires both family and non-family managers to act in the best interest of the organisation as a separate legal entity.

Although there are no specific legal requirements in terms of the composition of the management team, principle numbers 2.17 and 2.18 of King III's "Code of governance principles" (IoDSA 2009:25) stipulate that at least two members of management, namely the chief executive officer and the chief financial officer, should serve on the board of directors. It specifies that the chief executive officer must be appointed by the board of directors and the board should provide input on the appointment of senior management. In addition, the board should prescribe the role and responsibilities of the chief executive officer and the chief executive officer's performance should be measured against this. King III (IoDSA 2009) specifically highlights the designations of chief executive officer and chief financial officer in the "Code of Governance principles", as well as the significant impact these two positions have on an organisation. Therefore, the remaining portion of the literature review as it relate to management governance structures, will focus specifically on these two management positions.

The role and characteristics of the chief executive officer

The role of the chief executive officer in any organisation generally includes:

- executing the board-developed short- and long-term strategies;
- ensuring the flow of complete, accurate, and timely information to and from the board of directors;
- overseeing the daily operational activities;
- obtaining financing for the organisation;
- putting management systems in place to ensure compliance with relevant laws and regulations;
- implementing information-, internal control- and risk-management systems; and
- being responsible for the identification and population of the key human resource positions in the organisation.

(Brenes et al. 2011:2; Carlock & Ward 2010:137; PwC 2015:3; PwC 2016:6,11,20; Steinberg 2011:123).

In addition to the above roles, the chief executive officer in a family organisation also has the responsibility to ensure the right balance between the economic and the non-economic goals of the organisation in order to secure profitability and sustainability (Kellermanns, Mazzola & Sciascia 2014:133).

An important question to ask in the search for the optimum governance structure, and specifically in terms of the managerial governance of a family organisation, is whether the chief executive officer should be a family or non-family member (Cennamo et al. 2013:1353; Kellermanns et al. 2014:131). Family organisations tend to reserve the role of chief executive officer for family members in order to keep control of the daily operations of the family organisation and to ensure the pursuance of the family's socio-emotional objectives. Cennamo et al. (2013:1343) addressed the chief executive officer value proposition from a socio-emotional viewpoint and found that the appointment of a family chief executive officer can be a strategic placement by the family in order to preserve and enhance socio-emotional wealth. Socio-emotional wealth will be discussed in greater detail under chapter 2.4.2.

It was found by Kellermanns et al. (2014:135) that higher family management presence is positively associated with increased profitability during later generational stages. However, their results also highlight the fact that founder managed family organisations exceed both family managed and non-family managed organisations in terms of performance. It was found by Polsiri and Sitthipongpanich (2015:126) that the presence of family chief executive officers reduces the value of family organisations in Thailand. One of the reasons listed is that family shareholders might be guilty of nepotism and they consequently have a limited family resource pool from which to select a chief executive officer. It is therefore important, in the appointment of a family chief executive officer, for the remainder of the governance structures to be set up in such a way so as to offset any negative effect on organisational value created by the family chief executive officer. This can include, as suggested by Polsiri and Sitthipongpanich (2015:126), the appointment of experienced, diverse (especially in terms of age), and well connected board members.

According to Corbetta et al. (2014:556), the ownership and management contextual setting of the family organisation plays an important role in the effectiveness of the chief executive officer. They found, in their study of 893 private family organisations, that if there is more than one shareholder who performs the monitoring function in the family organisation, in other words a "disperse[d] ownership" structure, a non-family chief executive officer will outperform a family chief executive officer. For this to be true, there should not be a family member who is co-chief executive officer as this weakens the authority of the non-family chief executive officer. In this study, companies with non-

family chief executive officers in a “concentrated ownership” setting performed the worst. Interestingly, the study found that the performance of a family chief executive officer is influenced to a much lesser degree by the contextual setting than that of the non-family chief executive officer (Corbetta et al. 2014: 561).

In order to ensure that the chief executive officer’s behaviour prioritises the organisation’s needs above the needs of the family, it is suggested by Feldbauer-Durstmüller and Hiebl (2014:53) that the position of the chief financial officer be occupied by an independent, therefore a non-family, person. This will facilitate clear and rational thinking, with the necessary amount of criticism, in order to act as a critical counterpart to the chief executive officer.

The role and characteristics of the chief financial officer

The chief financial officer is a key member of an organisation’s senior or executive management. This role entails more than the traditional finance and accounting role of the organisation. A chief financial officer needs to act professionally and needs to be a responsible steward. As an organisational leader, the chief financial officer needs to be a business partner to both the chief executive officer and the board of directors. The chief financial officer’s function does not only include the compilation and reporting of accurate financial figures, but also the implementation of internal controls, ethical financial management, effective and efficient use of resources in the best interest of the organisation, and development of sustainable value generation strategies. In smaller organisations, the chief financial officer also acts as the risk and compliance manager. In order to perform all these duties and functions, the chief financial officer should have an inherent ethical mind-set, technical expertise, leadership skills, and business acumen. (IFAC 2014:4,6)

In a family organisation, the chief financial officer’s role is even more challenging than in a non-family organisation. After conducting interviews with several board members, including chief financial officers, Hiebl (2014:481-482) concluded that many chief financial officers in a family organisation are responsible for the financial wellbeing of the family organisation and that they also need to take cognisance of the financial wealth of the family over the long term. They are therefore unofficially partly responsible for individual family members’ wealth management. This can lead to contradictory objectives, or as referred to by Feldbauer-Durstmüller and Hiebl (2014:57) as “inter-role

conflict” which, if not managed properly, can negatively affect the organisation’s value because the chief financial officer might spend more time and energy on individual family members’ goals than on organisational objectives. Should the chief financial officer be a family member (therefore not independent), the additional pressure of ensuring that the chief financial officer’s activities do not affect his relationship with family members might exacerbate the inter-role conflict even more.

Supporting evidence can be found in a study by Feldbauer-Durstmüller and Hiebl (2014:58) which compared the role of the corporate chief financial officer to that of the Benedictine cellarer (the “monastic family” chief financial officer). They found that being part of the monastic family meant that any actions taken by the cellarer affect the cellarer’s private life as well. The non-family-corporation chief financial officer, on the other hand, experienced a limited impact on his private life. Since relationships in a monastery are comparable to a family, which could include non-blood relations, it can be argued that the same concept can be applied to the family chief financial officer in a private family organisation.

The resource-based view of organisations is concerned with the analysis and effective usage of all assets or resources available within an organisation in order to achieve competitive advantage in the market place. To ensure this, the available resources need to achieve a return on assets above the opportunity cost to the owner of the resources. Wernerfelt (1984:172) listed skilled human capital as one of the most important resources in an organisation. One could therefore adopt the view that human capital plays a vital role in ensuring competitive advantage in the family firm, which in turn, might lead to improved financial performance and value.

The chief financial officer, as driver of financial strategy and control, can thus be seen as one of the more significant and strategic assets within the human resource asset base. This might explain why one of the first senior management positions in a family organisation which is normally filled by a non-family member is that of chief financial officer (Hiebl 2014:466). The reason for this might be the need for their specialised skill set and knowledge, not only in terms of specific financial reporting requirements and taxation, but also in terms of their experience in, for example, implementing internal controls, budgeting, financial management, and strategic thinking. In some cases, a chief financial officer’s professional education and training might promote

professionalisation of the family organisation. Furthermore, their ability to act objectively may also assist them with the unofficial role of mediator in family conflict within the structures of a family organisation (Hiebl 2014:487).

The chief financial officer, in conjunction with senior management and the board of directors, is responsible for the implementation of control measures, which includes the establishment of various organisational policies and procedures.

2.3.3.2 POLICIES AND PROCEDURES

Both family and non-family organisations must be resilient enough to manage and survive the challenging international and national economic climate. Recent events in SA, such as the renewed devaluation of the Rand, record levels of labour unrest, infrastructure challenges (PwC 2014_b:3), as well as the political instability (CFA Institute 2014:14) all add to the economic pressures of South African organisations. PwC's *Family Business Survey 2014* (PwC 2014_b:3) states that, in order to face these challenges, family organisations need to professionalise their organisations and they also need to professionalise the controlling family. As discussed under both the supervisory governance structures and the managerial governance structures, family organisations will need to draw on the knowledge and experience of suitable non-family individuals in order to survive these trying times. The *Family Business Survey 2014* (PwC 2014_b:3) suggests that, as part of their professionalisation, family organisations need to develop and document formal processes and procedures that "form the backbone of the business operations and provide it with the context and structure it needs to grow and adapt".

In order to professionalise a family organisation, the shareholders need to consider both family and organisational governance. Family governance includes inter alia, the implementation of a family charter that regulates the family's interaction and commitment to the organisation, a shareholder agreement that stipulates the voting rights and any transfer or selling of shares, as well a dividend policy that specifies under which circumstances dividends will be declared and how they will be calculated (Kammerlander et al. 2015:69). The contribution and value of a family constitution, shareholder's agreements, and dividend policies, as sub-sections of family governance are therefore recognised, but will not be concentrated on in this study.

Organisational governance refers to the governance matters that have a direct impact on the family organisation as a separate legal entity. The remainder of this section will therefore focus on any legal requirements, best practice, and literature as they relate to policies and procedures within an organisational governance context.

From a Companies Act perspective, there are very few references to the legal requirement for policies and procedures relevant to private family organisations. King III's "Code of governance principles" (IoDSA 2009:25) however, although not legally enforceable, has a number of recommendations with regard to policies to be implemented for the effective governance of any organisation. These policies include, but are not limited to, the following:

Board related policies:

- Recommended Practice number 1.1.7 (IoDSA 2009:20) and Recommended Practice number 1.3.6 (IoDSA 2009:21) recommend that the board establish a *code of conduct* in which it formulates the values of the organisation. These values should describe the key moral principles upon which the organisation will conduct business, as well as regulate its interaction with all internal and external stakeholders. It is also the board's responsibility to ensure the implementation of *ethics related policies*, which will guarantee the effective management of the organisation's ethics;
- Recommended Practice number 2.1.1 (IoDSA 2009:21) states that the board of directors should develop a *board charter* or terms of reference which set out its responsibilities to act as the custodian of corporate governance in the organisation;
- Recommended Practice number 2.17.3 (IoDSA 2009:25) recommends that the board of directors determine a *materiality framework* and develop and implement a formal *delegation of authority policy* to manage the delegation of executive functions to the chief executive officer and management;
- Recommended Practice number 2.23.1 (IoDSA 2009:28) states that, without discarding its responsibilities, the board of directors should appoint relevant sub-committees to assist the board in the execution of their tasks. These sub-committees should have formal *terms of references*;

- Recommended Practice number 3.1.2 (IoDSA 2009:31) recommends that non-listed and non-state-owned companies establish *effective and independent audit committees*. This should be read with the audit committee requirements as stipulated in the Companies Act. Section 84(1)(c), in conjunction with section 84(4)(c) of the Companies Act, requires a private company, if it is required to be audited in terms of section 30, to establish an audit committee. With reference to Recommended Practice number 2.23 (IoDSA 2009:28), *formal terms of reference* should be developed for the audit committee. Recommended Practice number 3.9.4. (IoDSA 2009:34) states that the audit committee must outline a *policy for non-audit services* to be provided by external auditors;
- Recommended Practice number 4.1.1 (IoDSA 2009:35) indicates that the board of directors should develop a *risk management policy* for the governance of risk; and
- Recommended Practice number 5.1.2 (IoDSA 2009:39) highlights that the board of directors should establish and implement an *information technology (IT) charter and policies* to ensure the governance of IT. (own emphasis)

Management policies:

- Recommended Practice number 1.2.6 (IoDSA 2009:21) elaborates on the organisation's responsibility as a responsible corporate citizen, and management therefore needs to implement *policies to develop responsible corporate citizenship*. Ethical behaviour and responsible corporate citizenship ensure stakeholder trust in an organisation and therefore improves the organisation's reputation. The improved reputation will positively impact upon the organisational value;
- Recommended Practice numbers 2.25-2.27 (IoDSA 2009:30) pronounce that, in order to ensure fair and responsible remuneration, the organisation should adopt a formal *remuneration policy* that is linked to the organisation's strategic objectives, as well as individual performance; and
- Recommended Practice number 8.2.1 (IoDSA 2009:47) recommends that management establish *stakeholder policies* to proactively deal with stakeholder relations. The board should ensure that these stakeholder policies lead to a balanced approach towards the rightful interests and expectations of all stakeholders. (own emphasis)

Family organisations, especially in the first generation, prefer to negate any bureaucracy and therefore choose to, as far as possible, avoid the implementation of formal policies and procedures. Family conflict in family organisations (Farrington, Van der Merwe & Venter 2012:70; Taylor & Tucker 2013:28) and nepotism (Block et al. 2015:3; Duran-Encalada & San Martin-Reyna 2012:109) are cited in the literature as two of the main reasons for the destruction of organisational value in family organisations, and therefore necessitate family organisations to have policies and procedures in place to manage any potential value destruction due to family conflict and nepotism.

These policies include human resource policies that deal with recruitment and appointment of family members, management succession, remuneration and leave, discipline, as well as performance management of family members (Carlock & Ward 2005:23-28). In addition to these policies, the code of conduct and the delegation of authority, as discussed under board policies, will also assist in decreasing any potential family conflict. The code of conduct will determine an acceptable way of doing business with internal and external stakeholders (including family members) and the delegation of authority will create boundaries within the management structure, therefore decreasing potential conflict situations. Aronoff, Astrachan and Ward (2016:8) confirms the value of implemented policies, by stating that these policies: avoid future conflict, because it changes implied policies (based on historical behaviour) into explicit policy, it gives families the opportunity to discuss their issues, before these issues become personal; and it promotes dialogue through the process of questioning assumptions and understanding the different perspectives of the relevant stakeholders.

2.4 GOVERNANCE STRUCTURES AS A CONTRIBUTING FACTOR TO ORGANISATIONAL VALUE

The three-circle model (see Figure 4), indicates interaction between family, ownership, and management in a family organisation. The interaction of these sub-systems can result in certain challenges, but it also has the potential to create value through the optimisation of the synergies within these three sub-systems. These challenges and synergies, as well as the attributes as identified under both agency and stewardship theory, might have a significant effect on the objectives—both financial and non-financial—of the organisation and resultantly on the perceived value of the family organisation. Therefore, it is important to implement a clear governance structure

(International Finance Corporation - World Bank Group 2008:56) that allows for the alignment of financial and non-financial objectives as they relate to these three sub-systems. Organisational value should therefore be considered from both a financial and a non-financial viewpoint, since the family organisation's objectives will influence behaviour and ultimately the financial performance of the organisation (Chrisman & Patel 2012:992; Mazzi 2011:167).

When considering organisational value from a financial viewpoint, the financial objectives of the organisation should be considered. Financial objectives are normally measured in monetary terms, for instance, the increase in revenue or profit before tax on a year-to-year basis; the growth in the asset or capital base of the organisation; and/or a positive cash flow position. These objectives are distinct from the non-financial objectives which will be discussed under the non-financial viewpoint section. The non-financial objectives, or differently stated, the socio-emotional wealth objectives, are key reference points in the decision-making process of a family organisation (Dou et al. 2014:259) and could include family control, transgenerational wealth, social identity, and reputation.

2.4.1 ORGANISATIONAL VALUE FROM A FINANCIAL VIEWPOINT

Financial performance is one of the main contributors to family organisational value. Should the family organisation not achieve its financial goals, it will have a direct impact on the shareholders and/or the owner family, as well as other stakeholders. Therefore, should the family organisation not be financially sustainable, the shareholders and all the stakeholders (for example, employees and suppliers) will be negatively affected. Financial objectives could include growth in the equity value of the organisation, financial security, and dividend pay-outs (Astrachan & Jaskiewicz 2008:139).

The literature presents contrasting results on the relationship between the governance structures and the financial performance of private family organisations. This might be because of various reasons, which include, but are not limited to, the use of different definitions for family organisations when performing the various studies (Chrisman, Debicki, Kellermanns & Pearson 2016:50); the differences in the vision and mission (or objectives) of the family organisation; the various financial performance measurements used; the use of different independent and control variables in the various studies, *e.g.*, outsiders versus insiders on the board, independent versus non-independent board

members, family chief executive officers versus non-family chief executive officers; the role of the chief executive officer and the role of the chairman of the board; the generation in control; the organisational life-cycle; the presence of non-family shareholders; and the in-laws in management. Another reason could be the organisation's orientation of family-first versus business-first. The question is thus, are family objectives prioritised above those objectives of the organisation?

Objective financial measures

As discussed above, various financial measures are used in the literature to determine the financial performance of a family organisation. The two main categories are market-value-based measures and accounting-based measures (Barnard & Oberholzer 2015:946; Williams 2015:96). Examples of market-value-based measures include Tobin's Q (ratio of market value to replacement value), Economic Value Added (EVA) and Return on Invested Capital (ROIC) (net operating profit less adjusted taxed on invested capital, normally expressed at market value) (Skae 2014). An example of accounting measures include return on assets (ROA) (operating income return on assets) (Barnard & Oberholzer 2015:946; Williams 2015:96). Accounting measures are frequently based on measures other than market values. This is often as a result of difficulties in observing or reliably quantifying market values, especially in the case of entities not listed on a stock exchange. Accounting measures therefore frequently include a combination of book value and fair value accounting as required by International Financial Reporting Standards (IFRS). It is therefore important to review these measures and identify the most appropriate ones for the current study.

Four different measures, on which financial performance of an organisation can be measured, were identified by Bhagat and Black (2001:242). These measures are Tobin's Q, ROA, ratio of sales to assets, and market adjusted stock price returns. Duran-Encalada and San Martin-Reyna (2012:111), in their analysis of the data from the Mexican stock exchange, used the Tobin's Q ratio and the asset market-to-book ratio. The majority of the above measures are mainly used for listed organisations due to their focus on market values. It is recommended by Barnard & Oberholzer (2015:951) that, in order to determine organisational performance, both market and accounting based measures be used. However, since market values are not directly observable in the case of private family organisations, other, more appropriate measures have to be sought.

In their study, Arosa et al. (2015:1208) used ROA (in this case, defined as a ratio of earnings before interest, taxes, depreciation and amortisation (EBITDA) to total assets) and return on equity (ROE) (*i.e.* ratio of net income to book value of equity) as indicators of performance in their study of 341 unlisted Spanish family organisations. Corbetta et al. (2014:555) used an industry-adjusted ROA¹ when analysing the performance of 893 private family organisations. In addition to this, they performed supplementary testing to establish the robustness of their results by using unadjusted ROA, ROE, and return on sales (ROS). ROA was one of the two performance measurements used by Lodh and Rashid (2014:436) and Bhagat and Bolton (2008:261), the other method used was Tobin's Q. They calculated the ROA as "the earnings before interest and taxes (EBIT) scaled by the book value of average net total assets." Block et al. (2015:6) analysed 380 primary studies when performing a meta-analysis on the financial performance of family organisations. They used ROA, ROE, ROS, sales growth, and market-to-book value as indicators of firm performance. In Barnard & Oberholzer's (2015:952) study of 40 published studies on chief executive officer/executive pay, it was found that ROA, ROE, and earnings per share (EPS) are the most used accounting-based performance measures. Their best practice framework for accounting-based performance measurements also includes EBITDA as a proxy for return. In a review of the existing theoretical frameworks and the current state of knowledge, as it relates to financial performance, Mazzi (2011:175) found that ROA is "undoubtedly the most used variable" to determine financial performance in family organisations. This finding by Mazzi is verified by Brabec, Hnilica and Machek (2013:6) who also state that ROA is the most frequently used method of measuring performance in family business studies.

Subjective financial measures

Another study, specifically focused on SME's (Eddleston & Kellermanns 2007:1052), applied a more subjective approach. Management was required to show how their performance, with specific reference to "growth in sales, market share, employees and profitability, return on equity, return on total assets, profit margin on sales and the ability to fund growth from profits", compared to those of other players in the market. This method was used due to the general unavailability of private companies' financial data. As per Love, Lumpkin and Priem (2002:617-618), and supported by Dess and Robinson

¹ The difference between the firm's ROA and the average ROA of the firms in the same two-digit SIC code industry in the same year.

(1984:271), these personal views on organisational performance “highly correlated” with independent performance data. These personal views of management also have the benefit of “indirectly control[ling] for industry effects” (Eddleston & Kellermanns 2007:1052). Management has an embedded knowledge of the business and industry trends and its insight into the financial performance of an organisation should thus not be underestimated (Cadieux et al. 2013:2).

Summary of objective and subjective financial measures

In summary, the literature indicates that the most universally-applied, objective financial performance indicator, for a private family organisation, is ROA. It also indicates that, market-value-based methods are less suitable to private family organisations. The value of subjective financial measures, as formulated by the management of the private family organisation, would also be of value, especially if considered in conjunction with objective performance indicators.

It would be short-sighted to look at a family organisation’s financial performance solely from an economic perspective and to try to compare this performance directly with other SME’s or the industry’s financial performance because family organisations usually have more than the outperformance of their bottom-line as a financial objective (Chirico & DeTienne 2013:1303; Williams 2015:ix). Their objectives might include sustainability of income for current shareholders and future generations, job-creation for family members, and contributions to the socio-economic circumstances of their local community. It is therefore imperative for the researcher to understand the vision, goals, and motivations of the family organisation before trying to determine the effectiveness of its organisational structure in terms of organisational value (Astrachan 2010:10-11; Cadieux et al. 2013:1-2; Chrisman, Memili & Misra 2013:4-5; PwC 2012:5).

2.4.2 ORGANISATIONAL VALUE FROM A NON-FINANCIAL VIEWPOINT

Socio-emotional wealth is an important factor to consider when determining the value of a family organisation, as this distinguishes the family organisation from the non-family organisation (Chirico & DeTienne 2013:1302). Non-family organisations generally have financial performance as their main driver of value. In contrast to this, family organisations usually need to, in order to be successful, find a balance between the organisation’s financial performance and the controlling family’s intuitive longing for socio-emotional wealth.

Socio-emotional wealth is grounded in behavioural theory (Vancauteren & Vandemaele 2015:167) and is defined as the non-economic value that the family, as the owners of the organisation, can gain from their shareholding in the family organisation over an extended timeframe (Deephouse & Jaskiewicz 2013:340; Ganter & Kammerlander 2014:361-362). When looking at this definition, the two important points to consider are non-economic value, and the extended timeframe. Non-economic value refers to the emotional investment of family members in the family organisation. These non-economic values, although very important, are difficult to measure, and have therefore not received the same amount of attention from researchers as economic values (Astrachan & Jaskiewicz 2008:142; Williams 2015:58). The impact of the extended timeframe is that researchers need to consider the generation in control when performing their studies. Vancauteren and Vandemaele (2015:176), in their study, “Nonfinancial goals, governance structures and dividend pay-out in Private Family Firms” researched 839 Flemish companies. Based on this research, they concluded that socio-emotional objectives are of higher importance in first and second generation organisations than in third generation organisations. They propose that this is mainly because of the higher presence of family members in the governance structures of the first and second generation organisations. Additional reasons supporting this view are given by Kellermanns et al. (2014:133): family members are less emotionally attached to the organisation; higher levels of family conflict are present in later generations due to the diversity of objectives and agendas; and the organisations have more formal control mechanisms in place, resulting in less emotional decision-making.

When determining the socio-emotional wealth created in a family organisation, it is first and foremost important to identify the organisation’s non-economic goals, as the goals are a precursor for understanding the organisation’s behaviour and value creation proposition (Barnett, Chrisman, Chua & Pearson 2012:268). These non-economic goals, as discussed in the literature, mainly include family control, transgenerational wealth, family members’ identities, and organisational reputation.

Family control

One of the main priorities of a business family is to keep control of the family organisation (Abdellatif, Amann & Jaussaud 2010:109) in both present and future periods. Control provides them with the ability to determine the strategic direction of the

organisation and to regulate the day-to-day activities, therefore maintaining the organisation's internal socio-emotional wealth plan (Williams 2015:66). Gondo and Vardaman (2014:1318) make the comment that family organisations will not implement best corporate governance practices if the implementation could result in potential loss of control over the daily activities of the family organisation. Relinquishing control of a family organisation is, from the controlling family's point of view, seen as a crucial socio-emotional loss (Colli 2012:249; Vancauteran & Vandemaele 2015:168). The family organisation's desire to keep control is one of the reasons for family organisations to be hesitant to professionalise the governance structures of the organisation, especially if this professionalisation relates to the appointment of independent directors and non-family chief executive officers or chief financial officers.

Ownership control offers the family the opportunity to control the daily operations of the organisation, either through non-executive structures or through executive structures, therefore ensuring better monitoring and lower information costs (Burton & Krivogorsky 2012:192). In addition to the daily operations, ownership control also allows the owners to embed and transfer family values into the organisation. Jimenez, Jimenez and Martos (2015:269) suggest a positive relationship between the presence of values, e.g. trust and organisational harmony, and the performance—financial and non-financial—of a family organisation.

Control of the family organisation might be detrimental to the organisation's long-term financial performance because the family's relative power can affect the degree to which family goals are prioritised above the goals of the organisation (Barnett et al. 2012:268). Should the family members' presence be dominant within the various governance structures and should they choose to influence the decision-making process as such, they will be afforded the opportunity to make non-economic decisions that would not necessarily have been made in a non-family organisation (Barnett et al. 2012:269,284). Barnett et al. also suggest that these non-economic decisions are possible because there is less external accountability and internal bureaucracy in family organisations compared to non-family organisations.

Another reason for potential diminishing economic performance is the owner family's refusal to relinquish control of the organisation which might limit the organisation's ability to obtain external capital injections, which in turn, might limit organisational

growth and expansion (Vancauteren & Vandemaele 2015:167; Williams 2015:70,80). Contrary to the detrimental effects, as already discussed, this internal financing approach has the potential to result in positive returns. This is because the family owner's preference for internal financing (decreased dividend pay-outs (Williams 2015:81) and capital being retained within the organisation), will limit the high cost of debt, and will consequently contribute to increased returns (Vancauteren & Vandemaele 2015:168). This view is supported by Caspar, Dias and Elstrodt (2010) because they state that family organisations normally try to avoid undue risks to family wealth and the control of the organisation and, therefore, their long-term perspective results in moderate levels of risk-taking. The lower risk profile is in the interest of any debt holders, and it therefore lowers the cost of debt for the family organisation when compared to its corporate peers (Caspar et al. 2010).

In addition to the capital resource scarcity as discussed above, nepotism (due to family control) could result in a human resources scarcity within the family organisation. Probably the most contentious element of socio-emotional wealth is the employment of individuals based solely on the fact that they are members of the controlling family or that they have very close family-ties (Chrisman, Chua & De Massis 2015:174). This is generally done to the detriment of applying stringent competency criteria as part of the human resource recruitment process, which in turn, can lead to the destruction of value within the organisation.

With reference to family control, a major threat to owners of some South African family organisations is that families might lose control over the family organisation when complying with the requirements of the Broad-Based Black Economic Empowerment (BBBEE) Act, No 53 of 2003 (Orton 2008:94). As discussed above, nepotism sometimes results in family members being present on supervisory and managerial governance levels within the family organisation. These management control levels, in combination with the family owners' majority control of the organisation's shareholding, make it challenging, if not impossible, for family organisations to comply with the requirements of the BBBEE Act (PwC 2013:23). If these organisations do not comply with the relevant BBBEE requirements, due to the fact that they retain their biggest socio-emotional wealth priority, namely control, they might limit their opportunities to participate in any governmental, and even non-governmental contracts, thus restricting their potential revenue income and consequently their return on invested capital.

Transgenerational wealth

Family organisations are, as discussed earlier in the chapter, unique organisations and one of the key factors that distinguishes them from non-family organisations is the “value they place on longevity” (Marchisio, Shepherd & Woods 2013:50). In the literature, this long-term view is referred to as the family’s need, and the family organisation’s need, to create transgenerational wealth. Transgenerational wealth is twofold in that firstly, wealth needs to be created (whether economic or non-economic), and secondly, this created wealth should be for the benefit of not only current family members, but also for the benefit future generations as well.

Wealth is normally created by the founders of the family organisation as a result of their desire to “fill a void” as stated by Dr Lize Albert, a South African wealth psychologist, in an interview with James Hughes, an American family wealth specialist (Hughes 2015). This void can be the founder’s longing to be financially independent, the flexibility and control associated with entrepreneurship and being your own boss, or it can be the desire to make a difference in life and to leave a legacy. In an interview with James Hughes titled “From shirt sleeves to shirt sleeves” (Hughes 2015), Dr Ilze Alberts (the interviewer) addressed the well-known phenomenon of family organisations that struggle to survive past the third generation. As per Hughes (2015), the failure of long-term wealth preservation in families is seen in all cultures around the world as it takes one generation to found a business, the second to build it, and the third to dispense of it. This phenomenon, as seen across the world, can be appreciated from the following proverbs: “shirt sleeves to shirt sleeves in three generations” (Knowles 2006); “clogs to clogs in three generations” (Knowles 2006); “rice paddy to rice paddy in three generations” (Fitts 2009).

The transfer of wealth over generations is dependent on the success of the succession process. Hughes (2015) theorises that the first generation, as the motivated entrepreneur who works towards realising his dream, might be so focused on his own dreams that he does not afford the second generation the opportunity to individualise the dreams or to identify and live their own dreams within the sphere of the family organisation. The second generation, therefore, only becomes the custodian of the first generation’s dreams and it is not inspired or enabled to perform its role as the second generation owner and/or manager. Hughes (2015) suggests that in order to sustain the

family wealth, the second generation should be given the opportunity, with the help of the relevant governance structures and advisors, to evolve its own dreams, not at the expense of the founding generation's dreams, but with the possibility of its own individualisation and differentiation of the dreams. This individualisation and differentiation will potentially have a positive effect on the organisational value of a second generation organisation.

It is suggested that the third generation became so used to the financial wealth factor, that it, as the beneficiary of the transgenerational wealth, does not have the ability nor the motivation to actively contribute to the financial success of the organisation. In order for the third generation to be successful, the first and second generations need to make a decisive decision that they want to create transgenerational wealth, and then subsequently to this decision, they need to put the relevant structures and processes in place in order to ensure that the third generation (and any further generations) will have the ability to successfully manage and grow the family wealth. A work ethic needs to be instilled in these generations and the current generation therefore needs to ensure that the next generations will be accountable and responsible for other generations as well as itself (Alberts 2015). This will potentially transpose the "three generation phenomenon" and will potentially contribute significantly to increased organisational value during this stage as well as future generational stages.

Family relationships, interpersonal dynamics, and conflict are critical factors to be considered and managed in order to ensure the successful growth and transfer of multi-generational family organisations (Boshof et al. 2010:34). The presence of family harmony, hence limited family conflict, was proved by Farrington et al. (2012:69) in their study of private family organisations, as positively, and significantly related to the perceived future continuity of the family organisation.

Social identity

Social identity theory proposes that an individual's self-conceptualisation depends not only on his self-concept or personal identity, but also on his social identity, therefore his sense of belonging in a certain social environment or context (Deephouse & Jaskiewicz 2013:341; Greene et al. 2013:236). A family member of the controlling family's identity will hence be developed not only through his own personal experiences but also through his connection to the family and the family organisation, therefore an inside-out

perspective. According to Deephouse and Jaskiewicz (2013:341), the family member is more “aware” of its association with the family organisation than non-family members. In many cases, the family member sees the family organisation as an extension of the self, even if the family member is not actively participating in the family organisation (Orton 2008:53), and it is therefore very important for his personal identity to uphold the image, brand, and reputation of the family organisation.

Family members of “founded or inherited” family organisations identify more with these organisations than with those family organisations that were “acquired”. Founding or inheriting an organisation results in higher levels of personal identification with the organisation than if the organisation were to be acquired. Because of this personal identification, the owner will be more concerned with the protection of the organisation’s reputation and will also adopt more virtuous business behaviour, which will positively affect quality earnings (Mengoli et al. 2013:381) and enhance organisational value.

From an outside-in perspective, individuals external to the family organisation and who are aware of the family organisation’s identity and image, tend to classify individual family members based on the context and their perceptions of the family organisation. As simplified by Stephan Greyser: Harvard Business School, corporate reputation is a “window to the fundamental character of a company and its leaders” (Martinez & Norman 2004:25). Therefore, the family organisation’s reputation has a direct impact on the social identity of the individual family members.

Considering the above, it might be beneficial for the individual family member to prioritise organisational strategies and goals, as opposed to family-centred or self-centred goals, since this will most likely improve organisation value, and thus ultimately promote the family member’s social identity.

Organisational reputation

The identity overlap between the family and that of the organisation, as discussed above, makes it important for the family members to ensure a favourable organisational reputation, as this has a direct impact on the family members’ social identities and reputations. Reputation is one of the key strategic resources in a family organisation as it is normally linked to the market’s perceptions of improved performance and value creation when compared to that of other market players. The long-term positioning of

family organisations, the continuity of relationships with various stakeholders, the key employee tenure and their involvement in the community—to name but a few—assist the family organisation in building a positive reputation (Clinton, Nason, Sieger & Zellweger 2011:342). A good reputation develops “family-based brand identity” and improves organisational value (Pindado & Requejo 2015:287).

One of the contributors of an organisation’s positive reputation is the level of donations to social and charitable projects. Dou et al. (2014:269) found, in their review of 2 821 private Chinese firms, that the presence of family members in strategic governance positions within the organisation has a significant and positive impact on charitable donations. Therefore, companies with family members as chief executive officers and/or chairpersons are more likely to make charitable donations than companies where these positions are occupied by non-family members. These findings are supported by those of Campopiano, Chirico and De Massis (2014:251), in their study of 148 Italian private organisations, where they found that owners of family organisations are in favour of social involvement and philanthropic engagement because it enhances their reputations as stewards in the community. The family owners’ stewardship behaviour is aligned with, and in support of, their longing for transgenerational business continuity. It was also found that philanthropic behaviour is negatively related to financial performance. This indicates that family organisations invest in their reputation when economic performance is low with the intention to gain future, not current, economic benefits (Campopiano et al. 2014:252), thus confirming their long-term perspective.

The board of directors should acknowledge that stakeholders’ perceptions can affect an organisation’s reputation and consequently the organisational value. These perceptions should be measured and managed in order to enhance the organisation’s reputation. King suggests, in Chapter 8 of the Code of Governance Principles, that this should be a standing point on the board’s agenda (IoDSA 2009). Good governance plays a very important role in gaining the respect of outside stakeholders, and the implementation of a robust governance structure is therefore crucial to assist the family organisation in the mitigation of reputational risk (Institute of Directors 2010:12).

A good reputation in a family organisational context is generally representative of the market's perception of the presence of virtuous family values and general entrepreneurial capabilities. This reputational capital assists the organisation in building lasting networks and attracting new business opportunities, thus enhancing the organisational value (Clinton et al. 2011:343-344).

2.4.3 BUILDING ORGANISATIONAL VALUE THROUGH BOTH FINANCIAL AND NON-FINANCIAL GOALS

A holistic approach should be followed when determining the value of a family organisation. This, as opposed to looking only at financial value and measurement, becomes incredibly difficult. The holistic view should include the generations involved, the life-cycle of the organisation, the culture of the owning family, as well as the family and organisational objectives (Colli 2012:243).

Socio-emotional goals should be considered an integral part of the value creation in a family organisation. However, it is important that the costs associated with such goals should not be ignored. These costs might include the cost of incorrect decision-making due to incompetent family managers who were appointed in order to keep organisational control even though they did not possess the relevant qualifications and experience, or limited growth due to financing limitations, as control is favoured above external capital.

As proposed by Astrachan and Jaskiewicz (2008:143), the value of a family organisation should therefore be determined as the total of financial and non-financial value, where the non-financial value is determined as the net of emotional value created and emotional costs incurred. Assessing the above discussions relating to financial and non-financial values, it can be suggested that organisational value can potentially be improved by taking cognisance of both financial and non-financial goals. The governance structures of a private family organisation should therefore facilitate the coordination of these goals, in order to increase the value of the organisation. Chrisman et al. (2013:1251) confirms this view, by stating that there are “dynamic linkages” between financial and non-financial goals, and the governance of a family organisation.

2.5 CONCLUSION

The governance structures, as suggested in the literature, aim at somehow distancing the family from the organisation in order to ensure business orientated, non-emotional decision-making. However, Baron, Ehrensberger and Lachenauer (2015:5) remind one that the organisation, although distanced from the family on an operational level, should always be aware of, and be sensitive to, the owner's vision for the family organisation.

Family organisations compete against non-family organisations for human and financial resources, as well as market share. In order to be competitive, family organisations need to ensure that their governance structures, which for the purposes of this study include the organisation's supervisory and managerial structures, are aligned with best practice. In addition to this, family organisations should safeguard against losing their unique family characteristics and objectives—for example longevity, stability, trust, and entrepreneurial nature—as these characteristics distinguish family organisations from their competitors and therefore add financial and non-financial value to the family organisation (Fernández-Aráoz & Zehnder 2015:85-86).

CHAPTER 3 – RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter guides the reader through the research methodology followed in the study. The rationale and the methodological detail of the study are important because they enable the reader to assess the research process followed, and also to conclude on the findings of the study (Hofstee 2011:107). Information about the research methodology will also allow the reader the opportunity to replicate the study, should he wish to do so (Hofstee 2011:107).

The purpose of this study, as indicated earlier, is to identify the governance structures in family organisations and to determine whether the presence of these structures has any value-adding effect on the organisation. The research process selected for this study was specifically chosen to address the need to obtain an in-depth understanding of how the selected family organisations are structured. Even more importantly, the research process was chosen to obtain an in-depth understanding of the reasons for, and the effectiveness of, the structures as perceived by the individuals involved in the organisations. Both this study and the methodology applied are also a response to various calls issued for further research of family organisations as heterogeneous groups (Barnett et al. 2012:268; Chirico & DeTienne 2013:1302; Vancauteran & Vandemaele 2015:167). Therefore, there is a need to gain an in-depth understanding of the variances in the governance structures of the selected organisations in order to address the identified gaps in the body of knowledge.

This chapter will discuss the research design in more detail and it will shed light on the methodology followed, which includes the research instruments used, the data collection process, and the process of data analysis. It will also elaborate on any research limitations and ethical considerations. Ethical clearance for this study was obtained from the Research Ethics Committee of the College of Accounting Sciences prior to performing the study (refer to Annexure G: Ethical clearance certificate).

3.2 RESEARCH DESIGN

This study consists of a detailed literature review and a qualitative multiple-case study analysis. This two-stage research strategy was deemed necessary in order to grasp the extent of the current body of knowledge on the subject matter and to gain an in-depth understanding of how the governance structures of the selected cases are structured, in order to determine why the private family organisations have configured their governance structure as such, and to understand whether the chosen governance structures add any value to these organisations.

The literature review encompasses an investigation into the nature of family organisations, the relevant governance structures, and the factors that determine value in family organisations. The literature review was carried out by making reference to various peer-reviewed academic journals, books, survey reports, and other publications. The review was a mechanism to set up the theoretical framework for the study (and therefore informed the methodology of the study). The review was also critical to explore fully the extant body of knowledge around the research objective and sub-objectives.

The qualitative multiple-case study analysis involved the use of multiple information sources and techniques, including semi-structured interviews and document reviews. This will be discussed in more detail later on in this chapter.

Available research methods

Various research methods are available and it is thus essential to determine the most relevant method for a specific study. In other words, it is important to select a research method which speaks to the study's underlying research paradigm, and which is best suited to address the set research objectives. The available research methods include, but are by no means limited to, experiments, surveys, analysis of archival records, histories, and case studies. Since this study works within an interpretivist paradigm as well as a social constructivist paradigm, the focus will be shifted towards a more qualitative methodological approach. An interpretivist-to-social-constructivist research paradigm is appropriate for this study since the researcher believes that reality is socially constructed and is a reflection of individuals' subjective experiences (Thomas 2010:295).

Leading author, Yin (2009:8) specifies three conditions that should be considered when deciding on the most appropriate method of research for a specific study. These conditions are (1) the form of research question (how, why, who, what, how many, how much, etc.); (2) whether the researcher needs to control the behavioural events; and (3) the level of focus on contemporary versus historical events.

These methods have distinct characteristics but they also have some overlaps. The most appropriate method should therefore be selected without creating any “gross misfits” (Yin 2009:8). The analogy of a traffic light is used in Table 3 to indicate the relevance of the current study to the various listed conditions. The colour green shows that the indicated method is very suitable to this study, whereas the colour red indicates limited or no relevance. Yellow therefore indicates partial relevance, which therefore places it between green and red.

Table 3: Suitability of different research methods

Research method Condition	Survey	Archival Analysis	Historical method	Case Study
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1. Form of research question?				
<i>Question to be answered as per Yin:</i>	who, what, where, how many, how much?	who, what, where, how many, how much?	how, why?	how, why?
<i>Applicability to this study:</i>	Partly	Partly	Applicable	Applicable

2. Requires control of behavioural events?				
<i>Control required as per Yin:</i>	No	No	No	No
<i>Applicability to this study:</i>	Applicable	Applicable	Applicable	Applicable

3. Focuses on contemporary opposed to historical events?				
<i>Focus as per Yin:</i>	Contemporary	Contemporary / History	History	Contemporary
<i>Applicability to this study:</i>	Applicable	Partly	Not applicable	Applicable

Source: Adapted from Yin (2009:8)

The current study is concerned with *how* the selected family organisations structured their supervisory and managerial governance. It is also concerned with understanding the reasons as to *why* these specific structures were implemented. In addition, it tries to understand whether or not these structures add value to the organisation. The behaviour of events was *not controlled* by the researcher as the investigation took place in the organisation's natural environment and in its normal state of business. The study focuses on *current contemporary issues* that are experienced in the fields of management, corporate governance, and family organisations. Based on this analysis, and as depicted in Table 3, it is clear that the case study design is the most appropriate design for the current study.

Case study as a qualitative research design

A case study is a design that is frequently used as a research design in the “social sciences disciplines” (Yin 2009:5) since it affords the researcher the opportunity to gain insight into “organisational, professional and social circumstances” (Parker 2012:57) within the selected organisations. The understanding of the dynamics in these circumstances is crucial to establish trustworthiness (Begley & Tobin 2004:3). Qualitative research contributes significantly to the field of accounting studies, as it contextualises and explains the various phenomena found in the field (Hiebl 2014:472). As posited by Parker (2012:55), the information obtained through the use of a qualitative approach in conjunction with the quantitative research already performed by other various researchers, could significantly contribute to the current body of knowledge in the management accounting discipline, specifically including, in this case, the family business discipline. A qualitative approach also speaks to the stated research objectives of this study.

Case study design as applied in the current study

A case study is a qualitative research design that is designed to create “managerially relevant knowledge” (Gibbert, Ruigrok & Wicki 2008:1465). It also, with specific reference to this research project, helps the researcher to gain an in-depth understanding of the governance structures of the selected units of analyses, as well as an understanding of the value that the structures add (if any) to the selected organisations within their contextual environments. It therefore speaks to real-life situations within a specified time-frame and context (Yin 2009:18).

In order to enhance the robustness of the study, it was decided that a multiple-case design, instead of a single-case design, should be used. A multiple-case study provides a “stronger base for theory building or explanation” (De Massis & Kotlar 2014:18) as it enables the researcher to analyse his/her findings within the specific case and across cases, and it therefore clarifies whether the findings are isolated or replicated in other cases.

A literal replication process of enquiry (Yin 2009:54) was followed in the multiple-case design, therefore replicating the data collection procedures for both cases. The procedural replication for both cases ensured fair and valid findings (Creswell 2013:99; Yin 2009:54). It also facilitated the development of a rich theoretical framework, which could then be used, as stated by Yin (2009:54), as a “vehicle for generalising to new cases”. The goal of case study research is, as explained by Yin (2009:15) and supported by Johansson (2003:8), to “expand and generalize theories (analytical generalization)”, and therefore not to “enumerate frequencies (statistical generalization)”.

In addition to the reasons discussed above, a multiple-case design was selected due to the need to truly understand the applied governance structures of the selected family organisations and to identify whether there were any similarities, common themes, or contrasting themes that emerged from the two organisations (Eisenhardt 1989:540). Another reason for the design decision was that it offered the researcher the opportunity to gain different perspectives from various interviewees, involved in the respective units of analyses, on the common issues within a family organisation’s structural design.

This multiple-case study can be categorised as an explanatory case study (De Massis & Kotlar 2014:16; Stake 1978:7) because it seeks to facilitate the development of theory through an in-depth understanding and explanation of practices implemented by the selected units of analyses. The value of an explanatory case study, such as the current study, is that it facilitates the understanding of the organisations’ motivations for their respective governance structure choices, the complications experienced with the implementation thereof, the effectiveness of these structures, and the perceived value added by these structures.

Data collection

The data collection process used several instruments and sources of evidence as proposed by Yin (2009:11) and Bowen (2009:28). The benefit of a multiple-case study approach with multiple data sources (data triangulation) is that it facilitates the production of much richer data than what would have been obtained through other research strategies (Yin 2009:114-115). Data triangulation involves the process of obtaining information from various sources to supply corroborating evidence. The multiple data sources assist to, in addition to assisting the production of richer data, verify findings as discovered during the interview process (Albon, Hubball & Pearson 2015:3).

These methods of data collection included interviews—with semi-structured interview guidelines and question data sheets (Kvale 1999:111)—as well as document analysis (Bowen 2009:28), namely the reviewing of policy documents, the obtaining of information from the units of analyses' respective websites, and the analysing of annual financial statements. The amalgamation of information from various data sources, to be discussed under the data analysis section, results in data triangulation as proposed by Yin (2009:18) and therefore enhances the credibility and overall trustworthiness of the findings (Barrette et al. 2002:15; Guba 1981:80).

As suggested by Bowen (2009:29-30), the document analysis was used for the following reasons: to provide context to the family organisation and to provide the organisation's history; to guide the researcher towards certain questions to be included in the interview schedule; to supplement the interview data to be obtained; and lastly, to verify the findings from other data sources. Therefore, it was used as part of the data collection triangulation within the case-study design and not as a separate qualitative research method.

Reporting

Reporting entails detailed and rich descriptions of the respective cases and any case themes identified. Corresponding themes across both cases are also identified and reported on. In addition to the common themes, any discrepancies or differences between the two cases, which are of theoretical value, are highlighted and reported on. Creswell (2013:252) suggests that rich descriptions will enable the readers to transfer the information of the selected cases to other cases, which then gives the reader the

option to decide on the transferability of the findings, due to the common characteristics of these and other cases.

The detailed and rich descriptions of the respective cases, and any case themes that were identified, were submitted to the chief executive officers of the relevant units of analyses. This was done in order to obtain their views as to the credibility and accuracy of the respective case findings and interpretations (Creswell 2013:252). The member checking, as per best practice in research ethics and integrity, supports the process of ensuring dependability on, and conformability with, any research findings and interpretations (Visagie 2014:24).

The following section will discuss the process that was followed in order to identify the units of analyses, the research instruments and the data collection process, as well as the method of data analysis.

3.3 METHOD OF DATA COLLECTION

3.3.1 IDENTIFICATION OF THE UNITS OF ANALYSES

For the purpose of this study, the units of analyses are two private family organisations. The process of identifying the two units of analyses that were to be used in this multiple-case study was complicated by the lack of a publicly available South African family business database, as confirmed by Farrington et al. (2012:79), Orton (2008:57), and Van der Merwe (2009:3). It was also complicated by the lack of publicly available financial data on private companies. The Bureau van Dijk Orbis (Orbis) database, which offers general business information, was therefore used as the starting point. This database provides ownership, board, and financial information for firms worldwide (Deephouse & Jaskiewicz 2013:346). Since data on private shareholding is not always available in the database, companies with more than one director sharing the same surname were identified. This, unfortunately, did not yield the required result because it led to an extremely long list of entities with no guarantee that the entities were actually family organisations. Thus, this list was disregarded and an alternative selection method was therefore attempted. This then led to the selection of the industry first.

South African family businesses account for approximately 65% of all business organisations in the country (KPMG 2015:2). This percentage should however, be examined from an industry perspective, as it is reported that family organisations account for 90% of South African agricultural businesses (Dynes 2010:1). The oldest recorded family organisation in South Africa, Boplaas, is a fruit producer in the Koue Bokkeveld which is close to Ceres (Family Business Association of South Africa 2016). This farm has been managed by the controlling family since 1743. The long history of South African agricultural enterprises, which originated and continue to operate mainly as family organisations, as well as the sector's contribution to food security in South Africa, encouraged this study's focus on agriculture.

Various agricultural sectors were assessed; however, the dairy industry was selected because it affords organisations the opportunity to be involved in both the primary and secondary production processes, and it therefore allows organisations to contribute to the milk value chain by using the raw milk, by adding value through various processes, and then by supplying these raw and value-added products directly to retailers. Milk production is the fifth largest industry within agriculture in South Africa (Milk SA 2014:13). There are over 4 000 milk producers in South Africa and they employ 60 000 farm workers and provide 40 000 indirect jobs within the dairy value chain (Department of Agriculture, Forestry & Fisheries 2012:3). They therefore play an important role in alleviating the South African employment crisis.

A list of private entities in the dairy production and manufacturing sector was obtained from the Orbis database. This was done as a first step in the process of identifying family organisations within the sector. The search criteria specified (1) all active companies, (2) within the dairy cattle and milk production industry, (3) which are classified as private entities, and (4) registered in South Africa. The specified criteria and search results are depicted below:

Figure 6: Search criteria for potential family organisations in dairy production

	Step result 2	Search result
1. All active companies and companies with unknown situation	106,220,071	106,220,071
2. NAICS 2007 (All codes): 11212 - Dairy Cattle and Milk Production	428,304	339,711
3. Public/Private/Branch: Private (GmbH/SARL/SRL/BV/OY/AS/YK etc.)	37,342,469	51,992
4. World region/Country/Region in country: South Africa	576,842	215
Boolean search : 1 And 2 And 3 And 4		
TOTAL		215

Source: Bureau van Dijk Orbis (Orbis) database

The refined selection process resulted in a list of 215 entities. The list included entities that were involved solely in the primary sector of milk production, as well as entities that were involved in both the primary and secondary sector—therefore the processing (manufacturing and value-adding) of dairy products. The 215 entities were therefore investigated in more detail in order to identify entities that were specifically involved in the manufacturing and distributing of dairy products—*i.e.*, the secondary sector. Entities that were solely involved in the primary sector were excluded, as well as entities that did not have an official website (this was used as an indication of size and impact that the entity had within the secondary market). Since there are quite a number of dairy products available in the secondary market, the product list considered was limited to fresh milk, yogurts, drinking yogurts, and fruit juices.

In addition to the criteria as discussed and listed above, the organisation had to conform with the definition of a family organisation as defined in this study, and it also needed to be a major role player in the industry before being considered for the study. Their respective websites were screened to determine the following:

- Does the organisation define itself as a family organisation?
- What is the organisation's history?
- Which generation is currently in control?
- What are the product ranges?
- Who are the organisation's clients?

² Each added step narrows the search and therefore reduces the number of qualifying entities under the “search result” column.

Along with the above review, independent news and other news articles, relevant to the dairy industry, were reviewed to identify any major role players in the industry before a shortlist of six potential units of analyses was generated. The CIPC “abridged certificate for annual returns” was also reviewed in order to identify the surnames of the company directors. This was done because corresponding surnames may possibly be an indication of family relations.

The above process was followed in order to facilitate theoretical sampling. A comparable basis is ensured by the following factors: the organisations are from the same industry; they have similar products and clients; they are major role players in the market; they are privately owned; they are defined as family organisations; and they have similar generations in control. This allows for the prediction of similar results and literal replication as proposed by De Massis and Kotlar (2014:18).

All the shortlisted companies were contacted in order to determine their willingness to participate in the study. Due to various reasons, inter alia restructuring and time constraints of management, only two companies were willing to participate. Formal written consent for the studies was obtained from the chief executive officers of both companies, as per the requirements of the Research Ethics Committee of the College of Accounting Sciences. The two companies will, for confidentiality reasons, be referred to as Yogurt (Pty) Ltd and Cream (Pty) Ltd.

3.3.2 DATA COLLECTION AND RESEARCH INSTRUMENTS

Based on the information obtained from the literature review, two question data sheets (Annexure C: Factual organisational information and Annexure D: Company goals and success measures) as well as two interview schedules (Annexure E: Interview schedule – executives and management and Annexure F: Interview schedule – non-executives) were developed. The interview schedules were designed to make provision for responses by executive management and non-executive management.

The organograms of both organisations were obtained. These organograms stipulated all of the employees of the respective family organisations. Therefore, the individuals, as listed on the respective organograms, were identified as the population for sampling purposes. Purposive sampling was performed, thus identifying all the board members,

executive management, and senior management within the identified population. All of these individuals were contacted —through the office of the CEO— and appointments were scheduled with the available identified individuals. Semi-structured interviews were then conducted with members of the board, and/or executive and senior management, after which an analysis of the selected organisations' financial information and other relevant documentation was performed. It is important to note that the one-on-one interviews included both family and non-family members. In the end a variety of individuals was interviewed which resulted in multiple-informant reports (De Massis & Kotlar 2014:21).

In order to ensure data triangulation, as recommended by Yin (2009:114-117), and in order to test the credibility (Parker 2012:59) of the information obtained, the data collection process was designed to ensure that certain key information aspects will be obtained from various data sources (Eisenhardt 1989:534). An example of this is where information was obtained in writing from the chief executive officers and then verified against other information obtained from the same individuals, and then was further verified against other executives/management during the interview process. Official company and public documents in the form of, but not limited to, audited annual financial statements, policy documents, and schedules from the Companies and Intellectual Property Commission (CIPC) were obtained and also used to validate the information gathered during the interview process.

The data collection process, as well as the research instruments used, will now be discussed in greater detail.

3.3.2.1 QUESTION DATA SHEETS

The analysis of documentary sources is an important method of data collection and is seen as “meaningful” and “appropriate” (Mason 2002:103) in the context of this study. These sources may include documents that already exist prior to the research process, or these documents might be produced through the research process (Mason 2002:103).

Biographical data (Mason 2002:56) of the respective private family organisations were obtained through the use of a question data sheet (see Annexure C: Factual

organisational information). The required biographical data included the share ownership and voting rights; the governance structures formally in place; the individuals and/or structures responsible for the strategic direction of the organisation; the current shareholders and whether they have the intention to transfer ownership to the next generation; and, where applicable, the structure of the board of directors, management, policies and any other relevant governance structures. This formed the basis of further investigations, as the information was used to assess against the definition of a family organisation as defined in this study. It was also then compared to information obtained during the interview process to ensure the trustworthiness of the data. The chief executive officers were requested to complete this question data sheet (Annexure C: Factual organisational information).

The second question data sheet (Annexure D: Company goals and success measures) dealt with the goals and success measures of the organisation. The question data sheet was designed in such a manner so as to not specifically distinguish between financial and non-financial goals because the objective was to obtain richer data. Therefore, this required the respondent to rate his goals. Based on the analysis of the obtained information, it could be determined whether the company is leaning more toward financial or non-financial goals. The purpose of this was to explore the theories that suggest that family businesses are more focused on non-financial goals than on financial goals (Ganter & Kammerlander 2014:362).

Another objective of this second question data sheet was to determine what the organisations' specific goals are because this would provide context within which to analyse organisational value. The organisation can only be assessed against something that it aimed for (Barnett et al. 2012:268). If this context is not taken into account, it might lead to incorrect or skewed findings.

The chief executive officers of the respective organisations were invited to complete both Annexures C and D, and the chief financial officers of the organisations were invited to complete only Annexure D. The chief executive officers completed both question data sheets as requested, but the chief financial officers, of both organisations, unfortunately did not complete annexure D, as requested. This was compensated for through the interview process, where the interviewees were asked to explain their company's financial and non-financial performance objectives. The chief executive

officers were requested to not discuss their respective responses with the other interviewees prior to submitting the completed question data sheets. Again, this was done to ensure the trustworthiness (Guba 1981:83) of the information received and also to obtain an in-depth understanding (Dimitratos, Leppäaho & Plakoyiannaki 2016:167) of the interviewees' respective views on this matter. The information gathered from this will be used as part of the value analysis.

3.3.2.2 INTERVIEWS

Interviews formed the basis of the data collection process and were used to obtain a deeper understanding of the interactions, dynamics, and processes within the specific company. The literature review (refer to Chapter 2) was used as a basis for the development of a conversation-guiding interview schedule, as presented in Annexure E: Interview schedule – executives and management, and Annexure F: Interview schedule – non-executives. In order to obtain rich data, the majority of the questions were open-ended and semi-structured. The questions were also asked in a way which afforded the interviewee ample opportunity to express and explain their views regarding the various discussion points, without leading the interviewee to any specific conclusion. The interview schedule was divided into sub-categories, namely personal information of the respondent; formal governance structures in the company; succession; recruitment and appointment of employees; performance management of individual employees; accountability; privileged information; company performance; general information; and concluding/additional information. The purpose of this structure was to obtain facts (e.g. whether the person was a family member or non-family member; what their shareholding percentage is; etc.), as well as the respondents' opinion on the current processes and governance structures in place. In an attempt to obtain honest reflections from the interviewees, the researcher indicated, in the "Interviewee information sheet" (Annexure B) as well as on the front page of the "Interview schedule" (Annexures E and F), that the responses would be treated as confidential and that the individual contributions would not be linked to the specific individuals when reporting on the findings.

Individual interviews were scheduled with the registered members of the board, including non-executive representatives (where applicable), executive management, and where applicable, operational management of the respective private companies. A comprehensive sample was used since all the registered directors, the executive

managers, and senior managers, as stipulated on the organogram, were selected and approached for interviews. The majority of the selected individuals were available and participated in the interviews. All interviewees were issued an "Interviewee information sheet" (refer to Annexure B) prior to the interview. This sheet explained the aim of the study, the reasons as to why their company had been selected, the approximate duration of the interview, that the interview would be recorded, the type of questions that would be asked, the benefits to the organisation for participating in the study, and that he would not be adversely affected if he decided to withdraw during, or even after, the process, thereby ensuring informed consent. Written consent was obtained from all interviewees prior to the individual interviews being conducted.

Interviews were held with the following company representatives of both Yogurt (Pty) Ltd and Cream (Pty) Ltd:

- Chief executive officer
- Chief operational officer/operational director
- Chief financial officer
- Other executive directors
- Non-executive director (only one director, being at Yogurt (Pty) Ltd)
- Senior operational management

The interviewees included family and non-family members, thus creating multiple-informant reports (De Massis & Kotlar 2014:21) from both a family and a non-family perspective. Ten interviews at Yogurt (Pty) Ltd and nine interviews at Cream (Pty) Ltd took place. For confidentiality reasons, the individual interviewees will not be discussed in more detail.

3.3.2.3 SUPPORTING DOCUMENTATION

The interviewees were very cooperative in supplying their respective organograms, financial statements, and other supporting financial and policy documentation (Mason 2002:103). The member information as per the CIPC website was used to validate the accuracy of the completed question data sheets in so far it related to the registered board members. The company registration numbers were used to obtain the names, surnames, statuses and types of directors, as well as the registered auditors, directly from the CIPC website.

Documents, including policy documents, were obtained from the chief executive officer, chief financial officer, or delegated company representatives e.g. the secretary of the chief executive officer, or the human resources manager. No specific sample method was used because the chief executive officers were requested to supply, where available, all relevant policy documents, therefore not only a sample of the policy documents. The chief executive officers therefore had the prerogative to decide upon which policies to supply. The information obtained during the interview process was compared to the provided documents in order to determine whether, inter alia, these policies were in fact implemented within the organisation, or whether they were formulated more for the sake of appearance, and therefore not necessarily for the sake of implementation. The purpose of this was not to determine the extent or quality of the policies developed and implemented, but it was more to understand the types of policies that are being prioritised by the respective organisations.

Financial information, starting from the 2010 financial year, was requested from the respective private family organisations and was received from the chief financial officers in the form of audited annual financial statements. The annual financial statements of both Yogurt (Pty) Ltd and Cream (Pty) Ltd were received. These included the financial statements for the financial years ending 2010, up until their most recent available sets of audited financial statements, namely the 2015 financial year for Yogurt (Pty) Ltd and the 2016 financial year for Cream (Pty) Ltd. The organisations were requested to provide financial information starting from 2010 in order to ensure that enough data was available to determine any relevant trends within the data sets.

3.3.3 DATA ANALYSIS

A within-case analysis was done for both units of analyses, after which a cross-case analysis was performed, as recommended by Creswell (2013:101). A within-case analysis entails a detailed description of the specific case and any themes identified within the case. This process supports the understanding of the complexities found within the specific unit of analysis. The cross-case analysis is an analysis across the cases whereby common themes between the two cases are identified and analysed.

Primary data analysis

All the interviews, nineteen in total, were captured by means of digital voice recordings and have been kept in a secure archive. The interviews lasted, on average, between 60 and 90 minutes each. Eighteen out of the nineteen interviews were conducted at the respective company's premises and one interview was conducted telephonically. In the latter instance, the interviewer briefly met with the interviewee who requested that the interview be rescheduled. This meeting took place at the company's premises during the site visit, after which, the interviewee requested that the interview be rescheduled two weeks later and over the phone. All the interviews were conducted in the interviewees' language of choice and this therefore resulted in some of the interviews taking place in English and some taking place in Afrikaans. There was no risk of inconsistent translation and interpretation, as the primary researcher is fluent in both English and Afrikaans. To enhance confidentiality, should a response be quoted verbatim, it is always indicated in English, even if the original response was in Afrikaans. Once recorded, all the interviews were transcribed verbatim by an independent professional transcriber. A confidentiality agreement was signed by the transcriber prior to her obtaining the digital voice recordings. Subsequent to the transcribing of the recordings, the interviewer reviewed the respective transcripts by comparing them to the digital voice recordings. This was done to ensure the accuracy and completeness of the transcripts.

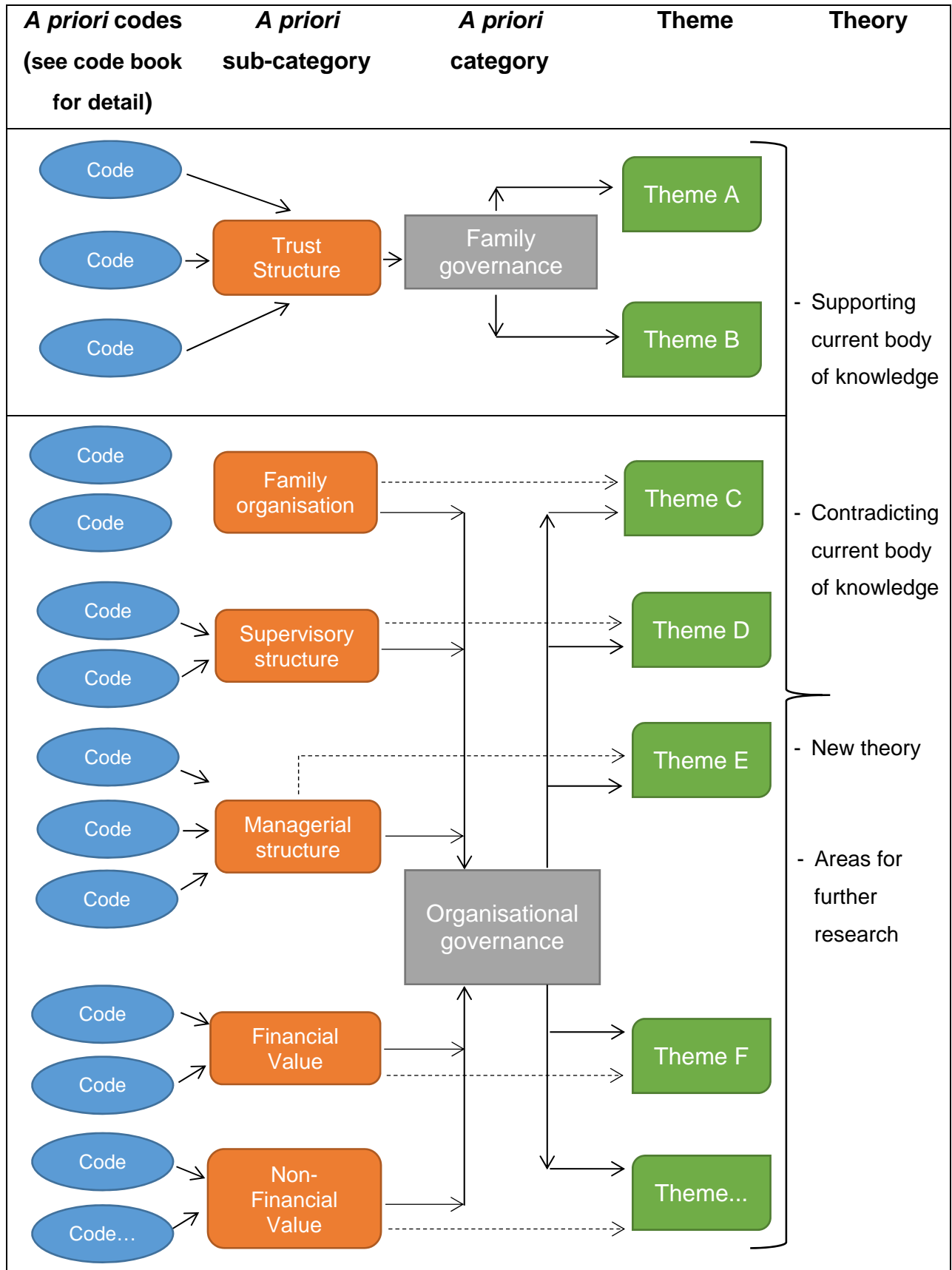
As the first step of the data analysis, the primary researcher read through all the transcriptions and summarised the responses that were received during the semi-structured interviews by making use of a matrix—a technique described by Yin (2009:129) and Tracy (2013:188), and implemented by Craig and Moores (2010)—for qualitative data analysis. The matrix was prepared in Microsoft Excel (Excel), thus following a computer-aided approach using everyday software (Tracy 2013:188). The matrix listed the respective interviewee numbers horizontally and the questions that were posed vertically. The matrix also made provision for any information obtained during the interview process that did not necessarily relate to any specific questions asked. Some interviewees were more verbally articulate than others and deliberated on various matters which were not necessarily in the same order as proposed in the interview schedule. These deliberations were categorised and summarised under the relevant questions that they pertained to, after which, the data was reflected upon and coded accordingly. A systematic process was followed in order to uphold the credibility

of any findings (Guba 1981:80; Guba & Lincoln 1982:246).

In order to complete the above mentioned matrix, transcripts were printed and reviewed. As suggested by Saldaña (2016:17), these printed transcripts were separated by lines into sub-units whenever the topic or sub-topic changed. These topics or sub-topics were linked to the pre-numbered items on the vertical axis of the matrix. This ensured a credible and systematic method of performing data reduction and also of transferring relevant data to the matrix. Important and/or relevant phrases in the transcripts were also highlighted.

A priori codes, *a priori* sub-categories, and *a priori* categories were used for the data analysis (Saldaña 2009:49). These were theoretically derived from the literature and the semi-structured interview schedules. This process was deemed important in order to ensure harmonisation with the study's research objectives and conceptual framework (Saldaña 2016:2,5). In addition to the *a priori* codes, some additional codes were identified during the data analysis process. These codes were also categorised under the relevant *a priori* sub-categories and *a priori* categories. The codes, *a priori* sub-categories, and *a priori* categories were combined and included in a code book—the details of which can be found in Annexure H: Code book. This code book was used as the basis for the deductive coding process. These codes, sub-categories, and categories formed the basis to identify themes relevant to the research objectives. This process is depicted in Figure 7 through the use of an adapted version of Saldaña's (2016:14) "streamlined codes-to-theory model".

Figure 7: Adapted codes-to-theory model



Source: Adapted from Saldaña (2016:14)

Once the data reduction and the coding were completed, the document was reviewed for any common themes and any contradictory findings, as depicted in Figure 7. These were then summarised and they are discussed under Chapter 4 – Presentation and analysis of data gathered.

The processes, as discussed above, were replicated for the second unit of analysis. The within-case and cross-case procedural replication (Yin 2009:54) supported fair and credible findings. Once the second organisation's within-case analysis was completed, a cross-case analysis was performed between the two units of analyses. Any common and/or contradictory themes were documented accordingly.

Secondary data analysis

Available industry information supported the discussion on the dairy industry in Chapter 4.2. Company websites, generally accessible electronic information, and official company documentation were used as the basis to document each company's history and characteristics. Company policies and other official documentation were used to test the credibility and conformability of the information obtained during the interview process. These documents and pieces of information were therefore supplemental in nature.

Financial statements were obtained from the respective chief financial officers and they were then analysed. The financial statements were not compared, as such, between the two units of analyses, but any trends that were identified within a unit's financial data were cross-referenced with the other unit's financial data to see whether the same trend was visible. The purpose of the financial data analysis was not to identify the actual performance of the company, but rather to infer whether there was any relative growth that could have been associated with the implementation of the governance structures put in place. The financial statements were also supplemental in nature as the transcribed interviews formed the basis of the data analysis.

3.4 LIMITATIONS

The main limitations of the overall case study design were that it will not be possible to perform a direct comparison between the two units of analyses and it will not be possible to extrapolate the findings. It will also not be possible to perform a scientific

generalisation as would have been the case with a quantitative design because the context of the individual cases might differ. However, scientific generalisations were never the intention of this study since the purpose was to understand the governance structures and their value within the context of the specific cases. As Yin (2009:16) indicates, a case study approach is able to describe the “how” or the “why” in a particular situation or case and is therefore “generalizable to theoretical propositions and not to populations or universes” (Yin 2009:15).

Some limitations of the specific design elements used in this research project are highlighted below:

Literature review

The literature available on private family organisations, especially in a South African context, is very limited. There are only a few contributors in the South African context and their research focuses mainly on themes relating to strategic planning, succession, and family relationships (Friedrich & Isaacs 2011:279). Internationally, there is more literature available on private organisations, but the focus of the family organisation research to date has mainly been on public family organisations due to the ease of access to information.

The above highlights the need for further research to be performed on private family organisations in a South African context. This study therefore responds to the call from Friedrich and Isaacs (2011:285) for more research on South African private family organisations.

Interviews

For fear of negative repercussions, interviewees may have been reluctant to give their honest opinions on certain sensitive matters, especially if it relates to their direct line manager or employer. These risks were mostly mitigated by assuring the interviewees that their confidentiality, as it relates to their individual contributions to the study, would be protected.

Document analysis as part of data triangulation

The advantage of document analysis is that it is an efficient and cost-effective method which, depending on the availability of the documents, could provide broad coverage of the issues at hand (Bowen 2009:31). A limitation experienced in this study was that,

although many documents were available in the public domain, there was a risk that the information might have become incomplete or outdated, for example the directors' information found on the CIPC website. The use of document analysis as part of the data triangulation process, however, adds to the accuracy, independence, and impartiality of the findings, therefore outweighing the disadvantages of the document analysis method (Bowen 2009:31-32; Mason 2002:103).

3.5 ETHICAL CONSIDERATIONS

As indicated under the Introduction section of this chapter, ethical clearance for this study was obtained from the Research Ethics Committee of the College of Accounting Sciences prior to performing the multiple-case studies (Annexure G: Ethical clearance certificate). The ethical clearance obtained included the approval of the detailed question data sheets and interview schedules to be used during the fieldwork, as well as the use of secondary data e.g. financial statements and policy documents.

Before conducting the interviews and any analysis of financial data, the target organisations were informed as to the purpose of the study, the extent of the study, and the method to be followed. Formal approvals to engage were obtained from the chief executive officers of the respective family organisations.

An Interviewee information sheet was given to all interviewees prior to the interviews (Annexure B: Interviewee information sheet). This document explained the purpose of the study, the reasons for the selection of the specific organisation and the interviewees, the envisaged duration of the interview, as well as the content to be covered. It also indicated that the interviews would be recorded by using a digital sound recording and then transcribed by a professional transcriber to ensure factual accuracy and completeness of the data captured. They were informed that the professional transcriber had signed a confidentiality agreement. The interviewees were assured that the individual interviews would be treated as confidential and that their names would not be linked to their individual contributions. They were informed that this would be ensured through allocating a respondent number to the various responses. Any personal information that was obtained during the performance of the case study is restricted to the interviewee's relationship/involvement in the family structure. The acquired information is thus not of a sensitive nature.

Because of the non-personal and non-sensitive nature of the study, it was indicated to the interviewees that no potential harm is/was anticipated from their participation in the study, and that they had the right to withdraw their participation at any time during the research process. All the interviewees gave their consent prior to the interview and signed the letter of consent (refer to Annexure B).

3.6 CONCLUSION

In summary, a multiple-case study was performed in order to answer the *how* and *why* questions as they related to the governance structures of the private family organisations. This method was used to obtain an in-depth understanding of the described phenomena within a real-life context.

The methodological challenges of trustworthiness were addressed in this chapter. Credibility was accomplished e.g. through member checking. In line with the ethical approval obtained for this study, the results were submitted to the featured private family organisations in order to obtain feedback from the respective organisations on the interpretations and conclusions of the study (Thomas 2010:319). Member feedback is important to establish credibility (Guba & Lincoln 1982:246). The findings are also supported by direct quotations, thereby ensuring a chain of evidence. A structured research approach and data management process was also followed, thus achieving structural coherence (Krefting 1991:217). The findings of this study are presumed to be credible since it is believed that the human experience, as reported, will be recognised by others who share the same experience (Krefting 1991:216)

Sufficient descriptive data has been presented to allow for comparison. This will therefore enable other researchers to transfer this study's findings to other situations or populations (Krefting 1991:216). Transferability has thus been addressed. Dependability was achieved through detailed descriptions of how the entire case study was conducted, through the establishment of a record database (inter alia interview transcripts and archival data), through triangulation, and through assuring a meaningful comparison of findings across multiple data sources (Krefting 1991:217). The use of multiple sources of evidence (inter alia interview data, financial statements, press articles, and other secondary data), in other words, data triangulation, contributed to the conformability of this study.

CHAPTER 4 – PRESENTATION AND ANALYSIS OF DATA GATHERED

4.1 INTRODUCTION

This chapter will present and analyse the data of Yogurt (Pty) Ltd and Cream (Pty) Ltd. The presentation and analysis of the data will be divided into four sections. Section A includes a short introduction on the South African dairy industry (Section 4.2), the organisational history of both Yogurt (Pty) Ltd and Cream (Pty) Ltd (Section 4.3), the relevance of these organisations as they relate to this study's definition of a private family organisation (Section 4.4), and the biographical data of the featured family organisations (Section 4.5). The first three sub-sections provide the context within which the featured cases operate. The fourth sub-section, biographical data, is a response to research objective A.2. The full objectives will be repeated below, at the relevant section.

Section B comprises a detailed data analysis (Section 4.6) of both Yogurt (Pty) Ltd and Cream (Pty) Ltd. This is in response to research objective A.3. Due to confidentiality reasons, the interviewees are not named, but unique reference numbers were allocated to each of the individual interviewees. The numbers allocated to the interviewees of Yogurt (Pty) Ltd range from Interviewee #Y1 up to, and including, Interviewee #Y11. The numbers allocated to the interviewees of Cream (Pty) Ltd range from Interviewee #C1 up to, and including, Interviewee #C9.

Section C discusses the impact of organisational governance structures on the value on these private family organisations (Section 4.7) and presents a summary of both organisations' structures (Section 4.8). This is done in response to research objective A.4.

Section D presents and discusses the cross-case analysis (Section 4.9), and concludes with a summary of the entire chapter (Section 4.10). It therefore addresses the overall research objective—research objective A— of this study.

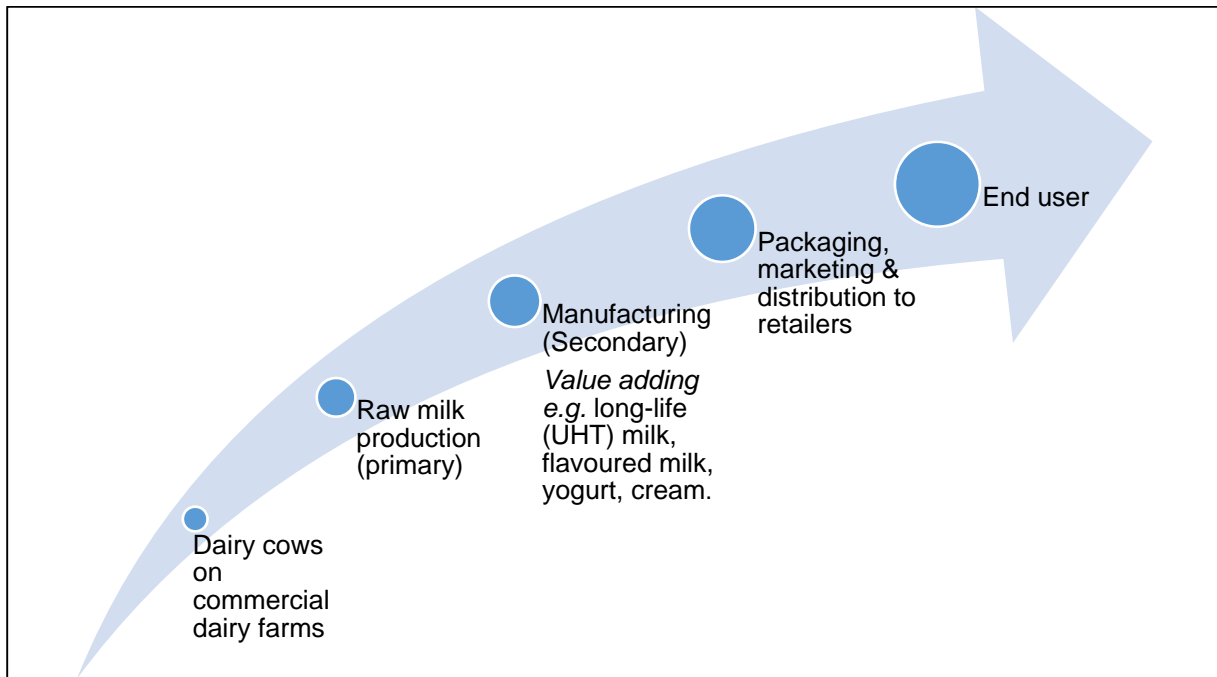
SECTION A

4.2 DAIRY INDUSTRY

The Department of Agriculture, Forestry & Fisheries (2012:1), in their report, *A profile of the South African dairy market value chain*, stated that South Africa contributes to approximately 0.5% of the world's milk production. The South African dairy industry is comprised of various economic activities which include the primary production of raw milk and the secondary production of, for example, long-life (UHT) milk, flavoured milk, yogurt, cream, and cheese. In addition to these products, some of the bi-products include whey, condensed milk, and butter. Liquid products, of which pasteurised liquid milk and long-life (UHT) milk are the main products, comprised 58% of the South African dairy market during 2015, and concentrated products, for example hard cheese, comprised 42% of the South African dairy market in the same year (Milk South Africa 2015:25).

The generic dairy production and distribution process (in its simplified form) can be described as follows: it starts with the farmer who commercially farms with milking cows; the farmer then sells "raw milk" in bulk to dairy manufacturers or processors. Some dairy manufactures also have their own commercial farming divisions. The dairy manufacturers add value to the raw milk by producing products like long-life (UHT) milk, flavoured milk, yogurt, and cream from the raw milk. These products, in addition to the fresh milk, are then packed, marketed, and distributed to retailers who then, in the end, sell them to the end user (see Figure 8).

Figure 8: Simplified generic dairy production and distribution process



Source: Own observation (based on information obtained during the fieldwork)

The dairy industry, like most agricultural activities, is relatively seasonal. This statement is supported by the “monthly raw milk purchase trend from January 2010 to December 2014” which clearly indicates that the demand for milk decreases in the winter months and steadily increases from August onwards—with the highest demand being in December (Milk SA 2015:13). This decrease might also result from a decrease in milk supply during the winter months. As per the information presented by Milk SA, this trend has been consistent for the last five years.

Dairy farmers or producers often feel that they have no control over the milk price because general market conditions and dairy manufacturers determine the price at which the raw milk will be sold. It is therefore debated, on a regular basis, whether the dairy farmer receives a fair share of the price paid by the end user (Coetzee 2014:9). The price issue might force dairy farmers to either increase their farming activities to a much larger scale, which then also normally includes adding value to the raw milk, or alternatively, the farmers are forced to close down their dairy farms. The number of South African milk producers, *i.e.* dairy farmers, decreased from 3 899 in January 2007 to 1 834 in January 2015 (Milk South Africa 2015:20).

As of March 2015, there was a total of 122 South African dairy producer-distributors (PDs)—i.e. producers that also manufacture and distribute—registered with Milk SA. The majority of these PDs are located in Gauteng (21,3%) and the Western Cape (20,5%), with the minority being located in Limpopo (6,6%) and North-West (4,9%) (Milk South Africa 2015:25).

While this sub-section has indicated some important statistics and processes that are relevant to the industry in which the selected units of analyses operate, the remainder of the chapter will focus on a detailed presentation and analysis of data obtained at the selected units of analyses.

4.3 ORGANISATIONAL HISTORY

Organisational history is important in order to fully understand the context within which a specific case operates. In order to contextualise the featured cases, the organisational histories will be discussed. This discussion will focus on how the organisations came into existence, the timeframes within which this happened, their status within the market, as well as other interesting information about them.

4.3.1 YOGURT (PTY) LTD: ORGANISATIONAL HISTORY

Yogurt (Pty) Ltd's organisational history started more than 150 years ago as a small scale farm and was transferred from generation to generation until it reached the fourth/fifth generation. At that point, the focus was mainly on wheat, wine, and dairy farming. The farm supplied milk to larger dairy manufacturers who operated in a highly regulated environment, where government intervened in the supply and demand principle. This resulted in an uncompetitive industry with limited opportunities for new players to enter the market of manufacturing of dairy products. Since the dawn of democracy in 1994, the agro and agro-processing environment adopted the free-market principle. In a free-market environment, the working of the markets is determined solely by supply and demand, with very little or no government intervention. This change of scenery opened the way for the family to start a process of adding value to the milk produced on their farm. A dedicated production facility was subsequently built and the company, represented by the first generation in terms of the manufacturing division, but represented by the fifth generation in terms of farming, entered into an exclusive supply contract with one of the South African premium brand retail companies.

Currently, the company still supplies products to this premium brand retail company under the retailer's house brand. They have, however, also very successfully launched their own private brand at various retailers. The company's product range includes milk (flavoured and unflavoured), cream, yogurt, fruit juice, and dessert. For confidentiality reasons, their main distribution areas in South Africa will not be indicated. Yogurt (Pty) Ltd is a major role player in the dairy industry, and the company and/or its representatives has/have been nominated for, or has/have won various industry related titles and awards.

4.3.2 CREAM (PTY) LTD: ORGANISATIONAL HISTORY

Thirty-five years ago, the founders of Cream (Pty) Ltd bought a small dairy with less than twenty cows, of which not even 50% were producing milk. The dairy was situated in a non-traditional milking area and the market for fresh milk was very limited, *i.e.* less than 35 litres were required per day. Through hard work—including door-to-door deliveries—and a quality product, the founder managed to increase the supply, as well as the demand in that area, to 1 200 litres per day. Five years later, an increase in demand in nearby areas motivated the founder to relocate and purchase the farm where they are currently operating from. They constructed a cowshed, a small factory, and a barn, after which the just more than one hundred and fifty cows were moved to the new facilities.

The family organisation has always been very involved in community development and has, as a result, received a lot of support from the local community. The organisation grew from strength to strength, and eighteen years after the establishment of their new facilities, the family bought out their biggest competitor. This enabled them to actively extend their market share. In order to ensure the quality of their products, all manufacturing activities were moved to Cream (Pty) Ltd's current premises.

During the period of 1992 to 1994, the second generation became involved in the management of the organisation which resulted in a multi-generation management team. The presence of more than one generation, and the impact of the inter-family relationships on the organisation as well as on the family relationships, necessitated the need for a review of the structures that were in place. This review resulted in the implementation of new governance structures and a decrease in family members formally involved in the daily operations of the organisation.

The owners and management of Cream (Pty) Ltd believe in using the latest technology in their operations and they have, therefore, implemented world-class milking and other machinery. This assisted them in becoming one of the leading food manufacturers in the country. They are regularly audited by food auditing firms, and they comply with all the relevant food safety requirements. The organisation's clients include well-known premium brands and other retailers. Cream (Pty) Ltd is a major role player in the dairy industry, and the organisation and/or its representatives has/have been nominated for, or have also won various industry related titles and awards.

4.4 DEFINITION OF A FAMILY ORGANISATION

The definition of a family organisation, as discussed under the literature review (see Chapter 2.2), lists three key elements as the basis for an organisation to be defined as a family organisation. They are the following: ownership, which includes the majority of the decision-making rights; the involvement of family members in the governance of the organisation; and thirdly, the current owners' multi-generational visions (European Commission - Enterprise and Industry Directorate-General 2009:9-10; Astrachan & Shanker 2003:211-212 & Poza 2009:6).

4.4.1 YOGURT (PTY) LTD: DEFINED AS A FAMILY ORGANISATION

In Yogurt (Pty) Ltd, the majority of the decision-making rights—with the majority being 92%—belong to members of the owning family through indirect shareholding. Family members are formally involved in the governance structures of the organisation—38% of the board of directors and 56% of the executive management are represented by family members. The majority of interviewees were of the opinion that the company is structured and managed with a long-term vision in mind. This is evident from the training and orientation programs that are put into place in order to develop the next generation family members into potential members of management. The long-term view is also evident from the fact that the shareholding is owned through vehicles that were established to try to mitigate the negative effects on the management of the organisation as a result of an increase in the number of family shareholders. These vehicles also safeguard the transgenerational transfer of ownership without selling the actual shares to next generation family members. It can, therefore, be deduced that the current intention is to transfer the company to the next generation and the generations

to come. It was, however, mentioned that should the current owners receive a worthy offer for the business, the shareholders would consider selling the manufacturing company. However, it was indicated that they probably would not consider selling the farms. The motivation for this is likely to be more emotional than financial due to their long family history of farming.

Taking into account the current shareholding structure of Yogurt (Pty) Ltd; the information that is publicly available on this organisation; the reasons given for the specific ownership structures in place; and the interviewees' comments on the question posed as to whether or not they believe that it is the current owners' intention to transfer the company to the next generation, the researcher believes that the unit of analysis falls within this study's definition of a family organisation.

4.4.2 CREAM (PTY) LTD: DEFINED AS A FAMILY ORGANISATION

In Cream (Pty) Ltd, 100% of the ownership and decision-making rights, although indirectly through trust structures, is in the hands of the owning family. The voting rights at shareholders' meetings are in line with their share ownership percentage. The supervisory governance structures consist of an advisory board and a company board of directors. Family representatives, who include executive and non-executive members, constitute 62.5% of the advisory board members. 50% of the company's board of directors are family members. Taking cognisance of the above percentages, it is clear that the family, directly or indirectly, controls the majority of the decision-making rights and is involved in the governance structures of the organisation.

It is the founder's intention, as well as the intention of the second generation owners, to transfer the organisation to their children and grandchildren. Formal succession plans regarding both ownership and management are also in place. The majority of the interviewees confirmed the current owners' multi-generational vision. Comments with respect to the founder indicated that the founder's sole purpose, since the establishment of the organisation (Interviewee #C2), was to build the organisation for the benefit of his children and grandchildren (Interviewee #C4). The second generation owners realised that it was their parents' dream to transfer the organisation to the next generation and they therefore feel obliged to help realise that dream (Interviewee #C1). The current owners see themselves as stewards (see Chapter 2.3.1 for the principles of

stewardship), who manage the organisation for the benefit of future generations (Interviewee #C2), as their parents did. This multi-generational vision is also demonstrated through the investment vehicles used for the structuring of the organisation's shareholding.

It is important to note that the current owners are not oblivious to the general financial challenges, as well as the potential financial value, locked within the family organisation. The feasibility of the multi-generational vision will therefore need to be tested on a regular basis (Interviewees #C1 and #C3). However, it was noted that, should the family decide to sell the organisation, they would probably still work together as a family in future because "what we do, works" (Interviewee #C2).

Interestingly, some of the interviewees felt that the implemented changes in the governance structures of the organisation and the resultant decrease of family members working at the organisation are indicative of the fact that the multi-generational vision relates mainly to shareholding and not necessarily to management. It is therefore envisaged by these interviewees that the family members will, in the long-term, retain ownership control of the organisation, but that they will not necessarily play an active role in the daily execution of strategy. It might therefore be deduced that the long-term intention of the organisation is to aim towards a more corporate or professional organisational structure (Interviewee #C7).

Taking into account the current shareholding structure of Cream (Pty) Ltd, the information publicly available on this organisation, the reasons given for the specific ownership structures in place, as well as the interviewees' comments on the current owners' intention to transfer the company to the next generation, it is believed that Cream (Pty) Ltd falls within this study's definition of a family organisation.

4.5 CURRENT STRUCTURE OF SUPERVISORY AND MANAGERIAL GOVERNANCE

This sub-section addresses research objective A.2., which is the following:

To identify, through a multiple-case study analysis, the format and levels of governance structures in the selected private family organisations.

The chief executive officers of the featured cases were requested to complete a data question sheet (Annexure C: Factual organisational information) which supplied biographical data about the structure of the governance mechanisms within the respective organisations. This information, in conjunction with interview data and information from the Companies and Intellectual Property Commission (CIPC) website, was used to paint a picture of the current structure of supervisory and managerial governance structures within these private family organisations. These will be discussed under the headings of ownership, supervisory, and managerial governance structures as per the conceptual framework depicted in Figure 1.

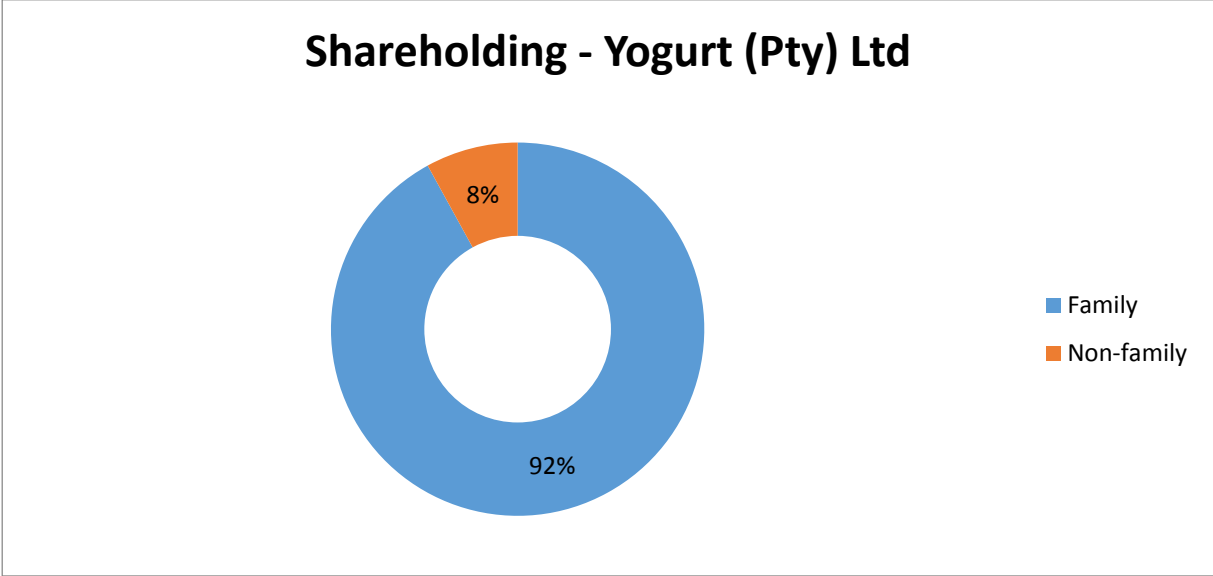
4.5.1 YOGURT (PTY) LTD: CURRENT STRUCTURE OF SUPERVISORY AND MANAGERIAL GOVERNANCE

In the following sub-sections, the current organisational structure of Yogurt (Pty) Ltd will be presented after which a detailed discussion will take place on the role of these structures within the family organisation.

4.5.1.1 OWNERSHIP

The shareholding of the manufacturing company consists 92% of family shareholding which is indirectly held through a holding company, and of which its shares are held 100% by a main family trust. The beneficiaries of the main family trust are the individual siblings' trusts. The residual 8% of the manufacturing company's shareholding is indirectly held by a non-family executive member through his personal family trust.

Figure 9: Shareholding of Yogurt (Pty) Ltd



Source: Own observation (based on information obtained during the interviews)

In terms of various agreements that support these ownership structures, only the current generation’s shareholders can sell their respective shareholding in the company to any of the other shareholders. From the second generation onwards, those generations are only beneficiaries of the family trusts and are thus not allowed to sell their shareholding. It is structured as such in order to avoid dilution of the shareholding to a point where it is impossible to manage the company effectively. Only the directors of the company can decide to sell the company as a whole; therefore, no piecemeal selling of shares is allowed (Interviewees #Y2 and #Y8).

The family shareholders anticipated that, if the current structures were not in place, the organisation would end up with large numbers of next generation shareholders, each with a very small shareholding percentage. According to the interviewees this would make it impossible to manage the business effectively. The interviewees also indicated that the current organisational design has the benefit of limiting the number of minority shareholders, who would otherwise have a say in the management of the company simply because they have the family surname and, not as a result of their knowledge and expertise.

The shareholding issues raised by the shareholders, and the subsequent implementation of the current ownership structure, are supported with the following quotations, as depicted in Table 4:

Table 4: Reasons given for the ownership structure of Yogurt (Pty) Ltd

No.	Reason given	Interviewee
1.	“Specifically to avoid what happens to all businesses in the third generation when there are a thousand shareholders...everyone has the objective to buy a speedboat and a car”.	#Y2
2.	“Everybody just wants to unbundle the trust’s wealth to themselves”.	#Y5
3.	“At the end of the day he is only worried about what he can get and not whether he is killing the goose that lays the eggs”.	#Y2
4.	“That you do not dilute the shareholding to the point where there are individuals involved, just because he is a descendant of myself”.	#Y5
5.	“My great-grandchildren later on own three percent and five percent or whatever in the company and they want to swing the sceptre”.	#Y5

Source: A selection of interviewee responses

In order to strengthen the family governance structure, the trustees of the main shareholding trust have officially been predetermined (in the trust deed) and will, going forward, always consist of one representative of each individual family trust and one representative from the non-family executive member’s trust. In addition to the “shareholder representatives”, the board of trustees will always include three independent trustees, namely a businessman, a legal specialist, and a financial/accounting specialist. The board of trustees will have the authority to appoint the directors of the company.

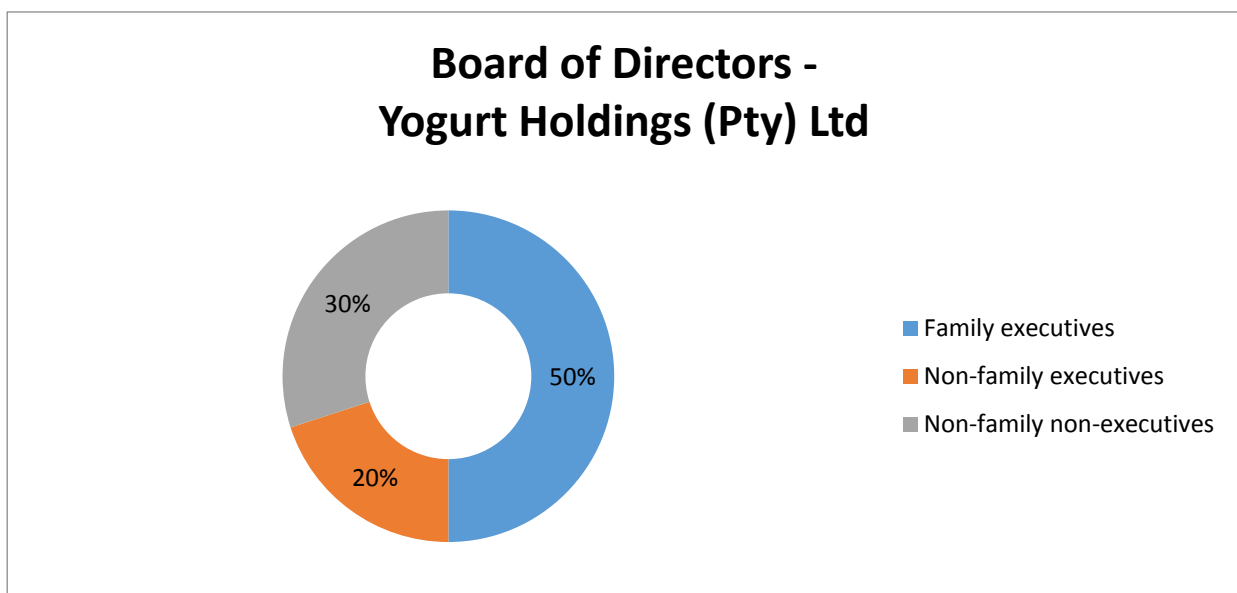
4.5.1.2 SUPERVISORY GOVERNANCE

The study initially focused specifically on the operational section of Yogurt (Pty) Ltd. After a discussion with the various interviewees, it became apparent that Yogurt (Pty) Ltd could not be investigated in isolation as the board of Yogurt Holdings (Pty) Ltd plays an important role in the governance of Yogurt (Pty) Ltd. Both of these supervisory structures will therefore be described.

Supervisory Governance: Board of Directors

Yogurt Holding (Pty) Ltd's board of directors consists of 50% family executives, 20% non-family executives, and 30% non-family, non-executives (see Figure 10). These members are all registered directors as per the 2016 Companies and Intellectual Property Commission database. With reference to the non-family, non-executive directors, 67% are totally independent, whereas 33% form part of the company's professional support network. The chairman of the board of directors is a non-family, non-executive director. The non-executive board members are well qualified and/or highly experienced individuals. The board officially meets at least once a quarter. An annual general meeting is held once a year where the financial statements are presented to the meeting by the company's auditors.

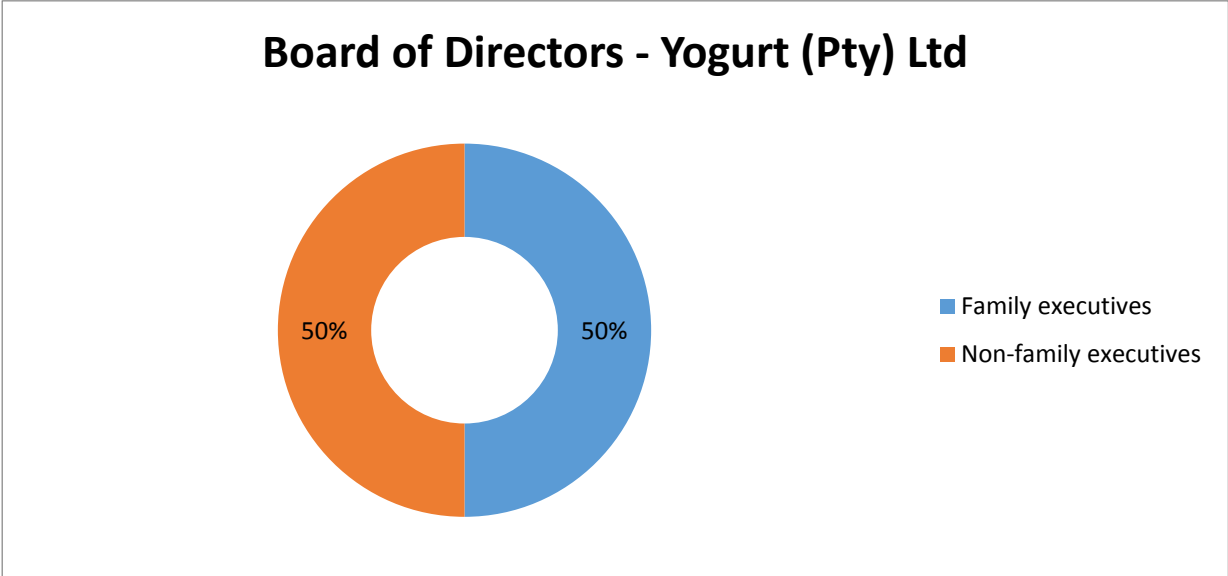
Figure 10: Board of Directors of Yogurt Holdings (Pty) Ltd



Source: Own observation (based on information obtained during the interviews)

In comparison to the board composition of Yogurt Holdings (Pty) Ltd (Figure 10), Yogurt (Pty) Ltd's registered directors—at the time of the interviews—consisted of 60% family executives and 40% non-family executives. This information was verified against the Companies and Intellectual Property Commission database during the year 2014. This composition subsequently changed to 50% family executives and 50% non-family executives, as depicted in Figure 11.

Figure 11: Board of Directors of Yogurt (Pty) Ltd



Source: Own observation (based on information obtained during the interviews)

Various board sub-committees with formal terms of references are in place. These sub-committees include, but are not limited to, a financial committee, an audit committee, a risk committee, a human resources and ethics committee, a marketing committee, and an information technology committee. These committees (except for the audit and risk committees) are not required by law but are put into place because the board of directors is of the opinion that it is an important part of the company’s corporate governance structure. There is a good blend of family, non-executive, and executive directors on these sub-committees, which then again feeds into the board meetings (Interviewee #Y9). The board’s sub-committees then also “dovetail” into operational management committees (Interviewee #Y9). This facilitates communication flow both upwards and downwards in the organisational structure of Yogurt (Pty) Ltd.

4.5.1.3 MANAGERIAL GOVERNANCE

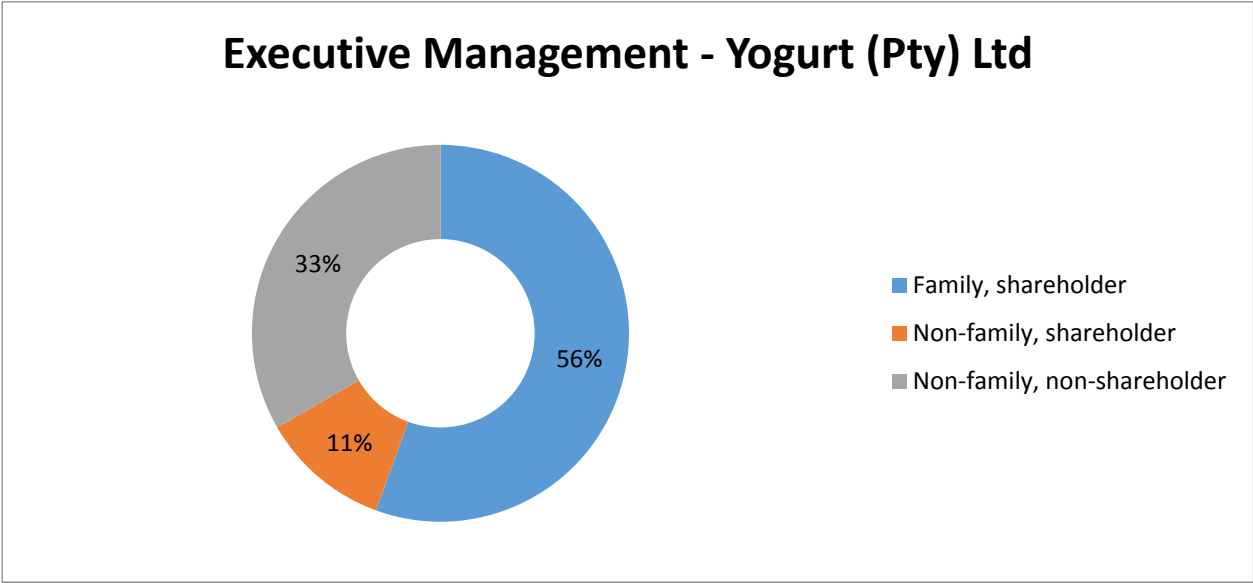
The managerial governance structures of Yogurt (Pty) Ltd will be presented under the two headings: Executive Management, and Policies.

Managerial Governance: Executive Management

With regard to the executive management, the chief executive officer is a family member and indirect shareholder; the chief operations officer is a non-family, indirect

shareholder; and the chief financial officer is a non-family, non-shareholding director. Risk management and human resources are headed up by non-family, non-shareholding managers with, as stated by Interviewee #Y11, “intense autonomy”. The remaining family members head up key departments within the company. This results in a family representation of 56%, a non-family shareholder representation of 11%, and a non-family, non-shareholder representation of 33%, as depicted in Figure 12.

Figure 12: Executive Management of Yogurt (Pty) Ltd



Source: Own observation (based on information obtained during the interviews)

Managerial Governance: Policies

After discussions with the various interviewees, it was clear that there were quite a number of policies in place. The existence of these policies was validated by performing a high-level review of the various policy documents as supplied by the office of the chief executive officer. One of the main policy documents identified is a chart of authority that determines the authorisation levels, limits, documentation, and signatories required for, for example, the purchasing of capital and non-capital goods, sales to new customers, specials run, deals made with certain customers, credit limits, cheque and electronic payments made, as well as foreign exchange payments. It also stipulates the approvals required for the appointment of new employees, the entering into of new contracts, and travel arrangements.

Other policies that are in place can be summarised under the following headings and, for example, include the following:

- Finance: accounting policy, accounts payable, capital expenses, credit and collection, and discounts.
- Human resources: annual bonus, dress code, corporate gifts, education assistance, leave, nepotism, new employee induction, profit sharing, recruitment and selection, training and development, and world class focus.
- Information technology: digital camera usage, internet usage, laptop usage, and password usage.
- Logistics: cold room security, cost centre management, delivery of loads, picking and loading of cages, and route allocation procedure.
- Procurement: acquisition of new assets, disposal of assets, purchase orders and goods received notes, and reallocation of assets.
- Risk management: risk management policy, risk management strategy, key control, and risk control organogram.
- Sales and marketing: company logo usage, price changes, sales forecasting and performance, sponsorship and donations, vehicle tracking, media communication, and trade shows.

4.5.1.4 DISCUSSION OF GOVERNANCE STRUCTURES

From the above structures, as well as from the information obtained during the interviews, it is clear that the principles of King III (IoDSA 2009) formed the foundation of the governance structure development in Yogurt (Pty) Ltd. The establishment of these good corporate governance structures and policies started during 2009/2010 whereas, in the past, there were almost no formal structures in place (Interviewee #Y6). The development, as well as the implementation thereof, was driven by the chief executive officer and the then non-executive independent director, who, as per one of the interviewees, “was a demon on corporate governance” (Interviewee #Y11). The corporate governance structures in the organisation are very formal. “I think we are formal...hundred and twenty percent structured” (Interviewee #Y1). “I would almost say it’s kind of...it’s a great amount of governance” (Interviewee #Y9).

A culture of good corporate governance is established within the company, but as one interviewee put it, “Yes, it is formal, these things became inextricably part of our business, with our formal management structure. It doesn’t always work one hundred percent...especially between family...it is a very difficult thing to put in place between family. It’s [sic] not coming easily, they need to buy in...and they should want to keep to it” (Interviewee #Y2). Exploring this statement, it is clear that governance structures are important to the organisation and have, therefore, formally been implemented. It is, however, evident that the challenge experienced by Yogurt (Pty) Ltd is to consistently enforce these structures, especially with respect to family members who are actively involved in the management of Yogurt (Pty) Ltd and/or the wider family business group.

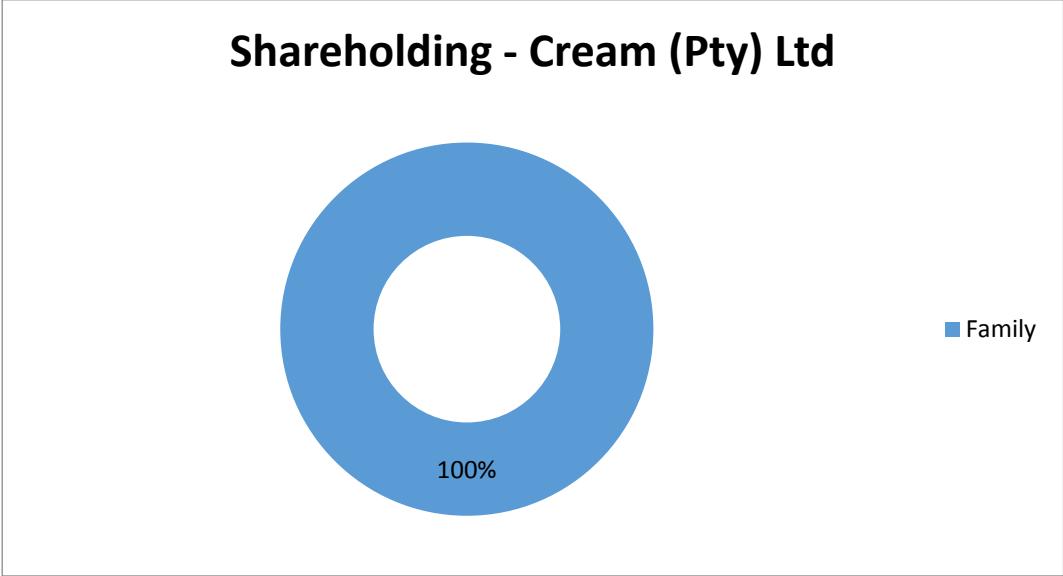
4.5.2 CREAM (PTY) LTD: CURRENT STRUCTURE OF SUPERVISORY AND MANAGERIAL GOVERNANCE

In the following sub-sections, the current organisational structure of Cream (Pty) Ltd will be presented, after which a detailed discussion will take place on the role of these structures within the family organisation.

4.5.2.1 OWNERSHIP

The shareholding of Cream (Pty) Ltd consists of a main family trust that owns 70% of the organisation, and three individual family trusts that each own 10% of the organisation, therefore resulting in an indirect 100% family ownership. The shareholding of Cream (Pty) Ltd is depicted in Figure 13.

Figure 13: Shareholding of Cream (Pty) Ltd



Source: Own observation (based on information obtained during the interviews)

The founding members of Cream (Pty) Ltd, as well as the three family trusts, each holding a 10% shareholding, are nominated as the beneficiaries of the main trust. The main trust's board of trustees consists of 75% family trustees and 25% independent trustees. The independent trustee of this trust is a member of the organisation's professional network. The chief executive officer of Cream (Pty) Ltd is currently the chairman of the main family trust's board of trustees; the chairman is, therefore, a non-independent and executive family member. The three siblings and their spouses are on the board of trustees of their own individual 10% family trusts. No in-laws are allowed as trustees on the main 70% family trust. This is done in order to limit the extent of conflict at these meetings since, according to the interviewee, conflict increases when all the siblings and in-laws are present in the same meeting.

The primary responsibility of the main family trust's board of trustees is to ensure that, from a shareholder perspective, the organisation retains its strategic direction. From the question data sheet completed by the chief executive officer, it was noted that the trustee meetings are held on a quarterly basis, and they are mainly used to discuss the financial performance of Cream (Pty) Ltd, as well as any family-related issues.

Initially, the family held formal family meetings as suggested by many family researchers (Carlock 2009:20; Dana & Smyrnios 2010:48; Diederichs & Maas 2007:137). These family meetings did not include any external, non-family advisors, but

did include the family in-laws. The meetings were seen as a waste of time because of the conflict that arose between the various family members and in-laws or because the conflict that arose between the in-laws themselves, and the meetings were therefore discontinued.

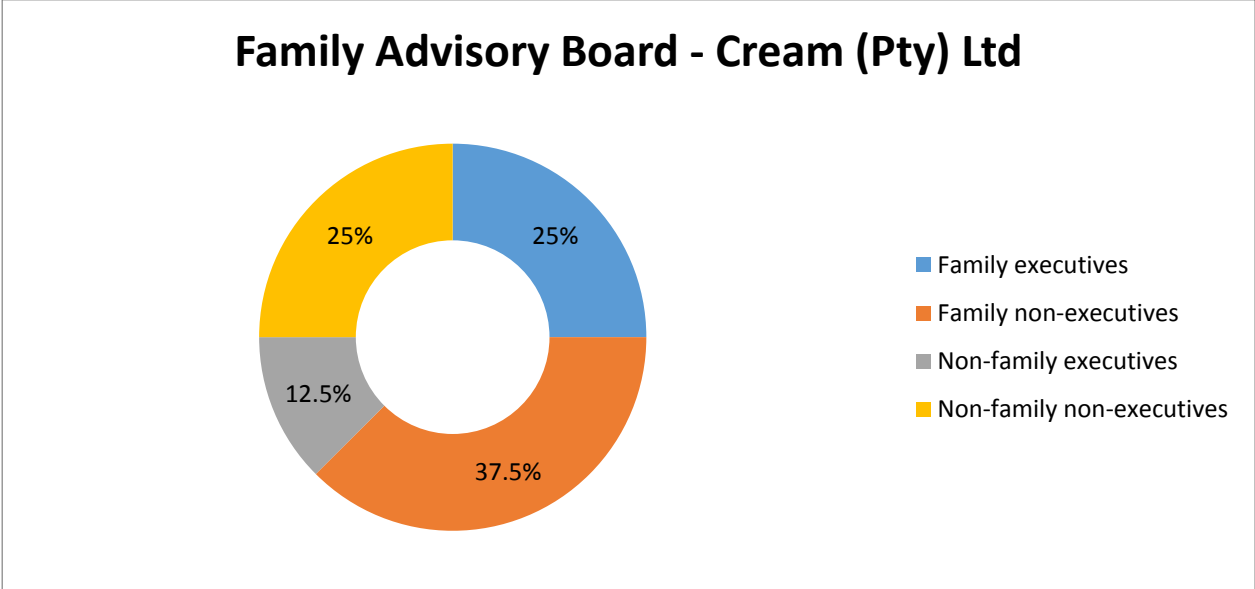
4.5.2.2 SUPERVISORY GOVERNANCE

As the organisation developed and expanded, the shareholders were no longer able to attend to all the operating functions of the organisation. In line with agency theory (Jensen & Meckling 1976:310), the shareholders (*i.e.* the principals) identified the need to appoint managers (*i.e.* agents) and to delegate certain functions to these managers. Consequently, the shareholders needed to mitigate any potential agency risk and they therefore implemented certain governance structures in order to ensure the alignment of the agents' interest and/or behaviour with that of the principals. These implemented structures included the establishment of a family advisory board and a company board of directors.

Supervisory Governance: Family Advisory Board

The family advisory board is an unofficial board with no registered members. The board consists of 25% family executives, 37.5% family non-executives, 12.5% non-family executives, and 25% non-family non-executives. The non-family, non-executives are specialists in the primary and secondary dairy industries and act as independent advisors on the family advisory board. Their purpose is to offer strategic advice to the advisory board. They also assist the non-executive family members on the family advisory board with respect to the measurement of executive performance and the setting of executive salaries. The advisory board has the responsibility of appointing the chief executive officer of Cream (Pty) Ltd. The composition of the family advisory board of Cream (Pty) Ltd is depicted in Figure 14.

Figure 14: Family Advisory Board of Cream (Pty) Ltd



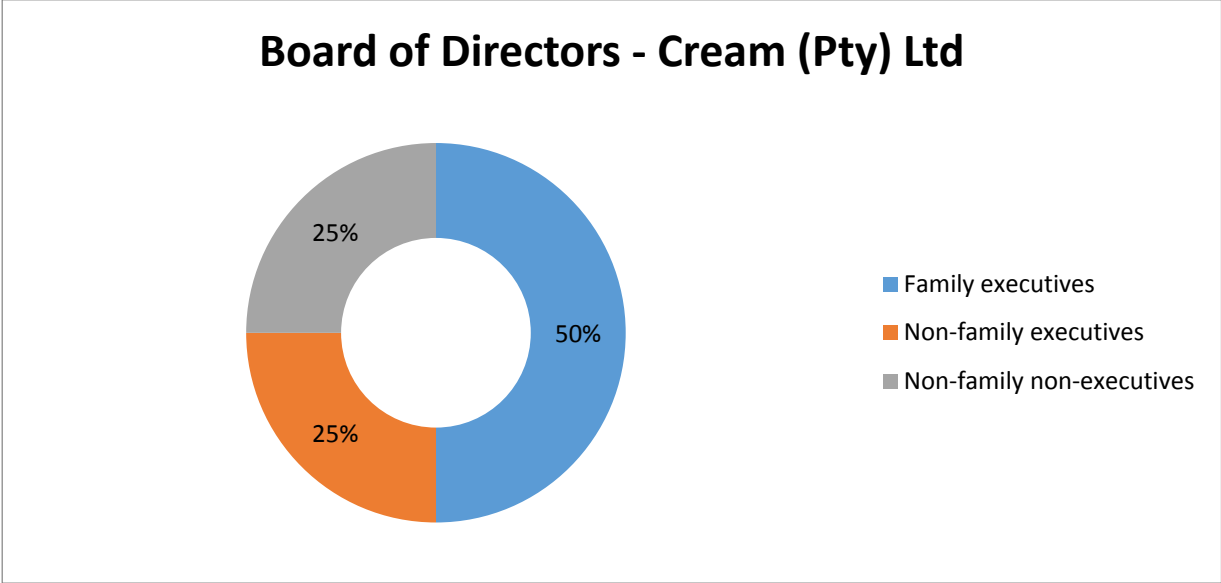
Source: Own observation (based on information obtained during the interviews)

This board initially met three times a year, but the official meetings were later reduced to once a year. Although the advisory board officially only meets once a year, it formally receives financial information on a bi-annual basis. In addition to this, the independent advisors regularly interact with the executive members. They are also involved in any major projects that the organisation might undertake during the financial year.

Supervisory Governance: Board of Directors

The chairman of the board of directors is a family, executive director; therefore, he is not an independent chairperson. Cream (Pty) Ltd’s board of directors consists of 50% family executives, 25% non-family executives, and 25% non-family, non-executives. The composition of the board of directors of Cream (Pty) Ltd is depicted in Figure 15.

Figure 15: Board of Directors of Cream (Pty) Ltd



Source: Own observation (based on information obtained during the interviews)

The non-family, non-executive director is an unofficial director since he is not formally registered as a director of Cream (Pty) Ltd (Companies and Intellectual Property Commission (CIPC) 2014). The board does not have any formal board sub-committees or board policies. The board meets on a monthly basis (Interviewees #1 and #6).

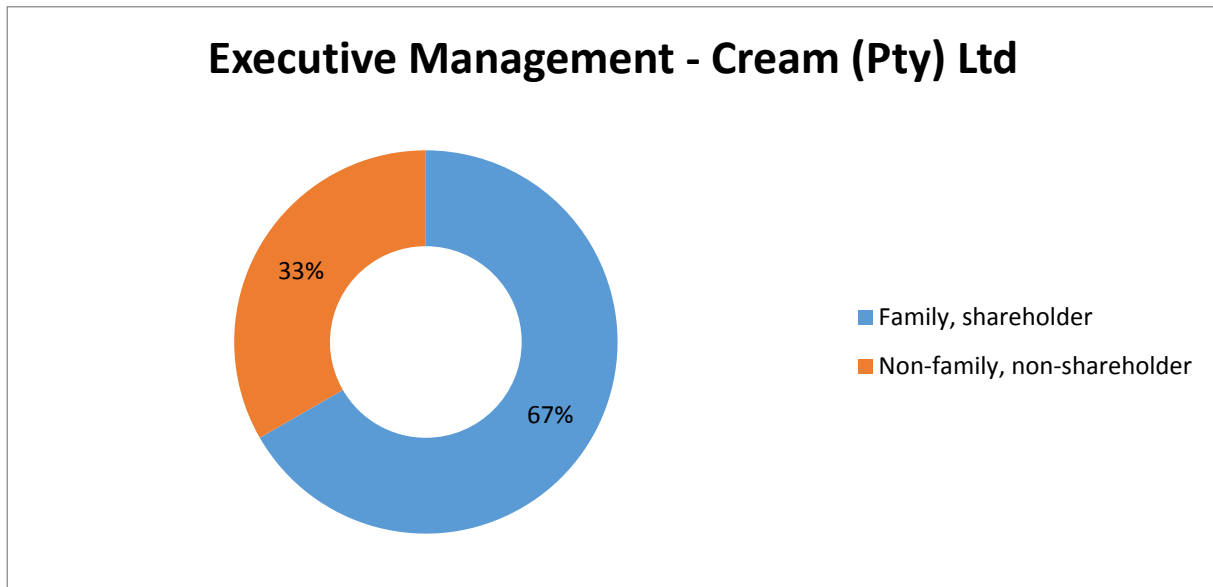
4.5.2.3 MANAGERIAL GOVERNANCE

The managerial governance structures of Cream (Pty) Ltd will be presented under the headings: Executive management and Policies.

Managerial Governance: *Executive Management*

With regard to the executive management, both the chief executive officer and the chief operations officer are family members and indirect shareholders. The chief financial officer is a non-family, non-shareholding director. The executive management team is therefore comprised of 67% family members and 33% non-family, non-executive shareholders. The executive management of Cream (Pty) Ltd is depicted in Figure 16.

Figure 16: Executive Management of Cream (Pty) Ltd



Source: Own observation (based on information obtained during the interviews)

A formal organisational structure, visually depicted by the organisation as an organogram, is in place. Since the organogram indicates the various positions and their grading levels within the organisation, it allocates specific responsibilities to all employees (Interviewee #C4). These allocated responsibilities ensure discipline in actions (Interviewees #C6 and #C9) and streamlined communication (Interviewees #C2, #C5, and #C9). From a family perspective, the formal role allocations also changed life as it was generally known and accepted. Initially the family members earned the same salaries. Subsequent to the implementation of the organogram and other governance structures, family members' remuneration was linked to their respective positions, roles, and responsibilities (Interviewee #C1). The salaries of family managers are, therefore, now market related and are no longer on the same levels simply due to the fact that the family managers are siblings.

Managerial Governance: Policies

From the question data sheet that was completed by the chief executive officer, it is apparent that most implemented policies relate to human resource matters. These include policies regulating recruitment, selection, and appointment policies; performance management policies; disciplinary policies; grievance policies; remuneration policies; and leave policies. Also listed are training and bursaries, career development, and ethical and professional conduct policies. According to the chief executive officer, the human resource policies are applicable to both family and non-

family executive and operational management. There is neither a delegation of authority, nor any procurement, credit card, or travel policies in place. The organisation has a formal dividend policy.

4.5.2.4 DISCUSSION OF GOVERNANCE STRUCTURES

The operations of Cream (Pty) Ltd evolved over time and it therefore became necessary to implement formal governance structures. When considering the current structures, as well as the information obtained during the interviews, it can be deduced that the current governance structures are predominantly implemented with the main aim of managing potential inter-personal conflict situations between family members, and to limit frustration. This supports the view of Taylor and Tucker (2013:32), who stated that the implementation of governance structures reduces conflict in family organisations. The conflict situations as identified in Cream (Pty) Ltd, most likely arose due to the overlap of family, ownership, and management as referred to in the literature review in the discussion surrounding the three circle model (Figure 4). The current governance structures were put in place only after certain family members indicated that they were no longer prepared to work in an unstructured environment. They consulted a family business specialist to guide them through the restructuring process.

People are not always comfortable with change and some initial “teething problems” were, therefore, experienced with the implementation of the new governance structures. However, these teething problems did not outweigh the benefits derived from these structures. When asked whether the interviewees felt that it is important to have formal governance structures in place, they confirmed the importance and they spoke about the positive contributions that the structures have made to the organisation. As one interviewee mentioned, “People like structure; structure is important to take an organisation forward” (Interviewee #C7).

SECTION B

4.6 DETAILED DATA ANALYSIS

This sub-section is in response to research objective A.3., which is the following:

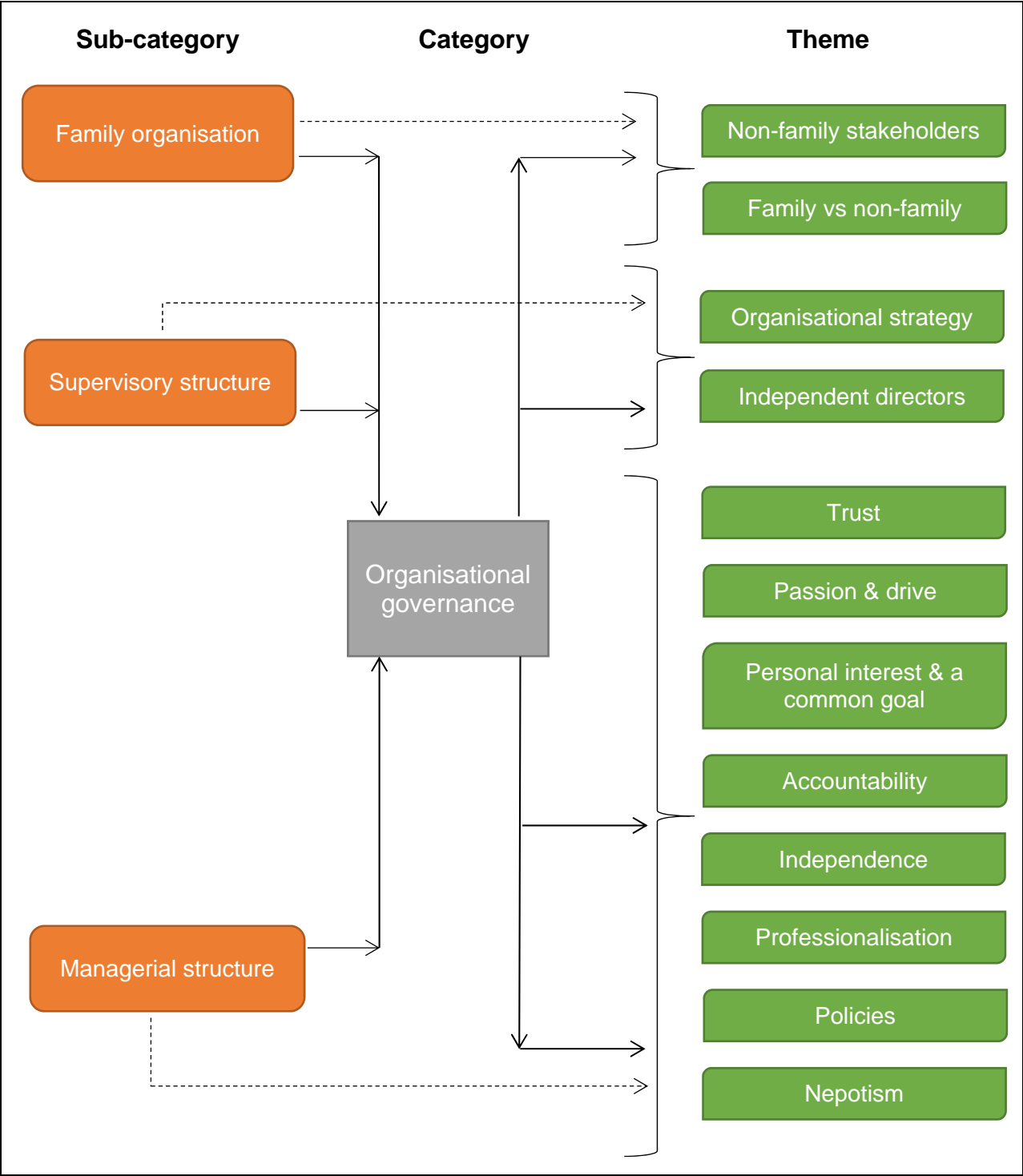
To obtain an in-depth understanding, through a multiple-case study analysis, as to why the relevant governance structures were implemented by the respective private family organisations.

A within-case analysis was performed on both Yogurt (Pty) Ltd and Cream (Pty) Ltd, and some common themes and certain contradictory findings emerged during the data analysis process. These were explored and will be discussed in detail. These discussions will be presented under the *a priori* sub-categories: family organisation, supervisory governance structures, and managerial governance structures.

4.6.1 YOGURT (PTY) LTD: DETAILED DATA ANALYSIS

The interview data of Yogurt (Pty) Ltd was coded (refer to Chapter 3.3.3 for more detail) and organised according to the *a priori* sub-categories and identified themes, as depicted in Figure 17 below.

Figure 17: A pathway to the data analysis of Yogurt (Pty) Ltd as it relates to research objective A.3.



Source: Adapted extract from Figure 7: Adapted codes-to-theory model

This sub-section will discuss the various themes identified during the data analysis of Yogurt (Pty) Ltd. The themes will be presented under the relevant *a priori* categories.

4.6.1.1 FAMILY ORGANISATION

Family organisations are regularly referred to, in the literature, as complex arrangements with overlapping interactions between family, management/employees, and ownership (Algarin et al. 2013:1; Davis and Tagiuri 1996:200; Dawson & Mussolino 2014:170). The literature also suggests that these organisations have a number of common challenges such as succession planning, conflict resolution, ownership control, and wealth distribution (June et al. 2015:5). Unlike research on non-family organisations, family business research, including this study, has a considerable focus on the unique features and common challenges of a family organisation (Dawson & Mussolino 2014:169). The underlying theory of the unique and distinctive characteristics of a family organisation was challenged by one of the non-family interviewees when he made the following thought-provoking comment:

A family firm is only a forum. Either you are part of an organisation or you are a sole proprietor. In my mind, those are the two options. In a family organisation, the rules are a bit different, but it is still just a forum (Interviewee #Y8).

The value of governance structures for non-family stakeholders

Taking into account the above quote from Interviewee #Y8, two things are implied. Firstly, although he is a non-family manager in a family organisation, the interviewee does not seem to feel alienated. This could indicate that the non-family stakeholders perceive the family organisation, and its current structures, to take the needs of both family and non-family stakeholders into consideration. Secondly, the rules of engagement between all stakeholders are important and should be given ample consideration by family organisations' shareholders and management.

Governance structures establish the rules within which any family or non-family organisation should function. These rules or structures are, as described by a family interviewee, an absolute prerequisite in order to prevent complications like nepotism and self-interest in an organisation (Interviewee #Y2). The overlapping interaction between family, management, and ownership, as well as the resulting risk of nepotism, deems these rules and structures especially relevant and important within a family organisational context (Dyer 2010:270). Interviewee #Y2 stated that a family organisation should aim to remove "the person" from the business. In order to do this, the organisation needs to be controlled by policy, and there should be independence in the organisation's "thinking" process (Interviewee #2). This can be achieved through the

implementation of formal governance structures in the family organisation, or, as stated differently by an independent board member, “corporate governance in a family organisation, compared to that of a non-family organisation, brings balance against the risk of negative family dynamics.”

The non-family interviewee (Interviewee #Y8) who challenged the general perception, as discussed above, explained the value of governance structures in a family organisation from a non-family stakeholder’s perspective. He stated that, “When working within structures, it makes it easier for a non-family member to be part of the business” (Interviewee #Y8). He continued by explaining that the structures force the family shareholders to realise that they are not the only people in the business and that there are other stakeholders as well. It is, according to him, important to create these structures and operate within them since they create the opportunity for other stakeholders, and not only shareholders, to feel that they can perform and express themselves within their respective positions, and that there is a place and a future for them in the family organisation (Interviewee #Y8).

Governance structures as they relate to family and non-family employees

A risk was identified through this investigation—family members within the family organisation might potentially feel that the implemented organisational structures are only applicable to non-family management and employees, and not to family members. Alternatively, they might feel that the organisational structures apply to a lesser degree to family members. In one family interviewee’s opinion, it is important to implement structures, and specifically policies, because these stipulate what can and cannot be done within the organisation. He said that the implementation of the “agreed-upon” structures will help to alleviate conflict. However, he continued to expound by saying that it is not necessary to implement the structures very meticulously, especially in a family context, since they are merely guidelines within which to operate (Interviewee #Y5). In addition to this view, it was also noted that all family members were aware of, and had accepted, the fact that certain family members do not always follow the correct procedure. An example of this is when leave forms need to be submitted. It was noted that some family members do not complete the leave forms at all. Alternatively, some family members only complete the leave forms until they have reached their maximum amount of available leave days after which, they simply do not complete the forms, but they still take the required leave days. Non-family managers and employees are not

allowed to engage in this type of behaviour. Having explored this phenomenon, one can appreciate the challenges of implementing governance structures consistently and fairly within a family organisational context.

4.6.1.2 SUPERVISORY GOVERNANCE STRUCTURE

Family organisations in the dairy industry need to compete with big corporate entities—for example, Clover—for resources and market share. Clover is the largest milk buyer in South Africa and has approximately 29.4% of the South African fresh milk market, and it has approximately 19% of the ultra-high temperature processing milk (UHT) market (WESGRO Cape Town & Western Cape Research 2014:1). Its total market share amounts to approximately 23% of the milk market (WESGRO Cape Town & Western Cape Research 2014:9).

Therefore, as a starting point, it is important to consider the power dynamics (see Chapter 2.3) of corporate entities compared to the power dynamics of private family organisations. One interviewee (Interviewee #Y5) mentioned that a non-family organisation will usually have a board of directors and a separate management team as part of its governance structures. The management team of non-family organisations will report, through the chief executive officer (who is also a member of the board of directors), on a quarterly or semi-annual basis to the board of directors. The management team will, therefore, report the company's financial results to the board of directors. The board, without getting operationally involved, then advises on or criticises the company's performance. According to Interviewee #Y5, Yogurt (Pty) Ltd does not have a clear distinction between an advisory board and a management team because there is an overlap of responsibilities. As he explained, "We actually report to ourselves" (Interviewee #Y5).

When the suggested advisory and review role of a non-family organisation's board of directors is explored, and when it is compared to the advisory and review role of Yogurt (Pty) Ltd and Yogurt Holdings (Pty) Ltd, it can be assumed that it is important for private family organisations to design their governance structures in a way that allows them to compensate for the role confusion and in a way that ensures a balance between operational and advisory structures.

The board of directors of Yogurt Holdings (Pty) Ltd consists of family executives, non-family executives, and non-family non-executives—*i.e.* independent directors. The chairperson of the board, although being seen by the family as “independent” (not a member of family, nor in an executive position), is a long-time family friend of one of the family directors. He is also the legal advisor of the firm and, therefore, he is part of the company’s professional services network. He can therefore from an independent director definition (refer section 1.7) viewpoint not be seen as a truly independent director. The other non-executive directors are truly independent and are well-qualified in terms of academic qualifications and/or experience. The board of directors has a very strong non-family (executive and non-executive) component, as can be seen from the above discussion as well as the discussion under Section 4.5.1.

Taking into account the non-family influence on the board of directors, the question was raised as to whether the family or whether the board of directors is responsible for determining the strategic direction of the organisation. The responses were divided and they detailed the family, the board of directors, the executive members on the board, the chief executive officer, and a joint effort between family and the board, as being responsible for determining the organisational strategy. As can be seen from the responses, there is no clear answer and it is therefore important to obtain an in-depth understanding of the interviewees’ perspectives in this regard.

Who determines the organisational strategy: the shareholders, the family, the chief executive officer, or the board of directors?

Some interviewees felt that the strategic direction is not determined by the board of directors. The strategic direction, initiative, and drive, according to these interviewees, are initiated by the CEO, who then obtains the buy-in of his siblings. He spends time thinking about these things (Interviewee #Y9), and then he drives the direction of the company accordingly. Therefore, he is the strategic guider (Interviewee #Y11). According to the first interviewee (Interviewee #Y1), the CEO will, however, not be successful if his siblings do not believe in the proposed strategic direction. According to Interviewee #Y9, it is all about balancing the views of all of the parties. One interviewee suggested that the executive family members, and not the board of directors, determine the strategic direction of the organisation. He motivated this by stating that the external directors attend a board meeting once every six months (and that they sometimes attend board sub-committee meetings on a quarterly basis), whereas the family operate

the business on a daily basis (Interviewee #Y3).

Half of the board of directors is made up of family members, and the only non-family shareholder on the board is perceived to be a “brother” by the majority of the family members (Interviewee #Y5). This can result in the shareholders (family and non-family) having the majority of the voting rights at a director’s meeting since voting at director’s meetings is based on one vote per director. The information on voting protocol was obtained from the completed question data sheet (Annexure C: Factual organisational information). According to one interviewee, in terms of strategy, there had not been any major disagreements between the family shareholders and the non-family shareholder (Interviewee #Y5). Therefore, although the interviewee suggested that the family determines the strategic direction, when one examines his reasoning, one realises that it might actually be the shareholders (family and non-family) who determine the strategic direction of the organisation. His view is supported by the other interviewees who also said that the directors, but more specifically, the family members and the non-family shareholder (in his capacity as chief operations officer) determine the strategic direction (Interviewee #Y4). It was mentioned that the chief operations officer has a lot of influence in the company (Interviewee #Y7) and that he is “just about the go-to-man for everything in the business” (Interviewee #Y6). It was also stated that the executive directors are not protective of Yogurt (Pty) Ltd just because it is a **family business**, but rather because it is a **business** (Interviewee #Y11).

One interviewee felt that the development of strategic direction is a joint effort between employees, managers, and the board of directors. He mentioned that everybody was involved in the analysis of the company's strengths, weaknesses, opportunities, and threats (SWOT analysis), and that the SWOT analysis informs the company's strategic document (guiding principles). The strategic document then informs action plans for each department with specific, individualised goals. Therefore, a very structured process was followed in determining the organisational strategy (Interviewee #Y6). Another interviewee partially supported this view by stating that ideas originate at the lower levels of the organisation and are then escalated up to board level. Therefore the board, and not the family, ultimately determines the strategic direction (Interviewee #Y1).

The various views, as discussed above, were summarised by one of the executive directors. He concluded that since the family and the directors are so integrated, the majority of the decision-making is done by the family, but the family makes the decisions at the director's meeting "these days". This has not always been the case. Currently, the organisation has policies in place that drive the strategy approval process. In addition to this, it is important to note that the non-family executives, as well as the independent directors, are professional people and they are put at risk if protocol is not followed (Interviewee #Y2). In terms of section 76 of the Companies Act, all directors need to exercise their powers and perform their functions with the "degree of care, skill and diligence that may be reasonably expected" in their position. If this is not done, they might be liable in terms of section 77 of the Companies Act. Interviewee #Y2 continued to explain that the board of directors forces discipline into decision-making and the shareholders, therefore, cannot do whatever they please. The family, however, still has major input into the strategic direction of Yogurt (Pty) Ltd (Interviewee #Y2).

Role and contribution of the independent directors

The reality of a private family organisation is that "the non-executives are there by the grace of the family" (Interviewee #Y9). One of the non-executive, independent directors of Yogurt (Pty) Ltd stated that the non-executive directors would not be able to change the overall direction of the family organisation. The non-executive, independent director also explained that it is not the responsibility of a non-executive director to change the direction of the family organisation.

Although they are seemingly not the drivers of strategy within Yogurt (Pty) Ltd, the non-executive directors on the board contribute tremendously to the organisation's strategic process. They force discipline into decision-making (Interviewee #Y2), they ask critical "out-of-the box" questions (Interviewee #Y3), and they assist in keeping matters as objective as possible (Interviewee #Y8). When making a decision that could be harmful to the company, but beneficial to the family, the family executives might tend to, either consciously or unconsciously, make decisions in favour of the family (Interviewee #Y9). The non-executives are there to ensure balance in this decision-making process. They therefore take into account the best interest of the company (Interviewee #Y9). This then also ensures that the directors comply with the requirements of the Companies Act (Interviewee #Y9).

Since the shareholders, directors, and employees are the same people, it is sometimes difficult for them to think differently or more widely than their current frame of reference (Interviewee #Y3). The independent directors' critical thinking and questioning therefore adds value to strategy, but it does not necessarily change the strategic direction of the organisation (Interviewee #Y3). Two interviewees alluded to the fact that the independent directors' views on the organisation's proposed strategy had in the past, however, resulted in an altered strategy (Interviewees #Y2 and #Y9):

He approached it from a different angle and I think where the added value in a family business comes in, is the fact that the answer came from him. I think that in the event that the answer, the same answer, came from a family member it might have been shot down (Interviewee #Y9).

In addition to the value-adding as discussed above, the independent directors play a balancing role in the event of conflict between board members. Therefore, their role is not to mediate, but, in a sense, their role is to give both parties a point of reference from which to work, or if stated differently, to act as a "lightning conductor" (Interviewee #Y9). The presence of non-executive directors also leads to the accountability of individual executive members in terms of decision-making and performance evaluation (Interviewee #Y9).

Summary: Supervisory governance structure

The governance structures, including the board and its sub-committees, force the organisation to look at matters in a more structured way. They further ensure that necessary attention is given to compliance with the relevant laws and regulations (Interviewee #Y6).

Yogurt Group has a management/operational board (Yogurt (Pty) Ltd) and a professional board (Yogurt Holdings (Pty) Ltd). The operational board provides a platform to discuss operational matters which might not necessarily be dealt with at a professional board level. The professional board, with independent, external representation, fulfils an advisory role which, in addition to strategy direction, can also contribute to "new ideas, skills and capabilities" (De Massis et al. 2016:9).

4.6.1.3 MANAGERIAL GOVERNANCE STRUCTURE

The senior management members of Yogurt (Pty) Ltd are, except for the three independent directors and one senior manager, the same individuals as those on the

board of Yogurt Holdings (Pty) Ltd. It is therefore clear that there is an overlap of roles and responsibilities with respect to the majority of senior individuals in the Yogurt Group. Therefore, the question was raised as to whether there would have been any effect on the financial performance of the organisation if there had been fewer family managers, and more non-family professional managers in senior positions. The majority of interviewees commented that, in their view, the financial performance of Yogurt (Pty) Ltd would not necessarily have been better with more non-family professional managers in senior positions.

One of the interviewees, who did believe that the organisation might have performed “a little bit” better, motivated his opinion by explaining that external people do not operate in the same “comfort zone” as the family members. He gave an example by stating that, “I cannot fire the child” (Interviewee #Y1). He therefore suggested that family members, within a family organisation, are more likely to be tolerated than non-family members if they did not perform at the required standard. Non-family members do not have that privilege. This phenomenon, known as nepotism, will be discussed in more detail later on in this chapter.

The majority of the interviewees indicated that they were not sure about what effect fewer family managers would have on the financial performance of the organisation. Some, alternatively, indicated that fewer family members would not necessarily have improved the performance of the organisation. Since it is difficult to demonstrate any correlation between the financial performance and the type of management structure, it is important to obtain an in-depth understanding of the interviewees’ experiences and motivations in this regard. These motivations were summarised under the following themes:

Trust

Trust is defined by Davis, Mayer, and Schoorman (1995:712) as the “willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party”. Trust is central to family organisations and it is often seen as a competitive advantage for this type of organisation (Sundaramurthy 2008:89). Trust is also, in a family organisation context, positively related to stewardship, and negatively related to agency perceptions (Chrisman et al. 2010:1047). Therefore, family

managers sometimes rely on mutual trust as a substitute for formal internal controls and procedures within their governance structures. One interviewee stated that the presence of so many family managers within Yogurt (Pty) Ltd's governance structures contributed positively to Yogurt (Pty) Ltd's financial performance because there was no need to monitor the siblings on a daily basis (Interviewee #Y4). He continued to explain that, if an organisation appoints non-family managers, it would be required to monitor them more closely. In further support of his view, he mentioned that non-family managers do not have any personal interest in the well-being or success of the organisation. This finding supports the line of research that believes that family organisations use trust, instead of control systems, to manage risk (Davis, Mayer & Schoorman 2007:346).

Passion and drive

According to a family interviewee (Interviewee #Y3), family members are more passionate about their business than salaried employees within the family organisation are. This view was supported by a non-family interviewee who said that the family members are pretty driven (he repeated this three times) to perform well and they are quite a tight unit. The non-family interviewee explained that if the company were to perform badly, they would experience it directly. For family members it is about the fact that, "This is our family, this is our heritage". He elaborated by saying, "If I look at these guys...they are more...driven than perhaps the average person might be, for success" (Interviewee #Y6). Family members in business can be problematic if everybody is not playing their part, but in Yogurt (Pty) Ltd this is not the case because "they are not lazy", and they all have an "inherent passion" for the business (Interviewee #Y6).

The family interviewee (Interviewee #Y3) expanded on his earlier view regarding the passion of family members, by commenting on the fact that the nature of the role in the organisation is an important factor to keep in mind when determining whether a family or professional manager should fill a certain position. He argued this point by stating that marketing is the heart of the business and it carries the organisation's brand. Since family members are passionate about the brand, it is important for the organisation to appoint a family manager to that position. According to him, there is no need to appoint a family member as the head of finance because it is about "debit" and "credit", thus it is "more black and white" (Interviewee #Y3). Therefore, passion is, according to him, not that important in a financial role (Interviewee #Y3), but it is important in marketing.

However, he did mention that, if an organisation were to appoint a suitably qualified and professional family member as the head of finance, that would be ideal. “You then hit the jackpot” (Interviewee #Y3). This viewpoint partly supports the appointment of an independent chief financial officer in the family organisation, but because of reasons other than what might be found in the current literature. The current literature mainly supports the appointment of an independent chief financial officer because of, for example, their technical expertise and leadership skills (IFAC 2014:4), and their ability to act objectively (Hiebl 2014:487). This alternative reasoning might need to be considered in future research when determining the potential roles and contributions of professional management within a family organisation.

Personal interest and a common goal

As mentioned before, family members in a family organisation are driven to perform well because they have a personal interest in the performance of the organisation. A possible reason for this is that they have a common goal, namely to grow the organisation to such a point where it can be successfully transferred to the next generation. According to a family interviewee, the appointment of non-family, professional managers, instead of family managers, would not have had a positive effect on the financial performance of Yogurt (Pty) Ltd. He believes that the siblings do a great job because they have a personal interest in the performance of the company. He said that they also have a common goal, namely to make the business work since the next generation depends on it (Interviewee #Y4). Another family member stated that they all work well together since they think in the same way (Interviewee #Y5). This illustrates the fact that the family members currently involved in Yogurt (Pty) Ltd act like stewards and, according to the interviewees, their actions contribute positively to the organisational value with respect to the current and future generations. This supports the comment by Holt et al. (2016:67) that a steward’s behaviour is “based on an intrinsic desire to serve the firm” and it can, therefore, be inferred that governance structures that are designed to promote stewardship behaviour, as is the case at Yogurt (Pty) Ltd, might result in increased organisational performance.

Accountability

The question was raised as to whether non-family managers were expected to answer more to the owners of the company than family managers. Three different types of opinions were obtained.

Firstly, it was stated by one interviewee (Interviewee #Y1) that the family managers are held more accountable than non-family managers. He clarified his view by explaining that family managers are held more accountable because of their respective positions in the organisation, and not, therefore, because of a distinction between family and non-family management. Another interviewee (Interviewee #Y6) confirmed this view since he also said that some family managers are held more accountable because of their positions and not because of the fact that they are family members. He explained that specific deliverables are agreed upon during the one-on-one meetings and that those deliverables are then attended to by both family and non-family managers. Although not a regular occurrence, it becomes a bit more difficult in situations where the family managers do not co-operate; as Interviewee #Y6 stated, "He cannot treat them exactly the same as he would treat me, I am very clear on that, he doesn't."

This leads to the second train of thought, namely that family managers and non-family managers are held equally accountable (Interviewees #Y4, #Y8, and #Y11). An example was provided where the marketing executive, who was a family member, needed to answer just as much on the performance and running of his division as the chief operating officer and the chief financial officer who were non-family managers (Interviewee #Y11). A different approach to this question was given by another interviewee (Interviewee #Y8) since, according to him, it is not about being more accountable, but rather, it is more about the quality of the answer and the impact of that answer which differentiates these parties.

This explanation leads to the last viewpoint which is that non-family managers are held more accountable than family members. Confirming the explanation as to the quality of the answers, another interviewee said that any answers that are to be given by non-family members would need to be much more detailed and correct than those of the family members. Some of them will get away with a less detailed explanation and also with an answer that is not totally correct. One interviewee claimed that more is most definitely expected from the non-family managers than from the family managers. It is here where "the water and oil becomes a bit mixed, you know, blood is thicker than water" (Interviewee #Y7). Two interviewees felt very strongly about this third viewpoint. One stated that the non-family managers need to be a bit more "on their toes" (Interviewee #Y9), and another stated that non-family managers are "without a doubt"

held more accountable than family managers (Interviewee #Y3). It was explained by an interviewee that it is not correct, or even desirable, to distinguish between family and non-family managers, but because a first generation is currently responsible for the management of the family organisation, you need to have a slightly different approach to this (Interviewee #Y2).

Independence

The chief executive officer of Yogurt (Pty) Ltd is a family member and the main driver of corporate governance within the family organisation. He stated that the organisation is trying to find a balance between organisational needs and the best practice recommendations of King III (IoDSA 2009). Based on his answers, the chief executive officer is clearly very knowledgeable in matters of corporate governance and the recommendations of King III (IoDSA 2009). According to him, it is important to have corporate governance in order to avoid nepotism and self-interest, and also to ensure that you “take the person out of the business”, therefore ensuring an independent, non-personal process. He stated that this is achieved where policies manage the process. He continued to motivate the implementation of corporate governance structures by explaining that there is a reason why companies listed on the Johannesburg Stock Exchange are structured and managed in such a way.

Professionalisation

In this section, the effect of appointing family management versus appointing professional management in the governance structures of a private family organisation was explored. An interviewee motivated the appointment of family management, as opposed to professional management, by stating that professional management comes at a cost which does not only relate to salaries and bonuses, but it also relates to the increased risk of incorrect decision-making (Interviewee #Y9). He continued to say that, because of the fact that these individuals might feel that they do not have sufficient long-term financial security in the company, they might feel the need to benefit financially as, and when, they can. Therefore, they will not necessarily act in the best interest of the company in the long-term. He describes this by saying that, should the current financial position of the company be taken into consideration, a professional chief executive officer might immediately cut costs, retrench people, and try to improve the net profit, but that might not be the correct decision in terms of the company's long-term sustainability. According to this interviewee, Yogurt (Pty) Ltd is well structured

because there are professional managers in key positions, but, they are on “tight social control” (Interviewee #Y9). This view confirms the increased risk of agency cost due to the appointment of professional managers, as is discussed in the literature (Madison 2014:9).

Continuing the discussion on family versus professional management, it was observed that Yogurt (Pty) Ltd has proper structures in place which, inter alia, include the autonomy of the non-family chief financial officer. An example was given that, if the chief financial officer stipulated that there were insufficient funds to purchase a specific item, it would not be bought. The interviewee stated that, "The most key position, besides the chief executive officer or managing director, is the chief financial officer" and the current chief financial officer is an independent individual who does not allow the chief executive officer to “bully” him (Interviewee #Y11). The position of the chief operational officer is, according to the interviewee, also key to the organisation. This position is filled by a non-family member. The interviewee continued to explain that the organisation is well-balanced since there are family executives and non-family executives in key positions, and it has non-executive members on its board (Interviewee #Y11).

It appears as though the successful implementation of governance structures and processes in Yogurt (Pty) Ltd partly results from the independent chief financial officer's contribution to this process. The chief financial officer, for instance, implemented a “chart of authority” that specifies the various levels of authority within the organisation. The “chart of authority” also enforces discipline in actions for both family and non-family members (Interviewee #Y7). The fact that the chief financial officer, as a non-family member, is responsible for driving some of the governance processes greatly assists the chief executive officer with the implementation of governance in the organisation. This is needed since the other siblings might not necessarily see the need for, and will also not be so easily convinced by the chief executive officer, of the need for, the implementation of governance structures, inter alia an authority framework. The reason for this is that there is a very thin line between being the chief executive officer and simply being ‘just’ one of the siblings (Interviewee #Y7).

Policies: The role of policies

Yogurt (Pty) Ltd has various policy documents in place. The chief executive officer originally obtained a very detailed list of all the policies that are generally applicable to companies. This list was explored and discussed within the organisation and they then identified the policies that were relevant to Yogurt (Pty) Ltd. These policies were developed and formally accepted in the organisation. The board and its sub-committees also have formal terms of references in place.

According to a family interviewee (Interviewee #Y2), it is crucial to establish policies at present, during the reign of the first generation and before the second generation joins the company. He elaborated that, if the organisation has a vision of becoming a big corporate entity, it is important to implement these policies already at the beginning of the organisation's life-cycle, since these policies avoid self-interest and nepotism. If they are not in place, next generations will be employed by the family organisation because of their family ties, and not because they are the right people for the job. As previously discussed, policy also ensures an independent, non-personal process. Other interviewees supported the implementation of policies by stating that policies create guidelines which, again, reduce conflict (Interviewee #Y5), remove politics from the family organisation (Interviewee #Y8), and protect the business (Interviewee #Y6).

Yogurt (Pty) Ltd is subjected to regulatory requirements for instance, with the establishment of an audit committee, but it also needs to be "open to external scrutiny, in terms of doing the right thing" (Interviewee #Y6). Various well-known international and national companies regularly perform audits at Yogurt (Pty) Ltd. This is done in terms of licence and/or distributor agreements with these companies. As part of their audit procedures, they evaluate Yogurt (Pty) Ltd's governance structures, human resource policies and processes, as well as its financial position (Interviewee #Y3). Yogurt (Pty) Ltd stands to lose these contracts should it not adhere to all the requirements as per the relevant licence and/or distribution agreements. Although not a legislative requirement, Yogurt (Pty) Ltd is therefore required, from an industry perspective, to implement relevant structures, policies, and procedures.

Policies: Performance management

The company has formal performance management processes in place that are applicable to all levels of employees. It is a paper-based system that focuses on key performance areas (KPAs) which are then aligned with measurable key performance indicators (KPIs). The various divisions' KPAs are aligned with the overall company strategy. The process also includes a personal development section which assists individuals with the planning and managing of their own careers. The company's strategic objectives, as per its strategic plan, form the basis for the KPAs and these are then broken down into detailed, measurable KPIs per department and per individual employee. Approximately 60% of the managers actively use this system, but it is estimated that the number of active users will increase once the envisaged electronic performance management system is implemented. The information relating to the performance management system, as obtained through the interview process, is confirmed by the existence of a formal "Performance management policy and strategy" document and a "Performance management compliance" document. As per these policy documents, the company implemented "a meaningful fair performance management system" which has been in effect since February 2010.

Although the process is officially applicable to all employees, it seems as though it is inconsistently implemented and executed on an executive level. From the interviews it became apparent that the non-family executives are managed, to a lesser degree, through the use of this formal system. Therefore, a more "watered-down version" (Interviewee #11) is used for their performance management. Family executives' performances are not formally managed at all. The non-family shareholder's performance is managed on a level somewhere between the management of the family executives and the management of the non-family, non-shareholder executives.

The paper-based, policy-driven performance management system is therefore replaced, on the non-family executive level, by a more subtle performance management system, generally referred to in the company as "one-on-one" meetings. This is a weekly meeting between the chief executive officer and the individual executive managers. Record is kept of the discussions at these meetings and the focus is primarily on performance—*i.e.*, "These were the tasks, they're done or not done" (Interviewee #Y7). Likewise, family members' performances are also managed, but this is done much more subtly (Interviewees #Y2 and #Y8). Some of them also have "one-on-ones" with the

chief executive officer, whereas others do not. As jokingly stated by one of the siblings, 'I manage myself and he can rate me, but if he doesn't give me full marks, it will be problematic for him' (Interviewee #Y3).

The performance management system on this level is therefore more a discussion forum, with an emphasis on teamwork, to ensure that all the relevant company objectives are met. They therefore support each other if one of them does not manage to meet some of his objectives. According to Interviewee #Y2, in the case of a non-family executive, the view is more, "If you do not know how to do it, go and make sure as to how to do it" and, "Boy you better know what you have to know". It is therefore clear that the non-family executives were appointed based on their perceived technical knowledge, expertise, and experience in their respective fields, and they are thus expected to perform on that level. If they do not perform well, the non-family executive/manager will be requested to leave the employment of the company more easily than would be the case with respect to the family executive. This observation is supported by the following statements: "I am definitely not going to tell him tomorrow to take his things and leave" (Interviewee #Y2) and, "One of the disadvantages is that, your hands are tied, actually all you can do... is to manage it" (Interviewee #Y1). Therefore, "There is a fine line, as you still need to keep to your objectives and strategies, but it is not worth hiring and firing on this level, as it will destabilise the company" (Interviewee #Y2).

Interviewees felt that one weakness of the current "one-on-one" process, with respect to family executives, is that this process focuses very much on performance, but that it lacks the personal development element which would normally form part of the performance management process. Therefore, the opportunity to identify personal developmental needs and the formalising of developmental plans does not exist for family executives. The personal development of these executives is not managed because it is very difficult to manage within a family organisation context, and this might sometimes be to the detriment of the company. As explained by Interviewee #Y8, "It is not managed, since it is difficult to manage, and that difficult [sic], is sometimes to the detriment of the company".

Stewardship, as discussed under the literature review (Chapter 2.3.1), was clearly portrayed by some of the family-executives. They explained that they are responsible for their own performance and that they manage their performance based on the company's objectives. The following statements support this view, "You can make it formal if you want to make it formal, I am not convinced that it will make a major difference" (Interviewee #Y5) and, "Whether I am being performance managed or not performance managed, I know whether I perform or not" (Interviewee #Y5) and, "Nobody needs to manage me, I ensure that everything runs the way it should" (Interviewee #Y3).

A non-family interviewee challenged the general perception of performance management as an essential element for the successful management of any business organisation. He stated that the whole idea of performance management in a family organisation is questionable because, "Is it the individuals that perform or is it the relationship between them that allows them to perform?" (Interviewee #Y9). He further explained this by saying that the strength in a family business with healthy family dynamics does not so much depend on the family members' individual performances but that they, as a team, support each other's performances (Interviewee #Y9). This view could provide a fruitful avenue for future research relating to the impact of healthy family dynamics, or "familiness"—as it is referred to in the literature (Eddleston, Kellermanns & Zellweger 2010)—on the financial performance of private family organisations.

Nepotism as it relates to performance management

Unbridled nepotism would make it almost impossible for family members to effectively manage non-performing family members employed at the family organisation (Dyer 2010:270). As per Dyer (2010:270), family shareholders are frequently unwilling to discipline or to performance-manage family employees until the point at which the business is almost past its point of return. This theory is supported by the interviewees of Yogurt (Pty) Ltd, who indicated that a non-performing family manager will be given more time and opportunities than a non-family manager to rectify his performance levels. According to some of the interviewees, it might take a bit longer to make the decision to take action against a family manager than it would in the case of a non-family manager, but the decision will be made in the end (Interviewees #Y5 and #Y8). According to Interviewees #Y5 and #Y8, the difference between the family manager and

the non-family manager is that the family manager will be redeployed and the non-family manager will be asked to leave the company. This view is affirmed by another interviewee who stated, “You **can** fire him, but you **will not** fire him, you are going to try and [sic] fix him” (Interviewee #Y1).

Summary: Managerial governance structure

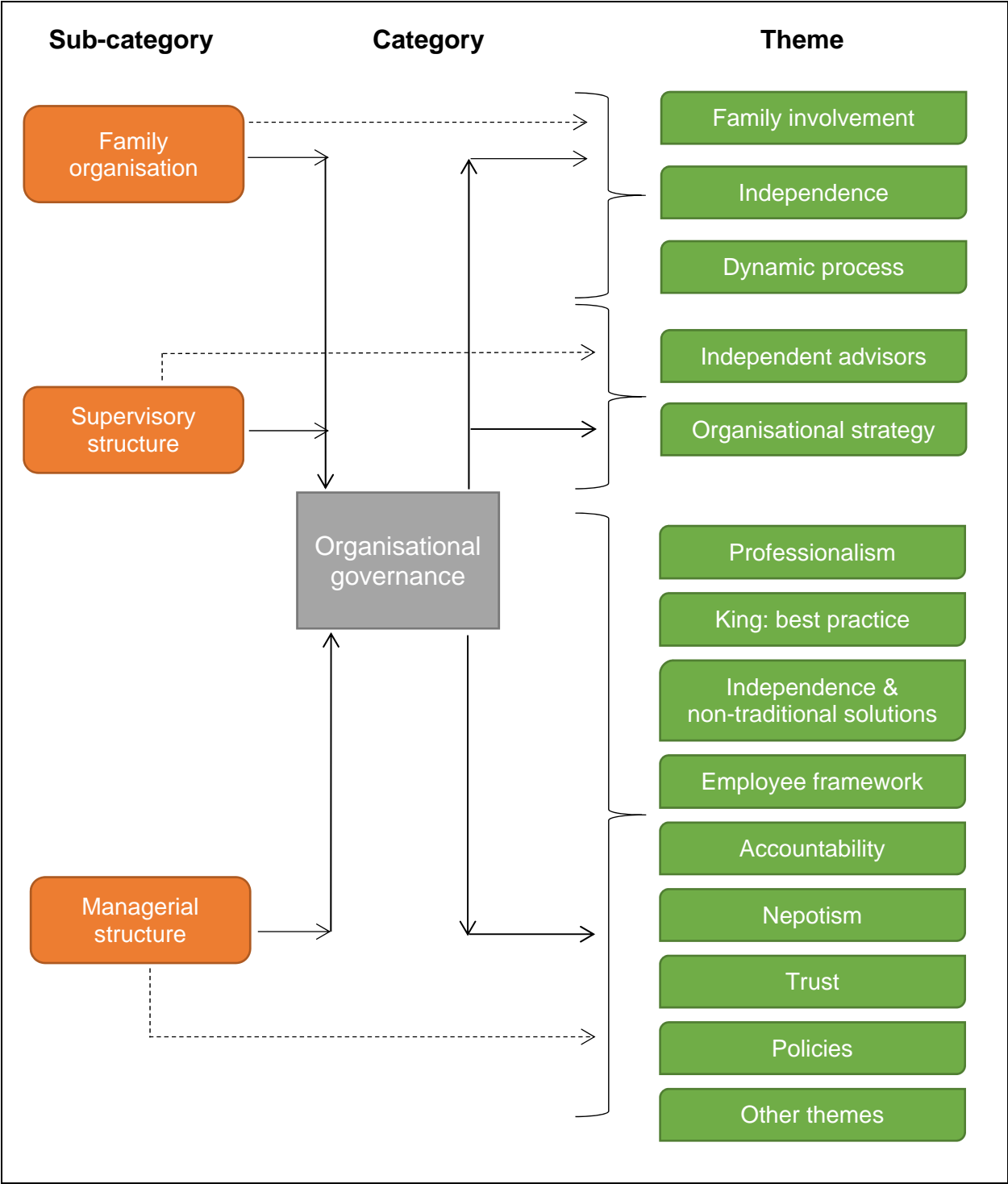
The board and executive management of Yogurt (Pty) Ltd actively strive to incorporate the recommendations as set out in King III (IoDSA 2009). However, as stated by the interviewees, they are attempting to find the optimum balance between establishing the structures where they are needed and where they can add value (Interviewee #Y2), without incurring unjustifiable costs and without spending unnecessary time on it (Interviewee #Y1). One of the most important principles is that the structures should not negatively impact upon the effectiveness of the organisation’s decision-making processes (Interviewee #Y7).

An important observation made at this point is that a culture of good governance principles and structures has been instilled at the organisation, although for some family members this culture has been instilled subconsciously. This view is supported through a comment made by one of the family members who implied, through the majority of his comments, that he is not so much in favour of formally implemented governance structures. His comment related to the performance management principles that are applied, where applicable, to any non-performing family members, “If it does not work, the formal systems need to kick in. If you do not handle it formally, you are shirking your responsibility and then King will probably deal with you very aggressively” (Interviewee #Y1).

4.6.2 CREAM (PTY) LTD: DETAIL DATA ANALYSIS

The interview data of Cream (Pty) Ltd was coded (refer to Chapter 3.3.3 for more detail), and organised according to the *a priori* sub-categories and identified themes, as depicted in Figure 18 below.

Figure 18: A pathway to the data analysis of Cream (Pty) Ltd as it relates to research objective A.3.



Source: Adapted extract from Figure 7: Adapted codes-to-theory model

This sub-section will discuss the various themes identified during the data analysis of Cream (Pty) Ltd. The themes will be presented under the relevant *a priori* categories.

4.6.2.1 FAMILY ORGANISATION

Family organisations, as previously mentioned, are different from other organisational forms because they include three unique elements: the family, the management/employees, and the ownership (Davis and Tagiuri 1996:200). These elements ensure a complex environment from which researchers can obtain rich and interesting data. The discoveries, as they relate to the complex interactions between the family, management, and ownership in Cream (Pty) Ltd, will be elaborated on below.

Independence

The interviewees consider the implemented governance structures of Cream (Pty) Ltd to be effective. The practical implementation of these structures poses its challenges, but it provides the organisation (including its shareholders) and its employees with very good guidelines (Interviewee #C1). An important aspect highlighted by the interviewees was that, as soon as there were structures in place, opinions and perceptions were no longer relevant, and the facts on the table then mattered (Interviewee #C3).

Dynamic process

More than one respondent alluded to the fact that the implementation of structures in a family organisation is a dynamic process. Also important to remember is that, although the structures that are currently implemented are effective, they will not necessarily be sufficient in the future. Therefore, the effectiveness of the structures should be reviewed and reconsidered on a regular basis (Interviewees #C3, #C6, and #C7).

4.6.2.2 SUPERVISORY GOVERNANCE STRUCTURE

The supervisory governance structures of Cream (Pty) Ltd consist of a family advisory board and a company board of directors.

Independent advisors: Family advisory board

As previously discussed, the family advisory board consists of independent advisors, family non-executives, family executives, and non-family executives. The independent advisor's role in Cream (Pty) Ltd is twofold. It is firstly, to act as an advisor to the executive members, and secondly, to assist the non-executive family members in assessing the performance, and determining the remuneration, of the family executives (Interviewee #C1).

Due to their experience, industry knowledge, and understanding of the economy, the independent advisors are able to contribute tremendously to the general direction, objectives, and long-term strategies of Cream (Pty) Ltd (Interviewee #C2 and #C4). They also challenge the executives and management to “think outside the box” (Interviewee #C7). In addition, the independent advisors assist the executives in reporting to themselves (Interviewee #C2). This is very important because the majority of the executive members are both family and shareholders, and the overlay of the family, ownership, and management spheres might, if not managed correctly, lead to complacency by family executives.

The independent advisor’s performance assessment role is also very important as it is difficult for family members to assess each other’s performances. It is a challenge for parents to independently assess their children’s performances, especially if the assessment needs to be fair and aligned with that of non-family executives who have the same level of responsibility (Interviewee #C1). Dealing with performance and salary related matters in this forum prevents the discussion of family performance and remuneration at trustee (shareholder) meetings, and this therefore limits emotional decision-making and family conflict at the shareholder level.

Role confusion, due to the overlay of family, management, and ownership, as discussed in the literature review (see Chapter 2.2), is a reality in Cream (Pty) Ltd’s contextual framework. The presence of independent advisors on the family advisory board assists in reducing this confusion. “Independent advisors help us to report to ourselves as it is difficult, since we are management and family shareholders, so we actually report to my father, mother and sister” (Interviewee #C2).

The presence of an advisory board, with independent advisors, undoubtedly adds value to the organisation. As summarised by one of the non-family, non-executive managers,

What I like about this family organisation, as opposed to the previous family organisation I worked for, is the external board (advisory board) to whom they need to report. There is somebody that can reprimand the board of directors as to their direction and performance. The external views help the organisation to stay focused. What I appreciate of [sic] this model is the fact that there is somebody that tells the boss, “Listen, here you are making a mistake, here you are doing well” (Interviewee #C7).

Independent advisor: Company board of directors

The company board of directors consists of family executives, a non-family executive, and an independent advisor. This independent advisor does not serve in this capacity on the family advisory board; he only serves on the company board of directors. He is an experienced individual and a former chief executive officer of a well-known and respected dairy company. Although in the minority, and not a registered director (therefore he has no voting rights), his experience and approach bears weight at the meetings and he therefore exercises the necessary authority on the board of directors (Interviewee #C1). All the executive board members value the independent advisor's contributions since he identifies gaps and he helps the executive directors to keep to their strategic plan (Interviewees #1C, #C2, and #C3). In addition to his strategic advice, he also contributes to certain high-level operational issues for instance, when major sales price adjustments need to be made. This confirms the view of Boshoff et al. (2010:50) that external professional advisors play an important role in the improved performance of family organisations because of their experience gained outside of the family organisation, their general and industry knowledge, and their qualifications and objectivity.

Who determines the organisational strategy: the family, the family advisory board, the board of directors, or the chief executive officer?

From the interviews, it was deduced that the board of directors determines the strategic direction of the business, whereas the independent directors give guidance on strategy and any other relevant issues. The majority of the interviewees (family and non-family members) indicated that the board of directors (as a team) determines the strategic direction of the organisation (Interviewees #C1, #C2, #C3, #C4, #C7, #C8, and #C9). Decision-making is mainly done by the three executive directors, on a consensus basis, after considering the views of the independent advisor. As indicated earlier, it is important to note that the executive directors greatly value the independent advisor's input. From a process point of view, the board of directors makes the relevant decisions and/or determines the strategies, after which they are communicated to the family advisory board via the chief executive officer. One of the interviewees made the comment that the final decision by the advisory board is generally in line with that proposed by the company's board of directors (Interviewee #C3). According to one of the interviewees, the shareholders like to understand why and how things were done,

but they do not instruct the board of directors as to what to do (Interviewee #C9). The board of directors therefore has the necessary decision-making power and they then subsequently report to the shareholders on the advisory board as to why certain decisions were taken (Interviewee #C9).

Contrary to the majority view discussed above, two interviewees commented that the family, after taking into account advice from the advisory committee, determines the strategic direction of the organisation. The one interviewee stated, "I think, that at the end of the day, the family is running the board of directors" (Interviewee #C5); "The board of directors work for the family" (Interviewee #C5). This interviewee felt that it was appropriate for the family to determine the strategic direction because they finance the organisation's activities. The words "it is not wrong" (Interviewee #C5) were repeated three times by the interviewee. In addition, and with specific reference to the family chief executive officer's role, the following opinion was voiced: "It is the family that manages the place, over and done with" (Interviewee #C6).

The latter comment was contradicted by another interviewee, who is one of the managers reporting directly to the non-family executive director. This interviewee (Interviewee #C8) argued that the chief financial officer is most definitely involved in the setting of the organisational objectives, strategies, and vision of the organisation. He also felt that the chief financial officer's input added some independence to the strategic process. Since the chief financial officer is a member of the board of directors, it supports the majority of the interviewees' views that the company board of directors determines the strategic direction of the organisation.

Summary: Supervisory governance structure

The supervisory governance structures within Cream (Pty) Ltd consist of a family advisory board and a company board of directors. These structures are effective because the combination of these two boards manages the family influence to not be completely dominating, but to still establishes sufficient family influence, in order to ensure that family objectives and values are not negated. Simultaneously, these implemented supervisory governance structures ensure that the external experience and knowledge, as contributed by the independent advisors, create balance between family direction, and organisational direction and performance.

4.6.2.3 MANAGERIAL GOVERNANCE STRUCTURE

Management's role in Cream (Pty) Ltd is the execution of strategy as defined by the board of directors. The management structure consists of divisional supervisors who report to senior managers, who then again report to the executive management. The executive management consists of the chief executive officer, chief operations officer, and chief financial officer. The chief executive officer is a member of the owner family, and the chief financial officer is an independent, non-family member. The executive management structure is well defined and everybody knows where they fit in (Interviewee #C3).

Various points were identified as they related to managerial governance structures, of which the main themes are described below.

Professionalisation

The effect of appointing family management versus professional management in the governance structures of Cream (Pty) Ltd was explored. The question was raised as to whether the interviewees believed that more professional management, thus fewer family managers in the governance structures of the organisation, would have made any difference to the performance of the organisation. Various opinions were obtained, of which the majority indicated that more professional managers, and less family management, would not have made a difference in the performance of the organisation. The reasons given were the following:

- "We are still in the growth phase. If the business was established, it might have made a difference. The presence of the family at this point brings different perspectives, therefore not only a cold, black and white perspective. So it plays a strategic role." (Interviewee #C2)
- "The one thing that counts for the business is the fact that the family members who are currently involved have grown up in the industry. If the structures looked different, maybe it would have been different. It is a process." (Interviewee #C3)
- "Since the job descriptions and responsibilities were determined upfront, it does not matter whether the position is filled by a family or non-family member." (Interviewee #C4)

- “No, I do not think it would have made any difference. The advisory board, as well as the independent person on the board of directors has a big enough effect on the family. And if you are family, you work for yourself; therefore, you are more inclined to go the extra mile than any external person.” (Interviewee #C7)
- “The combination of both family and non-family is working well. The external advisors’ contributions are for instance, the identification of risks that the family has become complacent to. The external person brings a different perspective. The family, especially the directors are open to these contributions; I can honestly say that it is the combination that works.” (Interviewee #C8)
- “Maybe it would, maybe not. An external person might have done the same as the current CEO, but then again, an external person might maybe not have the same passion for the cows and the farm as the current COO... so it depends on the person and their capabilities.” (Interviewee #C9)
- “I think the company performs well as it is, since the majority are anyway external people. I do think that it will always be better if you could have external people, but then they need to be the right people.” (Interviewee #C6)

The above opinions were summarised by Interviewee #C2:

I am considering it from both sides. If it is "yes", it will be because we will then be able to appoint a better qualified team. If it is "no", it is because we will not have the commitment as is currently the case. The guys with the qualifications do not necessarily come with the commitment. If we could have better qualified people with the same commitment it would be a perfect world.

From the above opinions, it is clear that the interviewees were comfortable with the current management structure, which includes a balanced combination of family and non-family managers. Family members on the executive team contribute institutional knowledge and passion to the organisation (Interviewees #C3 and #C9). These family executives have grown up in the business and therefore understand the detailed operations of the organisation. They are also perceived, by the interviewees, to be very passionate about Cream (Pty) Ltd, and as a result, very committed towards the success of this private family organisation. This is supported by Andrews (2010:30-33) who found that passion is one of the elements that fuel smart, effective decision-making in family organisations (2010:30), and drive the organisation to achieve new heights (2010:33). External management contributes new perspectives and independence to the family organisation.

King: best practice recommendations

The chief executive officer, as the chairman of the board of directors, acts as the link between the executive, the board of directors, and the family advisory board. With reference to potential conflict of interest, as identified under agency theory, the Companies Act (see Chapter 2.3.3.1) requires both family and non-family managers to act in the best interest of the organisation as a separate legal entity. The fact that the chief executive officer is also the chairman of the board is inconsistent with the requirements of King III (IoDSA 2009:24). However, from the various discussions held with both family and non-family management, it can be assumed that the family executive members' general approach is to act in the best interest of the organisation as a separate legal entity and, therefore, not to use the organisation as merely an extension of their personal and family undertakings.

The organisational structure, although not intentionally focused on adhering to the best practice recommendations of King III, conforms to recommended practice number 2.18.5 (IoDSA 2009:26). This stipulates that the chief executive officer and the chief financial officer should serve on the company board of directors. King III (IoDSA 2009:25) principle 2.16, however, stipulates that the chairman of the board should be an independent non-executive director. This is not the case at Cream (Pty) Ltd since the family chief executive officer also serves as the chairman of the board. Principle 2.17 stipulates that the chief executive officer should be appointed by the company board of directors. Contradictory evidence was obtained on this matter. One interviewee indicated that the family advisory board appointed the chief executive officer. This demonstrates that Cream (Pty) Ltd adheres to the spirit of King III (IoDSA 2009) in the sense that the power of appointing the chief executive officer is removed from the management level because it is done by the family advisory board. A contradictory view was expressed by another interviewee, who indicated that the family board gave the executive members the choice to appoint the chief executive officer from their own ranks. Hence, the current chief executive officer was selected, as he was the "businessman" (Interviewee #2) and, therefore, the best fit for the position. No reference was made to the fact that he is also a member of the owner family and, therefore, nepotism in the appointment of the chief executive officer was not implied by the interviewees.

The role and the responsibilities of the chief executive officer are defined by the board of directors. The chief executive officer is required to drive the organisation forward, in line with the approved strategic plan. His performance is measured by the family advisory board in comparison with the set objectives of the strategic plan. This adheres to principle 2.17.4 of King III (IoDSA 2009:25).

Independence and non-traditional solutions

The chief financial officer, being independent and initially from a non-agricultural background, adds great value to the organisation. One of the reasons given was that he approaches issues from a different or non-traditional perspective—“He challenges one to think outside the box as he arrived here with no traditional solutions” (Interviewee #C4). The chief financial officer’s role includes being responsible for budgeting, implementing procedures, and ensuring people adhere to these procedures. As explained by Interviewee #C4, “If he implements a system, he wants a person to keep to it”. The role also includes the implementation of change. The problem experienced with this is that people are not necessarily in favour of change, as is suggested by the following statement: “People do not like change, but yes, sometimes if nothing changes, everything will remain” (Interviewee #C4). The non-family chief financial officer also brings independence to the strategic planning and execution processes (Interviewee #C8).

Employee framework: Contribution to organisational value

The organisation’s governance structures, including the visual depiction of this through the use of an organogram, create a framework within which to work effectively. According to the interviewees, it is especially valuable for new employees entering the organisation because it helps them to identify their reporting lines, as well as the core responsibilities of the various positions.

Originally, the organisation did not have a formal organogram. This was implemented as part of the governance structure implementation process. As the organisation grew, the organogram became increasingly important (Interviewee #C8) because the employees needed to know where they fitted into the organisation and its operations (Interviewees #C2 and #C3). An additional advantage of the framework is that it saves time for senior or executive managers because ground level problems are resolved on the ground level (Interviewee #C7). An interviewee explained that the organogram, job descriptions, and

minimum job requirements were put in place to ensure the long-term sustainability of the business, whether or not the family members form part of the management team (Interviewee #C4).

The existence of a framework simplifies business for both non-family employees and family employees because they can use it as a tool to manage their careers and any interpersonal working relationships. An example was given by one of the family interviewees who explained that, when he was initially appointed, his appointment was at a very low operational level. As time went by, his father increasingly gave him more responsibilities. This was done unofficially because there were no formal governance structures in place. In the end, it resulted in him having more responsibilities than his non-family manager. This situation was extremely challenging for the family member because he had to start instructing his manager, but he was never formally appointed on a level above the non-family manager. As quoted, "I became his boss, but I was never appointed as his boss."; "It was difficult for me...as we did not have such a structure where you could climb the ladder. You climbed the ladder, but there was no ladder." (Interviewee #C2). Because the structures are now in place, every new employee knows where he fits in, as well as the rules that are applicable to that specific position. Therefore, it can be deduced that organisational structures assist with removing emotions from "family interaction," "business related interaction," and "just in general" (Interviewees #C1 and #C2), therefore decreasing interpersonal conflict and potentially increasing organisational value.

Accountability

It was indicated by the majority of interviewees that family and non-family members, on equivalent responsibility levels within the organisation, are held accountable to the same degree. Hence, they are equally accountable based on their relative positions within the organisation and not because of their family statuses. The chief executive officer is, for example, more accountable than the chief operational officer, or alternatively, the chief financial officer is more accountable than the managers reporting to him. However, when probed a bit more, it became clear that this was not always the case. Family members are given more opportunities or chances to rectify their behaviour. "I believe that he will be spoken to twice and not only once, or threefold, and not twice" (Interviewee #C2). A family employee will, as far as possible, be performance managed and/or re-assigned within the organisation, but will not necessarily be

dismissed if he has underperformed. As stated by another interviewee,

Family and non-family managers should not be governed differently. They should not, but the reality is, if a family executive fires a non-performing family member, the executive will have a problem (Interviewee #C1).

Nepotism as it relates to recruitment and appointment

In terms of recruitment and appointment, the interviewees were asked to comment on whether or not they believed that there was any favouritism towards family members when recruiting and appointing new staff members. The responses to these questions, combined with general comments made during the interviews, resulted in the following very informative conclusions.

Historically, a number of family members used to work at the organisation because they were related to the owner family. Organisational structures were then implemented and this resulted in only a few family members remaining in the employment of the organisation. Should any family members be appointed in the future, they will be paid a market-related salary, based on the pre-determined grading levels as per the employee framework.

In addition, it was mentioned that the intended level of employment is an important consideration during the recruitment and appointment process. If the position applied for is at a senior or executive level, family members would not be given preference solely because they were members of the owning family. However, should the intended position be at a lower level within the organisation, family members might be given preference above non-family members (Interviewee #C2). This indicates that preferential treatment of family members is considered on the employment levels where the impact of any potential errors will be either low or immaterial. Thus, senior positions will be filled based on the prospective employee's competency levels and not as a result of favouritism. It is important to note that, should the prospective family and non-family employees be equally qualified for a vacant position, the family member will receive preference.

Two interviewees mentioned the importance of a person's character. They indicated that the organisation places great value on a person's character and upbringing or background. If they know the person, and if they have confidence in that person's character and upbringing, he will have an advantage over unknown candidates

(Interviewees #C1 and #C2). Here, the interviewees were referring to both family and non-family candidates. When screening prospective employees, the organisation will firstly consider the candidate's character traits and background; secondly, the organisation will consider the candidate's business experience; and thirdly, the organisation will consider the candidate's formal qualifications (Interviewee #C1). This supports Eijssen's (2014:2) view that cultural fit and commitment towards the values, standards, and objectives of the family organisation are important factors to consider in the appointment of employees.

Therefore, it is quite clear that the new structures that have been put in place are aimed at avoiding or limiting any future favouritism in the appointment and recruitment of family members. Family members appointed before the implementation of the current structures, were appointed as a result of their family ties, irrespective of experience and qualifications. In future, family appointments on senior levels will, however, be based on competency and capabilities, and not solely on family relationships (Interviewees #C1, #C2, and #C7).

The risk of nepotism in performance management

Formal performance management processes, which are applicable to all levels of employees, are in place. The organisation implemented a KPI system to assist the organisation in assessing employees' performances based on facts and not on perceptions. This, therefore, removes subjectivity from the performance management process. The KPI system was implemented during the years 2010 and 2011.

The executive directors are reviewed based on their performance against the strategic plan. Therefore, they are not on the same KPI system as the management levels below them. The chief financial officer and the chief operational officer report to the chief executive officer. All three executives, as a team, are then accountable to the family advisory board.

Family members in management positions occasionally need to monitor the performance of other family members which has the potential to lead to family conflict. Where it is practical to implement, reporting lines are structured so that family members report to non-family managers, instead of to family managers. KPIs are set up front and are very specific. This reduces the ambiguity of the personal performance measurement

process. This also removes some of the emotions associated with performance management. Consequently, the family members' performances are managed professionally as is the case with non-family employees. Performance management is based on financial figures and no sentimentality is involved. This process of independent management and review is perceived to be effective and value-adding.

Sometimes it is not possible to implement independent reporting lines. Family members then need to report to other family members. In theory, this process should still work well since KPIs or strategic objectives are predetermined and performance should therefore be objectively measured against these. Where family members are capable of performing their duties, the non-executive interviewees indicated, with conviction that no nepotism exists in terms of the performance management of family members. However, when the question referred specifically to certain underperforming family members who are currently in the organisation's employ, the responses were either quite negative or the interviewees preferred to refrain from discussing the matter.

In addition to the above, it was mentioned that the performance management process, with respect to family members, is, although stringent, to be approached in a different, more subtle way. One of the interviewees alluded to the following:

I think...yes, it is a difficult situation, as yes, blood is thicker than water...we can fight with our family today...tomorrow we are family and...yes, it is a difficult situation (Interviewee #C6).

When asked whether family and non-family executives undergo performance reviews with the same rigour and frequency, an executive made the following comment:

I think when it comes to family members, it is currently a bit softer. I believe that it all depends on your focus. If you want a professional business where family or non-family is not important, but the results are, then it has to be the same. In order to have a better business, it should be the same (Interviewee #C1).

This comment was partly contradicted by another executive. He did agree with the former executive on the point that the family and non-family executives do not undergo performance reviews with the same rigour and frequency. However, he felt that this distinction was to be expected in a family organisation, and that it is important for the sustainability of the family business (Interviewee #C3). His reasoning for this observation was that the family executives would still be involved in the organisation in the long-term, whereas non-family members might leave the employment of the

organisation because they do not have the same long-term commitment to the family organisation.

Interestingly, all the non-executive managers (except for one who indicated that he did not know) believe that the family and non-family executive directors undergo performance reviews with the same amount of rigour and frequency. From this observation, and when compared to the evident situation as illustrated by the executives, it is deduced that the executive directors are successful in portraying a sense of unity, and that they do not engage in special treatment and they do not make a distinction between family and non-family in the rest of the organisation.

The family trust factor and internal controls

Since the extended family members were no longer actively involved in the daily operations of the family organisation, management had to start relying and trusting outsiders with respect to core financial functions for example, the management of debtors and creditors. Management initially saw this as a big disadvantage of the new structures. The removal of people they perceived to be competent and trustworthy because of their family ties necessitated the implementation of systems, processes, and controls. Interviewee #C2 stated, “When they left we had to trust strangers,” and “we had to put systems in place and perform re-checks”.

Despite initial misgivings, the development of these systems, processes, and controls assisted the business to become more professional, and is in accordance with the recommendation made by PwC in its *Family Business Survey* (PwC 2014_b:3). It is important that these processes and procedures be implemented since they “form the backbone of the business operations and provide it with the context and structure it needs to grow and adapt” (PwC 2014_b:3).

Policies: Human resources

One of the motivations given for the implementation of governance structures was that they are used as a tool to manage the organisation’s succession process (Interviewee #C1). As per Cream (Pty) Ltd’s new human resource and succession policies, family members need to be qualified, and they should have the necessary and relevant experience in order to be appointed at a senior management or executive level. One interviewee specifically stated that he believes that the next generation will consist

of professional people who will make a positive contribution to the organisation based on their skill set, and not as a result of their family ties. He also believes that the next chief executive officer will be an independent non-family member. This confirms Van den Heuvel et al.'s (2007:143) view that independent people can be used to assist the organisation during its generational succession processes. The interviewee feels that the change in the governance approach was necessary and inevitable, especially for when the next generation enters the family organisation. This is evident from the following quote: "What we have, brought us this far. I do not think it will be enough to take us forward" (Interviewee #C1).

Policies: Additional policies and procedures

As the family organisation grows and expands its business, it will become more exposed to industry specific regulations and requirements, as well as general regulations and statutory requirements. These requirements are enforced from both a regulatory and a client perspective. For instance, premium brand retailers require their suppliers to be Hazard Analysis Critical Control Point (HACCP) compliant. The requirements for HACCP food safety approval include the development and implementation of certain health and safety policies, as well as the presence of a HACCP sub-committee (Interviewee #C8). These types of requirements, although not required in terms of the Companies Act or King III's (IoDSA 2009) best practice recommendations, compel Cream (Pty) Ltd to implement certain sub-committees, policies, and procedures. Therefore, the absence of these policies will negatively affect the organisation's opportunities for expansion, and will indirectly result in a decrease in financial value.

Recommended practice number 2.17.3 of King III (IoDSA 2009:25) states that the board of directors should approve a delegation of authority framework within which the business should operate. A delegation of authority framework is an internal control tool that allocates different authority levels to specific positions within the organisation. Cream (Pty) Ltd does not have an approved delegation of authority framework or policy.

General

In addition to the common themes identified and discussed above, some isolated but interesting discoveries are highlighted in the remainder of this section.

Tenure at the family organisation and the sequence of appointments

Nepotism, as it relates to recruitment, appointment, and performance management has been discussed in detail. An equally noteworthy matter, which has not yet been raised in either the within-case analysis or during the literature review discussion, is the importance of the sequence of appointments. Stated differently, it is important to determine whether the current non-family manager was responsible for the appointment of a specific family employee, or whether the specific family employee was employed before the non-family manager was appointed at the family organisation.

This concept was illustrated by one of the executive members. In the event that a non-family manager appoints a family member, it would be clear to the family member that he would report to the non-family manager, and that he would be treated similarly to any other employee on that level of employment. However, if the particular family member was appointed long before the non-family manager started working at the organisation, unofficially, the non-family manager would not have the same level of authority as he would have had if the non-family manager had made the appointment. Therefore, the non-family manager would be more reluctant to manage the family employee with the same amount of rigour as he would have managed a non-family employee on the same level. This would therefore result in nepotism in terms of performance management. Tenure at the family organisation and the sequence of appointments therefore plays an important role in these interpersonal dynamics (Interviewee #C2) and could be considered in future research.

Management succession planning

As part of the succession planning, and in line with the shareholders' transgenerational vision, two interesting matters were observed.

The next generation of family children is still very young and, therefore, the possibility exists that the current chief executive officer might retire before the next generation is able to take over the management of the organisation. Thus, a non-family chief executive officer will potentially be appointed as an interim measure (Interviewee #C1).

In order to identify and groom the next generation leaders, the chairman of the board of trustees indicated that he would instruct the future, "to-be-appointed", non-family chief executive director, and a suitable external party, to analyse the potential of the family

members' children. This analysis will be done by considering their qualifications, experience, interests, and leadership qualities. The purpose of this analysis will be to select the family children with the potential to lead the organisation. Once the potential future leaders have been identified, these individuals will receive silent seats on the board of directors in order to gain experience and an understanding of the organisation's business activities.

Organisational structures as a potential barrier to communication

A disadvantage of organisational growth, as well as the resulting new structures, is that it removes the "familiness" which previously existed between family and non-family employees. Interviewee #C4 stated that the organisation "is not as close as it used to be". It is therefore important for the organisational structures to not be so rigid that they limit communication and interaction between different departments, and therefore restrict horizontal integration and information flow. One of the distinct advantages of a family organisation is that, despite formal structures, there are still opportunities for interpersonal communication for example, at family social events. This type of communication might assist the various departments within a family organisation to share relevant information and to not exist in silo. It is important for the individual departments to understand the impact of their strategies and actions on the rest of the organisation (Interviewee #C8), as non-communication can negatively impact upon the financial performance of the organisation, and therefore the value of an organisation. It is thus important that family organisations do not lose their competitive advantage (effective communication) against non-family organisations as a result of the implementation of formal governance structures.

Organisational structures as a tool to delineate family versus business roles

Initially, during the establishment and early years of a family organisation, it was quite a challenge for the family members to distinguish between family and business related matters. However, the longer these governance structures are in place, e.g. dividend policy, the easier it becomes for the family members to separate their roles as family members from their roles as business leaders (Interviewee #C2).

SECTION C

4.7 IMPACT OF IMPLEMENTED ORGANISATIONAL GOVERNANCE STRUCTURES ON ORGANISATIONAL VALUE

This sub-section is in response to research objective A.4., which is the following:

To determine, through a multiple-case study analysis, whether or not the implementation of governance structures in the selected private family organisations added any value to the respective organisations.

The purpose of this section is to explore the value of governance structures in private family organisations. Thus, it is important to understand the impact of implemented governance structures on the value of the featured cases, both from a financial and non-financial perspective.

The goals of an organisation will influence its financial performance and, ultimately, its organisational value. This is even more relevant in the case of family organisations since the family influence might impact upon behaviour, which could lead to a more socio-emotional orientated organisational strategy. Therefore, a distinguishing characteristic of family organisations, when compared to non-family organisations, is that the family organisations' non-financial goals might be prioritised above their financial goals (Chrisman & Patel 2012:992).

The theory of a family organisation's potential orientation towards non-financial goals was explored by requesting the chief executive officers of the respective cases to indicate the top ten most important indicators of success for their respective family organisations. A list of 18 pre-populated indicators of success, based on the literature, was presented to the chief executive officers (see Annexure D: Company goals and success measures). Additional blank spaces were also supplied in order to allow for the chief executive officers to include any supplementary indicators that might be relevant to the specific organisation. The list was specifically designed to incorporate both financial and non-financial indicators. The indicators were displayed in a random order. Therefore, the financial and non-financial indicators were not clustered into distinct sections, but rather spread out over the list. This was purposely done in order to identify whether the organisational strategy leans more towards financial or to non-financial goals.

In addition to determining the respective organisations' goal orientations, the financial orientated indicators, as selected by the chief executive officers, were used to evaluate the organisations' financial performances since 2010. The financial orientated success indicators, as selected by the chief executive officers, were compared between the two private family organisations. The corresponding success indicators, as selected by both chief executive officers, were used to evaluate the organisations' relative performances. From the literature, return on assets (ROA) has been indicated as the most frequently used method of measuring performance (Brabec et al. 2013:6; Mazzi 2011:175). Notwithstanding this, only one of the featured organisations listed it as one of its short-term goals. It was also not listed as one of the top ten indicators of success by either of the organisations and therefore ROA will not be used as one of the performance measurements in this study.

Basis of analysis

The corresponding financial indicators of success, as indicated by the respective chief executive officers, were "increased return on invested capital" (based on carrying values) and "growth in net profit (after tax)". Since, actual performance amounts (incl. profit figures) were deemed somewhat sensitive, but percentages (such as returns) much less so, all amounts were either indexed or not disclosed as part of the analysis below. This was also in-line with the ethical clearance requirements.

The return on invested capital and net profit after tax were indexed, with the 2012 financial year being the first year of reference. The 2012 financial year served as the indexing reference year (2012=1,00) because it served as neutral starting point where both organisations were in a profit-making situation (one of the organisations made losses in the years prior to 2012). The indexing was further done to improve comparability between the different years, the financial indicators, and the two cases under review.

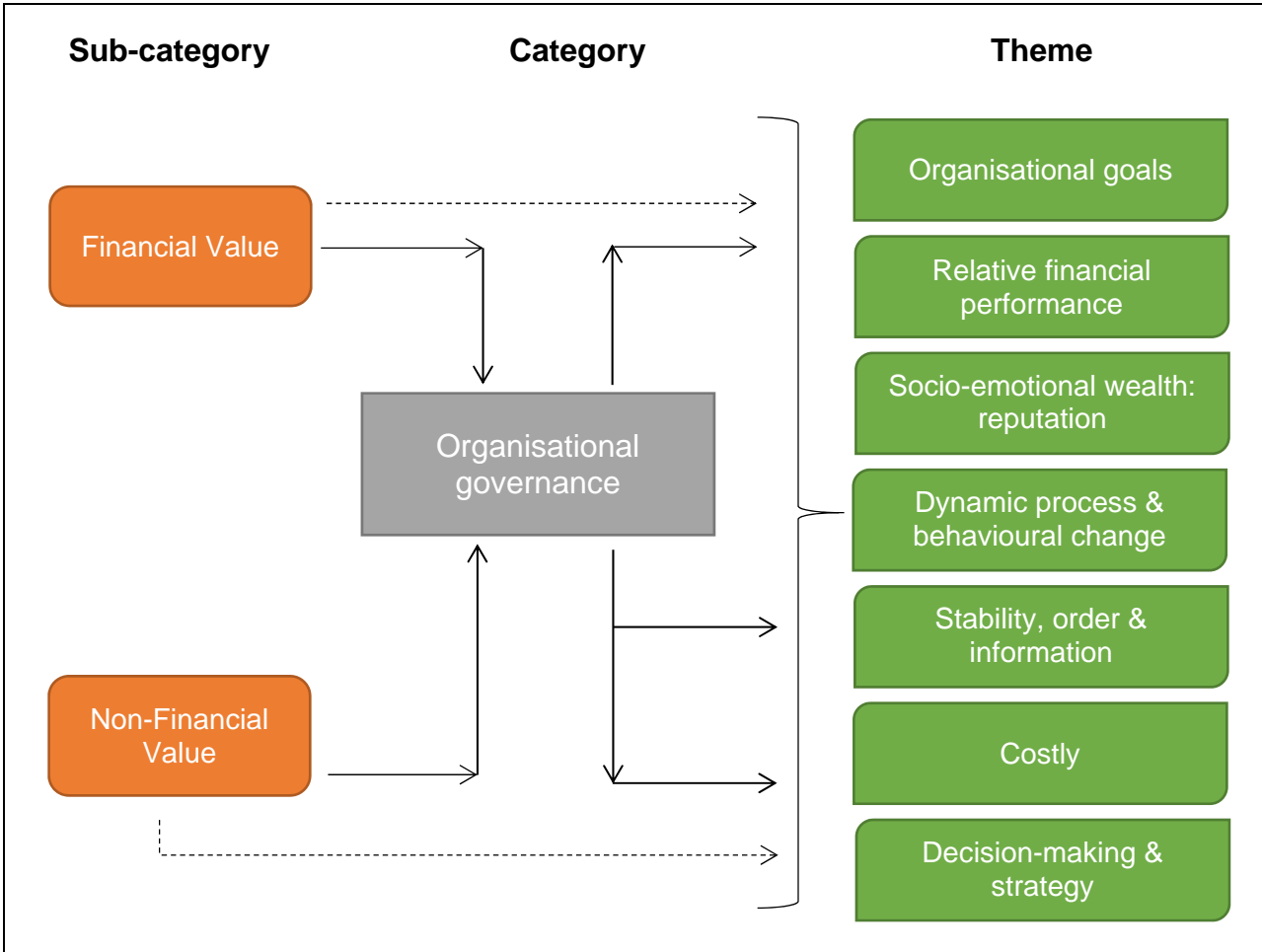
These financial figures, in conjunction with the personal views of the executive and senior managers, were used to illustrate the perceived value, from a financial perspective, of the governance structures in a private family organisation. Love et al. (2002:617), as well as Eddleston and Kellermanns (2007:1052), stated that personal views on organisational performance highly correlate with independent performance information, and that these personal views have the benefit of indirectly controlling

industry movements. The individual executive and senior managers' subjective views, on the perceived impact of the implementation of governance structures on the performance of the respected organisations, were therefore also explored.

4.7.1 YOGURT (PTY) LTD: IMPACT OF IMPLEMENTED ORGANISATIONAL STRUCTURES ON ORGANISATIONAL VALUE

The interview data of Yogurt (Pty) Ltd was coded (refer to Chapter 3.3.3 for more detail) and organised according to *a priori* sub-categories and subsequently identified themes, as depicted in Figure 19 below. Where relevant, the interview data was compared to supporting documentation, for instance the annual financial statements, in order to ensure the credibility and dependability of the findings.

Figure 19: A pathway to the data analysis of Yogurt (Pty) Ltd as it relates to research objective A.4.



Source: Adapted extract from Figure 7: Adapted codes-to-theory model

This sub-section will discuss the themes identified during this section of the data analysis of Yogurt (Pty) Ltd. Before exploring the governance structures' contributions to organisational value, it is important to first understand the organisational goals of Yogurt (Pty) Ltd (Section 4.7.1.1) as well as Yogurt (Pty) Ltd's relative financial performance for the period under review (Section 4.7.1.2).

4.7.1.1 ORGANISATIONAL GOALS

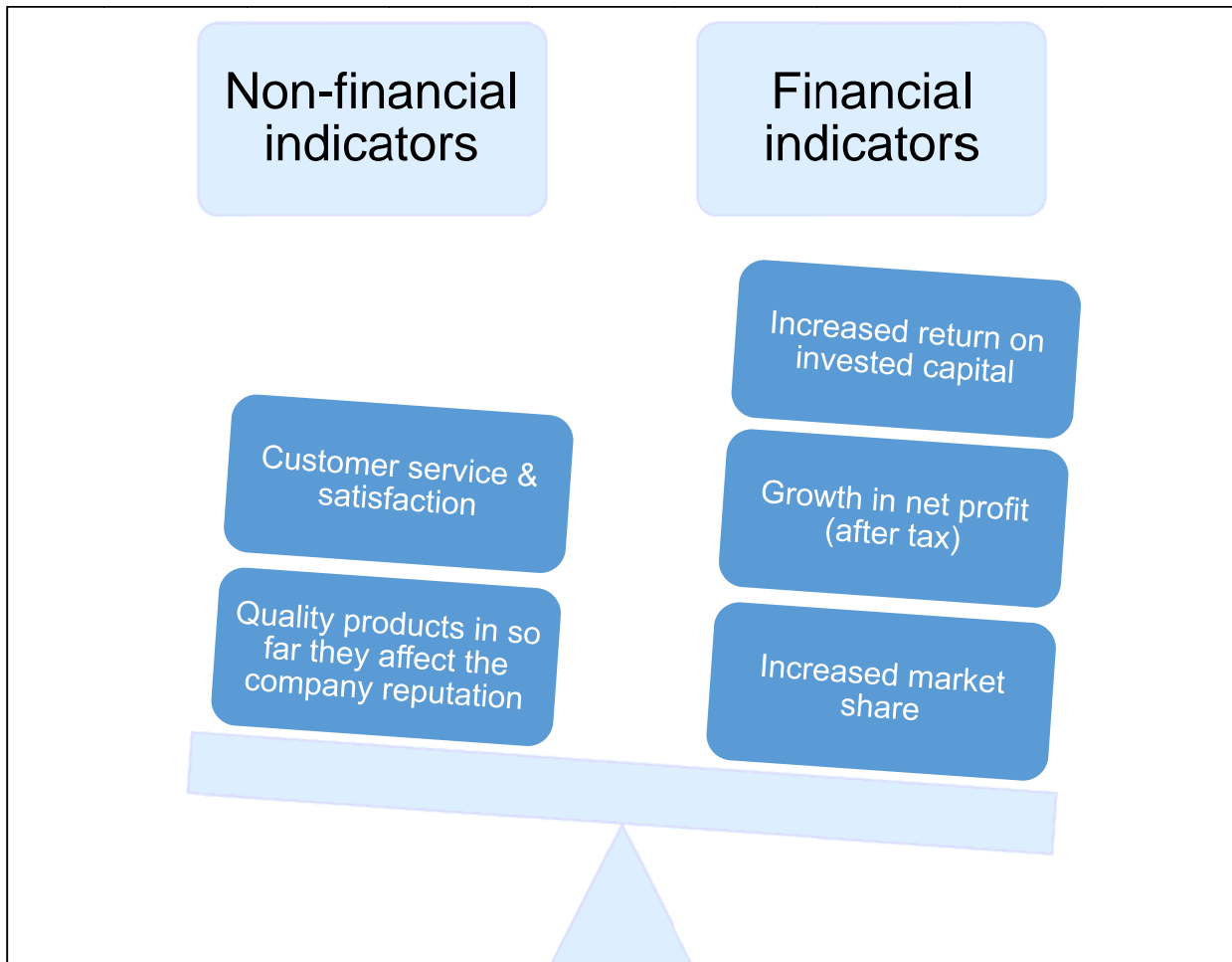
After considering the suggested list of “indicators of success for the family business” (see Annexure D: Company goals and success measures) and ranking the indicators in descending order of importance (from priority number one to ten), the chief executive officer of Yogurt (Pty) Ltd selected “increased return on invested capital” as his main indicator of success in the family organisation. Bearing in mind that family organisations' might prioritise socio-emotional objectives above financial objectives, the main indicator of success—as selected—goes against initial expectations. Based on the chief executive's selection, one can deduce that the organisation prioritises financial objectives above non-financial objectives. However, further evidence was required before reaching a conclusion. The study therefore sought a greater understanding of the reasons for selecting this financial objective as the top priority. In addition to this, it was also important to consider the other items that were listed by the chief executive officer as they could have potential to contribute to gaining a better understanding of the success factors that drive this family organisation.

The following indicators were ranked as priority numbers two to five:

- Growth in net profit,
- Customer service and satisfaction,
- Quality products in so far they would affect the reputation of the company, and
- Increased market share.

The goal orientation of the family organisation as illustrated by the top five indicators of success is depicted in Figure 20.

Figure 20: Goal orientation of Yogurt (Pty) Ltd



Source: Own observation (Data used from completed data question sheet—Annexure D)

Initial observations suggested that Yogurt (Pty) Ltd prioritises financial objectives, in determining the success of the organisation, over non-financial objectives (see Figure 20). However, the case makes it clear that Yogurt (Pty) Ltd is not oblivious to the contributions of the non-financial objectives that help to ultimately achieve the organisation's financial objectives.

A very strong theme of financial objectives, as a means to ensure the sustainability of income and transfer of wealth to the next generation, was observed from the interview data. Interviewees listed profit after tax (Interviewees #Y1, #Y3, #Y5, #Y6, and #Y9), financial stability and security (Interviewee #4), and growth in market share (Interviewee #Y11) as the organisation's performance goals. In addition to these, the organisation's inherent objective to be sustainable, on behalf of both family and non-family stakeholders, was evident. The interviewees listed training and people development

(Interviewee #Y1), long-term financial stability (Interviewee #3), job creation—there are more than 800 employees (Interviewee #Y5), a sustainable way of doing business (Interviewee #Y8), and a reduced impact on the environment (Interviewee #Y11) as core performance goals. From the interview data, and in support of the success indicators that were listed, it became clear that Yogurt (Pty) Ltd has prioritised financial objectives partly because of the fact that a non-performing organisation will not be able to sustainably support socio-economic priorities like training, people development, and job creation (Interviewees #Y1 and #Y5). A non-performing organisation will also be to the detriment of a wider range of stakeholders for instance, to the detriment of suppliers and clients (Interviewee #Y3). It is therefore clear that, although Yogurt (Pty) Ltd prioritises financial objectives above non-financial objectives, its motive for the focus on financial performance is not solely to ensure the enrichment of the shareholders, but also to ensure the enrichment of all of their stakeholders. As summarised by one family interviewee, “It’s all about building something that you can be proud off” (Interviewee #Y5).

When asked whether the financial wealth of the organisation or the financial wealth of the family was more important for the family shareholders, the answers mainly supported the findings that were discussed above. It was stated that the financial wealth of the organisation is more important because the success of the business is inextricably linked to the success of the family (Interviewee #Y1, #Y3, #Y4, #Y5, #Y7, and #Y11). This opinion was refined by one interviewee who stated that success needs to be measured in more than financial wealth.

Real success lies in the difference that you make, and the difference that your business makes in the bigger picture, outside of your business. I believe that is ultimately what you will use to measure your success. In order for me to make that difference, it is essential for the business to be successful (Interviewee #Y2).

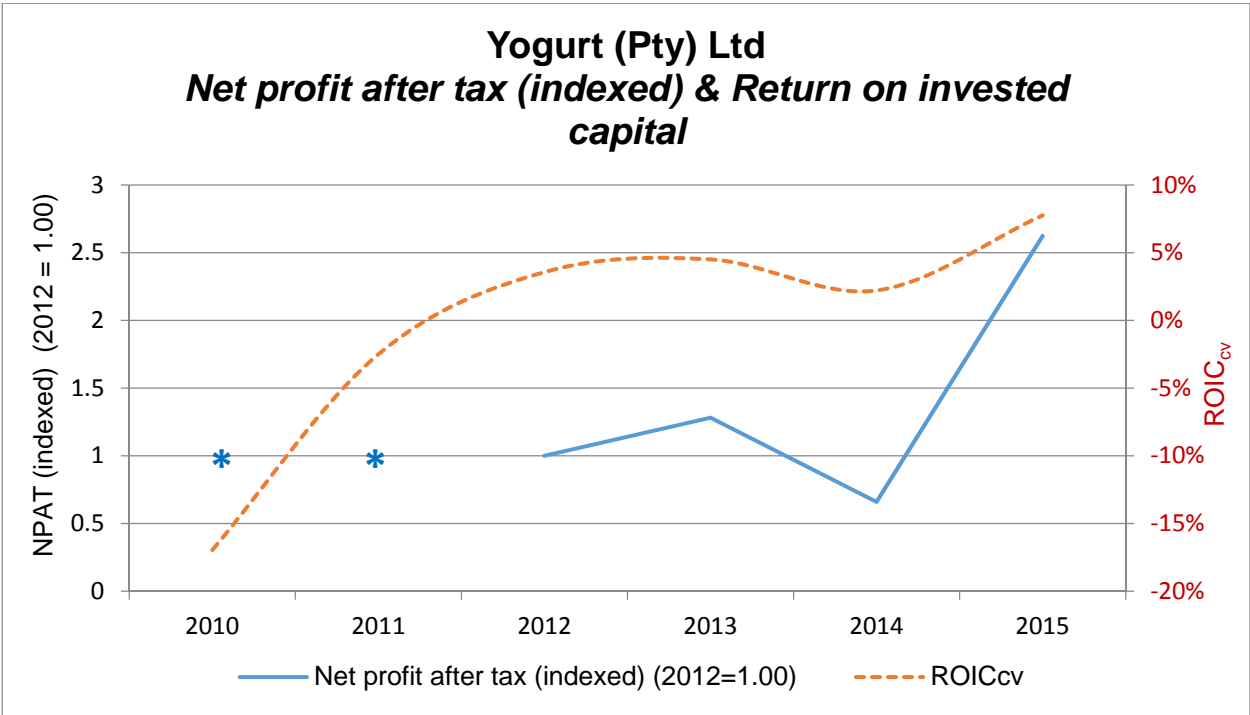
4.7.1.2 FINANCIAL PERFORMANCE

The relative financial performance of Yogurt (Pty) Ltd was measured by using “net profit after tax” and “return on invested capital”, as previously discussed. This was done over a six year period, namely the financial year end of each year from 2010 until 2015. The analysis used the 2010 financial year as the starting point for various reasons, which included the following: Yogurt (Pty) Ltd started implementing its governance structures during approximately 2009/2010 (Interviewee #Y9); the financial information for the

periods prior to 2010 were, as per the chief financial officer, not suited for analysis purposes (Interviewee #Y7); the period 2010 to 2015 provided adequate data to allow the exploration of Yogurt (Pty) Ltd’s financial trends; and, since the 2010 financial statements were also used as the starting point for the analysis of Cream (Pty) Ltd’s financial information, it provided a comparable base for the cross-case analysis. The relative performance of Yogurt (Pty) Ltd over this period has been depicted in Figure 21.

As explained earlier, the year 2012 was used as the reference year for the indexing process. Note that indexing provides an indicator of e.g., net profit after tax (NPAT) levels relative to the reference year (2012=1.00), but cannot be plotted for loss-making years (the indexing-scale sub-minimum is zero). The indexed profit-figures are therefore only shown for the profit-making years.

Figure 21: Relative performance of Yogurt (Pty) Ltd



*NPAT = Loss

Source: Own observation (Data as per the Yogurt (Pty) Ltd Annual Financial Statements)

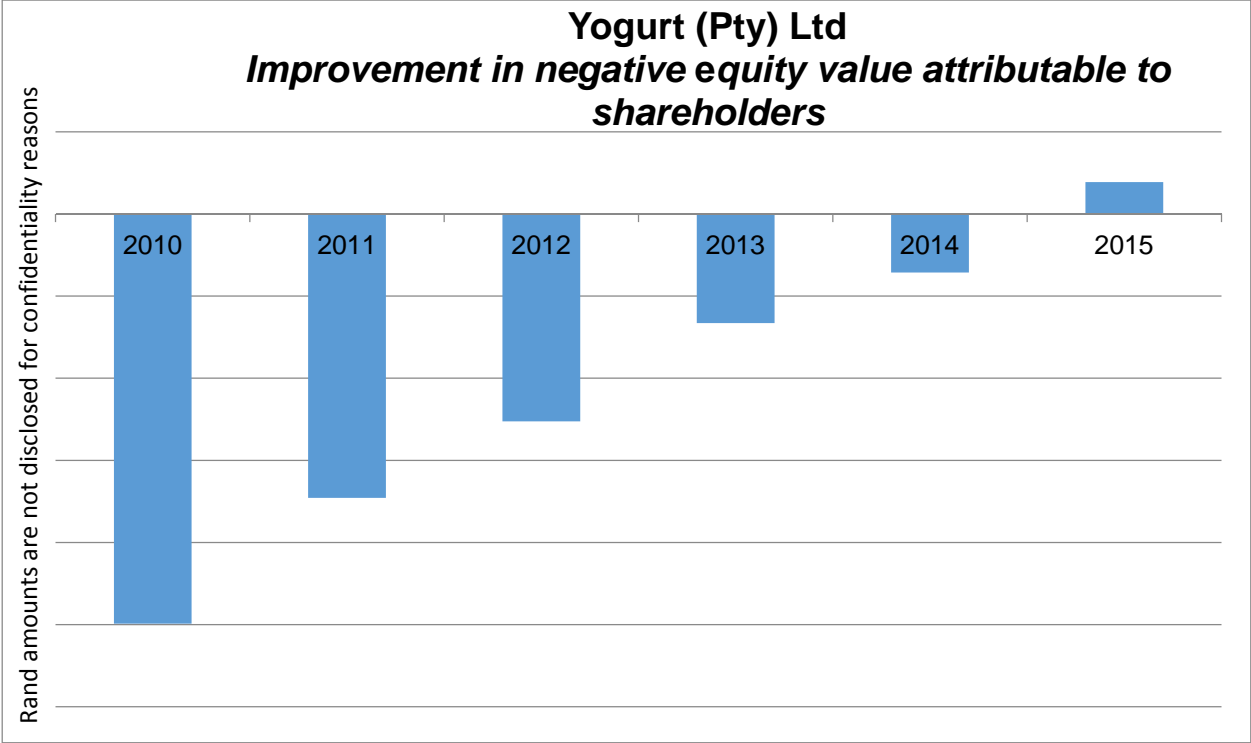
Except for the 2014 financial year, the performance of Yogurt (Pty) Ltd, as depicted in Figure 21, displays a general positive growth in the relative net profit (after tax) (NPAT), as well as in the return on invested capital (based on carrying values) (ROIC_{cv}) for the period under review. Contrary to this general positive trend experienced by Yogurt (Pty)

Ltd, a negative movement was identified in the 2014 financial year. This might have been partly a result of the fact that the “Dairy industry growth”, as it relates to domestic production volumes, had shown a negative rate of 1.04% during the five quarters, which ended in December 2014 (Department of Agriculture, Forestry & Fisheries 2015:9). Overall, inflationary cost pressures might be another reason for the decline in net profit (Clover 2014:3). A decrease in performance was also experienced by Cream (Pty) Ltd (see Figure 25) and Clover (see Figure 32) during the same period.

It should be noted that the 2015 financial year’s figures of Yogurt (Pty) Ltd were adjusted for analysis purposes because the figures as per the annual financial statements included a non-recurring event which inflated the profit for the 2015 financial year. Therefore, the inflated profit was eliminated and, as can be seen from Figure 22, it is still clear that the organisation’s performance increased steadily over the last few years.

As part of the above analysis, it was also important to explore whether there was any growth in equity value attributed to shareholders. This trend is depicted in Figure 22, but the actual rand amounts are not disclosed for confidentiality reasons.

Figure 22: Equity value attributable to shareholders



Source: Own observation (Data as per the Yogurt (Pty) Ltd Annual Financial Statements)

The equity value attributable to shareholders of Yogurt (Pty) Ltd was negative at the end of the 2010 financial year. Negative equity value is the result of the organisation's liability levels exceeding the value of its assets. The risk of negative equity value is that, should the assets of the organisation be sold, it would not be sufficient to redeem all the company's liabilities. The family members, being both shareholders and prescribed officers of the organisation, might then be liable for any outstanding debt. This might also trigger the liability clause as listed under section 77 of the Companies Act. The negative equity value decreased steadily over the period under observation and became positive during the 2015 financial year. This positive 2015 equity value, as depicted above, was obtained by Yogurt (Pty) Ltd even after the removal of some of the non-recurring profit that was made during the 2015 financial year. This positive trend suggests that the equity value attributable to the shareholders of Yogurt (Pty) Ltd progressed significantly since the 2010 financial year.

The positive trend was confirmed by some of the interviewees, who, when asked whether the current organisational structure had any effect on the organisation's financial performance, stated that,

The organisation transformed, over the last 5 years, from a huge loss-making business to a business with the potential of profit-making. This was done through continuous development and continuous improvement (Interviewee #5), and There has been a total turnaround in the company's financial position over the last few years (Interviewee #2).

4.7.1.3 THE VALUE OF IMPLEMENTED GOVERNANCE STRUCTURES

Although it is not possible to assert any direct relationship between the implemented governance structures and the increase in financial performance, it is clear that the organisational value improved over this period and that the implementation of governance structures did not result in a decline in organisational performance and value. One of the interviewees explained the following:

You cannot measure the effectiveness of governance structures in [sic] the positive results that come from it. The value of having structures in place is that the likelihood [sic] of breaking down value...becomes less (Interviewee #Y9).

The executive and senior managers' subjective views on the perceived impact of the implementation of governance structures on the financial performance of Yogurt (Pty) Ltd are discussed below.

Socio-emotional wealth: Reputation

All the interviewees, with the exception of one, commented favourably on the perceived contribution of Yogurt (Pty) Ltd's governance structures as they relate to its financial performance. The opposing interviewee (Interviewee #Y3) stated that there was no direct financial benefit. However, he did continue to say that these structures need to be in place, albeit a bit less formal. According to him, the structures create a good impression on workers, clients, and suppliers. Therefore, this can be classified as something that contributes to the organisation's socio-emotional wealth, and more specifically, to Yogurt (Pty) Ltd's reputation, which might then also indirectly contribute to its financial performance. As previously discussed, these positive impressions are essential to sustain various contracts with local retailers and international licence holders. Should these contracts or licenses be retracted, it could have a direct negative impact on the organisation's financial performance.

Dynamic process which ultimately leads to behavioural change

The implementation of governance structures is a dynamic and lengthy process (Interviewee #Y5). As alluded to by a non-family executive member, the implementation of governance structures cannot be achieved overnight, but needs to be done systematically (Interviewee #Y7). When the business started, nobody really understood the difference between being a shareholder and a director, as they saw it as "our business" (Interviewee #Y2). It is therefore important to systematically implement these structures and to ensure the "buy-in" of all relevant stakeholders before implementation (Interviewee #Y7). The dynamic and lengthy process, as well as the contribution of these structures to the improved behaviour within Yogurt (Pty) Ltd, was described by two executives:

When I look at the company's level of maturity compared to ten, even five years ago, it is evident that these governance structures are effective. There have been radical changes in the way things are done, even on family level. People are starting to understand that you need structures, systems, procedures and policies in place to manage the organisation as it prevents politics to[sic] take over; (Interviewee #Y8) and

I believe the decision-making process is effective. It's not perfect yet, but it has changed dramatically over the past few years (Interviewee #Y7).

As described by one interviewee, the effectiveness of the governance structures is currently "mixed" because the same people are shareholders, trustees, directors, and senior management (Interviewee #Y2). Role confusion, as described by Hall (2012:32), seems to be a reality within Yogurt (Pty) Ltd. The interviewee's explanation of the mixed

effectiveness is quite illuminating. He feels that the mixed effectiveness in these first/second generations is mainly because of role confusion. He theorises that the longer these governance structures are implemented, the more effective they will become. It is anticipated that during the reign of the next generation these structures will be more effective because family members will probably join the organisation on a senior management level, and not as directors, and their roles will therefore be more established (Interviewee #Y2).

Stability, order, and information

An organisation needs to ensure balance between people and systems (Interviewee #Y1). According to Interviewee #Y1, it is important to spend time with employees on their respective levels, in order to gauge their efficiency and effectiveness, instead of simply relying on reports. This view was challenged by an interviewee who highly values the contribution of the governance structures and related information technology systems. This interviewee stated that the implemented governance structures “set the table [sic] for the future”, since it brings stability, order, and information (Interviewee #Y2).

Interviewee #Y2 felt that, in addition to the governance structures as defined and discussed during the literature review of this study, information technology is also a very important part of any organisation’s governance structure. According to him, information technology provides information in a very structured manner. Notwithstanding this positive contribution, he did caution as to the cost implications of these information systems because the full benefit is only visible over time. He stated, “It doesn't come quick [sic], it doesn't come cheap [sic]...and it takes a long time to reward” (Interviewee #Y2).

Associated cost

The two interviewees (Interviewees #Y1 and #Y3) who seemed a bit more sceptical as to the contribution of governance structures mainly motivated their scepticism by alluding to the fact that the implementation of these structures has certain cost implications, of which the financial benefits are not immediately recognised (Interviewees #Y1 and #Y3). Although the direct financial benefit of the governance structures is not immediately recognised, family organisations have a long-term vision of transgenerational wealth (Marchisio et al. 2013:50) and this could potentially motivate the implementation of these structures. Therefore, they do not necessarily implement

them for the short-term financial benefit, but rather to facilitate the sustainability of the relevant family organisation for generations to come.

Decision-making and strategy

Governance structures in Yogurt (Pty) Ltd add value to the organisation as they give structure to decision-making which results in more responsible and less risky decisions being taken (Interviewee #Y2). A non-family interviewee commented on the fact that the structures which were put in place, added increasing value, because they supported a decrease in the negative risks of a family business. This, according to him, is important since the biggest risk for the organisation is to take a high impact incorrect decision (Interviewee #Y9).

Another non-family interviewee (Interviewee #Y7) supported this view by stating that he believes that the implemented structures improve financial performance. He gave an example of a situation where an important strategic or business decision had to be made and the advice of the most recently joined member of the board, a non-executive independent director, was followed in the end.

The view of Interviewee #Y7 was challenged by another non-family interviewee who made the comment that the non-executive directors do not seem to have sufficient influence on decision-making. He stated, "There isn't, in my view, in the non-executive directorship, enough power to override the critical mass of the executive directors, which is 80% family" (Interviewee #Y6). It can be deduced from this that the implementation of governance structures is a dynamic process, of which the effect is sometimes directly visible, as can be seen by the above example on decision-making. Sometimes, it takes a bit longer to yield the required results, e.g. family executives embracing the experience, knowledge, and potential contribution of the non-executive independent directors.

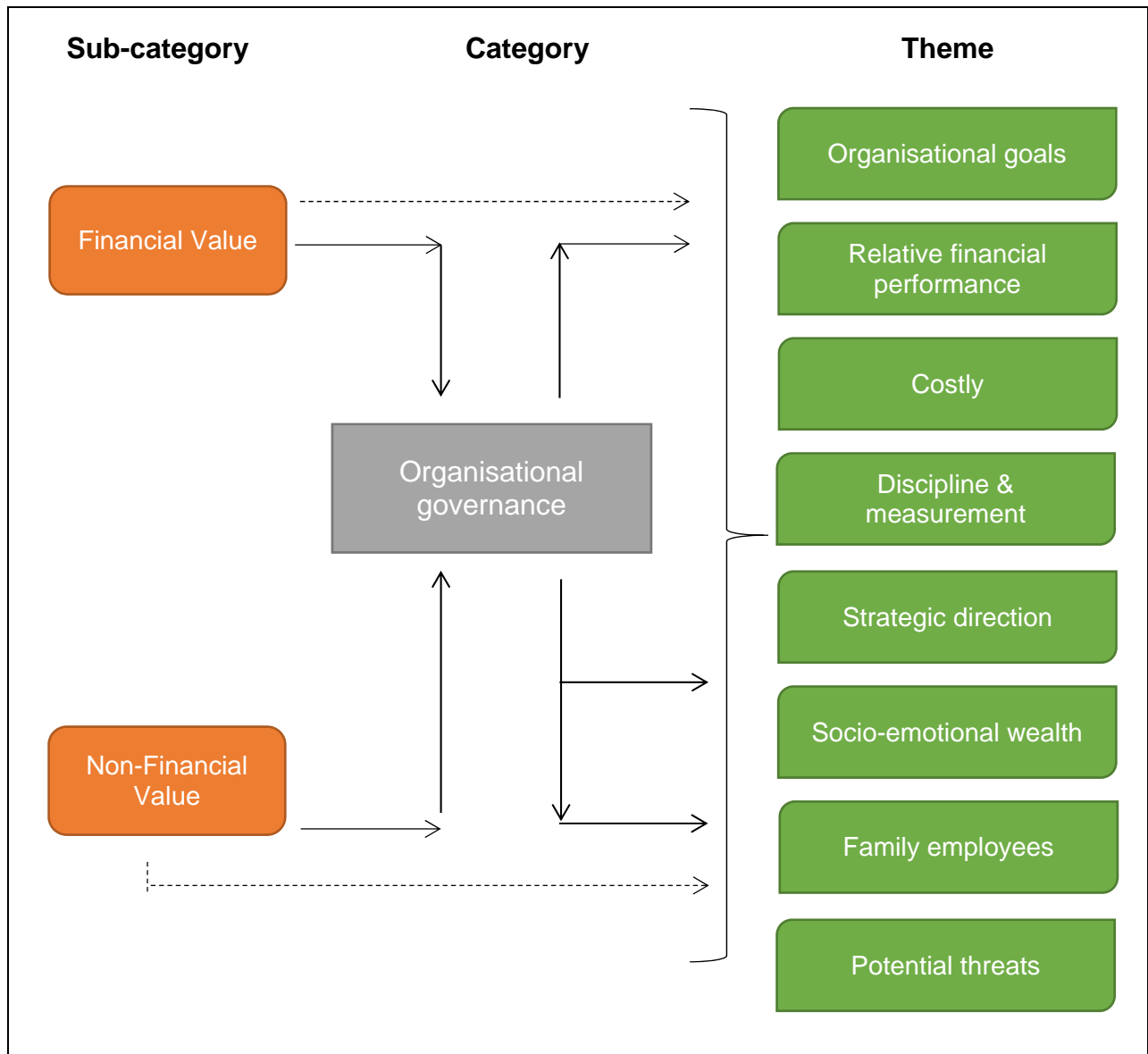
Governance structures also assist with the positioning of the company and the laying of the foundations on which to build the organisation for the future (Interviewee #Y2). One of the non-family interviewees (Interviewee #Y8) expressed his view on the contribution of governance structures by saying that he believes that the structures and committees that were put in place helped the organisational strategies come into play. It also took the individual out of the process. According to him, an individual should be in the process, but he should not be the process. He stated that the structures have, without a

doubt, put the company on the right financial path (Interviewee #Y8).

4.7.2 CREAM (PTY) LTD: IMPACT OF IMPLEMENTED ORGANISATIONAL STRUCTURES ON ORGANISATIONAL VALUE

The interview data of Cream (Pty) Ltd was coded (refer to Chapter 3.3.3 for more detail) and organised according to *a priori* sub-categories and subsequently identified themes, as depicted in Figure 23 below. The interview data was, where relevant, compared to the supporting documentation, for instance the annual financial statements, in order to ensure the credibility and dependability of the findings.

Figure 23: A pathway to the data analysis of Cream (Pty) Ltd as it relates to research objective A.4.



Source: Adapted extract from Figure 7: Adapted codes-to-theory model

This sub-section will discuss the themes identified during this section of the data analysis of Cream (Pty) Ltd. Before exploring the governance structures' contributions to organisational value (Section 4.7.2.3), it is important to first understand the organisational goals (Section 4.7.2.1), as well as Cream (Pty) Ltd's relative financial performance for the period under review (Section 4.7.2.2).

4.7.2.1 ORGANISATIONAL GOALS

After considering the suggested list of "indicators of success for the family business" (see Annexure D: Company goals and success measures) and ranking the indicators in descending order of importance (priority number one to ten), the chief executive officer of Cream (Pty) Ltd indicated "sustainability of income for current shareholders and future generations," or alternatively stated, "sustaining a family business across generations," as the most important indicator of success. This again confirms that Cream (Pty) Ltd meets part three of the definition of a family organisation (see Section 4.4.2), namely the current owner's multi-generational vision.

The selection of "sustainability of income for current shareholders and future generations" also indicates that transgenerational wealth, as discussed in the literature review under "Organisational value from a non-financial viewpoint" (see Chapter 2.4.2), is a major priority for Cream (Pty) Ltd. This confirms that socio-emotional wealth is an important factor to consider when determining the value of this family organisation.

Important to note in the analysis of socio-emotional wealth is that the non-financial indicator, "keeping control of the business," was not even selected as one of the top ten indicators of success by the chief executive officer of Cream (Pty) Ltd. This is an important point to reflect on since some researchers (Abdellatif et al. 2010:109) consider the preservation of family control to be one of the main priorities of a family organisation. When one considers that fact that "sustainability of income for current shareholders and future generations" was selected as the number one priority, and the fact that "keeping control of the business" was not even selected, one might conclude that, although the financial wellbeing of the family is a priority for the chief executive officer, Cream (Pty) Ltd might not necessarily be the only investment vehicle that is used by the family to achieve this goal. This conclusion is supported by a family member, who mentioned that,

My father built this for his children; it was his purpose from the beginning. Our objective is also to, one day, be able to look after our children. We should build a business up to the point where it is "sellable". But even if we sell the current business, we will probably continue to work together as a family, because it "works".

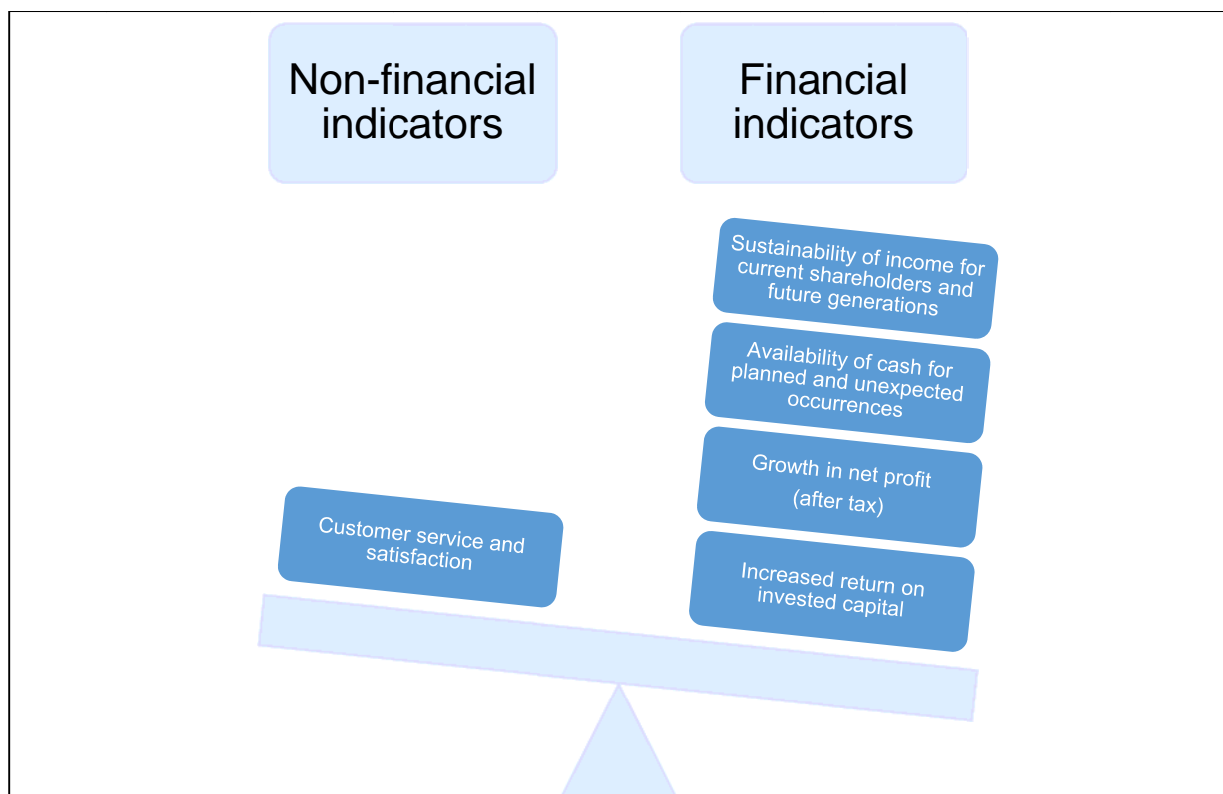
It also could be deduced that, although the transferability of the organisation to descendants is important, the financial objective of sustainability of income takes priority over the non-financial objective of transgenerational wealth. Based on this analysis, "sustainability of income for current shareholders and future generations", will in the case of Cream (Pty) Ltd, be categorised as a financial success indicator.

The chief executive officer of Cream (Pty) Ltd ranked the following indicators as priority numbers two to five:

- Availability of cash for planned and unexpected occurrences / being "cash flush",
- Growth in net profit (after tax),
- Customer service and satisfaction, and
- Increased return on invested capital.

These top five indicators, as specified by the chief executive officer of Cream (Pty) Ltd, are depicted in Figure 24.

Figure 24: Goal orientation of Cream (Pty) Ltd



Source: Own observation (data used from competed data question sheet (Annexure D))

Initial observations suggest that Cream (Pty) Ltd prioritises financial objectives over non-financial goals (see Figure 24). This therefore challenges the findings of some researchers who imply that non-financial goals supersede financial goals in a family organisation (Barnett et al. 2012:268). A potential reason for the financial orientation that is depicted in Figure 24 might be, as deduced from the interviews, that the financial welfare of the organisation is essential to the financial well-being of the family, as well as to the financial well-being of the non-family stakeholders, e.g. the direct community. This therefore explains the organisation's considerable focus on financial objectives. As explained by Interviewees #C2 and #C8,

If the company is not performing well, it will not be well with the family; and the financial wellbeing of the family will not materialise if the company doesn't meet its performance goals.

This is supported by the chief executive officer's number one success indicator which is "ensuring sustainability of income for current and future generations". This was also confirmed by an interviewee who stated that the family relies on the performance of the company for their own well-being (Interviewee #C2).

It was also stated that the organisation plays an important role in job creation in the local community which, therefore, indirectly improves the socio-economic circumstances of the community. Therefore, the organisation needs to be financially successful in order to fulfil its role in the community (Interviewee #C5). As explained by Interviewee #C5, "If the company does not exist, they will not have...it is their bread and butter".

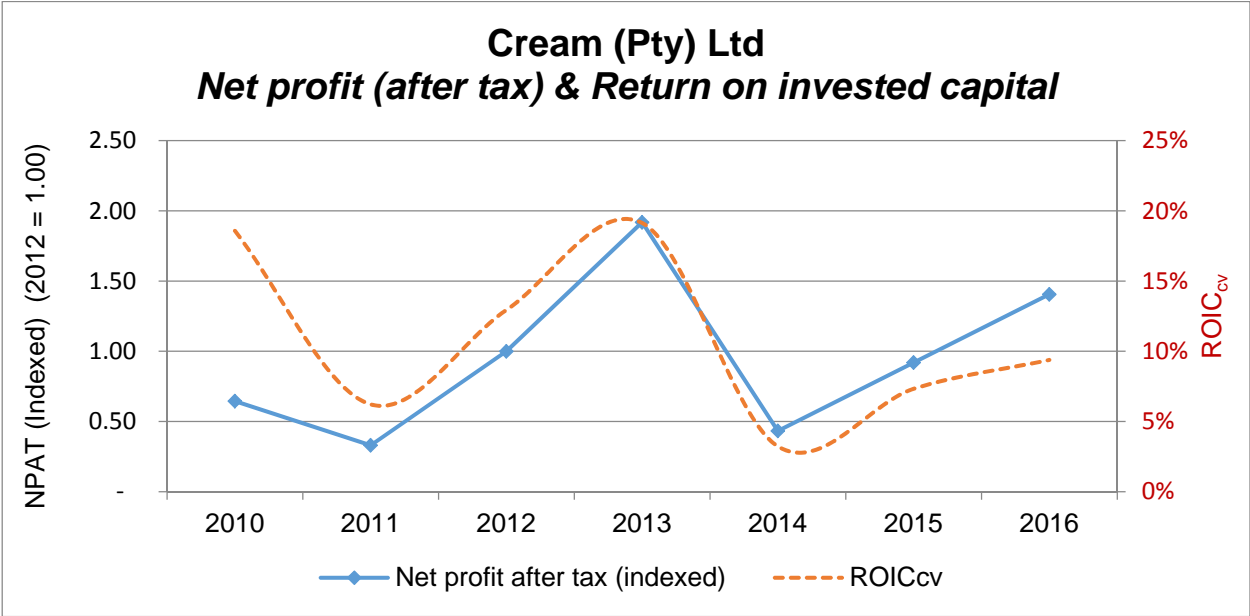
4.7.2.2 FINANCIAL PERFORMANCE

The relative financial performance of Cream (Pty) Ltd was measured by using "Net profit after tax" and "Return on invested capital" (based on carrying values). In this case these two financial measures were selected for the following reasons: firstly, these were included in the list of top five priorities for Cream (Pty) Ltd; secondly, other mentioned financial measures are more subjective and therefore difficult to quantify objectively; and finally, to facilitate comparison with the other entity. This was done over a seven year period from the financial years ending 2010 until 2016. The analysis used the 2010 financial year as a starting point for various reasons which included firstly, the fact that the new governance structures were implemented during 2010/2011; secondly, as per the chief financial officer, it was the first year that the organisation existed as a private

company (in its current form); thirdly, the period 2010 to 2016 provides adequate data to allow the exploration of Cream (Pty) Ltd's financial trends; and lastly, the 2010 financial statements were also used as a starting point for the analysis of Yogurt (Pty) Ltd's financial information.

Figure 25 indicates the relative performance of Cream (Pty) Ltd which was measured by using "Net profit after tax" and "Return on invested capital".

Figure 25: Relative performance of Cream (Pty) Ltd



Source: Own observation (Data as per Cream (Pty) Ltd Annual Financial Statements)

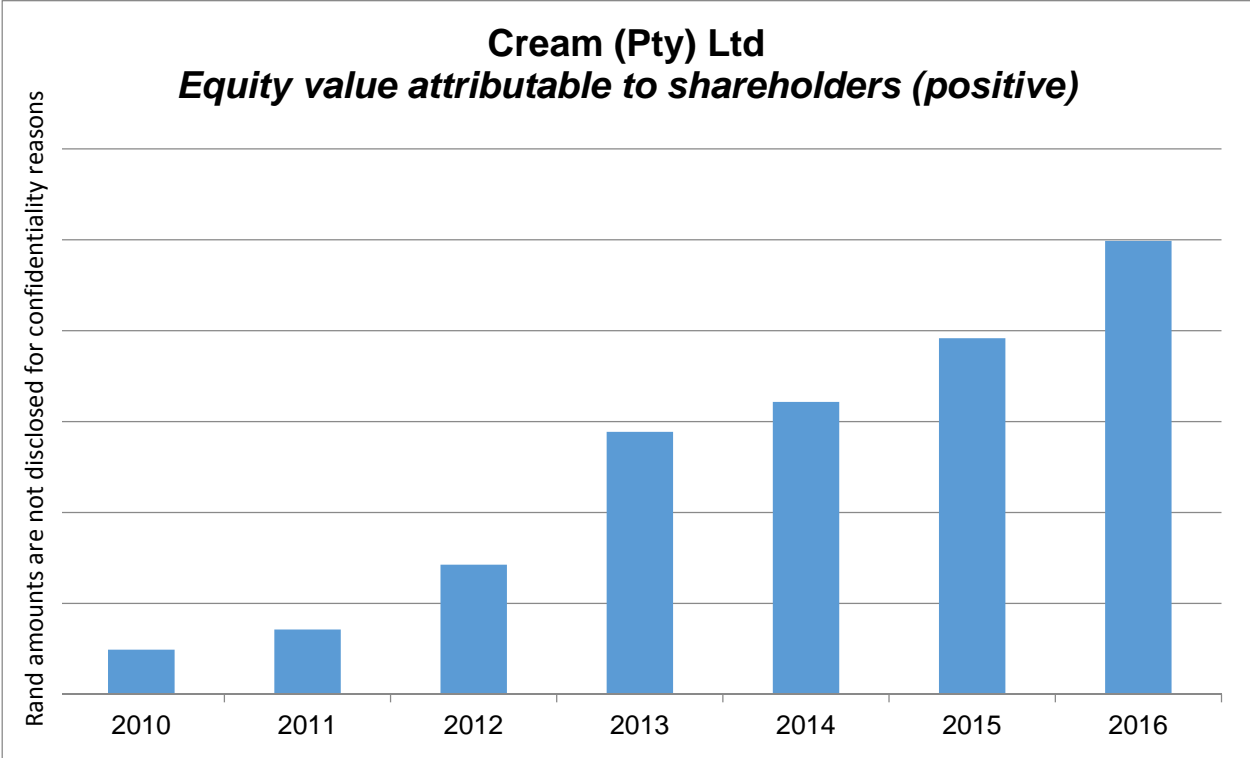
The net profit (after tax) was indexed and the 2012 financial year was used as the first year of reference. Yogurt (Pty) Ltd, the other organisation, was in a loss-making position before the 2012 financial year; therefore, for comparison it made more sense to use the 2012 financial year as the reference year for Cream (Pty) Ltd as well.

Figure 25 displays a fluctuating, but largely correlating, trend in both net profit after tax (NPAT) and return on invested capital (ROICcv). The profit figures and returns however remained positive over the analysis-window, but displayed two significant dips, one in 2011 and one in 2014. There was growth in net profit after tax in the years 2012, 2013, 2015 and 2016. The 2011 and 2014 years included dividend payments to shareholders which were not declared during the other financial years under review. (Dividend payments would not directly affect net profit after tax, as this figure excludes the impact

of any dividends declared, but may impact the returns on invested capital to some extent, based on a possible impact on the formula's denominator.) It is also important to note that the steep increase in net profit after tax, and return on invested capital during the 2013 financial year, was partly due to an above average positive fair value adjustment. If the fair value adjustment for this particular year were to be averaged, the trend would still be positive and, therefore, it would not have a material impact on this study's findings. A decrease in the 2014 net profit has been identified. This is comparable to the decrease in the 2014 performance of both Yogurt (Pty) Ltd (see Figure 21) and Clover (see Figure 32). As discussed under Yogurt (Pty) Ltd, the reasons for this decrease in performance might be the negative growth rate of 1.04% in domestic production volumes, which was experienced during the five quarters ending December 2014 (Department of Agriculture, Forestry & Fisheries 2015:9), as well as overall inflationary cost pressures (Clover 2014:3).

As part of the above analysis, it was also important to explore whether there was any growth in equity value attributed to the shareholders of Cream (Pty) Ltd. This movement in equity value is depicted in Figure 26.

Figure 26: Equity value attributable to shareholders



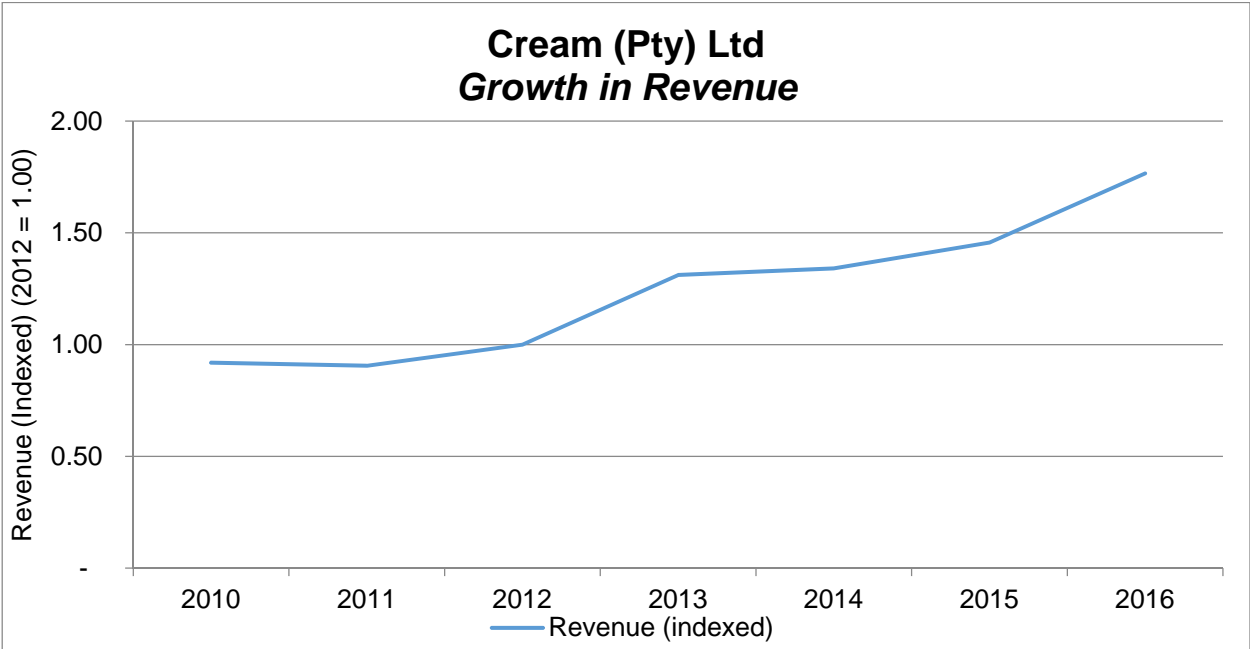
Source: Own observation (data as per Cream (Pty) Ltd Annual Financial Statements)

From the above graph it is clear that the equity value attributable to shareholders had increased consistently during the period under review. The trend is depicted, but the actual rand amounts have not been disclosed for confidentiality reasons.

The chief financial officer indicated that the implementation of the organisational structures definitely had a positive effect on the financial performance of Cream (Pty) Ltd. He supported this statement with an indication of the considerable growth in turnover experienced by Cream (Pty) Ltd since the implementation of the new organisational structures. This view was supported by other interviewees who stated, “If I look at the company growth, it had to be positive” (Interviewee #C5), “It is not a coincidence” (Interviewee #C5), and “Definitely a positive effect. I see the numbers” (Interviewee #C7). This information was verified by assessing the revenue figures as disclosed in the audited annual financial statements.

The revenue figures were indexed with 2012 being used as the year of reference (as explained earlier) and depicted in Figure 27. The indexing was done in order to show the relative revenue growth and to avoid disclosing the actual revenue rand values (for confidentiality reasons).

Figure 27: Growth in revenue



Source: Own observation (Data as per Cream (Pty) Ltd Annual Financial Statements)

The professionalisation of the organisation, through the implementation of governance structures, as well as a renewed focus on sales, contributed to a material increase in turnover (Interviewee #C3). The growth in revenue, as disclosed in the annual financial statements and depicted in Figure 27, supports the view of the interviewees who motivated the organisational structures' positive contributions towards the increase in revenue and organisational value from a financial perspective.

4.7.2.3 THE VALUE OF IMPLEMENTED GOVERNANCE STRUCTURES

From the above figures (Figure 25, Figure 26, and Figure 27), and from the subsequent discussions, it can be derived that, holistically, the implementation of governance structures did not negatively affect the value of Cream (Pty) Ltd.

The purpose of this study is not to prove a direct relationship between the implementation of governance structures and financial performance or equity value. The study recognises that many internal and external factors could influence the financial performance and the value of a family organisation. However, the above financial performance discussion did set out to achieve an illustration that Cream (Pty) Ltd did experience growth in organisational value since the implementation of their governance structures.

The executive and senior managers' subjective views on the perceived impact of the implementation of governance structures on the financial performance of Cream (Pty) Ltd were explored; the findings are revealed below.

Associated cost

With the exception of one interviewee who started working at the organisation only after the implementation of the new structures, all the interviewees indicated that the implementation of the current organisational structure had a positive impact on the financial performance of the organisation. Notwithstanding this, it was mentioned by one interviewee that the initial financial impact was negative because the implementation of the structures was quite costly (Interviewee #C2). However, he continued to say that, subsequent to the initial implementation costs, it had a positive impact because everybody now knows what their respective roles and responsibilities are, and where they fit into the business.

Discipline and measurement

A second interviewee (Interviewee #C6) posited that the current structures had definitely contributed positively because the organisation now has predetermined goals, direction, and structure. He feels that it is important to have discipline with respect to the way things are done because discipline prevents chaos and confusion. He stated that, following the implementation of the new structures, discipline and measurement had been brought in. When he started his career at the organisation, nothing was measured. He motivated the need for measurement by stating, “If you do not measure, I am telling you today, then we can rather leave it, since we will not be able to manage” (Interviewee #C6).

Strategic direction

Another interviewee focused on the positive contribution of the external advisors of both the family advisory board and the board of directors. He reiterated that these advisors possess industry knowledge and experience which they apply at Cream (Pty) Ltd in an advisory capacity. The independent advisors have a long-term view, which, in conjunction with their industry knowledge and experience, assist the organisation in defining its long-term strategy. For instance, they will advise, “Do not invest so much in your milk parlour, since we foresee that the milk prices in the country will probably decrease. You're going to be able to buy milk cheaper from other guys, than to feed your own cattle” (Interviewee #C4) and, “We predict packaging to move in a certain direction, so we think that you should start investing in a new type of packaging machinery. Do not buy new tractors, rather invest in a new machine, and these are the reasons for it...” (Interviewee #C4). This long-term orientation and industry view is perceived to contribute positively to the organisational value of Cream (Pty) Ltd.

Socio-emotional wealth

From the literature review (see Chapter 2.4.2) it was concluded that the following factors contribute to organisational value from a non-financial or socio-emotional viewpoint: family control, transgenerational wealth, social identity, and organisational reputation. Notwithstanding this, the chief executive officer did not rate “keeping control of the business” as one of the indicators of success for Cream (Pty) Ltd. However, information that was obtained during the interview process implied that family control might be a fundamental socio-emotional goal, albeit subconsciously, for the owner family.

One of the executive members stated that the power of control lies with the board of directors as a collective and not with the executive management. He continued to say that, should the chief executive officer be a non-family member and should the chairman of the board of directors be a family member—with the majority of members on the board also being family members—the family could still convince the board to dismiss the chief executive officer. It is therefore clear that the interviewee was not concerned with losing family control (a very important socio-emotional value) because of the potential appointment of a non-family chief executive officer.

When considering the current organisational structure, and the potential impact of the chief executive officer's roles as both chairman of the board of directors and chairman of the board of trustees (*i.e.* shareholding), it is clear that the family has family control over the organisation. It can also be deduced that the family, although it was not specifically stated, intuitively sees family control as one of its socio-emotional goals. This confirms Cennamo et al.'s (2013:1343) view that family organisations strategically appoint family chief executive officers to preserve and enhance socio-emotional wealth. Simultaneously, it also challenges Cennamo et al.'s (2013:1343) view by showing that there are alternative ways—*i.e.* not solely through the use of a family chief executive officer—in which a family can keep control of the family organisation. Thus, the position of chairman of the board might be a strategic position in the quest for family control. This could be considered in further research.

Family employees

The new structures that were implemented by Cream (Pty) Ltd meant that the spouses of the current family employees could no longer be employed by the organisation. Both family and non-family managers experienced this change positively. The presence of spouses in the organisation created conflict. Company vehicles would, for instance, be needed for business purposes, but instead they would be used by the spouses for personal reasons (Interviewee #C4). Spouses would be allowed to run personal errands during working hours but this was not allowed for non-family personnel (Interviewee #C9). It was noted by the interviewees that since the new structures were implemented, these types of frustrations were no longer experienced (Interviewee #4).

The fact that the family spouses no longer work in the organisation, and the implementation of the new governance structures (*inter alia*, the advisory board, the

company board of directors, and the organogram), seems to have had a positive contribution to the well-being of both the organisation and to the family life. The reasons given include the facts that there is less emotional decision-making in the organisation and there is less office politics in the home (Interviewees #C2 and #C4). The structures eliminate the emotional component with respect to the interactions within the family sphere, the interactions within the business sphere, as well as the family versus business interactions (Interviewee #C1). This again leads to easier and less complex decision-making processes, it creates boundaries, and it ensures discipline in actions (Interviewee #C4). The structures clarify the role allocations within the organisation for example, the board of directors is responsible for strategic direction, and management is responsible for the daily execution of the strategic direction (Interviewee #C4). As stated by one interviewee, "There is discipline in this whole thing, it's not just a number of things thrown into a hat" (Interviewee #C4).

Potential threats to organisational value

Currently, the family's money is being used to fund the activities of the organisation because, as it was stated, "It is the family's money" (Interviewee #C5). One interviewee postulated that the family would continue to be the controlling shareholder up to the point where the organisational growth is restricted by insufficient financial capital. At that point, the organisation would require external capital investment to support further growth (Interviewee #C7). External investors, through equity holding, can likely lead to a loss of family control. According to Vancauteran and Vandemaele (2015:168), giving up family control is a critical socio-emotional loss which, from a family business perspective, could potentially negatively affect the organisational value.

Supporting the potential need for external capital, another interviewee noted that the current capital expansion projects might require some external funding in the future. This, according to him would not have a positive effect on the organisation. He stated, "It will, according to me, derail the apple cart" (Interviewee #C5). The reason given for this is that any external, non-family shareholder would require a return on his investment. To achieve this over the short-term might require measures that are not closely aligned with family values. "That shareholder requires his money back. He comes with different ideas and will not uphold the family values" (Interviewee #C5).

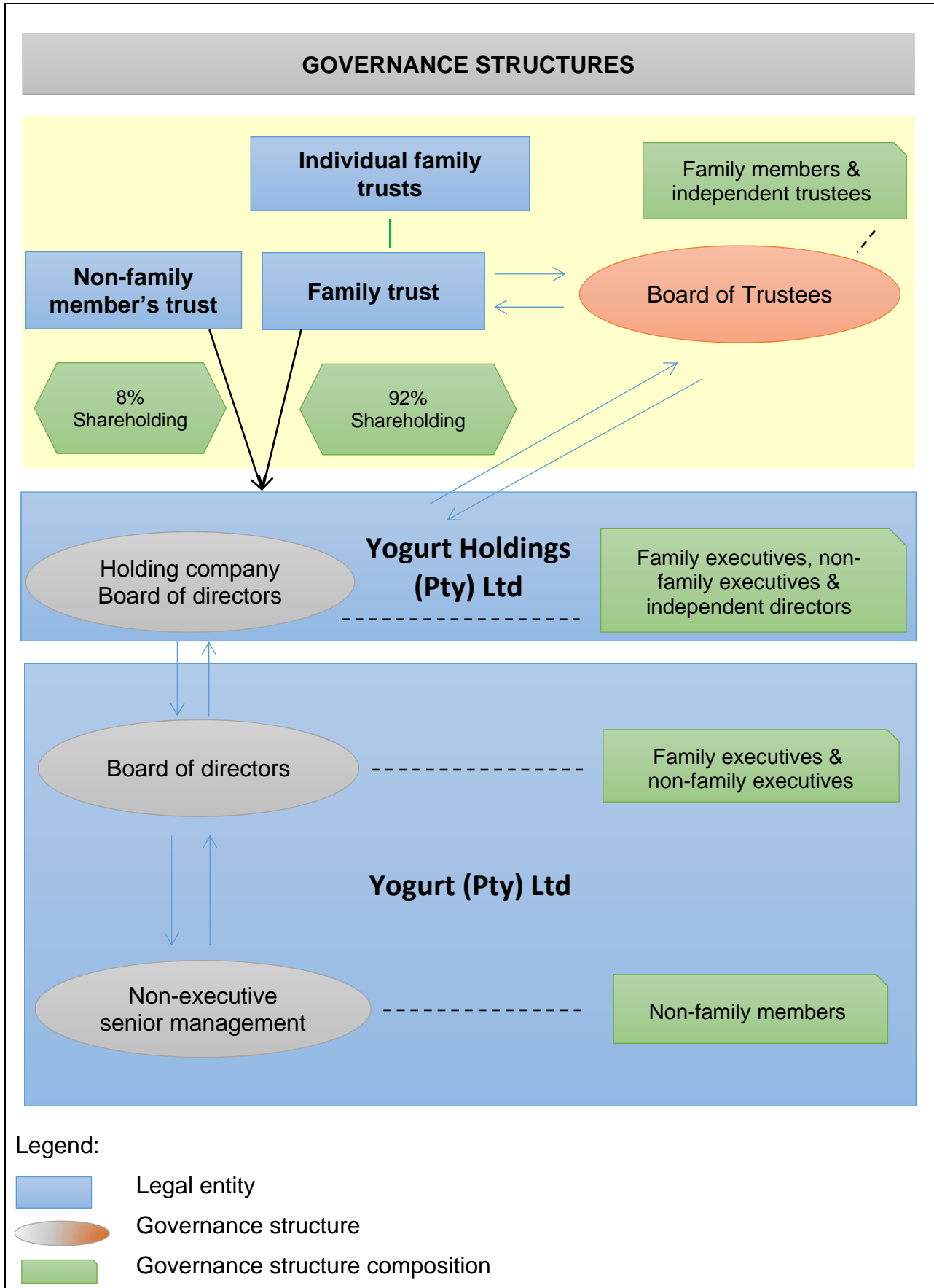
4.8 SUMMARY OF STRUCTURES

Taking into account the vast level of information already discussed, it is important to visually represent a summary of the organisational structures of the featured cases.

4.8.1 YOGURT (PTY) LTD: SUMMARY

Yogurt (Pty) Ltd is an organisation that conforms to the definition of a family organisation. Its structures are depicted in Figure 28. These include both family governance structures and organisational governance structures. The main features of the family governance structures are the establishment of trusts, and the establishment of a board of trustees that will be responsible for the effective management of these trusts. The organisational governance structures include the holding company's board of directors and the company's board of directors and non-executive management structures.

Figure 28: Yogurt (Pty) Ltd – Governance structures



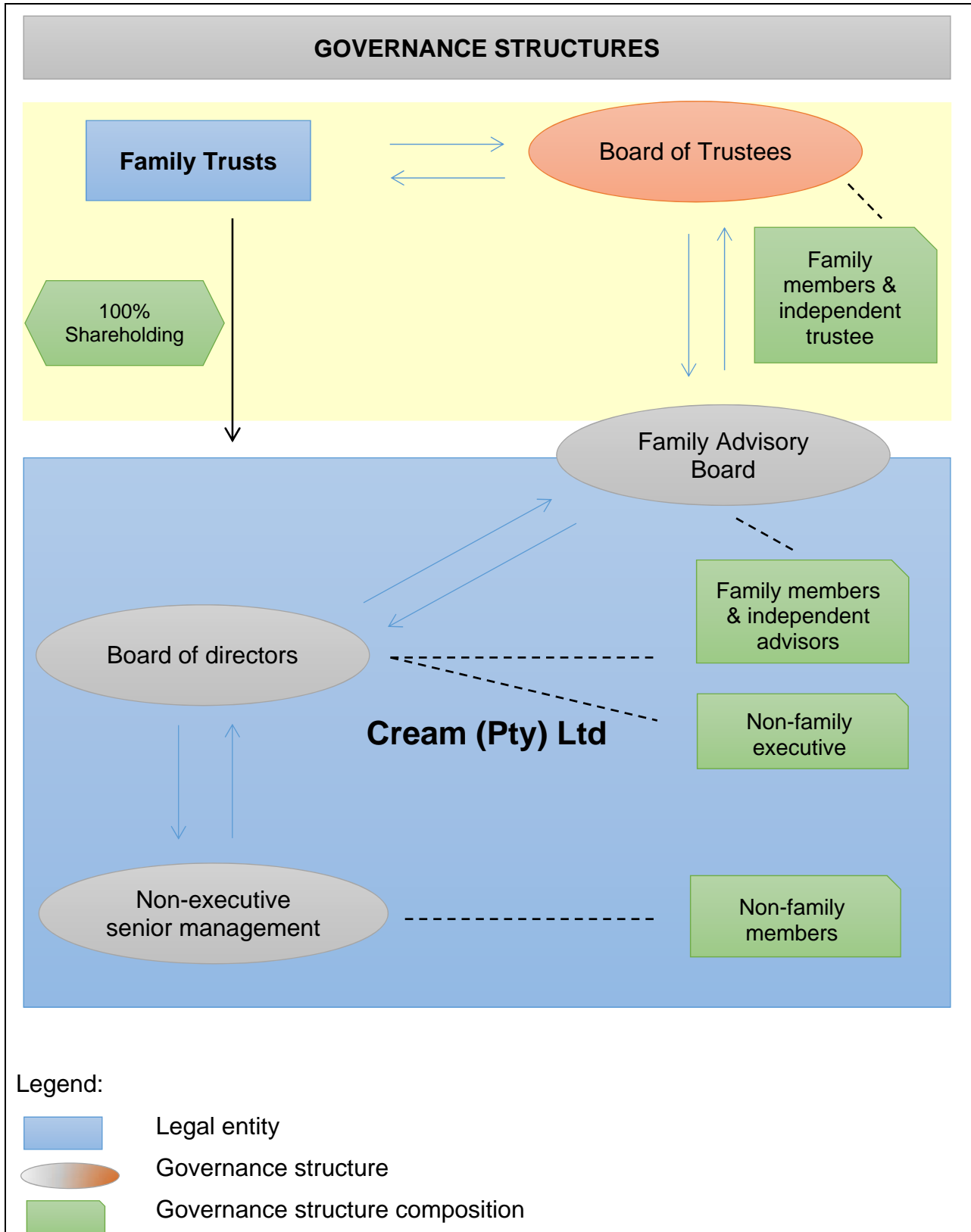
Source: Own observation (based on information obtained during the fieldwork)

Based on the above schematic presentation, the information obtained during the interview process, and the additional supporting documentation, it can be stated that the case under review has a well-balanced governance structure. Traditionally, the organisation could have been classified as an owner-managed organisation because of the majority of family members on the executive management team. However, the organisation has enough essential professional elements for example, non-executive directors, board sub-committees, an independent chief financial officer, an independent risk manager and an independent human resources manager, a non-family chief operating officer and formal policies, in order to classify it as a very effective hybrid governance system.

4.8.2 CREAM (PTY) LTD: SUMMARY

Cream (Pty) Ltd is an organisation that conforms to the definition of a family organisation. The organisation also has both family governance structures and organisational governance structures. The family governance structures include inter alia, a board of trustees, a dividend policy, and a shareholders agreement. The organisational governance structures, as defined in this study and as depicted in Figure 29, are comprised of supervisory governance structures (*i.e.* the family advisory board and the company board of directors), as well as managerial governance structures (*i.e.* executive and senior management, and relevant policies and procedures). Both the family advisory board and the company board of directors consist of family members and independent advisors. With specific reference to the presence of family members on these boards, the family advisory board is comprised of executive and non-executive family members, whereas the company board of directors does not have any non-executive family members.

Figure 29: Cream (Pty) Ltd – Governance structures



Source: Own observation (based on information obtained during the fieldwork)

The organisational structures in place are perceived, by senior and executive management, to support value-creation in the organisation. The involvement of non-family advisors, as well as the involvement of non-family executive members in these governance structures contributes towards independence, industry knowledge and experience, improved strategic planning, and a long-term vision. Their presence, as well as the fact that the family in-laws are no longer operationally involved in the organisation, decreases the amount of family conflict both at home and at the office. The executive family members' integration within these governance structures is also very important because they are passionate about the organisation and they are motivated to ensure its success. This might result from their stewardship mentality, family values and character, as well as their vested interest in the financial success of the organisation. These family executives also act as intermediaries between the organisation and non-executive family shareholders.

SECTION D

4.9 A CROSS-CASE ANALYSIS: YOGURT (PTY) LTD AND CREAM (PTY) LTD

A multiple case study was performed in order to gain insight into the similarities and differences between the two featured cases because, as suggested by De Massis and Kotlar (2014:18), this provides a “stronger base for theory building or explanation”. Before performing a cross-case analysis, it is important to understand the context within which these cases are situated, as stressed by Baxter & Jack (2008:556).

Both Yogurt (Pty) Ltd and Cream (Pty) Ltd are family organisations, as defined in this study. Yogurt (Pty) Ltd is, in terms of turnover and based on the Department of Trade and Industry (DTI) cut-off points as adjusted by Statistics South Africa for Quarterly Financial Statistics purposes (Statistics South Africa 2015:30), classified as a large size entity; and Cream (Pty) Ltd is classified as a medium size entity. These two organisations are also situated in different provinces within South Africa. Yogurt (Pty) Ltd is in a more traditional milk region, and Cream (Pty) Ltd in a less traditional milk region. Although the organisations differ in size and location, they are comparable entities because they are both producers and distributors of inter alia, fresh milk, flavoured milk, yogurt, cream, and fruit juice. Thus, they are active in the same industry.

They supply dairy products to premium brand and independent retailers; they are both seen as leaders in the dairy manufacturing industry; the generations in control, with regard to the respective organisations' shareholding and management, are comparable; and they implemented their governance structures during approximately the same time periods.

Although a vast set of information and interesting findings have been identified and discussed in this chapter, it is important not to be distracted from the research objectives described in Chapter 1.4. De Massis and Kotlar (2014:24) warn case study researchers not to fall into this “typical pitfall” in the presentation of results. The cross-case analysis will therefore focus on **how** the organisations are currently structured, **why** they are structured as such, and whether the current governance structures of these organisations **add value** to the organisations. Corresponding information and any discrepancies across these cases have been compared with each other in order to understand whether the findings are replicated in both cases, or whether they are isolated.

4.9.1 THE “HOW” AND “WHY” OF THE ORGANISATIONAL STRUCTURE

The current governance structures of both cases are, for ease of comparison, summarised in tabular form and can be seen in Table 5.

Table 5: A cross-case analysis of Yogurt (Pty) Ltd and Cream (Pty) Ltd

	Examples of applicable: Theory / Legal requirements / Best practice	Yogurt (Pty) Ltd	Cream (Pty) Ltd
1. Organizational size	- DTI cut-off points (Statistics SA 2015:30)	- Large entity	- Medium entity
2. Ownership	- De Massis, Huges, Kotlar, Scholes & Wright (2016:10)	- Ownership in trust - Family and non-family shareholding	- Ownership in trust - Only family shareholding
3. Supervisory structures 3.1 Type of structure	- Companies Act, No 71 of 2008	- Professional board of directors (Holding) - Operational board of directors (Company)	- Family advisory board - Company board of directors
3.2 Members	- King III - De Massis, Huges, Kotlar, Scholes & Wright (2016:9)	- Professional board: • 30% Non-family, non- executive • 50% Family executive • 20% Non-family executive	- Family advisory board: • 25% Non-family, non- executive • 25% Family executive • 12.5% Non-family executive • 37.5% Family, non- executive

	Examples of applicable: Theory / Legal requirements / Best practice	Yogurt (Pty) Ltd	Cream (Pty) Ltd
3. Supervisory structures (continued) 3.2 Members (continued)		<ul style="list-style-type: none"> - Operational board: <ul style="list-style-type: none"> • 60% Family executive • 40% Non-family executive 	<ul style="list-style-type: none"> - Company board: <ul style="list-style-type: none"> • 50% Family executive • 25% Non-family executive • 25% Non-family, non-executive
4. Managerial structures 4.1 CEO 4.2 CFO 4.3 Other senior management 4.4 Policies	<ul style="list-style-type: none"> - King III - King III - King III 	<ul style="list-style-type: none"> - Family CEO - Non-family CFO - Family and non-family managers - Many policies, including delegation of authority, finance, HR, IT, logistics, procurement, risk management, sales, and marketing 	<ul style="list-style-type: none"> - Family CEO - Non-family CFO - Family and non-family managers - Not that focused on policies; mainly HR policies in place.

Source: Own observation (based on information obtained during the study)

With reference to the governance structures, as per Table 5, the following discussion will expand on how and why these structures were put in place across both private family organisations.

Ownership

Both organisations have opted for the establishment of trusts as ownership vehicles. This is done for various reasons which include estate planning and the ease of management with regard to future generations and their involvement in the decision-making processes of these organisations. The establishment of these trusts supports De Massis et al.'s (2016:10) view that the establishment of a trust is an important aspect of governance. It is interesting to note that Yogurt (Pty) Ltd has a non-family shareholder, and Cream (Pty) Ltd is one hundred percent family-owned. However, both of these organisations are under the ownership control of the respective families as the families have, by far, the majority of the shareholding.

Supervisory structures

From an initial glance, it might seem as if Yogurt (Pty) Ltd and Cream (Pty) Ltd have totally different supervisory governance structures. The Yogurt Group has two boards, namely the board of directors of the holding company which, for ease of reference, will be referred to as the professional board, and the board of directors of the subsidiary company, Yogurt (Pty) Ltd, which will be referred to as the operational board. Cream (Pty) Ltd has a family advisory board and a company board of directors.

It is important to understand the composition and the purpose of these structures in order to reach any meaningful conclusions. When considering the composite effect of the two boards at each respective organisation, they have, albeit in different proportions, a membership composition which includes family executives, non-family executives, and non-executive, non-family members. One variation is the presence of non-executive family members on Cream (Pty) Ltd's family advisory board, which is not the case within Yogurt (Pty) Ltd's supervisory governance structures. Non-executive family members play no part in the official governance structures of Yogurt (Pty) Ltd.

The main difference between these two organisations' supervisory governance structures is more from a regulatory point of view than from a practical one. The executive and independent directors of Yogurt (Pty) Ltd and Yogurt Holdings (Pty) Ltd

are formally registered directors at the Companies and Intellectual Property Commission. Contrary to this, the family advisory board of Cream (Pty) Ltd is not a formal board of directors and therefore none of the family advisory board's "directors" are registered at the Companies and Intellectual Property Commission. In terms of the company's board of directors, only the executive directors (both family and non-family) are formally registered at the Companies and Intellectual Property Commission. The non-family, non-executives of Cream (Pty) Ltd are therefore, as described by the interviewees, not formal directors and are therefore referred to as "independent advisors". The purpose of this discussion is not to explore the difference in accountability in terms of statutory regulations, but it is, therefore, simply noted that there may or may not be a difference in legal interpretation as to the accountability of the registered versus non-registered members of the board. The Companies Act refers, in section 76, to the roles and responsibilities of prescribed officers, and it can therefore be debated whether the informal "directors" or advisors fall within the ambit of this section. Further studies could test this as part of a cross-discipline research project.

Practically, the roles fulfilled and the contributions made by these independent directors, or advisors, are reasonably aligned between the two private family organisations. The contributions of these independent board members, as established during the interview process, are depicted in Figure 30 below.

Figure 30: The role of independent directors or advisors: a cross-case analysis



Source: Own observation (based on information obtained during the study)

From the above figure, it is clear that the main role of independent external directors/advisors, in both of these organisations, is to improve the quality of strategic planning and execution. Their contribution to this process is done through making use of critical independent thinking, making use of their industry knowledge, as well as making use of their experience outside of the respective companies. Both organisations made the comment that they greatly value the contribution of these independent directors or advisors.

In addition to the above, the interviewees of Yogurt (Pty) Ltd felt that the independent directors contributed objectivity and balance to the family organisation. They also bring discipline to the decision-making processes within the organisation. Their role, as independent individuals, is therefore to ensure that decisions are made in the best interest of the company as a separate legal entity.

Although not specifically stated by any interviewees of Cream (Pty) Ltd, it can logically be assumed that the roles as identified by the interviewees of Yogurt (Pty) Ltd might also be relevant to Cream (Pty) Ltd. In addition to these roles, the independent advisors on the family advisory board of Cream (Pty) Ltd assist the board members, as part of the strategic planning process, to set individual goals. Therefore, they are also responsible to evaluate the family executives' performances against the set objectives on an annual basis. The performance assessment is done on behalf of the rest of the family shareholders. This is quite a unique function that is not implemented at Yogurt (Pty) Ltd.

The cross-case analysis on the role of independent directors or advisors, as part of the supervisory governance structures, supports the current body of knowledge with regard to the contribution of these independent structures (Boshoff et al 2010:50; De Massis et al. 2016:9). From the above analysis, it can be concluded that, from a practical, non-legislative point of view, there is a very limited distinction between the role of independent directors and "permanent" independent advisors as part of the supervisory governance structures of the featured cases.

Managerial structures

In terms of managerial governance structures, it is very interesting to note that both organisations have appointed family members in the position of chief executive officer, but that the organisations have appointed non-family members in the position of chief financial officer. In Cream (Pty) Ltd, the chief executive officer also occupies the position of chairman of the company board of directors, whereas at Yogurt Holdings (Pty) Ltd, this position is occupied by an independent director.

The chief executive officer, as the link between the organisation and the board of directors, plays a very important role in both the establishment of the organisation's strategic direction, and in the execution of this established strategy. From the interview

data, it was concluded that the family chief executive officers, in both cases, are highly motivated to ensure the long-term sustainable success of the family organisation. These individuals also have a passion and drive for the organisation that will, according to the interviewees, not necessarily be found in a non-family chief executive officer.

The non-family chief financial officers contribute positively to the governance of the respective family organisations. These chief financial officers are both experienced individuals, who in addition to strategic financial planning, are responsible for the implementation of procedures, systems, and internal controls within the organisation. No major differences could be identified within the two cases under review with respect to the roles of these individuals.

The combination of a family chief executive officer and a non-family chief financial officer seems to work effectively within the context of both Yogurt (Pty) Ltd and Cream (Pty) Ltd. This structure is supported by the findings of Caselli and Di Giuli (2010:381) and Gordini (2016:1) who found that a non-family chief financial officer contributes positively to the performance of a family organisation, and that the “best performance is achieved when the chief executive officer (CEO) is a family member and the chief financial officer is an outsider (non-family)” (Caselli & Di Giuli 2010:381).

An interesting theme, although not directly relevant to the research objectives, is that the executive team of Cream (Pty) Ltd is, although on the same level with respect to experience, less academically qualified than the executive team of Yogurt (Pty) Ltd. No evidence could be obtained in the comparison between the two organisations that the lower level of academic qualifications had any negative impact on the value of the organisation.

With regard to the remainder of the managerial structures, the senior management teams of both family organisations consist of a combination of family and non-family members. Officially, both the non-family and family members are held accountable and responsible for the performance of their respective departments without any prejudice as to their respective family ties. A very strong theme that came to the forefront was that, although family and non-family managers are officially held equally accountable and responsible, family managers are performance managed to a lesser degree, or in a more subtle manner, than their non-family counterparts. This phenomenon was evident in both cases.

Both organisations have policies and procedures in place, but it seems as if Yogurt (Pty) Ltd has a much more structured and focused approach towards the development and implementation of policies than Cream (Pty) Ltd. Yogurt (Pty) Ltd has a vast array of policies in place which include finance, human resource, information management, risk management, and sales policies. The policies within Cream (Pty) Ltd focus more on human resource related policies.

General

From the discussions with the various interviewees across both cases, it became apparent that Yogurt (Pty) Ltd has a much more focused and a somewhat more formal approach towards the implementation of good corporate governance structures compared to Cream (Pty) Ltd. The governance structures implemented within Yogurt (Pty) Ltd were mainly influenced by the best practice recommendations of King III, whereas no specific reference was made to King when the structures of Cream (Pty) Ltd were discussed. Cream (Pty) Ltd's structure was rather based on interpersonal relationship issues between family members, and the need to bring order to the unstructured way of doing things, that were the driving forces behind the implementation of Cream (Pty) Ltd's governance structures.

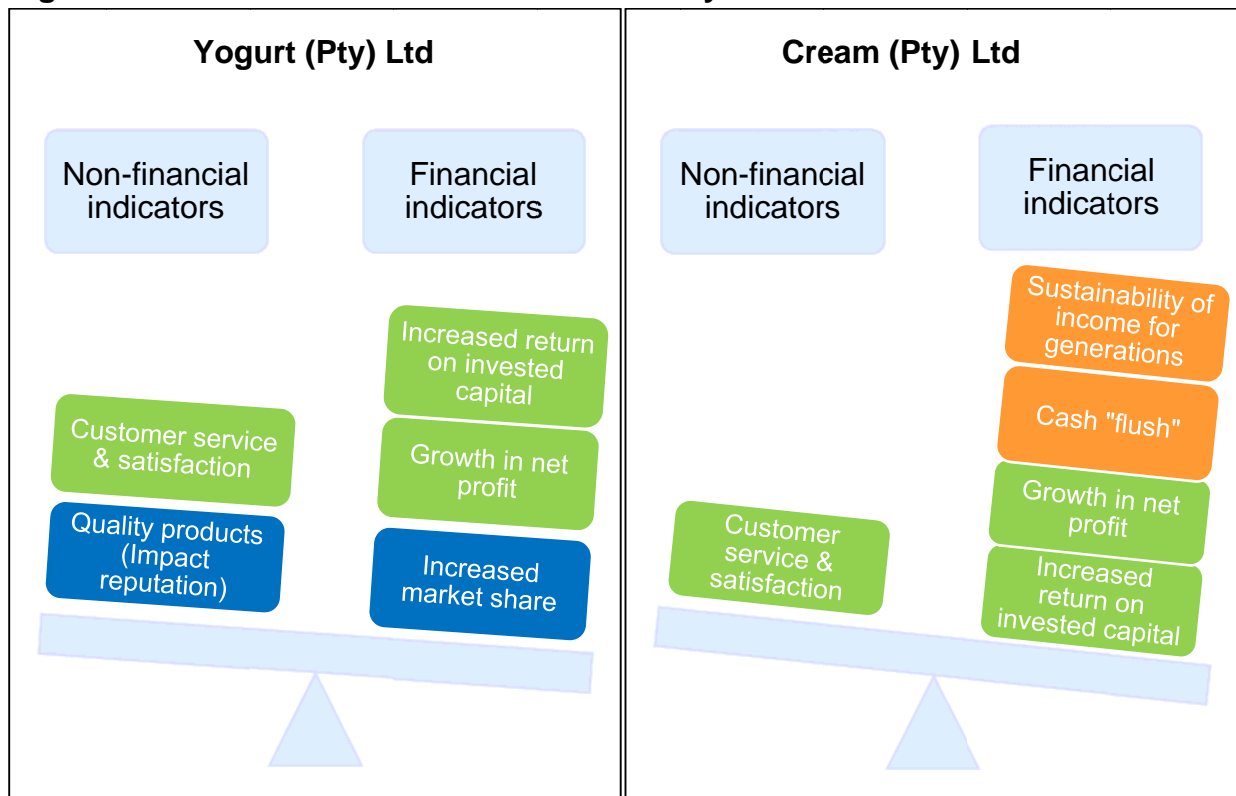
4.9.2 THE VALUE OF THE IMPLEMENTED GOVERNANCE STRUCTURES

The title of this study refers to the value of governance structures in private family organisations. Considering the title and the research objective and sub-objectives, as discussed under Chapter 1.4, the value of governance structures will be discussed. This will be done by looking at the organisational objectives, financial performance, and total value-add of these structures within both organisations.

Organisational objectives

From the comparative figure below (Figure 31), it can be seen that Yogurt (Pty) Ltd has a slightly more balanced approach in terms of their non-financial and financial objectives. Cream (Pty) Ltd, on the other hand, focuses more on financial objectives than on non-financial objectives.

Figure 31: Goal orientation: a cross-case analysis



Source: Own observation (based on information obtained during the study)

The areas that are green in Figure 31 are the success indicators (from the indicated top five) that were selected by both organisations. The areas highlighted in indigo-blue depict the success indicators selected by Yogurt (Pty) Ltd, which were not selected by Cream (Pty) Ltd. The colour orange indicates the success indicators selected by Cream (Pty) Ltd, but not selected by Yogurt (Pty) Ltd, as one of their top five success indicators.

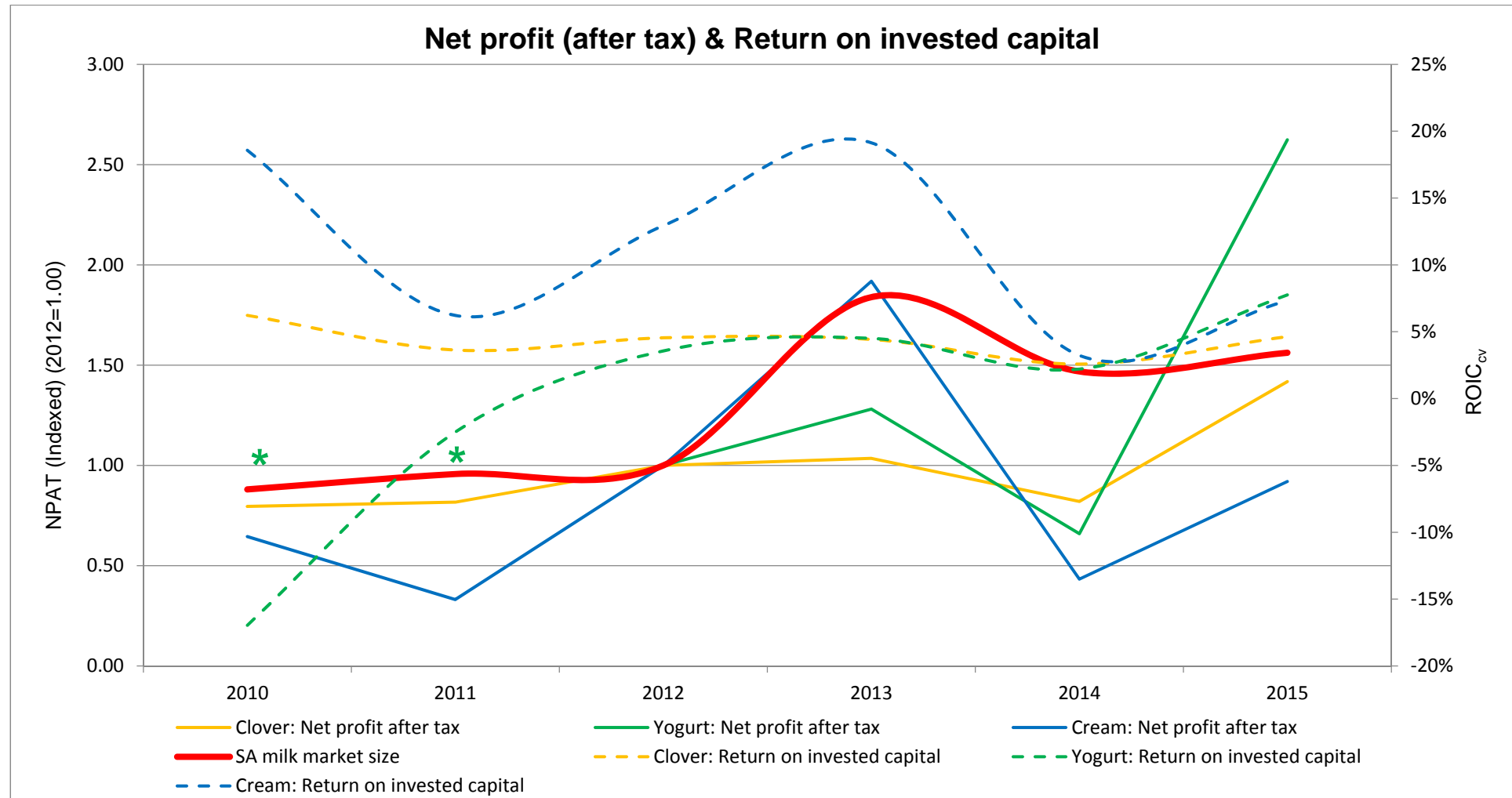
The common indicators are, therefore, return on invested capital (financial), growth in net profit (financial), and customer service and satisfaction (non-financial). It could be argued, by some researchers, that customer service and satisfaction, although categorised here as a non-financial indicator, is a prerequisite for the financial performance manifested in return on invested capital and the growth in net profit, and should therefore be categorised as such. Should this be the case, both family organisations will lean even more towards the financial than non-financial objectives.

Financial performance

The common financial orientated success indicators, as discussed above, were used to evaluate Yogurt (Pty) Ltd and Cream (Pty) Ltd's relative performances against each other. In addition, these organisations' performances were compared to the relative financial performance of Clover over the same time period, as depicted in Figure 32. Clover is a well-known national brand within the dairy industry. Due to its size, and diversity of products and activities, it is not entirely comparable to the featured private family organisations, but it is still a very good benchmark with regard to the relative performance of the market. Additional information obtained from Milk South Africa's LactoData Statistics (2015:6,24) has also been used to gain a better understanding of the relative movements within the industry.

The data used were for the periods 2011 to 2015 because Yogurt (Pty) Ltd's 2016 financial data was not yet available at the time of the review. Yogurt (Pty) Ltd and Cream (Pty) Ltd's financial year-ends differ by four months. Clover's year-end is aligned with one of the two featured organisations. The difference in their year-end cut-off dates might have an immaterial influence on the comparability of the figures.

Figure 32: Relative performance of Yogurt (Pty) Ltd and Cream (Pty) Ltd: a cross-case analysis



*Yogurt NPAT = Loss

Source: Own observation (based on information obtained during the fieldwork)

In Figure 32, the relative growth in net profit (after tax) (NPAT) and the return on invested capital (based on carrying values) (ROIC_{cv}) were used to compare the relative financial performance of Yogurt (Pty) Ltd and Cream (Pty) Ltd, with the results of Clover shown as an additional industry benchmark. The financial figures of Clover were calculated based on information obtained from the summarised financial results as published on its website (Clover 2015). A proxy indicator of the South African milk market size was calculated by using the annual raw milk purchases (Milk South Africa 2015:24) multiplied by the international free-on-board (FOB) dairy product prices (Milk South Africa 2015:6) for the period under review. The net profit (after tax) and the SA milk market size were indexed, with the 2012 year once again being used as the reference year.

From the above figure, it can be seen that both Yogurt (Pty) Ltd and Cream (Pty) Ltd's growth in financial performance, as measured in net profit (after tax) and return on invested capital, showed a fluctuating movement for the period under review. The following general observations can be made. Within the fluctuations, post 2010/2011, both cases display a general upward trend in performance over time. For both cases a notable peak in performance occur in 2013, with a prominent decline in 2014 (reasons discussed elsewhere), and with a recovery in 2015. These trends roughly correlate with that of the overall proxy milk market-size, and the results of the industry benchmark—at least from 2012 onward. The featured cases did not underperform in general against the market, as calculated.

The contribution of governance structures to the value of private family organisations

Private family organisations are well represented—both in the South African community and in the international business community. Since it is estimated that family organisations comprise approximately 80% of all South African businesses (Diederichs & Maas 2007:4), it can be assumed that they contribute materially to economic development, growth, and higher employment levels in South Africa. In order to maximise their contribution to the economy, their performance needs to be optimised.

The inherent nature of family businesses results in some value destroyers that can limit its much needed performance optimisation. These value destroyers, as identified through the literature review, the within-case analyses, and the cross-case analysis of

Yogurt (Pty) Ltd and Cream (Pty) Ltd include a lack of strategic planning and direction; unsuccessful strategy execution due to a lack of pre-determined goals, direction and strategy; unstructured and inefficient decision-making processes; limited resources due to the impact of possible nepotism and fear of relinquishing family control; negative family dynamics due to the family's inability to objectively measure each other's performances; lack of accountability, especially with respect to non-performing family members; and family conflict. This study identified certain essential governance structures to be put into place in order to address and eliminate some of these value destroyers. The value of governance structures in private family organisations, as evidenced from the findings in the featured cases, is summarised in Table 6 below.

Table 6: The value of governance structures in private family organisations

Value destroyer in a family organisation	Governance structure addressing value destroyer	Detailed value contribution
<ul style="list-style-type: none"> - Lack of strategic planning and direction. 	<ul style="list-style-type: none"> - Supervisory structures with a balanced composition of independent non-executives, family executives, and non-family executives. 	<ul style="list-style-type: none"> - The presence of a balanced supervisory structure imposes discipline into the strategic planning process and ensures that the organisation’s strategy remains focused. - Executives are challenged to improve their strategic, “out-of-the-box” thinking. - Independent directors / advisors contribute industry knowledge and external experience to strategy development and direction. - Independent directors / advisors’ prior experiences in strategy development assist with the identification of “gaps” within the current strategy. - Family executives contribute institutional knowledge and long-term sustainability views.
<ul style="list-style-type: none"> - Unsuccessful strategy execution due to a lack of pre-determined goals, direction, and strategy. 	<ul style="list-style-type: none"> - Supervisory structures with a balanced composition of independent non-executives, family executives, and non-family executives. 	<ul style="list-style-type: none"> - As a result of strategic planning and direction, as discussed above, pre-determined goals and direction will now be established which can be used as a base for better strategy execution. - The presence of independent directors/advisors helps family executives to “report to themselves”. This is needed since they are both shareholders and management. This also forces discipline into ensuring that strategic objectives are met.

Value destroyer in a family organisation	Governance structure addressing value destroyer	Detail value contribution
- Unsuccessful strategy execution due to a lack of pre-determined goals, direction, and strategy (cont.).	- Pre-determined reporting framework.	- Predetermined goals of which the progress is reported within a pre-determined reporting framework, e.g. pre-determined timeframes and levels of reporting, from ground level up to supervisory governance level.
- Unstructured and inefficient decision-making processes.	- Supervisory structures with a balanced composition of independent non-executives, family executives, and non-family, and - Non-family / professional executives and/or senior management.	- Improves the effectiveness of the decision-making process and forces discipline into decision-making. - Brings balance into decision-making, ensuring the interest of the company is prioritised above that of the family. - Ensures discipline in actions.
	- Policies on approval processes	- Independence on supervisory, executive, and senior management level. - Implemented policies remove the family-element and therefore lead to an easier and less complex decision-making process.
	- Information technology and related information flow structures.	- Decision-making is only effective if the information used is accurate, complete, and timeous.
Limited resources due to the impact of possible nepotism, and fear of relinquishing family control.	- Policies on recruitment and appointment, especially as they relate to family members.	- Only family members with the necessary qualifications, skills, and experience will be appointed; therefore, appointment is based on the potential contribution to the organisation and not because of family ties.

Value destroyer in a family organisation	Governance structure addressing value destroyer	Detail value contribution
Limited resources due to the impact of possible nepotism, and fear of relinquishing family control (cont.)	- Appointment of non-family executives and senior management in crucial roles.	- Non-family executives contribute independence and prior, external experience to the management process. This can be done without relinquishing family control.
	- General policies and frameworks, within which to operate on a daily basis, being applied fairly and consistently.	- Makes it easier for a non-family managers and non-family employees to be part of the family organisation.
	- Organogram and job descriptions.	- It provides a framework for employees within which to work. It assists the organisation since the roles are pre-defined and clear; it allocates responsibilities and therefore ensures accountability, irrespective of family status; it helps employees to develop a career-path, which is especially relevant to non-family employees within the family organisation; and it indicates a reporting line, therefore improves communication, and saves time for executives because they will not have to deal with minor issues.
Negative family dynamics		
- Family's inability to objectively measure each other's performance.	- Non-family, non-executives within the supervisory structures.	- Independent members assess executives', especially family executives', performances.
- Lack of accountability, specifically as it relates to non-performing family members.	- Policies defining performance management processes, as well as specifying the applicability of these to both family and non-family.	- Performance management being applied fairly and equitably across the organisation.

Value destroyer in a family organisation	Governance structure addressing value destroyer	Detail value contribution
Negative family dynamics (cont.) - Family conflict.	- Supervisory structures with independent non-executives, as well as managerial structures with non-family executives and/or senior management.	- It improves maturity levels within the organisation. - It balances the family interest against that of the organisation as a separate legal entity. - Independent members contribute “objectivity”, which then assists in reducing family conflict.
	- Policy on the involvement or non-involvement of spouses.	- Improves family life because it results in less office politics at home, and family politics within the business environment is also limited.

Source: Own observation (based on information obtained during the study)

4.10 CONCLUSION

In order for governance structures to be effective in their attempt to eliminate the value destroyers as identified in Table 6, the organisation needs to take cognisance of the following aspects, as identified during the individual and cross-case data analysis processes, when implementing their governance structures.

Private family organisations need to identify a governance champion to drive the process. In both cases, this role was played by the family chief executive officer. Governance structures need to be implemented systematically and the implementation champion will need to ensure that he obtains the family members' buy-in. The family members referred to include shareholders, executives, and senior management.

Any policies need to be implemented equitably and fairly with respect to both family and non-family members. If not, it could have a detrimental effect in the long-term success of the private family organisation. The policy implementations, especially as they relate to family members, need to be done in a sensitive manner because conflict at top management level will destabilise the organisation.

Non-family professional managers, especially the chief financial officer, should be strong-willed, knowledgeable individuals who do not allow the family chief executive officer or other executive family members to coerce them. The supervisory structures should also have the necessary autonomy and should, therefore, not be instructed by individual family members as to the roles and responsibilities the structures should fulfil. If the family needs to become involved from a shareholder perspective, the decision should, as per Hiebl's (2013:49) research, be taken at a family meeting level and then communicated to the relevant structures as one clear family voice. Management should be able to act with authority, and family members should not override decisions made by non-family managers simply because of their family ties. It is also important to structure the organisation, as far as possible, in such a way that family-on-family reporting lines are minimised.

These are, by far, not an encompassing series of factors to take into account when implementing governance structures in a private family organisation, but they do highlight a few themes that emerged from the data. It is very important to remember that the structuring and resultant implementation of governance is a dynamic and lengthy process which will never be completed.

With reference to the conceptual framework (see Chapter 1.4), within which the research objectives of this study were explored, it emerged that both featured cases do in fact have supervisory and managerial governance structures in place.

The supervisory governance structures consist of various types of boards, but with an underlying balanced representation of family executives, non-family executives, and non-family non-executives who are thus independent members. These independent members are either registered or not registered at the Companies and Intellectual Property Commission. Although structured differently in Yogurt (Pty) Ltd and Cream (Pty) Ltd, these supervisory governance structures generally perform similar functions within the respective cases.

Family members and non-family members are represented on the executive management teams. In both private family organisations, the chief executive officer is a family member and the chief financial officer is a non-family member. Both organisations have policies in place, with Yogurt (Pty) Ltd being more pro-active in terms of the formalisation and implementation of a variety of policies.

Both of these companies seem to be successful in terms of market share, sales volumes, job creation, and growth. They survived through the difficult times in the industry where even listed companies were struggling. Therefore, one would be able to infer, based on the discoveries made in these two cases, that the optimal combination of family and non-family executives (for example, a family chief executive officer and a non-family chief financial officer) within management structures, as well the presence of strong, influential, non-family, independent, non-executives within supervisory structures is essential.

It emerged from this study that the involvement of external, independent board members or advisors assists the family business executives to refocus from detailed day-to-day operational tasks to a wider, and more strategic vision. It was also noted that the presence of non-family executive directors/managers improves the professional behaviour of family members on an executive level and forces the executives into a new level of efficiency and accountability.

CHAPTER 5 – SUMMARY AND CONCLUSIONS

5.1. FINAL CONCLUSIONS AND RECOMMENDATIONS

This study provides additional insight into the behaviour of private family organisations, and therefore contributes to the current body of knowledge. It also acknowledges the limitations to the generalisability of its findings, since these findings can be influenced by many individual and situational factors that relate to the respective private family organisations under review.

The purpose of this study was to determine how the governance of the selected private family organisations is structured, why it is structured as such, and whether these implemented structures added any value to the organisations. By following a structured research approach, this study is able to generalise its findings to theory, and therefore contribute to the current body of knowledge with regard to family organisations and governance structures. These findings, as they relate to the research sub-objectives, are summarised in Table 7 below.

Table 7: Research sub-objectives and findings

No	Sub-objective	Framework / Findings
A.1.	To determine a theoretical framework, through a detailed literature review, of proposed governance structures within private family organisations. The literature review includes the minimum legal requirements for the composition of a board of directors, the make-up of executive management teams, as well as the policies (if there are any) that govern private family organisations.	<ul style="list-style-type: none">- Definition of a family organisation;- Three elements: family, ownership, and management;- Predominant theories are agency & stewardship theory;- Legislative requirements (Companies Act) and best practice recommendations (King III);- Generation in control and organisational life-cycle are important;- Role and characteristics of supervisory structures, independent advisors, executive managers, CEOs & CFOs; and- Organisational value: financial & non-financial (socio-emotional value)

No	Sub-objective	Framework / Findings
A.2.	To identify, through a multiple-case study analysis, the format and levels of governance structures in the selected private family organisations.	Supervisory structures consist of boards of directors and/or family advisory boards. These are comprised of family and non-family executives, as well as independent non-executive advisors or directors. Management structure is formalised and consists of family and non-family members. CEOs are family members & CFOs are non-family members.
A.3.	To gain an in-depth understanding, through a multiple-case study analysis, as to why the relevant governance structures were implemented in the respective private family organisations.	The structures were implemented mainly in order to support effective and balanced strategy development & execution, to bring discipline into decision-making, to uphold interpersonal relationships, to limit nepotism and related inequalities, and to facilitate accountability.
A.4.	To determine, through a multiple-case study analysis, whether or not the implementation of governance structures in the selected private family organisations added any value to the respective organisations.	It can be deduced, based on the data of both Yogurt (Pty) Ltd and Cream (Pty) Ltd, that the implemented governance structures added value to the respective private family organisations. A summary of this can be found in Chapter 4.9.2.

Source: Own observation (based on information obtained during the study)

It is important for family organisations to identify their strengths, e.g. company specific knowledge and long-term orientation, in order to capitalise on them, while at the same time minimising their weaknesses, e.g. family conflict, role confusion, nepotism, and confined views, by appointing the right people in the right places at the right times. It is, therefore, not so much the implementation of formal governance structures—just for the sake of implementing structures—which is generally accepted and/or legally required throughout the business world, but it is more a process of professionalising the private

family organisation. As per PwC's *Family Business Survey 2014*, professionalising the family organisation is about "giving structure and discipline to that vision and energy, so that family businesses will be able to innovate better, diversify more effectively, export more and grow faster. In short, it is about achieving their twin goals of ensuring the company's long-term future and improving profitability" (PwC 2014_b:13).

The description of "one size fits all" does not seem to be relevant in terms of the governance structures of a private family organisation. As per the literature review, and the discoveries of this study, it is clear that there is no universal governance structure that would be suitable and value-adding to all private family organisations (Brenes et al. 2011:284; Jaggi, Leung & Richardson 2014:18). That being said, certain key elements—or "invisible assets", as Itami (1991:2) refers to them—are recommended and should be present in the governance structures of a private family organisation in order to ensure, or at least support, the value creation within these organisations. These elements, as identified through the study, include, but are not limited to, independence (with respect to people, processes, and relationships), external and internal knowledge and experience, structure in decision-making and behaviour, equality or fairness in terms of operational activities, and family passion and drive. From Figure 33 it can be seen that these elements are not rated in terms of relative importance since they all more or less contribute to the success of a private family organisation.

Figure 33: Key elements to be present in a private family organisation’s governance structure



Source: Own observation (based on information obtained during the study)

Independence, as depicted in Figure 33, is all-encompassing because it speaks to the independence of both non-executive members involved in the supervisory structures and executive members involved in the managerial functions of the private family organisation. However, the independence is not only limited to the positions as depicted on the respective organisational organograms, but it also reaches much further into independent thinking, independent decision-making, and independent performance management—and therefore independent processes—to name but a few.

Knowledge, as well as experience, refers to the external knowledge and industry experience that non-executive independent directors, non-family executives, and non-family senior managers contribute to the strategic development and execution processes within a private family organisation. In addition to external knowledge and experience, the organisation also depends on the institutional knowledge and experience contributed by family members.

Structure is important, as it assists both family and non-family members in knowing where they fit into the organisation, and what their relative roles and responsibilities are. It also makes it possible for non-family members to feel as though they are part of the family organisation. Since structure clarifies roles, it limits the role confusion experienced by family shareholders who need to also act as members of the board of directors and executive management.

Structure facilitates equality or fairness in the treatment of all the main stakeholders within the private family organisation. It limits nepotism and, therefore, creates more equal opportunities and fair treatment for both family and non-family managers and employees.

From the findings in this study, it was deduced that the passion and drive of family members are also key elements in the success of the featured family organisations. Family members have a vision for the organisation (*i.e.*, they “can see the way forward” (Interviewee #5)) and work hard to ensure the success of the private family organisation. As stated by Interviewee #6, “They are more driven than, perhaps, the average person might be, for success”.

In conclusion, a family organisation needs external members in their governance structures who are either official board members or “contracted-in” industry and/or strategy specialists to act in an advisory capacity. Based on the research performed in this study, and supported by the findings of Van den Heuvel et al. (2007:152), the suggestion to policy-makers is therefore, as is currently the case in South Africa, not to enforce any specific governance structures through legislation onto private organisations, but rather to educate these organisations as to the added value of formal governance structures—for example, the role that external independent directors can play in the various stages of a private family organisation, and the discipline that can be obtained from having formal policies in place, for example, a delegation of authority framework.

The findings, as supported by the literature, suggest that governance structures do indeed add value to private family organisations. A few concluding comments by the interviewees on the value-add of governance structures in a private family organisation include the following:

By having corporate governance in place, you are limiting the risks specific to a family business (Interviewee #Y9);

The company changed dramatically from a company with very little structure, to almost over structured. It is like day and night, but it is for the good. The company now has a much better chance of being sustainable, by having a structured environment that is not so dependent on individuals (Interviewee #Y6); and

A family business is all about the vision of the family. A family needs to decide whether their vision is to build a world-class family organisation or whether they would just like to have an organisation that “keeps them alive”. The family’s vision for the organisation is the main driver for the type of structure to be implemented. They have to ask themselves the question as to whether their vision is to create wealth. I can tell you that ours was to create wealth, therefore the implementation of this model (Interviewee #C1).

5.2. CONTRIBUTIONS, SUGGESTIONS, AND IMPLICATIONS FOR FUTURE RESEARCH

The limitations of this study have been discussed under Chapter 1.6 and Chapter 3.4. These limitations should be considered when generalising the discoveries of this study to theoretical propositions. Despite the impact of these limitations on generalisation, the study also provides direction for future research.

Drawing on this study’s research about managerial governance structures, future research in the area of fair and equal performance management systems within a private family organisational context, would be valuable. Non-performing family members, although they are performance managed in accordance with the organisation’s KPI processes, will most likely not be dismissed, but only be redeployed. A reason given for this is that the dismissal of family members will negatively affect family relationships. It was however stated that if the relevant non-performing family members were appointed after the implementation of the new governance structures, matters might have been handled differently. For any future research on the performance of family management/employees compared to that of non-family members, it will thus be important to consider the timeframes of the appointment of the relevant employees, compared to timeframes of the implementation of the governance structures which manage these processes.

In addition to this, it is important to determine whether the family employee was appointed at the organisation before his supervisor’s appointment date. If the supervisor

is responsible for the appointment of the family employee, his level of authority will immediately increase and will consequently reduce the risk of nepotism with regard to the performance management of family employees. This will potentially facilitate improved employee performance and, indirectly, it will potentially facilitate improved value of the family organisation. Management's tenure at the family organisation and the sequence of appointments therefore warrants further investigation.

The role of trust relationships in a family organisation is an important aspect of governance literature that cannot be ignored. As highlighted in the study, family members rely on mutual trust as a substitute for formal internal controls and procedures to manage certain risk elements. Although the purpose of this study was not to investigate these trust relationships, it did illuminate the importance of trust for family members within a family organisational context. This contributes to Chrisman et al.'s (2010:1044) call to no longer "neglect" trust in the governance literature as it can make an important contribution to management theories.

Family organisations might, for various reasons which include socio-emotional wealth (family control), contemplate the appointment or non-appointment of family versus non-family managers in certain key positions within the organisation. Family shareholders may, for instance, feel that the finances of the private family organisation are of a confidential nature and that they would, therefore, prefer not to have a non-family member heading the finance division. Contrary to this reasoning, an interviewee stated that the role and the responsibilities of the chief financial officer are of a more analytical nature, and that, therefore, the presence of a family member might not be necessary in that position. In addition to this, some of the interviewees indicated that family members are very passionate about their organisations and might, therefore, be the ideal people to fill positions in marketing. This alternative reasoning might need to be considered in future research when determining the potential roles and contributions of professional management within a family organisation.

Further research should also consider performing a cross-discipline study between legal and accounting/management disciplines, focusing on the accountability of non-registered advisors of the board of directors versus registered independent directors. This can be done with reference to the requirements of, and the potential liabilities listed in, the Companies Act and other relevant statutory documents.

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ANNEXURE A: INSTITUTIONAL CONSENT

Request for permission to conduct research at
XXX (PTY) LTD

The effect of the governance structure of a private family organisation on its financial performance

xx xxxx 2014

XX XXX

CEO XXX

XXXXXX

Dear XXX,

I, Rolandi van der Westhuizen, am doing research towards a master's degree (MPhil Accounting Sciences), at the University of South Africa (UNISA). My supervisor is Mr. Albert de Graaf, the acting Director of the School of Applied Accountancy, in the College of Accounting Sciences.

We are inviting you to participate in a study entitled: **“The effect of the governance structure of a private family organisation on its financial performance”**. [The original title, which was updated at a later stage]

The aim of the study is to obtain an in-depth understanding of the governance structures (board of directors, executive management, operational management, policies & procedures) in your family organisation, as well as to determine whether these structures have any effect on the financial performance of the organisation.

It is envisaged that your organisation will benefit from this study, as the results might provide insight to you in identifying an optimal governance structure to facilitate better financial performance in your organisation. The output from this study will be a dissertation for master's degree purposes, as well as an article / articles to be published in accredited academic journals.

Your company has been selected as part of the study, for the following reasons:

Firstly, we have identified the manufacturing of dairy products as one of the industries in which limited (if any) family business research have been done, specifically as it relates to the governance structures and relevant financial performance. You were identified as a major role player in this industry.

Secondly, it is believed that your company qualifies in terms of our definition of a private family organisation, namely that:

1. *“The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, and/or in the possession of their spouses, parents, child or children’s direct heirs;*
2. *The majority of decision-making rights are indirect or direct;*
3. *At least one representative of the family or kin is formally involved in the governance (strategic and/or operational level) of the organisation; and*
4. *The organisation’s vision is to ensure the transfer of ownership and where applicable, management of the organisation to next generations.”*

The study will entail a detailed case-study, which will include:

- One-to-one interviews with family shareholders, members of the board, executive- and operational management (family and non-family);
- A review of the company’s policies and procedures as it relates to the recruitment, appointment, performance management, etc. of people employed in the governance structures, as listed above; and
- A review of other relevant current and historical financial and non-financial company information, e.g. financial statements, shareholder agreements etc.

The information obtained from this in-depth case-study will at all times be treated as confidential. The organisations and individuals participating in the study will not be named in the report and will merely be referred to as company A, B or C or Interviewee no 1, Interviewee no 2, etc. The information obtained from the case-study will be used for academic research purposes only and the data obtained will be securely stored by me as primary researcher for at least five years, where after it will be destroyed.

Your organisation's participation in this study is very important and will be appreciated. I do not foresee that your organisation or any individual participating in this study will suffer any harm from participating in this study, however, you may choose not to participate and you may also stop participating at any time without any adverse consequences.

The findings of the case-study will be discussed with the CEO or his/her representative to test the factual accuracy of the findings before finalisation of the report. Should you require any further information or feedback from the research results, please do not hesitate to inform me accordingly.

Yours sincerely

Rolandi van der Westhuizen

Senior Lecturer – Department of Financial Governance

ANNEXURE B: INTERVIEWEE INFORMATION SHEET

The effect of the governance structure of a private family organisation on its financial performance [The original title, which was updated at a later stage]

Dear Prospective Interviewee

My name is Rolandi van der Westhuizen and I am doing research with Albert de Graaf, the acting Director of the School of Applied Accountancy, in the College of Accounting Sciences towards a master's degree (MPhil Accounting Sciences) at the University of South Africa. We are inviting you to participate in a study entitled: "The effect of the governance structure of a private family organisation on its financial performance:

The aim of the study is to obtain an in-depth understanding of the governance structures (board of directors, executive management, operational management, policies & procedures) in your family organisation, as well as to determine whether these structures have any effect on the financial performance of the organisation.

Your company has been selected as part of the study as it was identified as a major role player in this industry and it qualifies in terms of our definition of a private family organisation. Being a stakeholder in the company, you are being invited to participate in this study.

Interviews will be held with individuals qualifying in terms of one or more of the following categories as it relates to your company: shareholders, board of directors, executive management and operational management.

Your contact details have been obtained from the office of the chief executive officer. The study includes interviews with all the Interviewees identified as described above and will entail a discussion of approximately 60 minutes per individual regarding the company's formal governance structures, succession, recruitment and appointment processes, performance management, accountability, privileged information and company performance.

The interview will be audio taped to ensure the factual accuracy and completeness of data captured for purposes of this study. The interview will be semi-structured in order to facilitate our discussion of the various topics. Questions will for instance be:

- Does the company have formal governance structures in place, and if so, what are they?
- Are these structures, in your opinion, effective or not? Please motivate.

It is envisaged that your organisation will benefit from this study, as the results might provide insight in identifying an optimal governance structure to facilitate better financial performance in your organisation. The output from this study will be a dissertation for master's degree purposes, as well as an article / articles to be published in accredited academic journals.

The information from **individual** interviewees will at all times be treated as confidential. Your name will **not** be linked to **your individual contributions** to this study by allocating a respondent number to your responses. The information obtained from the interview will be used for academic research purposes only and the data obtained will be held under lock and key by me as primary researcher for at least five years where after it will be destroyed (hard copies will be shredded and electronic information will be permanently deleted from the hard drive of the relevant personal computer). A professional transcriber will also have access to the audio recordings of the interviews, but only after signing a confidentiality agreement.

Your participation in this study is very important and will be appreciated. Because of the non-sensitive and non-personal nature of the study, I do not foresee that you will suffer any harm from participating in this study, however, you may choose not to participate and you may also stop participating at any time without any adverse consequences. I kindly request you to please complete the consent form below before participating in the interview.

The interview should take approximately 60 minutes of your time and will be conducted as per our appointment at a time and place of your convenience. Please keep in mind that you will not receive any financial compensation for participating in this study.

This study has received written approval from the Research Ethics Committee of the

College of Accounting Sciences, Unisa. A copy of the approval letter can be obtained from the researcher if you so wish.

Should you require any further information or feedback from the research results, please do not hesitate to contact me at:

Telephone: 012 – 429 8225

E-mail: vdwesr@unisa.ac.za

Should you have concerns about the way in which the research has been conducted, you may contact my supervisor, Albert de Graaf at:

Telephone: 012 – 429 4529

E-mail: Dgraaa@unisa.ac.za

Thank you for taking time to read this information sheet and for participating in this study.

Kind regards.

Rolandi vd Westhuizen

LETTER OF CONSENT:

	Please tick	
I understand that the information I provide will only be used for the purposes of this research project and that I will remain anonymous. I confirm having participated under informed consent.	Yes	No
Consent: I give my permission for the use of information I provide to be used for research purposes (which will not in any way be to my disadvantage or detriment)	Yes	No
Consent: I give my permission for the audio recording of the interview	Yes	No
I confirm that I am aware that I may at any point during the interview cease to participate without being adversely affected.	Yes	No

Signed on (date) at(location)

Dr/Prof/Mr/Me

ANNEXURE C: FACTUAL ORGANISATIONAL INFORMATION

PART A – PRIVATE FAMILY ORGANISATION (does it meet the definition?)

	%
1. Majority of decision making rights	
1.1 Share ownership of holding company	
1.1.1 % Directly held by family ¹ members	
1.1.2 % Directly held by non-family members	
1.1.3 % Indirectly held by family company/trust etc. Please specify as to the: a) legal structure of the investment vehicle, b) % family ownership of the investment vehicle; and c) % non-family ownership of the investment vehicle.	
	Yes / No
1.2 Contractual agreements that specify voting rights in shareholders' meeting, if not aligned with share ownership. Please give details as to the voting rights arrangement:	
1.2.1 Votes based on share ownership %.	
1.2.2 One vote per shareholder present in shareholders' meeting (not aligned with % shares held).	
1.2.3 Alternative method, please specify:	
1.3 Contractual agreements that specify voting rights in directors' meeting. Please give details as to the voting rights arrangement:	
1.3.1 Votes based on share ownership %.	
1.3.2 One vote per director present in directors' meeting.	
1.3.3 Alternative method, please specify:	
1.4 Is there a minimum percentage or number of votes required before a decision can be adopted / implemented in a shareholder's meeting? If so, please specify the percentage/number of votes, as well as the type of decisions.	
1.5 Is there a minimum percentage or number of votes required before a decision can be adopted / implemented in a directors' meeting? If so, please specify the percentage/number of votes, as well as the type of decisions.	

	Number of individuals
2. Involvement in the governance of the organisation	
2.1 How many representatives of the family are formally involved in:	
2.1.1 Non-executive management (on the board, but not operationally involved).	
2.1.1 Executive management (on the board and operationally involved).	
2.1.2 Operational management (not on the board).	
2.2 What is the total number of individuals (family as well as non-family) formally involved in:	
2.2.1 Non-executive management (on the board, but not operationally involved).	
2.2.1 Executive management (on the board and operationally involved).	
2.2.2 Operational management (not on the board).	
	Indicate
2.3 Who determines the strategic direction of the company:	
2.3.1 Family members	
2.3.2 Chairman of the board of directors	
2.3.2 Non-executive management (on the board, but not operationally involved).	
2.3.3 Executive management (on the board and operationally involved).	

3. Transfer of ownership:	
3.1 Is the intention of the current family shareholders to transfer their company ownership to the next generation family members?	
3.2 Are there formal succession plans in place with regards to ownership?	
3.3 Are there formal succession plans in place with regards to management?	
3.4 Which generation is currently managing the company?	

PART B – COMPOSITION OF THE BOARD OF DIRECTORS

1. The chairperson of the board of directors	
1.1 Is the chairperson of the board a member of the family?	
1.2 In the event that the chairperson is not a family member, does he form part of the company's professional external support structure, <i>i.e.</i> auditor, legal representative, banker, etc.? If so, please specify.	
1.3 In the event that 1.1 and 1.2 in not applicable, please indicate as to the relationship between the chairperson and the company, <i>i.e.</i> totally independent advisor, long-time friend of the family, etc.	

1.4 Is the chairperson of the board also the CEO/MD of the company?	
1.5 Date of the chairperson's appointment: - To the board? - As chairperson?	

2. Members of the board of directors

Please indicate the members of the board of directors, their relationship to the family, responsibility on the board and their qualifications.

#	Member ²	Family/advisor/ not related	Responsibility (CEO/CFO, non-executive etc.)	Qualifications	Date of appointment
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					

PART C – COMPOSITION OF THE MANAGEMENT TEAM

1. Members of the executive management team

Please indicate the members of the executive management team, their relationship to the family, their responsibility in the organisation, their qualifications and date of appointment.

#	Member ²	Family/not related	Responsibility (CEO/CFO/ marketing/production)	Qualifications	Date of appointment
1			Chief executive officer		
2			Chief operations officer		
3			Chief financial officer		
4					
5					
6					
7					
8					
9					
10					

2. Members of the operational management team (not on the board)

Please indicate the members of the operational management team (not on the board of directors), their relationship to the family, their responsibility in the organisation and their qualifications.

#	Member ²	Family/not related	Responsibility	Qualifications	Date of appointment
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					

PART D – POLICIES

1. Human Resource Policies

1.1 Does the company have formal human resource policies?

1.2 In general, are these policies applicable to all employees in the organisation, or is it limited to non-family members?

1.3 Please indicate if the following human resource policies are **relevant** to the company and whether they are **applicable** to both family and/or non-family members on an executive and/or operational management level:

#	Policy	Relevant Y/N	Executive management		Operational management	
			Family	Non-family	Family	Non-family
			Y/N	Y/N	Y/N	Y/N
1	Recruitment					
2	Selection and appointment					
3	Performance management					
4	Disciplinary action					
5	Grievances					
6	Remuneration					
7	Leave					
8	Training and bursaries					
9	Career development					
10	Ethical and professional conduct					

	Other, please specify:					
11						
12						

2. General Policies

Please indicate if the following financial policies are relevant to the company and whether they are applicable to both family and/or non-family members on an executive and/or operational management level.

#	Policy	Relevant Y/N	Executive management		Operational management	
			Family	Non-family	Family	Non-family
			Y/N	Y/N	Y/N	Y/N
1	Delegation of authority ³					
2	Procurement					
3	Credit card					
4	Travel					
	Other, please specify:					
5						
6						
7						
8						

3. Dividend Policy

3.1 Does the company have a formal dividend policy?

3.2 If no, what method is used to determine profit distribution or alternatively capital retention?

PART E – GENERAL

1. Family council/board

1.1 Does the family have a formal family council/board?

1.2 If applicable, who chairs the family council/board?

1.3 Who are the members of the family council/board?

1.4 What are the responsibilities and functions of the family council/board?

- Responsibilities:

- Functions:

Notes:

¹ *Definition of family members:*

Natural person(s) who established the firm or initially acquired the share capital of the firm, and/or their spouses, parents, children or children's direct heirs.

² *Important:*

The information obtained from this in-depth case-study will at all times be treated as confidential. The organisations and individuals participating in the study will not be named in the report and will merely be referred to as company A, B or C or Interviewee no 1, Interviewee no 2, etc. The information obtained from the case-study will be used for academic research purposes only.

³ *Delegation of authority:*

A policy indicating the individuals/positions in the company, who have the right to take certain short term/long term/strategic decisions. It also specifies as to who can authorise payments (expenses and of capital nature) up to predetermined rand value levels, etc.

ANNEXURE D: COMPANY GOALS AND SUCCESS MEASURES

INTRODUCTION

“It is imperative that the researcher understands the vision, goals and motivations of the family organisation before trying to determine the effectiveness of its organisational structure in terms of financial performance.”

THE COMPANY CANNOT BE MEASURED ON SOMETHING THAT IT DID NOT AIM AT!!



COMPANY GOALS AND SUCCESS

PART A: GOALS OF THE FAMILY BUSINESS

1. Please describe the long-term and short-term goals of this family business

No	Long-term goals
1	
2	
3	
4	
5	

No	Short-term goals
1	
2	
3	
4	
5	

PART B: COMPANY SUCCESS

2. What are the top 10 most important indicators of success for the family business? (Please rate them in order of importance, 1 being the most important)

No	Important indicators of success	Rating
1	Growth in net asset value	
2	To be an environmentally responsible business	
3	Increased return on invested capital	
4	Customer service and satisfaction	
5	Growth in revenue	
6	Contributing to the socio-economic circumstances of the local community, e.g. job creation, education, mentoring, sponsorships etc.	
7	Decrease in operating expenses	
8	Employee satisfaction	
9	Increase in gross profit	
10	Quality of products in so far as it would affect the reputation of the company	
11	Growth in net profit (after tax)	
12	Sustainability of income for current shareholders and future generations / sustaining a family business across generations	
13	Being able to declare substantial dividends on a regular basis	
14	Job-creation for direct and indirect family members	
15	Availability of cash for planned and unexpected occurrences / being "cash flush"	
16	Keeping family control of the business	
17	Increased market share	
18	Preservation of family relationships and unity	
19	Other, please specify	
20	Other, please specify	

3. How do you MEASURE the above rated items?

(Please indicate it in the order of the ratings)

Rating	Measurement
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

4. For the items rated 1 to 10 under question 2, what PROCESSES do you have in place to ensure that the company focus on and achieve the individual success factors? Also, if available, please indicate in which financial year these processes were IMPLEMENTED.

Rating	Process	Fin year Implemented
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

PART C: COMPARABILITY

5. Are there any listed companies that you would consider comparable to your company, in terms of industry, products and financial performance? Please name them and the reasons as to why you believe they are comparable.

(Please rate them in order of relevance, 1 being the most comparative)

No	Company Name	Reasons as to why comparable
1		
2		
3		

6. Do you ever compare your company's financial performance to that of the listed companies identified above? If yes, what indicators do you consider/use to perform the comparison? (Please rate them in order of importance, 1 being the most important)

Yes / No:

No	Indicators
1	
2	
3	
4	
5	

PART D: OTHER RELEVANT INFORMATION

7. Please indicate any other information (financial and non-financial), not referred to in Parts A – C, which you would consider important/relevant to this study.

THANK YOU

Interviewee # _____

ANNEXURE E: INTERVIEW SCHEDULE – EXECUTIVES AND MANAGEMENT

Dear Interviewee,

Thank you for participating in this study.

As described in the information sheet, the information obtained from the **individual** interviewees will at all times be treated as confidential. Your name will not be linked to **your individual contributions** to this study by allocating a respondent number to your responses. Please be reminded that you may choose not to participate and you may also stop participating at any time without any adverse consequences. Should there be any questions that you are not comfortable in answering, you are welcome to indicate it as such.

Kind regards

Rolandi vd Westhuizen

PART A

1. Personal information:

- a) Are you a family member or non-family member? Please explain the relationship, *i.e.* father, brother, sister-in-law etc.
- b) If you are a family member, which generation of family management do you represent (1st, 2nd, 3rd generation)?
- c) Are you a shareholder in the company and if so, what is your % shareholding?
- d) When did you start working at the company and what was your position at that time?
- e) Why are you working in the **family** business?

PART B

2. Formal governance structures:

- a) Does the company have formal governance structures in place, and if so, what are they according to you?
- b) Why do you think it is important or not important to have formal governance structures in place?
- c) Please discuss whether these company structures are, in your opinion, effective or not.
- d) Who is determining the strategic direction of the business, the family or the directors? If the directors, is it the family directors or the board as a whole?

3. Succession:

- a) Please explain whether or not you believe that the current owners have the intention to transfer the company to the next generation and why would you think so?

4. Recruitment and appointment:

- a) Is there, in your opinion, biasness and/or favouritism towards family members when recruiting and appointing new staff members? Why would you say so and if it is the case, to what extent?
- b) Please discuss whether you believe that all executives/managers in this company are:
 - i) Qualified in terms of formal qualifications and experience/expertise for their various positions and;
 - ii) Are competently performing their duties in their respective positions?

5. Individual performance management:

- a) Does the organisation have formal performance management procedures in place and what are they?
- b) Family members in management positions sometimes need to monitor the performance of other family members. Would you describe them as being effective in monitoring the performance of other family-members and why?
- c) How often do you personally undergo formal performance reviews?
- d) Please motivate whether you believe that family and non-family executives/managers undergo performance reviews with the same rigor and frequency?

6. Accountability (not responsibility):

- a) Would you say that the non-family executive/manager is expected to answer more to the owners of the company than the family executive/manager regarding their actions, and why would you say so?
- b) In the event that all executive members (family and non-family) are held equally accountable for their actions, what do you believe will be the impact on the performance of the company as a whole and more specifically on the financial performance of the company?
- c) Who are you accountable to and is it on a formal or informal basis? Please explain.
 - i) Shareholders (any specific one, if more than one shareholder)?
 - ii) Board of directors?
 - iii) Direct line manager?
 - iv) Specific family member?
 - v) Other

7. Privileged information:

- a) Is there, in your opinion, important company information (relevant to the performance of the company) that is shared only with family executives/managers that should have been shared with the entire management team?
- b) If so,
 - i) what type of information was privileged?;
 - ii) and what do you believe would the impact have been on the overall performance and financial performance of the company if the entire management team had access to the information?

8. Company Performance:

- a) What do you understand as your company's performance goals?
- b) What do you understand as your company's **financial** performance goals? / What are your company's financial performance goals?
- c) What are the company's **non-financial** goals?
- d) What is more important to you (*or if non-family, what do you think?*): The financial wealth of the company or the financial wealth of the family? And why?

9. General:

- a) Do you think that family managers should be governed/managed differently from non-family managers?
 - i) why?; and
 - ii) if so, how?
- b) In your opinion, what impact does the current structure of the organisation's board of directors, executive and operational management has on its financial performance?
- c) In the event that the organisation had less family members involved in the governance structures and more professional managers (based on role specific qualifications and experience), what do you believe would have been the effect on the financial performance of the organisation? (Will it increase/decrease/stay the same and why?)

10. Conclusion:

- a) Is there anything else that you would like to discuss or add before we conclude?

Thank you very much for your participation in this research project!!

ANNEXURE F: INTERVIEW SCHEDULE – NON-EXECUTIVES

Dear Interviewee,

Thank you for participating in this study.

As described in the information sheet, the information obtained from the **individual** interviewees will at all times be treated as confidential. Your name will not be linked to **your individual contributions** to this study by allocating a respondent number to your responses. Please be reminded that you may choose not to participate and you may also stop participating at any time without any adverse consequences. Should there be any questions that you are not comfortable in answering, you are welcome to indicate it as such.

Kind regards

Rolandi vd Westhuizen

INTERVIEW SCHEDULE – NON-EXECUTIVES

PART A

1. Personal information:

- a) Are you a family member or non-family member? Please explain the relationship, *i.e.* father, brother, sister-in-law etc.
- b) If you are a family member, which generation of family management do you represent (1st, 2nd 3rd generation)?
- c) Are you a shareholder in the company and if so, what is your % shareholding?
- d) When were you appointed on the board of directors and what are your specific responsibilities?
- e) If not a family member, do you form part of the company's professional external support structure, *i.e.* auditor, legal representative, banker etc.?
- f) Why are you involved in this **family** business?

PART B

2. Formal governance structures:

- e) Does the company have formal governance structures in place, and if so, what are they according to you?
- f) Please discuss whether these structures are, in your opinion, effective or not.
- g) Who is determining the strategic direction of the business, the family or the directors?

3. Succession:

- b) Please explain whether or not you believe that the current owners have the intention to transfer the company to the next generation and why would you think so?

4. Recruitment and appointment:

- c) Is there, in your opinion, biasness and/or favouritism towards family members when recruiting and appointing new staff members? Why would you say so and if it is the case, to what extend?
- d) Please discuss whether you believe that all executives/managers in this company are:
 - i) Qualified in terms of formal qualifications and experience/expertise for their various positions and;
 - ii) Are competently performing their duties in their respective positions?

5. Individual performance management:

- e) Does the organisation have formal performance management procedures in place and what are they?
- f) Family members in management positions sometimes need to monitor the performance of other family members. Would you describe them as being effective in monitoring the performance of other family-members and why?
- g) Please motivate whether you believe that family and non-family executives/managers undergo performance reviews with the same rigor and frequency?

6. Accountability (not responsibility):

- d) Would you say that the non-family executive/manager is expected to answer more to the owners of the company than the family executive/manager regarding their actions, and why would you say so?
- e) In the event that all executive members (family and non-family) are held equally accountable for their actions, what do you believe will be the impact on the performance of the company as a whole and more specifically on the financial performance of the company?
- f) Who are you accountable to and is it on a formal or informal basis? Please explain.
 - i) Shareholders (any specific one, if more than one shareholder)?
 - ii) Board of directors?
 - iii) Direct line manager?
 - iv) Specific family member?
 - v) Other

7. Privileged information:

- c) Is there, in your opinion, important company information (relevant to the performance of the company) that is shared only with family executives/managers that should have been shared with the entire management team?
- d) If so,
 - a. what type of information was privileged?;
 - b. and what do you believe would the impact have been on the overall performance and financial performance of the company if the entire management team had access to the information?

8. Company Performance:

- e) What do you understand as your company's performance goals?
- f) What do you understand as your company's **financial** performance goals? / What are your company's financial performance goals?
- g) What are the company's **non-financial** goals?
- h) What is more important to you (*or if non-family, what do you think?*): The financial wealth of the company or the financial wealth of the family? And why?

9. General:

- d) Do you think that family managers should be governed/managed differently from non-family managers?
 - i) why?; and
 - ii) if so, how?
- e) In your opinion, what impact does the current structure of the organisation's board of directors, executive and operational management has on its financial performance?
- f) In the event that the organisation had less family members involved in the governance structures and more professional managers (based on role specific qualifications and experience), what do you believe would have been the effect on the financial performance of the organisation? (Will it increase/decrease/stay the same and why?)

10. Conclusion:

- b) Is there anything else that you would like to discuss or add before we conclude?

Thank you very much for your participation in this research project!!

ANNEXURE G: ETHICAL CLEARANCE CERTIFICATE



Ref #: 2014/CAS/SAS/0009

**RESEARCH ETHICS REVIEW COMMITTEE:
COLLEGE OF ACCOUNTING SCIENCES**

Ms R van der Westhuizen (student number 53321898)

Supervisor: Mr A de Graaf (staff number 1123440)

This is to certify that the application for ethics clearance submitted by
R van der Westhuizen (53321898)
for the study

*The effect of the governance structure of a private
family organisation on its financial performance*

in the fulfillment of the Degree of MPhil (Accounting Sciences) has been **approved**.

The application for ethics clearance for the above-mentioned research was reviewed by the CAS Research Ethics Review Committee on 21 July 2014 in compliance with the Unisa Policy on Research Ethics. **Ethical clearance has been granted**. Please be advised that the research ethics review committee needs to be informed should any part of the research methodology as outlined in the Ethics Application (Ref. Nr.: 2014/CAS/SAS/0009), change in any way.

The Research Ethics Review Committee wishes you all the best with this research undertaking.

Kind regards,

Prof HC Wingard

Chair: CAS Research Ethics Review Committee
College of Accounting Sciences

Unisa

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15 August 2014

Prof E Sadler

Executive Dean

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ANNEXURE H: CODE BOOK

Legend:

Black: Obtained from literature review

Blue: Obtained from literature review & used in data analysis

Green: Not obtained from literature review. Used in data analysis, thus additional codes

Categories

1. Family governance
2. Organisational governance

Sub-categories

1. Family organisation
2. Supervisory governance
3. Managerial governance
4. Financial value
5. Non-financial value

Codes

1. Accountability
2. Advisory role
3. Autonomy
4. Agency
5. Agency cost
6. Balance
7. BBBEE
8. Behaviour
9. Best practice
10. Biographical data
11. Board of directors
12. Board sub-committees
13. Business management
14. Business objectives
15. CEO
16. CFO
17. COO
18. Chairman of the board
19. Commitment
20. Communication
21. Conflict
22. Conflict of interest
23. Control
24. Culture

25. Data analysis
26. Decision making
27. Definition - Family Organisation
28. Developed vs Developing economies
29. Dynamic
30. Discipline
31. Dividends
32. Equality
33. Executive directors
34. Exit strategy
35. Experience
36. Familiness
37. Family
38. Family board / council
39. Family business significance
40. Family influence
41. Family objectives / vision
42. Family organisation characteristics
43. Family vs non-family
44. Family vs performance
45. Financial goals
46. Financial performance
47. Financial performance - Measurement
48. Financing
49. Founder
50. Generation
51. Governance - Negative
52. Governance - Positive
53. Governance structures
54. Human resource: Training & Development
55. Independence
56. Independent directors
57. Industry requirements
58. Information
59. Integrity
60. Leadership
61. Legislation
62. Life-cycle stage
63. Limitations
64. Long term view / Sustainability
65. Management
66. Nepotism
67. Non-family
68. Non-family executive directors
69. Non-financial objectives

70. Ownership/Shareholding
71. Passion
72. Patient Capital
73. Performance measure
74. Performance measure: Accounting ratios
75. Performance measure: EVA
76. Performance measure: ROA
77. Personal objectives
78. Policies & procedures
79. Politics
80. Private company
81. Professionalisation
82. Progression
83. Public company
84. Research significance
85. Resource-based view (RBV)
86. Responsibility
87. Role confusion
88. Self-driven
89. SEW
90. SEW: Family control
91. SEW: Family harmony
92. SEW: Social Identity
93. SEW: Nepotism
94. SEW: Personal ties / Prestige
95. SEW: Reputation
96. SEW: Transgenerational wealth
97. SEW: Quality of life
98. South Africa
99. Stakeholders
100. Stewardship
101. Strategy
102. Structure
103. Succession
104. Supervisory board
105. Theories = Other
106. Trust (*relationship*)
107. Value-add
108. Value - Financial
109. Value - Non-financial
110. Working well together

ANNEXURE I: TURNITIN REPORT

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THE VALUE OF GOVERNANCE STRUCTURES
IN PRIVATE FAMILY ORGANISATIONS

by
ROLANDI VAN DER WESTHUIZEN (53321898)

submitted in accordance with the requirements
for the degree of

MASTER OF PHILOSOPHY IN ACCOUNTING SCIENCES

in the subject
MANAGEMENT ACCOUNTING

at the
UNIVERSITY OF SOUTH AFRICA

SUPERVISOR:
Mr A DE GRAAF

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DECLARATION Student nr: 53321898

I, Rolandi van der Westhuizen, declare that:

THE VALUE OF GOVERNANCE STRUCTURES
IN PRIVATE FAMILY ORGANISATIONS

is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references. (The proposal will not be examined unless this statement has been submitted.)

Signed _____ Date _____