

**The impact of family ownership on firms' performance: A
study of firms in the South African Clothing and Textiles
manufacturing industry 2009-2011**

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Lungile Ntsalaze

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Supervised by: Professor Joshua Abor

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ABSTRACT

Family businesses have been prevalent throughout history for the way in which they are able to combine family interests with those of the business. However, it is only recently that the world has begun to recognize its significance and uniqueness. Stimulated by this recognition, there is a steadily growing body of academic knowledge that has started to consolidate more insight into the characteristics of the family birthed and operated enterprise as a viable business model. The history suggests that family businesses have played an integral role in nation building and for an emerging market environment like South Africa, could hold one of the keys to accelerate much needed broad based economic advancement and participation.

This study was shaped from a keen interest in investigating the tacit value that family owned business models can yield by conducting a comparative panel study of performance between family and non-family firms in the Clothing and Textiles manufacturing industry in the South African IDC portfolio (2009-2011). Key financial metrics, namely to return on assets, return on equity, income security cover, outside funds to cash flow and shareholders' funds to total assets were referenced. Regression analysis was used to estimate the relationship between performance and firms.

Both qualitative and quantitative approaches were employed in the study to arrive at the results. Although studies have been conducted to show that family-controlled firms seem to perform worse than non-family firms, the results from this study show that family business performed better on return on assets when applying the data set in a regression analysis technique. The results also show that, founder and first generation owners have a significant impact on family business performance. Given the importance of family businesses, in terms of employment creation, informal training (skills development) and the economy at large, it is therefore critical that all efforts be made to assist the owners of family businesses to deal with the complex challenges they face to ensure their survival and growth.

Key words: family owned business, clothing and textiles, business performance, return on assets

TABLE OF CONTENTS

PLAGIARISM DECLARATION.....	i
ABSTRACT.....	ii
TABLE OF CONTENTS.....	iii
LIST OF FIGURES AND TABLES.....	v
GLOSSARY OF TERMS.....	vi
ACKNOWLEDGEMENT.....	vii
1 INTRODUCTION.....	1
1.1 Research Area.....	1
1.2 Problem Statement.....	4
1.3 Purpose and Significance of the Research.....	5
1.4 Research Questions and Scope.....	6
1.5 Research Assumptions.....	8
2 LITERATURE REVIEW.....	9
2.1 Principal Agent Theory.....	12
2.2 Human Resource Pool.....	16
2.3 Founding Member and Succession.....	17
2.4 Corporate Governance.....	18
2.5 Conclusion.....	21
3 RESEARCH METHODOLOGY.....	22
3.1 Research Approach and Strategy.....	22
3.2 Research Design, Data Collection Methods and Research Instruments.....	24
3.3 Sampling.....	25
3.4 Data Analysis Methods.....	27
3.4.1 Performance Variables.....	28
3.4.2 Treatment Variable.....	28
3.4.3 Control Variables.....	29

3.5	Research Reliability and Validity.....	31
3.6	Limitations.....	32
4	RESEARCH FINDINGS, ANALYSIS AND DISCUSSION.....	33
4.1	Descriptive Statistics	33
4.2	Regression Results.....	38
4.3	Discussion.....	42
5	RESEARCH CONCLUSIONS AND IMPLICATIONS.....	49
6	RECOMMENDATIONS FOR FUTURE RESEARCH.....	51
	BIBLIOGRAPHY	52
	APPENDICES.....	60

LIST OF FIGURES AND TABLES

- I Family status
- II Descriptive statistics: Family and non-family firms
- III Descriptive statistics: Family firms
- IV Descriptive statistics: Non-family firms
- V Generations involvement: Family firms
- VI Regression results for family businesses
- VII Regression results for nonfamily firms
- VIII Family size
- IX Performance trend
- X Performance trend comparison

GLOSSARY OF TERMS

CEO	Chief Executive Officer
DTI	Department of Trade and Industry
EBDA	Earnings Before Depreciation and Amortization
EBIDA	Earnings Before Interest, Depreciation and Amortization
EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortization
GDP	Gross Domestic Products
ISC	Income Security Cover
IDC	Industrial Development Corporation
LSDVC	Least Squares Dummy Variable Corrected
NLS	National Longitudinal Surveys
OFCF	Outside Funds to Cash Flow
PIP	Production Incentive Programme
PSID	Panel Study of Income Dynamics
ROA	Return On Assets
ROE	Return On Equity
SFTA	Shareholders' Funds to Total Assets
SME	Small Medium Enterprises
UK	United Kingdom
US	United States
WTO	World Trade Organisation

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1 INTRODUCTION

1.1 Research Area

Since the early beginnings of capitalism, the family has constituted a primary vehicle of economic production. Studies show that family businesses have become dominant in all free market economies, representing 50 to 90 percent of the Gross Domestic Product (Kenyon-Rouvinez & Ward , 2005). Their importance and distinctiveness is being recognised. From a South African perspective, in his book Balshaw (2003) stated that the family business generates more than 75 percent of new jobs and also employs more than 50 percent of the workforce. He estimated that in 2002, 84 percent of the 1.42 million active businesses were family businesses (Balshaw, 2003).

As mentioned by Lansberg (1983), in the United States alone over 90 percent of all corporations (including 35 percent of the Fortune 500) are either owned or controlled by a family. (Neubauer & Lank, 1998, p. 11) noted that “family businesses are rapidly becoming the dominant form of business enterprise in both developed and developing countries and these businesses are amongst the largest contributors to employment and wealth in almost every country”. “Family businesses represent substantial economic entities within the macro economy, whilst also providing significant resources to the micro economy, namely the family, with the most important of these resources being the household income” (Muske & Fitzgerald, (2006: p. 194). Nieman (2006) and Venter (2003) claimed that the social and economic impact that family businesses have is increasingly being recognised, and the number of such businesses is expected to continue rising in the future.

According to an article in the Mail & Guardian (2011) more than 75% of South African family business owners believe that being part of a family business helped them through the economic downturn. South African family businesses believe their resilience comes from being better placed to take a longer-term view than their listed counterparts. Gareth Ackerman stated that family control allows companies the space for innovation, risk-taking and entrepreneurship, which is not always available to institutional investors driven by the need

for immediate returns (Worrall, 2012). The important contribution of family businesses to economic growth and wealth creation in the world has been emphasised by Morck & Yeung (2004). As family businesses are a primary contributor to economic development and job creation in the world, the general lack of literature in this field is cause for concern. (Van der Merwe S. P., 1998) pointed out that family businesses have been making a positive contribution to the South African economy for the past 300 years. It is estimated that approximately 80 per cent of businesses in South Africa could be classified as family businesses and that they comprise 60 per cent of the companies listed on the Johannesburg Stock Exchange (Ackerman, 2001).

Since 1994, South Africa has implemented very liberal trade policies as part of its move towards reintegration into the global economic system. Prior to this period South African Clothing and Textiles firms enjoyed protection against international competition for many years. The opening up of the industry has seen a high level of importation of cheap products (both legal and illegal especially from China) which impacted negatively on the Clothing and Textiles industry. This led to factory closures and substantial job losses which maintained the high levels of unemployment and deepening poverty especially within the historically disadvantaged sections of communities.

The SA Clothing and Textiles industry constitutes an important sector of SA economy, as it is one of the most labour-intensive sectors in manufacturing, contributing to the government's mandate of making a significant impact on poverty eradication and job creation (Parker, 2011). This industry not only has high labour absorption capacity but is also able to offer employment opportunities for individuals with limited or semi-skilled capabilities. However, the South African Clothing and Textiles firms have not only suffered from the economic downturn, the available evidence suggests that the industry was already struggling prior to this period due to massive changes in the structure of the economy as a result of The World Trade Organisation (WTO) pronouncements and reasons of trade liberalization, cheap and illegal imports as well as a strong South African Rand (Malebana, 2008).

Stats SA reported that in the period of 1995 to 2010, the Clothing and Textiles industry suffered more than 120 000 job losses and the main reason behind the dire straits of the industry was due to the increased influx of cheap clothing and textiles products mainly from China. The SA government therefore sees the industry as job creating, and due to this

potential; the industry is seen as one worth fighting for (Parker, 2011). As a result the industry receives considerable attention from government and other stakeholders to ensure the competitiveness of the industry for the benefit of the country at large. The South African Industrial Development Corporation (IDC) was tasked with implementing and administering Clothing and Textiles Competitiveness Programmes to stabilize employment and to improve overall competitiveness of the industry. Thus this study is timely and well placed to provide insights into the nature of family controlled businesses in the Clothing and Textiles industry defined as including the Clothing, Footwear, Leather and Textiles sectors.

Numerous prior attempts have been made to secure a database of family businesses in South Africa, but to no avail (Van der Merwe, 2010). Since there is no comprehensive list of independent family and non-family unlisted companies in South Africa, a pragmatic approach was followed in the identification of the target population. The effects of the recent credit freeze by commercial banks following the recession resulted in the majority of Clothing and Textiles firms seeking the assistance of IDC that can provide concessionary products. The IDC is a development finance institution with a key role in the Clothing and Textiles industry, providing support to existing manufacturers who wish to expand and/or modernise their production capacity; manufacturers in distress due to global economic trading conditions; and entrepreneurs who wish to start up manufacturing facilities including thriving businesses that want to take advantage of the incentives schemes offered. As IDCs client base is extensive, ranging from small, medium to large corporations in the manufacturing sector, the target population of this study was extracted from its portfolio.

This study uses firm-level data to conduct a panel study of performance between family-owned and non-family owned firms in the Clothing and Textiles industry in the IDC portfolio. Performance will be analysed with reference to six measures: return on assets, return on equity, income security cover, outside funds to cash flow and shareholders' funds to total assets.

1.2 Problem Statement

Despite the dominance of family businesses, understanding of their internal organization remains rather limited, partly because of the difficulty of obtaining reliable data on these firms as most of the firms are privately-held and therefore unwilling to share data with the third parties. The observed dominance of these firms on the economic landscape of most countries is thus far, the main reason provided by scholars for directing scholarly research toward family firms. There is a need to clarify the definition of family firms and the different facets of family firm performance. In South Africa and in fact, in most other countries there are no existing records differentiating family businesses from non-family businesses (Venter, 2003). Adding to the lack of the availability of family business databases is their traditionally secretive nature, making the field of family business a challenging area to study (Santiago, 2000). As a result most studies have concentrated on companies listed on Stock Exchanges rather than unlisted or private companies. This is indeed surprising, given that family-owned businesses account for 40 to 60 percent of the U.S. gross national product and employ upward of 80 percent of the workforce (Lank & Neubauer, 1998); these figures are much higher in most other countries (Madura, Martin, & Jessell, 1996).

1.3 Purpose and Significance of the Research

Brockhaus' study as cited in (Van der Merwe, 2010) revealed that relatively little research on family-run businesses has been carried out in South Africa. It is therefore essential to gain insight and a deeper understanding on the role of family control in businesses. This study is thus a contribution to the emerging economics literature on family business. A key question for investigation is whether, family businesses are better performers than nonfamily firms are or not? According to a study conducted by Daily and Dollinger, "there is at least some evidence indicating that family owned and managed firms exhibit performance advantages relative to firms in which the ownership and control functions are separated" (James, 1999, p. 42).

The study will provide insight on the impact of family ownership on firms' performance as per a basket of key business performance metrics that are relevant in the Clothing and Textiles industry in South Africa. More importantly, the findings are set to have some important practical implications that should influence the direction of further industrial strategy in relation to the ongoing drive to support the industry.

1.4 Research Questions and Scope

The research questions were thus consolidated as follows:

1. Most family businesses are incorporated with the intention of preserving the welfare of the family in a sustainable manner; because of this, they employ relatives of the owner and thus tend to have no separation of ownership and control, such businesses should benefit from reduced agency costs (Jensen & Meckling, 1976). However, the main question to be investigated is whether family firms are an effective organizational structure to deliver superior performance relative to non-family firms. This question seeks to address insight and deeper understanding on the role of the family effect in businesses.
2. Often professional non-family managers such as an outside CEO are recruited to play a role in the future growth of the business in the family firms. A challenge that family firms face is that of recruiting and retaining key talent. This is often because the most highly-qualified people have not traditionally opted to work for family firms because they believe that their progress will be artificially constrained by the shareholding structure, and they will achieve greater financial rewards and career fulfillment in non-family firms. The theoretical expectation, which is one of the research questions, is that in family businesses, family managers often possess lesser professional skills than non-family management.
3. It has been suggested that early generation family owners are associated with higher performance than their descendants (Kang & Sorensen, 1999). Family businesses are often recognized in the popular press as a source of difficulty when it comes to succession issues, identity development, and sibling relationships. Succession is one of the largest challenges facing family businesses, and in most cases the process is resisted. Deciding who is appropriate to succeed may sour relations among siblings or between parent and child causing criticism, lack of support, and lack of trust—all elements that invariably affect the business. It still remains a question regarding which generations of owners influence better firm performance than others in family businesses?

4. Also relevant to this study, is the question of the influence of board size in the firm performance.
5. Lastly, the composition of the board, referred as the outside element will be investigated as an influencer of firm performance. Literature suggests that board size and proportion of non-executive board members on the board have been noted to have a significant positive relationship with firm's performance (Abor & Biekpe, 2007).

The scope of this research focuses on firm-level data to conduct a panel study of performance between non listed family and non-family owned firms in the Clothing and Textiles manufacturing industry. The results thereof cannot be generalised to represent the family and non-family situation across all industries in South Africa.

As the IDC was tasked with implementing and administering government incentives to stabilize employment and to improve overall competitiveness of the industry. The study applies data set from IDC in assessing the main research question. This addresses the need to have an effective organisational structure to deliver superior results based on key performance indicators that will be used to assess the effectiveness of family versus non-family businesses.

1.5 Research Assumptions

The researcher has made assumptions that the completion of the survey was done by the right company representatives so that the population of the participants required for the study reflects the attitudes of the company towards the qualitative aspects and that responses are accurate. Inaccurate responses will affect the validity of the study.

On ethical considerations, the names of companies participating in the study and their respective financial data have not been revealed following the requests of the participants and confidentiality agreements in place with the IDC.

2 LITERATURE REVIEW

In the corporate finance literature, efforts have been made in trying to understand the relationship between ownership structure and firm performance to determine if ownership structure matters to firm performance. Most of the relevant literature has focused on the effects of privatization. It has been observed that concentrated ownership is dominant in most countries around the world and that widely-owned corporation with dispersed and passive shareholders are visible only to some U.S. and UK firms (Chernykh, 2005). Closely-held corporations have also been very typical to East Asian countries (Lins, 2003). Chernykh (2005) outlines that the ongoing debates about ownership structure and corporate performance can be traced back to the classical work by Berle & Means (1932) that describes diffuse ownership in a typical corporation and suggests it has a negative relationship with firm performance. This view supports the notion that concentrated ownership mitigates the classical agency problem as the controlling shareholder has both the power and the incentive to monitor managers. In most countries companies with concentrated ownership grew and developed as family firms, often from entrepreneurial origins (Kuznetsov, Kapelyushnikov, & Dyomina, 2011). Family-controlled firms provide a good model for concentrated ownership, which, according to the agency theory, reduces agency costs and leads to superior firm value.

Many family firms are characterised by significant struggles among family members regarding control of the firm. In this case there is an important drawback to maintain family unity. One commentary noted that the desire for family harmony could lead to a restriction of competition within the firm which is essential for the survival and growth of an organisation (Pollak, 1985). The cost of maintaining family harmony has had the effect of such firms failing to introduce new ideas or respond effectively to changes in the economic environment of the family firm. These assertions were consistent with the work by (Faccio, Lang, & Young, 2001) which concluded that family firms have been relatively poor performers due to conflicts that arise as the family attempts to manage an enterprise. One of the special challenges of a family business has been running it in such a way that it creates the least amount of family stress because family relationship dynamics intrude in the family business relationships.

Evidence suggests that family businesses perform better than nonfamily businesses, for both profitability and financial structures; and on the other hand, the level of family control strongly influences performance, at least in terms of profitability based on the premise that one is better able to take care of what belongs to them (Allouche, Amann, Jaussaud, & Kurashina, 2008). The study of Madueno, Jorge & Gardey (2011) showed another possibility, where they did not detect any significant performance differences between family and non-family firms hence concluding that family firms obtain similar performance to non-family firms. The literature also revealed evidence of empirical studies which revealed that the success of family firms depended on the effective management of the overlap between family and business, rather than on resources or processes in either the family or the business systems (Sharma, 2004).

Upon closer inspection of these studies, there appears to be several possible reasons for the divergent conclusions. Firstly, the different methodological approaches employed across the studies might account for the contradictory findings. For example, the definitions of what constitutes a family firm varied widely across studies. These studies leave open the question as to whether there were sufficient controls for the effects of the various variables to truly isolate the “family effect” on firm performance. As outlined by Gibb Dyer (2006) (Gibb Dyer, 2006) the typical factors that scholars have argued determine firm performance are: (1) industry, (2) governance, (3) firm characteristics (e.g., social capital, strategy), and (4) management.

The first hurdle to overcome is to determine an acceptable definition of a family business. There is no consensus on the definition of family businesses in research, or among consulting communities, journalists and the general public. Numerous attempts have been made to articulate conceptual and operational definitions of family firms. The attention of most of these efforts has been on defining family firms so that they can be clearly separated from nonfamily firms. According to (Sharma, 2004) as progress is being made on the development of definitions of family firm based on the varying extent and nature of family involvement in a firm, some clarity on the domain and distinctiveness of the field of family business studies is being experienced. None of these articulations has yet gained widespread acceptance, most seem to revolve around the important role of family in terms of determining the vision and control mechanisms used in a firm, and creation of unique resources and capabilities, as expressed by (Habbershon, Williams, & MacMillan, 2003). The definitions vary in terms of

degrees of family involvement. Firstly, (Donckels & Frohlich, 1991) define family firms as those organizations the majority of whose stock belongs to the members of one family. Churchill & Hatten (1987) said that a family owned business is a founder-operated business where there is the anticipation that a younger family member will assume control of the business from an elder member. "Family business is one in which one or more family members are employed full time by the business. Moreover, it is a company that is owned, controlled, and operated by one or more family members" (Fishman, 2009). In the study by Gomez-Mejia and Nunez-Nickel on the role of family contractual relationships within the Spanish newspaper industry, a business was considered to be a family business if the last name of the CEO and/ or the editor was the same as that of the owners as cited in (Poza, 2010, p. 5). According to (Anderson & Reeb, 2003), family firms are those in which the founder or a member of his or her family by either blood or marriage is an officer, director, or blockholder, either individually or as a group. (Astrachan & Shanker, 2003) provide three operational definitions of family firms. Their broad definition uses the criteria of family's retention of voting control over the strategic direction of a firm. In addition to retention of such control by the family, the mid-range definition includes firms with direct family involvement in day-to-day operations. The most stringent of definitions classifies firms as family firms only if the family retains voting control of the business and multiple generations of family members are involved in the day-to-day operations of the firm.

Astrachan, Klien, & Smyrnios, (2002) have presented a validated ready-to-use scale for assessing the extent of family influence on any business organization. This continuous scale is comprised of three subscales: power, experience, and culture (F-PEC scale). Particularly impressive in this study was the power scale, which articulates the interchangeable and additive influence of family power through ownership, management, and/or governance. The experience scale measures the breadth and depth of dedication of family members to the business through the number of individuals and generations of family members involved in the business. Family's commitment to the business and values are used for the culture scale.

For the purposes of this study, the definition of a family business as proposed by Ibrahim & Ellis (1994) is adopted. The authors defined a family business as one in which at least 51% of the business is owned by a single family; moreover, at least two family members are involved in the management or operational activities in the business; and the transfer of leadership to next generation family members is anticipated.

Many studies have been conducted surrounding the characteristics and performance of family firms, however each have had dissimilar outcomes inconclusive to develop a theory to be applied. This suggests that the family effect can be either positive or negative depending on the circumstances. According to studies conducted by Ward and Pollak, “the key to the success of family firms lies in the stability of the family system. The family’s stability becomes the source of strength for the firm, but the family’s instability becomes a source of weakness” (James, 1999). The researcher cannot completely avoid the discussion of the existing literature that has developed theoretical frameworks, major hypotheses, and empirical models widely used in the area of family business. These include, but are not limited to, principal-agent theory, human resource pool, founding members and succession and corporate governance which are discussed below.

2.1 Principal Agent Theory

The principal-agent theory is also known as the agency theory. It refers to the conflicts of interest and moral hazard issues that arise when a principal hires an agent to perform specific duties that are in the best interest of the principal but may be costly, or not in the best interests of the agent. The principal-agent problem develops when a principal creates an environment in which an agent has incentives to align its interests with those of the principal, typically through incentives. Principals create incentives for the agent to act as the principal wants because the principal faces information asymmetry and risk with regards to whether the agent has effectively completed a contract. According to one author, the relationship of agency is one of the oldest and commonest codified modes of social interaction (Ross, 1973).

The agency relationship has arisen between two (or more) parties when one, designated as the agent, acts for, on behalf of, or as representative for the other, designated the principal, in a particular domain of decision problems. (Jensen & Meckling, 1976) state that there exists a conflict of interests between managers or controlling shareholders, and outside or minority shareholders leading to the tendency that the former may extract “perquisites” (or perks) out of a firm’s resources and be less interested to pursue new profitable ventures. Examples of agency are universal. Essentially all contractual arrangements, such as between employer and

employee, corporate management (agent) and shareholders (principal) contain important elements of agency. Corporate managers are agents of shareholders therefore shareholders need to find ways to induce managers to pursue their interests. The agency relationship has therefore been found to result in agency costs, which consist of monitoring expenditures by the principals, bonding payments by the agents, and residual losses which is basically the deviation from the principal's interest by the agent (Jensen & Meckling, 1976). Cole, Ang, & Wuh Lin (2000) outlined that agency costs arise when the interests of the firm's managers are not aligned with those of the firm's owner(s), and take the form of preference for on-the-job perks, shirking, and making self-interested and entrenched decisions that reduce shareholder wealth. The magnitude of these costs is limited by how well the owners and delegated third parties, such as banks, monitor the actions of the outside managers. Agency costs are indeed higher among firms that are not 100 percent owned by their managers, and these costs increase as the equity share of the owner-manager declines. Hence, as predicted, agency costs increase with a reduction in managerial ownership, (Jensen & Meckling, 1976).

Abor & Biekpe (2007) describe a fundamental agency problem in modern firms where there is a separation of ownership and control hence the introduction of corporate governance. Kyereboah-Coleman (2008) argued that corporate governance is represented by the structures and processes laid down by a corporate entity to minimize the extent of agency problems as a result of separation between ownership and control. In this regard, the fundamental question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory. The separation of ownership and control is most prominent among family-controlled firms and small firms. From an investor perspective, it is important to establish the right corporate governance conditions so that the positive aspects of family ownership are coupled with assurances that investor interests will be recognized and addressed because there is a history of family-owned companies with highly-concentrated ownership, with poor transparency and absence of accountability and fairness principles that led to abuse of other stakeholders. According to Claessens, Djankov, & Lang, (2000), in all East Asian countries more than two-thirds of firms are controlled by a single shareholder. Separation of management from ownership control is rare, and the top management of about 60% of firms that are not widely held is related to the family of the controlling shareholder. (Demsetz & Lehn, 1985) have shown that concentrated ownership companies are family firms with lower supervision costs resulting from cheaper agency costs, thus achieving greater efficiency and maximizing the value of the company. The Principal-agent theory (Jensen &

Meckling, 1976) is widely used to explain why closely-held firms have better economic performance than do publicly owned firms. The theoretical framework tends to suggest that public enterprises are inefficient due to the fact that there is a lack of capital market discipline. Because of the lack of market monitoring, managers attempt to pursue their own interests at the expense of enterprises' interest. Thus, agency theory concluded that there is a relationship between ownership structure and economic performance: the cost of monitoring makes private or closely-held firms economically more efficient than publicly owned firms.

(Jensen M. C., 1989) stated that in the absence of strong corporate governance systems, organizations may suffer in performance when self-interested managers pursue their own interests rather than the interests of shareholders (Kang & Sorensen, 1999). "Agency theory has often been used to argue that family firm governance is more efficient than that of non-family firms" (Shleifer, Vishny, & Morck, 1988). (Jensen & Meckling, 1976) indicated that family firms are likely to incur fewer agency costs because the goals of a firm's principals (owners) were found to be more aligned with its agents (managers) since they were typically one and the same. Because of this alignment of goals, agency costs were avoided by the owners since they did not have to spend time and resources to monitor the behaviour of their agents.

James (1999) stated that it is costly to monitor the performance of managers relative to actions specified in the contracts, decision making agents may engage in activities that lower the value of the firm. The tradeoffs may not be as severe in family firms because the potential for suboptimal investment is reduced if the owner manager has a family to whom he wishes to pass the company when he retires. By anticipating the transfer of the business to a family member in the future, current decision makers may be more likely than non-family decision makers without a long term interest to make decisions that improve the viability of the company. Stoy, Chu, Jensen and Meckling, Fama and Jensen, Daily and Dollinger studies determined that applying this logic to the particular situation of family businesses has led many authors to conclude that this type of organization should present relatively higher levels of efficiency justified by the blurring of the roles of principal and agent, fundamentally in small family firms (Madueno, Jorge, & Gardey, 2011). Basic propositions of the agency theory reached the same conclusion, arguing that in family businesses the costs in terms of conflicts of interest should be smaller, as should the level of opportunist agent behaviour with respect to the principal, leading therefore to higher ratios of efficiency. In the example

provided by Berghoff (2006) the typical German Mittelstand firm in its traditional form, is both family run and family owned, at least when it comes to the controlling interest. Thus management and control are not separated. Such businessmen and businesswomen view their firms as more than a financial investment. They consider them to be integral to their personal self-fulfilment, part of the homage and duty they owe to the family heritage.

On the other hand, one cannot assume that the motivation, desires, and concerns of a family executive are identical to those of other family shareholders or that the family executive will try to do what is best for the firm rather than pursue a personal agenda. Gomez-Mejia, Nunez-Nickel & Gutierrez, (2001) noted that the agency costs under family contracting are compounded by the fact that affective ties between the parties reduced the presence of formal safeguards designed to mitigate threats to firm's performance. In other words, emotional aspects of the relationship may neutralize mechanisms to reduce agency costs, a situation that is less likely to occur under non family contracting. Other agency threats under family contracting were suggested in a survey of 3,860 U.S. family business owners. These include adverse selection, occurring because "the labor market that serves family firms is less efficient for various reasons (and characterized by a) smaller pool of applicants of more uncertain quality and limited promotional opportunities" (Schulze, Dino, Lubatkin, & Buchholtz, 1999, p. 23). Another one is hold up, occurring because family executives may be able "to impose their self-serving desires onto the key decisions of the firm by holding owners and may hold a disproportionate amount of power, emanating not only from the skills they may have (or may not possess) but more importantly from their family status". Caselli & Gennaioli (2002) stated that the positive effect predicted on value of firms by the Jensen & Meckling (1976) study on agency theory, may be offset by the costs of family management. Family managers are not recruited from the general market of managers. This situation generally leads to a lower quality among owner-managers than professional managers and may reduce a firm's productivity. So, even if family businesses are recognized as a valuable asset, the risks associated with concentration can drive away additional sources of finance, thereby reducing the company's value or restricting available credit terms.

2.2 Human Resource Pool

In a family owned business, maximising growth and profits may not be the primary direction desired. The family business leader may have wanted family members to be involved in management even if they were not the best qualified candidates for the roles. In many instances employment in the business is a birth right, merit and other important criteria in the selection process are devalued or entirely irrelevant. Founders often find themselves in the difficult situation of having to choose between either hiring (or firing) an incompetent relative or breaking up their relationship with some part of the family which affects the founder's ability to effectively manage relatives who work in the business. The employer discrimination model proposed by Becker as cited by Singell & Thornton (1997), postulates that entrepreneurs maximise utility that increases with profit but decreases with a nonmarket attribute of some workers (e.g. race, ethnicity, or gender).

Contrary to commonly held beliefs about nepotism, studies have shown that founders tend to under reward their relatives who work in the firm. Founders repeatedly justify such under compensation by arguing that family members "have an obligation to help out" in the business. (Lansberg, 1983) outlines that founders frequently feel that rewarding relatives in terms of market rates would be perceived as favouritism by non-family employees. Such under rewarding of relatives, regardless of their competence, may have unintended consequences in which incompetent family employees are retained while competent family employees are driven to seek employment elsewhere.

James (1999) mentioned that the desire of owner operators to incorporate family members into the business before it is transferred to the succeeding generation may lead to suboptimal investments in the firm. If such discrimination is in favour of family members at the expense of better qualified non family workers obtained through the labour market, then the long run profitability of the business may be reduced. (Singell & Thornton, 1997) suggested that utility-maximising owners earn less profit because they overemploy family inputs, other unintended consequences are that it could lead to resentment on the part of senior nonfamily executives because tenure, merit, and talent are not necessarily requisite skills for top management positions in a family business. As mentioned by (Anderson & Reeb, 2003) families often intended to limit executive management positions to the family members, creating an artificial restriction in the labour pool and hence a lack of potentially qualified and capable talents leading to loss of competitive advantages relative to non-family firms. Family firms often end up suffering from hiring family members who are not qualified or lack

the skills and abilities for the organization and from inability to fire them when it is clear they are not working out. Much debate in the discrimination literature surrounds whether employers with biased preferences can persist in the market which brings to the identification of professional qualifications of family business managers as an area of interest. The sub-hypothesis is that non-family managers possess more professional skills than family managers.

2.3 Founding Member and Succession

Buchholz and Crane, Ward and Danco studies revealed that “many businesses fail because business founders fail or refuse to plan for the succession of the family business” (James, 1999, p. 50). In fact, many businesses founders reported that providing business opportunities for their children was not a primary motivation for starting a business (Ambrose, 1983). Another problem with succession planning is that there may not be a competent family member willing to take over control of the family business, or the offspring of family managers may be reluctant to join the firm (Blotnick, 1984). Bowman-Upton points out that “in fact, one survey of small business owners found that the most common reason is the perception by owners that children are not interested in joining the family firm” (James, 1999). Children may not see the family firm as a fulfilling place to work. Family managers can avoid this by making the family business a more inviting career opportunity and by involving potential heirs in business matters long before the transition is to take place. Even when there are capable family members willing to take over the family business, non-family employees may be equally or more qualified to run the company. Thus the decision regarding who will run the firm can result in severe infighting among family and non-family members for control of the company (Barnes & Hershon, 1976).

A critical event for family control is clearly the retirement of the founder coupled with the passing of the baton to an heir that often leads to a decline in the performance of the firm according to (Barontini & Caprio, 2005). This transition appears to be inevitable as the firms outgrow the expertise and resources of the entrepreneur founder. Once a firm reaches this threshold, the founder must begin to yield control of the operations to other managers and subordinates. (James, 1999) mentions that the transfer of a family business may be more

difficult because of the different status tax authorities place on businesses. To the extent that intergenerational transfers are costly or prohibited, the incentive for family managers to invest in the firm for the benefit of future generations is reduced or eliminated altogether.

According to Nieman (2006) and Hugo (1996), a mere 30% of all family businesses progress to the second generation, and only 10% to the third. Indeed, most successful family businesses survive only about 24 years being the average amount of time the firm's founder runs the company. (Anderson & Reeb, 2003) found that family firms with founding family ownership and a family CEO showed significantly better performance than nonfamily firms by using profitability-based measures of firm performance. "Family management adds value when the founder serves as the CEO of the family firm or as its Chairman with a nonfamily CEO, but destroys value when descendants serve as Chairman or CEO" (Villalonga & Amit, 2004). While (McConaughy, Walker, Henderson, & Mishra, 1998) found that both founders and their descendants run their firms more efficiently than CEOs without founding family ties. Kang & Sorensen (1999) documented that early generation family owners are associated with higher performance than their descendants.

Begley and Boyd in their study (measured growth rate, profitability, and return on investment for founder operated firms, and found that founders have a significant and positive impact on firm performance (Mishra, Randoy, & Jenssen, 2001). In a similar vein, James (1999) presented two period models in which the owner chooses between current consumption or investment to allow for future consumption. The models demonstrated the point that an owner manager of a family firm may make relatively more efficient investments in period one than a non-family manager if he has a family member to whom he wishes to pass the company in the second period. The sub-hypothesis is that early generation family owners are associated with higher performance than their descendants.

2.4 Corporate Governance

Family firms are governed differently than firms without family control. As mentioned by (Van den Berghe & Carchon, 2002) in a family business, it is often the head of the family that plays the owner-shareholder role, and so long as the owner is the sole shareholder of the

company, the shareholder will closely and personally monitor the company management. “As the shareholding becomes diluted and dispersed, it becomes more difficult to keep the monitoring function with the shareholders and this is where the separation between ownership and control comes into play” (Jappie, 2007, p. 10). Introducing the concept of good corporate governance is vital for the continuity and sustainability of the family owned businesses that support economic growth. Good governance mechanisms can alleviate some of the problems that arise when family characteristics become a driving force behind company action. However, as far as the board memberships are concerned, study performed shows family-controlled firms seem to perform worse than non-family firms when the family is not represented in the board, explains (Barontini & Caprio, 2005). “The recruiting of outside or non-executive directors may have signalling effects. The signalling involves some kind of monitoring on behalf of external stakeholders. The board of directors in the small family business may be monitoring by enacting a disciplinary role and by providing competency”, (Johannisson & Huse, 2000, p. 375). A decisive reason for small family businesses not to activate their boards with externally recruited members may be that this often means introducing an outside element in the family-business context. Once the commitment is in place from the family members, the need for outside board monitoring is diminished and the inside directors who know the company and the marketplace may be more valuable to these firms. Several researchers concur that outside directors increased board effectiveness and firm performance Baysinger & Butler, (1985); Weisbach (1988) and Cotter, Shivdasani , & Zenner, (1997). However, Booth & Deli (1996) found a negative relationship between the number of outside directors and the firm's growth prospects. Similarly, Agrawal & Knoeber (1996) found that firm performance is actually reduced when additional outsiders serve on the board. Moreover, Hermalin & Weisbach (1991) did not find any relation between firm performance and the fraction of outside directors. However, Ward & Handy (1988) stated that a board with external directors is valuable for that firm because outside members bring fresh perspective and new directions, monitor progress and act as arbitrators. Schwartz & Barnes (1991) in their empirical study of CEO's attitudes found that independent directors were perceived as rewarding for the family firm for a number of reasons, including the provision of unbiased views, forcing management accountability and establishing a network of contacts. Johnson and Greening, (1999) as cited in (Thabethe, 2008) agree that non-executive director's position outside the organization affords them with a unique vision of the system that surrounds and maintains organizational wellbeing. While (Ford , 1988) suggested that outside directors often lack the necessary understanding and knowledge of the company's resources,

competences and its internal and external environments. This suggests that the benefits of independent or non-family directors are not clearly apparent and therefore forms a sub-hypothesis to be tested whether including an outside element to the board adds value to the business.

In examining the relationship between board size and firm value, Yermack (1996) found that firms with small board sizes have higher stock market value. Using a sample of large US corporations, he identified an inverse relationship between firm value and board size. This suggested that if small boards are more common in companies controlled by founding families, it is possible that founding family companies have been more effective because they generally have smaller boards. Board member interrelationships can be more easily managed in smaller boards. Furthermore, Mishra, Randoy, & Jenssen (2001) stated that smaller boards can help founding family owners make decisions more quickly. Agency theory (Pettit & Singer, 1985) and resource arguments from the strategy literature (Castaldi & Wortman, 1984), (Borch & Huse, 1993) indicate that boards may have a more important role in small businesses than in corporations because the information gap between the small-business owner-manager and important stakeholders is especially wide in the small business. Mishra, Randoy, & Jenssen (2001) found that a small board size might be a superior corporate governance mechanism for firms managed by a founding family CEO and that outside director representation does not improve corporate governance in founding family controlled firms. The sub hypothesis to be tested is that a small board size is effective for governance.

In addition Balshaw (year) emphasized the plausible job creation aspect of family businesses (Jappie, 2007). Business size can be retarded if a family management team is reluctant to raise external funds because of the fear of a loss of family control for example, through the appointment of a stranger to the board (Westhead & Cowling, 1997). Reynolds (1995) study of new firms in Wisconsin in the United States noted non-family firms were larger in employment size as well as sales revenue size. (Cromie, Stephenson, & Montieth, 1995) in their study of family and non-family companies in Ireland also found family firms were smaller in terms of employment and sales turnover than nonfamily firms. Conversely, in the UK, it was noted that no major differences in either employment or sales revenue sizes of family and non-family companies were recorded (Westhead & Cowling, 1997).

2.5 Conclusion

The literature review covered the works of many experts in the field of family business and presented different perspectives on family business, agency theory, selection of employees in a family business, succession planning and corporate governance. Some studies concluded that family businesses outperform non-family businesses while other empirical studies have reached opposite results. In addition, other researchers have concluded that family firms obtain similar performance to the non-family firms. The literature reviewed led to the development of the main hypothesis to be tested. Therefore, based on the information gathered from the literature review, the general hypothesis in this study is that family-owned firms outperform non-family owned firms in the Clothing and Textiles industry.

3 RESEARCH METHODOLOGY

3.1 Research Approach and Strategy

The research followed a deductive approach which involved the testing of the hypothesis that family-owned firms outperform non-family owned. (Hayes, 2000) expresses that hypothetico-deductive approach involves setting up a research process which allows a researcher to test a hypothesis – that is, to see whether the prediction really does come true when it is checked out in reality.

In South Africa, research on family business has substantially increased over the past few years. The field is dominated by qualitative research; however, a quantitative approach seems to be equally important in the family business field. The approach followed in this research involved a combination of quantitative and qualitative data. The qualitative data collection technique involved gathering of data through interviews with representatives of companies and survey responses. The analysis of the results, allowed for the representation of this data in a quantified manner in order to generate a fuller, richer appreciation of the dynamics of the family in business. This method allowed the researcher to apply the theoretical definition of the study and hence gain deeper understanding into what family business owners consider to be their strengths and weaknesses. Nordqvist, Hall, & Melin (2009) argue that qualitative and quantitative studies are complementary and that both are needed to advance our knowledge of family businesses.

The Association of Qualitative Research has defined Qualitative research as a

“research designed to help organisational decision-making, focusing on understanding the nature of phenomena and their meaning, rather than their incidence. It tends to have the following characteristics: direct face-to-face contact between the primary researchers and those being researched; in-depth examination of small-scale samples or small numbers of observations; unstructured interviewing guides which are responsive to context and may be amended throughout the project; the researcher and his/her interpretative input is key to the process” (Sethia, 2008, p. 1).

According to (Hesketh & Laidlaw, 2002), a qualitative research focuses on events, experiences and feelings from the perspective of those being studied and therefore can be extremely useful in understanding complex processes, exploring problem areas and suggesting ways of tackling them.

Leedy & Ormrod (2010) defined quantitative analysis as the use of numbers and statistics to make better sense of a problem. The findings of the analysis allow for better predictions of future trends and summarisation of large sets of numerical data. The approach described above lends itself to applying a quantitative research strategy which relies on the measurement and analysis of statistical data in order to determine relationship between the various data sets. According to (Bryman & Bell, 2007) a quantitative strategy entails a deductive approach in which the collected data may support certain hypotheses that have been formulated to validate existing theories. (Weisberg, Krosnick, & Bowen, 1989) suggests that quantitative methods, characterised by closed ended questions, are recommended when quick tabulation is required.

3.2 Research Design, Data Collection Methods and Research Instruments

The research design combines characteristics of both time-series and cross-sectional designs. The panel study is advantageous as it analyses patterns over time, as opposed to a cross sectional study that simply studies snap-shots or events at a particular moment in time. According to (Hsiao, 2003) panel data have become widely available in both the developed and developing countries.

With repeated observations of enough cross-sections, panel analysis permits the researcher to study the dynamics of change with short time series (Yaffee, 2003). The combination of time series with cross-sections can enhance the quality and quantity of data in ways that would be impossible using only one of these two dimensions (Gujarati, 2003).

According to (De Jager, 2008) researchers frequently compensate for the lack of time depth in their data series by also collecting data cross-sectional for different companies. Creating a data panel or “pooling” data (as it is also known) can be used to compensate for a lack of time-series depth available in data where it can increase degrees of freedom and potentially lower standard errors of the coefficients of a regression. Judson & Owen (1996) suggest that the best technique changes with the size of the panel. It is well known that using dummy variables to estimate individual effects in a model which includes a lagged value of the dependent variable results in biased estimates when the time dimension of the panel (T) is small. The size of the panel influences the choice of estimator. For panels with a small time dimension, the corrected least squares dummy variable (LSDVC) is the best choice. When the time dimension of the panel is less than or equal to 10 observations, and the panel does not suffer too severely from missing data.

3.2.1 Data Collection

The data collection process involved two distinct phases. In Phase I, a database was built at the individual firm level which covers, for each firm-year in the sample, revenue, assets, number of employees and the five performance measurement ratios, namely: return on assets, return to shareholders, income security cover, outside funds to cashflow and shareholders' funds to total assets. Phase I data was compiled from two sources. The first source was

Docupedia, the IDC's business repository that contains extensive information on clients including the financial statements, for which the financial data needed to calculate the performance measures were available and reports that were submitted to the IDC's credit committees. The second source, the Development Funds strategic business unit's production incentive programme ("PIP") database contains financial data on each firm that has been the beneficiary of PIP. This is a programme of the Department of Trade and Industry ("the dti") to stabilize employment and to improve overall competitiveness in the Clothing and Textiles manufacturing industries. The PIP is administered by the IDC on behalf of the dti. Thus, a distinct advantage of the databases used here is the opportunity that it provides control for industry factors that may affect the relationships among firm performance because all the firms were in the same industry.

Phase II of the data collection process involves the use of a survey as the research instrument, information on family characteristics and other qualitative aspects was obtained through an online survey and telephone interviews with the management of target firms. Such information includes the family status of the business, firm age, generation level involved in the business, board size, outside element, and proportion of family managers with professional education.

3.3 Sampling

The population for the study was all the firms that were in the Clothing and Textiles industry portfolio of the IDC in the year 2011, which includes both categories, i.e. family businesses and non-family businesses. The researcher initially proposed that the research should cover a period of a decade commencing, 2002-2011. However, finding data for this period proved to be challenging. The researcher therefore decided to reduce the period to three years, 2009-2011, as this was the point from which meaningful data could be obtained for most of the family businesses.

The initial target population consisted of 202 firms. Upon interrogation of this population it emerged that 35 firms were not suitable for the purposes of this study as they had either ceased operations or an individual or a firm that, in itself, is not involved in the Clothing and Textiles industry but was granted funding by the IDC to acquire shareholding in this industry.

The survey was sent to 167 firms, to decrease the possibility that respondents classified themselves incorrectly according to the theoretical definition applied in this study; all respondents were asked to complete the survey even if they did not consider themselves a family business. Responses were received from 117 firms out of an original sample; of this number 44 were family businesses and the rest, non-family businesses.

Taking into account the non-respondents, the empirical research has had to rely on convenience sampling method based on firms for which data was obtained. Convenience sampling involves obtaining responses from those people who are available and willing to take part (Kitchenham & Pfleeger, 2002). The main problem with this approach is that the people who are willing to participate may differ in important ways from those who are not willing. This type of sample runs the risk of being biased (that is, not being representative of the target population), so some caution is required when drawing any conclusive inferences from the data. However a response rate of 70% is considered to be more than adequate. Thus, the researcher was able to claim that there was no evidence of systematic bias among respondents, so the sample can be considered representative of the target population. To ensure an adequate response size, telephone follow ups were conducted. Thus the potential convenience sample limitations were mitigated to a degree by the increased responses. The assumption made concerning the secondary data used, is that it is accurate.

3.4 Data Analysis Methods

Once data had been collected, the firms were grouped into family and non-family businesses according to the family business definition that was adopted. This study follows the research design of panel data analysis taken by Ding, Zhang, & Zhang (2008) in their comparative study of Chinese listed family firms. The panel regression model employed is specified as follows:

$$Y_{it} = a_0 + a_1P_{it} + a_2C_{it} + \varepsilon_{it}$$

In this model,

- i indexes individual firms,
- t indexes time (year).
- Y_{it} , the dependent variable, is the performance measure for firm i in year t .
- P is the treatment variable, equal to 1 if firm i is a family-owned enterprise in year t and 0 otherwise.
- C_{it} is a set of control variables which includes certain firm characteristics, and
- ε_{it} is the error term.

The main advantage of panel data analysis is that it is possible to overcome the problem of bias caused by unobserved heterogeneity. Despite the advantages panel data may possess, it remains subject to its own potential experimental problems. It is only by taking proper account of selectivity and heterogeneity biases in the panel data that one can have confidence in the results obtained.

A panel regression model involves the pooling of observations on a cross-section of units over several time periods and provides results that are simply not detectable in pure cross-sections or pure time-series studies (Abor & Biekpe, 2007).

Data analysis covered descriptive statistics and regression analysis tools which were performed using Statistica software and Microsoft Excel. Variables included in the analysis are explained below.

3.4.1 Performance Variables

In order to measure financial performance, the study used these five measures: Return on Assets (ROA) defined as EBITDA divided by total assets which measures productivity of asset utilisation; Return on Equity (ROE) defined as earnings divided by equity that measures firm's profitability by revealing how much profit a firm generates with the money shareholders have invested, these measures are the most common measures used in the literature, also used by (Sraer & Thesmar, 2007). Furthermore, the study also looks at Income security cover (ISC) defined as EBIDA earnings divided by sum of interest, short term debt and short term portion of long term debt (prior year), measures extent to which company can meet its debt service from that year's cash flow; Outside funds to Cash flow (OFCF) defined as short and long term liabilities divided by EBDA is used to measures how many years of cash flow it will take to repay outside funding and Shareholders' Funds to Total Assets (SFTA): defined as shareholders' funds divided by total assets, measures extent of shareholders' funding

3.4.2 Treatment Variable

This is a binary that equals one if the firm is a family-owned and 0 if otherwise.

3.4.3 Control Variables

The study controls for other factors which might influence firm performance. In keeping with the literature), the firm size and age was controlled for (McConaughy, Matthews, & Fialko, 2001). However, as revealed by studies conducted by Anderson & Reeb (2003) and Abor & Biekpe (2007), generation level, board size, board composition and family professional skill also impact on firms' performance. These were controlled for as well. There was no need to control for industry since all firms were from the Clothing and Textiles sector. Control variables were measured as at the end of 2011.

- 1- *Firm size* was defined as the log of total assets which was used to measure and control for firm size. Large firms are more likely to exploit economies of scale and enjoy higher negotiation power over their clients and suppliers (Serrasqueiro & Nunes, 2008). In addition, they face less difficulty in getting access to credit for investment, have broader pools of qualified human capital, and may achieve greater strategic diversification, (Yang & Chen, 2009), allowing them to generate superior performance relative to smaller firms.
- 2- Firm age is the number of years since the firm's incorporation. With respect to the impact of age, according to Stinchcombe as cited in Majumdar (1997) one stream of research suggests that older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness, and can, therefore, enjoy superior performance. Another stream of research, however, suggests that older firms are prone to inertia, and the bureaucratic ossification that goes along with age; thus, they are unlikely to have the flexibility to make rapid adjustments to changing circumstances and are likely to lose out in the performance stakes to younger, and more agile firms (Majumdar, 1997).
- 3- The measure for *board size* is the number of board members. Hermalin and Weisbach as cited by (Shakir, 2008) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. A recommendation was to limit the number of directors on a board to seven or eight, as numbers beyond that it would be difficult for the CEO to control (Lipton & Lorsch, 1992). A large board

could also result in less meaningful discussion, since expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board. On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards. Furthermore, larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality (Dalton & Dalton, 2005). Shakir (2008) found a negative association between board size and performance in property firms.

- 4- *Outside element or board composition* is defined as the proportion of representation of non-executive directors on the board or non-family directors in the case of a family business. Independent outsiders are a primary mechanism for ensuring board accountability to shareholders and as a consequence recent UK governance reforms have sought to strengthen board accountability by highlighting the importance of outside directors in the governance process (Gupta, Otley, & Young, 2008). Results for the US provide evidence of a positive link between firm performance and the stock of outside directorships held (Yermack, 2004). The role of outside element in the board of directors of a family-run company is similar to boards of publicly-owned corporations.
- 5- *Generation level* is the generation(s) that the current owners represent. Begley and Boyd study as cited in (Mishra, Randoy, & Jenssen, 2001) measured growth rate, profitability, and return on investment for founder operated firms, and found that founders have a significant and positive impact on firm performance. For founder generation owners the dummy variable equals 1 or 0 otherwise, likewise in all generations that represent the current owners of the business.
- 6- *Family professional skill* is also the number of family management members with a degree or professional qualification. (Abor & Biekpe, 2007) state that level of training among board members and managers could have a strong influence on the performance of the firm and further argue that there is significantly positive relationship between performance and skill level of the management on SMEs in Ghana. Better performance is due to the proven positive relation of higher levels of education among entrepreneurs and their willingness to use external information, develop networks,

make use of consultants or develop more detailed accounting and monitoring (Abor & Biekpe, 2007).

In addition, employment size and the sales revenue of the company of both groups of companies are also noteworthy to be measured. A study of new firms in Wisconsin in the United States noted non-family firms were larger in employment size as well as sales revenue size (Reynolds, 1995).

3.5 Research Reliability and Validity

According to Joppe as cited in (Golafshani, 2003), reliability in a quantitative research, is the extent to which results are consistent over time. An accurate representation of the total population under study is referred to as reliable if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable and provides the following explanation of what validity is in quantitative research: Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, the research instrument should allow the researcher to reach research objectives.

In this study reliability and validity were ensured through the consistent application of one theoretical definition of family business; use of tested online survey questionnaire with questions that ensured that the research questions were addressed in full upon collection of data/information,. The high response rate also supported the representativity of the results across the population of Clothing and Textiles firms in the IDC and F-test were performed to further validate research results. Based on the above arguments, with regards to reliability, the results of the research were deemed replicable. Secondly, with regards to validity, the means of measurement should be fairly accurate and that they are actually measuring what they are intended to measure to answer to the research questions.

3.6 Limitations

In spite of the significant findings, the study still presented some limitations that can be addressed in future studies. The operational definition of family firms was made taking into account the percentage of the shares held by a single family or individual. Accordingly only those firms with not less than 51% family holding were included in the analysis. Further criteria included involvement of at least two people in management from the controlling family and a certainty for transfer of leadership to the next generation (Ibrahim & Ellis , 1994). Many respondents that considered themselves as family businesses were thus classified as non-family firms according to the theoretical definition applied in this study.

The study also focused on non-listed firms that were in the portfolio of the IDC as at the end of calendar year 2011, suggesting that the results do not extend to listed firms and other firms that have not interacted with the IDC. Since the organization focuses on the Textiles and Clothing manufacturing industry, other players like the retailers do not form part of the population as they are outside its mandate.

Although family businesses across South Africa participated in this study, it cannot be considered representative of all family businesses in South Africa as a whole, owing to the use of the convenience sampling technique. The problem of data availability is a serious obstacle to any empirical study on the performance of private or family businesses in South Africa therefore caution should therefore be exercised in the interpretation and utilization of the results, and the findings of the study cannot be summarily generalized to the country at large.

4 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

This section presents findings on data analysed based on the methodology suggested in Chapter 3. Data analysis covered descriptive statistics and regression analysis tools. The aim of the study was to investigate the impact of family ownership on firms' performance, a study of some firms in the South African Clothing and Textiles manufacturing industry, 2009-2011. The analysis was conducted based on the objectives that this study intended to cover.

4.1 Descriptive Statistics

I Family status

	Frequency	Percentage
Family Ownership	44	38
Non Family Ownership	73	62
Total	117	100

Table I shows the respondents in the study, 62 percent of respondents were non-family businesses while 38 percent were family business. It was interesting to find that non family owned businesses were by far the most frequent type of business in the sample. However this was highly influenced by the theoretical definition applied in this study, a number of businesses that were reclassified as non-family considered themselves as family businesses.

II Descriptive statistics: Family and non- family firms

Family and Non family	Mean	Median	SD	Min	Max
Firm size (Assets)	51118.06	24318.25	64551.47	377.00	331688.65
Firm Age	23.20	18.00	19.24	2.00	100.00
Board size	4.45	4.00	2.48	1.00	13.00
Outside element	0.24	0.00	0.28	0.00	1.00
Family professional skill	0.49	0.45	0.39	0.00	1.00
ROA	9.23	7.96	23.50	-163.00	79.65
ROE	19.58	10.38	37.51	-59.79	179.57
ISC	8.58	2.17	30.73	-162.96	204.53
OFCF	16.35	5.37	35.85	0.00	318.23
SFTA	42.33	42.11	26.84	-117.50	93.78
Count	117				

Table II above indicates the descriptive statistics of the performance measures of study, i.e. ROA, ROE, ISC, OFCF, and SFTA together with the indicator variables, i.e. firm size, staff size, firm age, board size, outside element, family professional skill for both family and non-family businesses. From the descriptive statistics, it can be seen that the total number of respondents was 117. The average value of the firm's assets was R51 million and average number of years the firm's have been in business was 23.20 years. Average board size was 4.45 members. The average outside element in the board was 0.24. The mean for family professional skill was 0.49 which represents the fraction of family members in management with a degree or professional qualification versus non-family members. Further analysis of data showed that, the average return on assets and return on equity were 9.23 percent and 19.58 percent, respectively. The income security cover, which measures extent to which a company can meet its debt service from that year's cash flow, was approximately 8.58 times. Outside funds to cashflow mean stood at 16.35 years, meaning the number of year's cash flow it will take the companies to repay outside funding. The shareholders' funds to total assets average was 42.33 percent, representing the extent of shareholders' funding in the businesses.

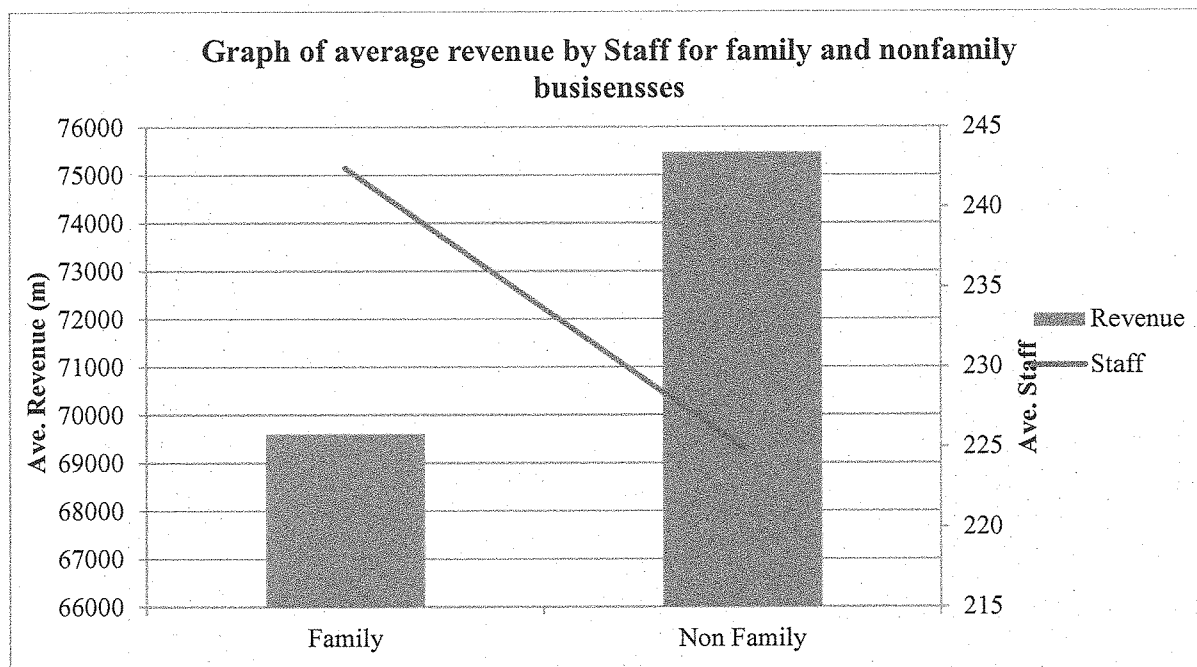
III Descriptive statistics: Family firms

Family	Mean	Median	SD	Min	Max
Firm size (Assets)	46335.11	24621.12	56041.10	377.00	224502.00
Firm Age	24.14	20.00	19.33	2.00	85.00
Board size	4.00	3.00	2.34	1.00	10.00
Outside element	0.17	0.00	0.25	0.00	0.71
Family professional skill	0.49	0.45	0.39	0.00	1.00
ROA	10.88	7.92	17.57	-43.57	57.30
ROE	18.36	10.45	38.81	-59.79	179.57
ISC	9.38	3.19	34.03	-162.96	98.13
OCFCF	16.97	4.90	31.06	0.00	136.05
SFTA	49.49	49.69	22.23	3.07	86.12
Count	44				

IV Descriptive statistics: Non-family firms

Non family	Mean	Median	SD	Min	Max
Firm size (Assets)	54000.94	23091.68	69392.22	728.00	331688.65
Firm Age	22.63	17.00	19.29	2.00	100.00
Board size	4.72	4.50	2.54	1.00	13.00
Outside element	0.27	0.20	0.30	0.00	1.00
ROA	8.23	8.01	26.51	-163.00	79.65
ROE	20.31	10.38	36.97	-39.40	156.14
ISC	7.31	1.89	28.78	-32.75	204.53
OFCF	15.98	6.49	38.65	0.00	318.23
SFTA	38.01	39.95	28.56	-117.50	93.78
Count	73				

V Family size



The mean of the performance measures and control variables for family owned firms and non-family owned firms are reported in Tables III and IV, respectively. The statistic for assets shows that the non family firms sampled were significantly larger than family-owned firms:

the mean total assets are R54 million, compared to R46 million for family-owned firms. The results were consistent to observations presented by the literature that stated that on average, family firms are smaller (in assets, sales, and employees) than are nonfamily for Fortune 500 firms (Villalonga & Amit, 2004). Table V indicates that family businesses achieve less revenue with high number of staff than non-family businesses on average. However it should be noted that the total number of family businesses was less than that of non-family businesses. In terms of firm age, the average age of nonfamily businesses was 22.63 years and below the average age of total firms indicating that family businesses had been running longer than non-family business. Previous empirical research with regard to firm age provides conflicting results. The results of Daily & Dollinger (1993) revealed that family firms were younger than non-family firms. (Wall, 1998) however, found that family firms tend to be older. Board size mean was 4.72 and 4 people in non-family firms and family firms, respectively. The outside element measure shows that family businesses are very conservative in terms of introducing an outside element in their governance structures as reflected by 0.17 versus 0.27 of non-family businesses.

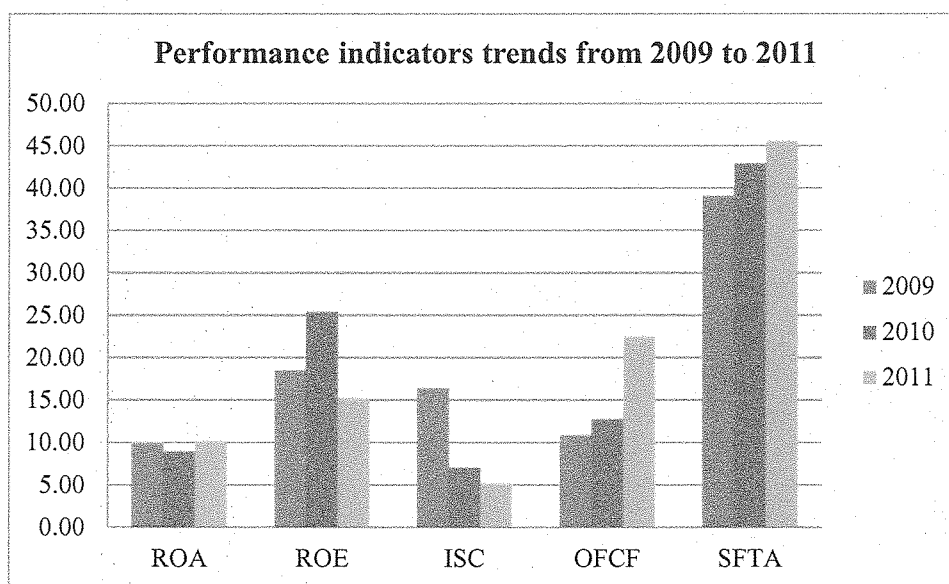
Except for the return on equity measure and income security cover all other performance measures were significantly better in family-owned firms than in non-family firms. For return on assets, family-owned firms performed better. Outside funds to cashflow also showed a better outcome meaning that it takes a shorter period of time for family firms to repay outside funding than non-family firms. Finally, in terms of shareholders' funds to total assets, family-owned firms significantly outperform non family firms, shown by 49.49 versus 38.01 percent.

VI Generation involvement: Family firms

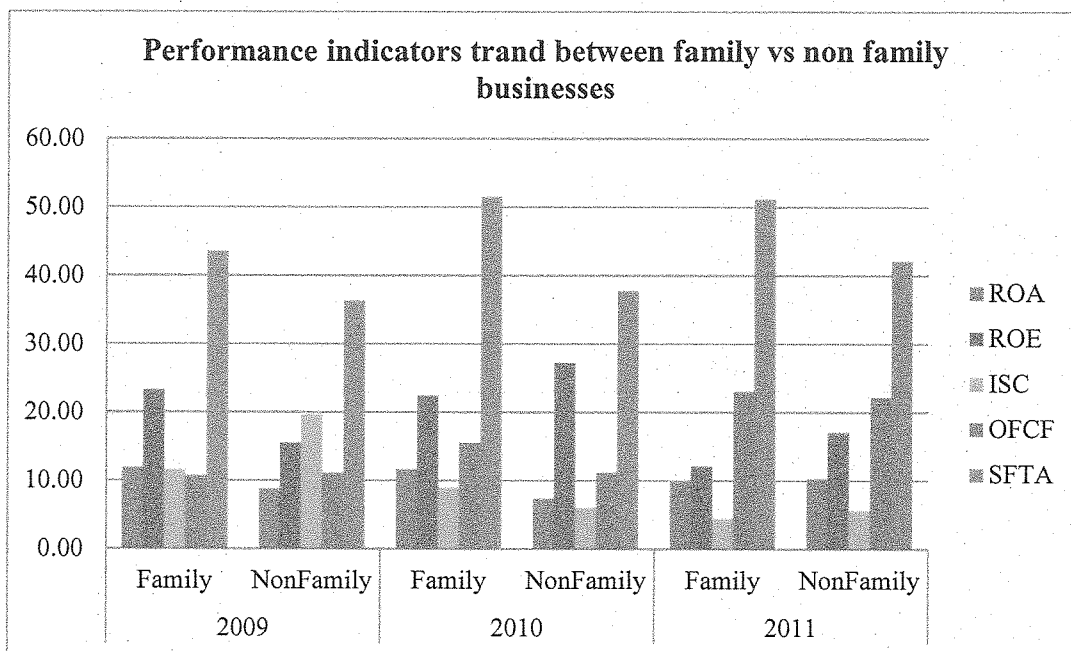
Frequency of Family Generation level		Founder	Gen_1	Gen_2	Gen_3
Yes	Freq.	35	8	16	2
	%	79.55	18.18	36.36	4.55
No	Freq.	9	36	28	42
	%	20.45	81.82	63.64	95.45
Total	Freq.	44	44	44	44
	%	100.00	100.00	100.00	100.00

Table VI above shows the generation level of family businesses. The description of the variables was whether businesses were run by the founder, first generation, second generation or third generation at the time of collecting the data. However it should be noted that this category only applied to family business and not non-family. From the table, about 79.55 percent of the respondents out of 44 were within the founder category, the next level was second generation with 36.36 percent out of 44 respondents and 81.82 were not. Respondents who were in the first generation and third only recorded 18 percent and 2 percent respectively. Thus most of the family businesses that form part of this data set were run by founders and second generations. The generation variables were coded as 1 if true and 0 otherwise. A number of firms are run by multiple generations.

VII Performance trend



VIII Performance trend comparison



According to table VII and VIII above, SFTA for family businesses had been performing well from 2009 and still improve in 2010 and 2011. Although ISC performance was good in 2009 for nonfamily, family businesses ISC had been consistently good over the three year period and on average had performed better than non-family. The years 2009 and 2010 were good years in ROE performance for family businesses while 2011 dropped substantially while nonfamily businesses had a high ROE in 2009. OFCF dropped in performance in 2011 for both businesses. Over the three year performance period, ISC was significantly higher in 2009 compared to other years for family businesses, while ISC was low in the same year for non-family business. Other years have no significant difference between family and non-family.

4.2 Regression Results

Regression analysis was used to investigate the relationship between ownership structure (family or non-family) and financial performance. Performance variables were analysed to test dependency on the control variables mentioned. The F- statistics prove the validity of the estimated models. The study assumed that the data set met the assumptions of a regression model for all the dependent and independent variable to be tested. The study also assumed a p-value of 5 percent and 95 percent confidence interval. The results are presented for both, family and non-family businesses based on performance measures mentioned.

Family businesses

IX Regression results for family businesses

Regression Results for Family Businesses	ROA			ROE			ISC			OPCF			SFTA		
	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value
Intercept	26.32	2.32	0.03	40.37	1.56	0.13	12.07	0.50	0.62	9.91	0.50	0.62	64.020	4.342	0.000
Firm size (Assets)	0.00	-0.73	0.47	0.00	-1.15	0.26	0.00	1.14	0.26	0.0003	2.60	0.01	0.000	-0.782	0.440
Firm Age	-0.06	-0.41	0.68	-0.39	-1.10	0.28	0.10	0.32	0.75	-0.0022	-0.01	0.99	0.211	1.051	0.301
Founder	-17.87	-2.08	0.04	-22.25	-1.13	0.27	-12.22	-0.67	0.51	10.11	0.68	0.50	-15.480	-1.385	0.175
Gen_1	-19.70	-2.28	0.03	-36.04	-1.82	0.08	-9.01	-0.49	0.62	0.77	0.05	0.96	-16.466	-1.465	0.152
Gen_2	2.22	0.33	0.75	-12.46	-0.80	0.43	4.09	0.28	0.78	-7.59	-0.64	0.52	-2.796	-0.316	0.754
Gen_3	-3.74	-0.26	0.80	-5.97	-0.18	0.86	-24.92	-0.82	0.42	-19.37	-0.77	0.44	0.191	0.010	0.992
Board size	1.72	1.09	0.29	6.76	1.87	0.07	0.14	0.04	0.97	-1.43	-0.52	0.61	-0.660	-0.321	0.750
Outside element	-16.80	-0.86	0.39	-13.15	-0.29	0.77	-11.03	-0.27	0.79	-17.69	-0.52	0.60	-24.660	-0.972	0.338
Family professional skill	4.55	0.62	0.54	8.93	0.54	0.60	-4.21	-0.27	0.79	-7.13	-0.56	0.58	10.523	1.108	0.275
Multiple R	0.50			0.44			0.32			0.52			0.45		
R Square	0.25			0.19			0.10			0.27			0.20		
Adjusted R Square	0.05			-0.02			-0.14			0.08			-0.01		
Standard Error	17.16			39.27			36.31			29.75			22.34		
F	1.23			0.89			0.42			1.43			0.95		
Significance F	0.31			0.55			0.92			0.21			0.50		

In Table IX above the results of regression model for performance measure, return on assets, show that there was a linear relationship between independent variables founder and first generation owners to performance indicator, return on assets. This was because of multiple R square of 50 percent which indicates strong negative relationship between independent variables founder and first generation owners with return on assets. The results also denoted that the percentage variance in return on assets explained by independent variables founder and first generation owners explain the performance return on assets at 25 percent. Thus the regression results from this table, showed that there was a strong negative relationship between performance return on assets and variables founder and first generation owners since the p values for the two variables were lower than 0.05 level of significance. This means that return on assets performance does not depend on variables assets, age, second generation, third generation, board size, outside element and family professional skill. The regression equation should comprise of founder and first generation owners as the predictor variable for family businesses return on assets. Thus when founder and first generation owners are fitted into a regression equation the F test achieved is 4.26 with a significance F of 0.02 and is evident that the two variables are the unbiased estimators of ROA after testing the covariance, standard errors of the independent variables used. However the overall goodness of fit shows that the number of variables that are insignificant overshadow the model goodness of fit. The F-test statistic of 1.23 shows that the overall model does not fit the data. On the other hand

when the model is fitted with the two variables founder and generation 1 the F is 4.26 which proves the validity of the model.

The return on equity shows no linear relationship to the independent variables based on multiple R square of 44 percent. First generation owners and board size seem that they can be good predictors of the return on equity. However the overall goodness of fit shows that the number of variables insignificantly overshadows performance. The f-test of 0.89 shows that the overall model does not fit the data set. The independent variables chosen are not good estimators of performance ROE

The income security cover and shareholders fund to total assets cannot be analysed based on any of the suggested predictor variables since the results of regression model show that there is no linear relationship between the performance indicators and predictor variables. These were deduced from poor R Square performance, poor goodness of fit model and p values too high compared to p value of 0.05. It can, thus be maintained that firm size, firm age, any generation owners, board size, outside element and family professional skill are not good predictors of performance indicators of income security cover and shareholders fund to total assets. The overall models do not fit the data set.

Outside funds to cash flow shows strong positive linear relationship between firm size and the results indicate that family business outside funds to cash flow performance indicator depends on firm size since p value of 0.01 is less than the assumed p value of 0.05 and is significant. Firm size is the unbiased estimators of Outside funds to cash flow. When the model is fitted with the firm size variable the F value is 6.4 and significance F is 0.015 which proves the validity of the model.

Non-family businesses

X Regression results for non-family businesses

Regression Results for	ROA			ROE			ISC			OFCF			SFTA		
Non Family Businesses	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value	Coefficient	t-statistic	p-value
Intercept	9.67	1.68	0.10	26.60	3.39	0.00	8.08	1.31	0.20	23.88	2.86	0.01	37.08	5.98	0.00
Firm size (Assets)	0.00	-0.27	0.79	0.00	-1.56	0.12	0.00	0.64	0.52	0.00	-0.21	0.83	0.00	0.78	0.44
Firm Age	0.01	0.05	0.96	-0.06	-0.26	0.80	-0.04	-0.22	0.83	-0.19	-0.75	0.45	0.02	0.09	0.93
Board size	-0.44	-0.29	0.77	-0.53	-0.26	0.79	1.27	0.80	0.43	-0.74	-0.35	0.73	-0.39	-0.24	0.81
Outside element	3.86	0.27	0.79	16.51	0.85	0.40	-21.57	-1.41	0.16	0.94	0.05	0.96	-2.58	-0.17	0.87
Multiple R	0.06			0.22			0.18			0.14			0.10		
R Square	0.00			0.05			0.03			0.02			0.01		
Adjusted R Square	-0.05			-0.01			-0.02			-0.04			-0.05		
Standard Error	27.23			37.07			29.13			39.38			29.25		
F	0.06			0.90			0.57			0.34			0.16		
Significance F	0.99			0.47			0.69			0.85			0.96		

All performance indicators cannot be analysed based on any of the suggested predictor variables since the results of the regression model in table X shows that there is no linear relationship between the performance indicators and predictor variables. These were deduced from poor R Square performance, poor goodness of fit model and p values too high compared to p value of 0.05. Thus for this study, it can be maintained that size, firm age, board size and outside element are not good predictors of performance indicators return on assets, return on equity, income security cover, outside funds to cash flow and shareholders' funds to total assets.

4.3 Discussion

From the literature review, agency theory has often been used to argue that family firm governance is more efficient than that of non-family firm (Shleifer, Vishny, & Morck, 1988). The analysis of results indicate that family business have better return of assets than non-family firms. The regression model also shows a strong dependency on founder and first generation owners as the predictor variable to performance indicator return on assets. Thus family businesses can achieve a good return of assets when founder or/and first generation owners are the ones running the family business. The results are consistent with the study by Kang & Sorensen (1999) that earlier generation owners produce better results than descendants (Kang & Sorensen, 1999). Jensen and Meckling's study as cited in (Gibb Dyer, 2006) indicates that family firms are likely to incur fewer agency costs because the goals of a firm's principals (owners) are aligned with its agents (managers) since they are typically one and the same. Because of this alignment of goals, agency costs will not be borne by the owners since they will not have to spend time and resources to monitor the behaviour of their agents. This shows that family managers do add a positive role into family businesses. Thus although family business can be challenged in recruiting a professional manager, results show that they can still do well with owner managers. Non family business performed well in return on equity. Jensen's study as cited in (Kang & Sorensen, 1999) suggested that in the absence of strong corporate governance systems, organizations may suffer in performance when self-interested managers pursue their own interests rather than the interests of shareholders.

From respondent's comments, it shows that since family business both owns and manages the group, decision-making is straightforward, because the interests of the owners and the managers do not have to be considered separately. The respondents further mentioned that family business does not only offer opportunities for commercial success, essential though it is for family survival. Thus family business see the family interest as a continuing one and so tend to take the long-term view in coming to decisions. Based on this focus, family effect and commitment gave business a long-term perspective that comes from building up a profitable business for future generations with a competitive edge, which underlies the policies and successful family business.

This also is supported by other comments that although family businesses have very different dynamics to non-family businesses due to the fact that emotions and family hierarchy comes into play, once, one navigates and manages the emotions well then one has a much stronger team than a non-family business. One can then count on the fact that as a family you will work and conquer together. You don't have back-stabbing and malicious intent behaviour of trying to sabotage each other. Family business has greater commitment and passion than non-family businesses.

The significant relationships identified from the regression results are in family business performance; firm size; founders; first generation owners and board size.

Firm size has a significant positive relationship with performance (outside funds to cash flow) suggests that relatively smaller firms perform better than relatively bigger firms. As the outside funds to cash flow ratio increases, it means that firms are taking longer to settle their debts. The model shows signs which are consistent with literature, in (Abor & Biekpe, 2007) who found a negative relationship between size and performance suggesting that relatively smaller firms perform better than relatively bigger firms. Economic theory prescribes that increasing firm size allows for incremental advantages because the size of the firm enables it to raise the barriers of entry to potential entrants as well as gain leverage on the economies of scale to attain higher profitability. Hall and Weiss as cited in (Ramasamy, Ong, & Yeung, 2005) in their empirical analysis of Fortune 500 Industrial Corporations for the years 1956–1962 aimed at testing the relationship between profit rates and other appropriate variables such as firm size, concentration, leverage and growth. Results of the study showed that firm size (proxied by the log of firm assets) exhibit a positive relationship with profitability represented by return on equity and return on assets. They concluded that large firms have all the options of small firms, and, in addition, the capability of harnessing economies of scales and access to capital markets from which small firms are excluded, thus leading to higher profit rates.

The access to capital markets is not favourable in the outside funds to cash flow performance as it means that firms may have more debts to pay, which is unlikely in family firms that mostly relied on family funding.

Founders and first generation owners have strong influence on the performance of family firms. The results of this study show a significantly negative relationship between return on

assets and the earlier generation owners. Succession is highly topical in the family business literature, in fact it has been identified as major hindrance towards the long term success of family businesses. Most studies say that the earlier generation of owners perform better than their descendants (Anderson & Reeb, 2003), (Kang & Sorensen, 1999), (Barontini & Caprio, 2005), (Villalonga & Amit, 2004). Therefore, based on the above arguments, it is expected that later generation to have less impact on firm performance as compared to the founder generation. Consistent with findings of this study is the work by (Amran & Ahmad, 2010) whose results reveal that successors-managed firms have better firm performance than founder-managed firms. They are more energetic, visionary individuals and risk takers as compared to older managers.

In terms of board size, the statistically significant and positive relationship between board size and performance (return on equity) suggests that relatively larger boards perform better compared to very small boards. The high concentration of ownership in family has resulted in a tendency of keeping small board sizes. Increase may be seen as a dilution of power that the founder or family has over the business. Explanations based on the agency theory suggest that because owners are also managers there is no need for a monitoring role. This finding is consistent with the work by Abor & Biekpe (2007), stating that it is expected that adopting a larger board membership system will result in wider provision of skill and inter-organizational links to the firm. Though the average board size (4) for family firms is below average for all firms (4.45), family firms have been taking seriously the issue of larger board sizes, the largest board was composed of eight board members.

However other studies give a different view, it was found that firms with small board sizes have higher stock market value. suggesting that that if small boards are more common in companies controlled by founding families, it is possible that founding family companies have been more effective because they generally have smaller boards (Yermack, 1996). Mishra, Randoy, & Jenssen, 2001) found that small board size might be a superior corporate governance mechanism for firms managed by a founding family CEO and that outside director representation (board independence) does not improve corporate governance in founding family controlled firms.

Thus from the analysis of results and discussion, the research questions are addressed.

- 1) The research question whether family businesses are better performers than non-family firms was clearly addressed. The study found that family businesses are better performers than nonfamily firms by strong relationship found between return on assets with founder and first generation. While in non-family business there was no good relationship between performance variables and predictor variables suggested in the study. Jensen and Meckling's study as cited in (Gibb Dyer, 2006) also indicates that family firms are likely to incur fewer agency costs because the goals of a firm's principals (owners) are aligned with its agents (managers) since they are typically one and the same. Because of this alignment of goals, agency costs will not be borne by the owners since they will not have to spend time and resources to monitor the behaviour of their agents. Characteristics of family firms that determine the performance was found to be founder and first generation owners.

- 2) The research question that sort to address whether managers in family businesses possess lesser professional skills than non-family management was also addressed. In practice, family business leadership may want family members to be involved in management even if these family members are not the best qualified candidates for the roles and this is a widely known phenomenon. It is interesting to note that such skills are also found within family business. Non family employees still possess more professional skills than family employees, thus the hypothesis that non-family employees possess more professional skills than family employees is accepted. Abor & Biekpe (2007) study found a significantly positive relationship between performance and skill level of the management which emphasizes the importance of managerial skills and business experience as means of promoting firm performance. There is clear progress being made by family managers, contrary to the expectations. This progress is supported by a comment from the respondents said that succession planning is under way and my son is being trained in all aspects of the business, including human resources, corporate governance, finance, sales and marketing on a business accelerator program. The family employees have a ratio of 0.49 for family professional skill.

- 3) The research question regarding which generations of owners influence better firm performance than others in family businesses is addressed in the text above. The hypothesis that earlier generation owners perform better than their descendants is rejected.
- 4) The statistically significant and positive relationship between board size and performance (return on equity) suggests that relatively larger boards perform better compared to very small boards and therefore the hypothesis on board size is accepted.
- 5) The proportion of non-executive or family members on the board has a vital role in explaining the firms' performance. According to Abor & Biekpe (2007) the non-executive directors are considered important in assisting management with advice, expertise and external influences. Also, the presence of non-executive board members could influence the provision of resources available to the business. This is because external board members may have knowledge and information on financing sources. Increasing access to finance thus, has the tendency of boosting the firm's bottom line. They established that board composition has a significantly positive relationship with firm performance. There is also nowhere in the analysis where board membership had a significant relationship with performance indicators suggested from the study. However, one respondent whose business has been in existence for 65 years said that a family business that possesses a board which follows up its work regularly performs well. There results of the study are therefore indifferent in terms of outside element and firm's performance.

Family firms perform better than non-family forms and there was evidence supporting these findings. Respondents have identified that success points are due to a seemingly greater degree of passion and dedication amongst the family members involved towards their responsibilities and the success of the business, trust, tenacity, harmonised values and a sense of pride in achievements.

One respondent said "Families, by virtue of their relationship, cultivate deep relationships with people, which include customers, suppliers and even competitors. Hence, in the family business context, these values are transferred into business by the associated family. This

results in a close dialogue with customers in particular, which often affords family businesses the opportunity to assess and better understand their needs. This relational attribute is further augmented by the intergenerational nature of the business, as the business is able to maintain relationships across multiple generations. Collectively, these factors create a formidable advantage over non-family business that supports their survival in the marketplace”

Although family firms were shown to be performing better than nonfamily firms, they also experience challenges. When respondents were asked of the challenges they experience based on family effect, some of their comments were:

“We are confident of our choice of successor. The risk of the business is guaranteed by our personal assets. This makes us less enthusiastic about radical change. As we approach retirement age, this poses a further problem as there is no recovery time for the founding member if things go wrong”

“The challenges our businesses face can be grouped into two segments, which are business related issues, such as strategy, increasing distribution and driving cost efficiencies in the business. The second relates to the family, challenges in this area involves optimising the family investment in the business, succession planning and leadership”

“The third generation will have to decide whether they want to join the business, and we then need to decide what form of training, education they will need to take business further”

“As the family grows bigger, each family member will have to find other suitable business with the exception of one to avoid friction”

“Firstly, the involvement of brother-in-laws at an executive directorship level, with a marginal minority shareholding, can lead to divergent goals and expectations. Funding, as the group expands, as a private company, will always be a challenge. Access to funding is very dependent on the composition of shareholding, management and staff, and this will be a challenge to the family in releasing control to non-family members. Another challenge is the inevitable retirement from active service of our CEO and the effect of the void created by him no longer contributing to strategic aspects of the business. One challenging aspect of having

strong family members running the business is the inevitable situation that, when a decision is required to be made, a family member can overrule the non-family members and insist on an outcome that may not be a majority decision.”

“The challenge lies in the next generation, whether there are any family members interested in becoming involved in the family business; and if not; how to adjust to non-family members filling management positions currently filled by family members”

“We prefer non family succession as issues arise due to one family member. Better to run with skills needed by the business than introduce a family member”.

“The CEO is well past retirement age, but his active contribution to the running of the company, his ability to look outside the box and search for new ideas, both marketing and production is amazing, and very hard to replace. The next generation has a different, more autocratic and sometimes dogmatic approach to business which may affect the performance of some of the managers. This may be offset by the management style of the general manager, who is not family, but is extremely competent and a good strategic thinker”.

“Risk that personal conflicts may develop within members when the next generation takes over from founding generation - possibly leading to desire for individuals to withdraw their share of funds from the business”.

“Younger generation is not interested in the clothing industry. Imports are a major threat as is the lack of skills required to run a clothing factory.

Emotional link between family and decision making restricts the pace of growth”.

5 RESEARCH CONCLUSIONS AND IMPLICATIONS

Family businesses have become the prevalent form of business across the world, in both developed and developing economies, because of an important role they play, both economically and socially. It is this dominance that makes it necessary for academics to pay increasing attention to family business researches. However, less attention has been paid to the area with respect to unlisted companies. For instance, in South Africa, it has been noted that there are no existing records differentiating family businesses from non-family businesses (Venter, 2003). One central issue is to examine whether family firms offer a superior firm performance than non-family owned firms. Studies of large, publicly traded U.S. family businesses, however, have confirmed that family businesses enjoy higher market valuations, especially in the first generation. Other research work has questioned the ability of family businesses to perform well, and has identified reasons as well as evidence for mediocre performance (Claessens, Djankov, Fan, & Lang, 2002)

The main objectives of this study were to investigate if family businesses are better performers than non-family firms in the Clothing and Textiles industry of the IDC portfolio based on return on assets, return on equity, income security cover, outside funds to cash flow and shareholders' funds to total assets. A comprehensive literature review which outlined the four explanations to consider in providing a theoretical framework for performance differences was also clearly stated. The results of this study show that, except for the return on equity measure, all other performance measures are significantly better in family-owned firms than in non-family firms.

Given the importance of family businesses, in terms of employment creation, informal training (skills development) and the economy at large, it's in everyone's best interest for these businesses to grow, flourish, and be able to trade to the best of their ability. An often overlooked aspect of success in business is the family background of the entrepreneur. Informal learning that occurs while working in a family business gives valuable experience. One respondent mentioned that the founder had been making shoes and transferred knowledge, and culture of shoemaking to sons. Business is discussed at work, at home, and the passion lead to successes. The children of business owners are more likely to own

businesses than those whose parents don't own a business. South Africa urgently needs to create more wealth and an environment conducive for family businesses to thrive if they are to achieve their many economic and social objectives. Consequently, it is vital that all efforts be made to promote the success and sustainability of these businesses. Studies show that there are few family businesses that make it past second generation of ownership (Nieman, 2006). This is said to be due to lack of attention to succession planning. Succession planning is certainly a tool which can allow family firms to go further, longer and be more successful. This is confirmed by some comments from the respondents: "Succession planning, in terms of managing relationships between two of the owners both having family members working in the business and introducing professional outside management will prove to be difficult", "Identifying successors might prove to be a challenge" and "The senior members are heading towards retirement; there will be a challenge to find suitable people to stand in their place."

Another matter that has not gained momentum in family business sphere is the appreciation of corporate governance mechanisms. As mention by one respondent, it is difficult at times to differentiate between business decisions and personal decisions, the issue of corporate governance and effective discipline is hard to implement in its entirety to family members. (Abor & Biekpe, 2007) found that the adoption of corporate governance structures has positive influence on firms.

Family businesses make significant contributions to the economies of their respective countries, it is therefore critical that all efforts be made to assist the owners of family businesses to deal with the complex challenges they face.

6 RECOMMENDATIONS FOR FUTURE RESEARCH

Further research is necessary in order to further develop some of the insights delivered by this study in the South African context. More comprehensive research is still needed to investigate all the underlying reasons why family firms outperform nonfamily firms, and whether family firms have distinct “management styles” to enhance our understanding of these issues, it may take both qualitative approach and case studies research design.

It will also be interesting, to observe whether the difference in performance between family-owned firms and non-family owned is stable over a longer time series, than was investigated in the study and if possible, how it changes.

It will be a particularly interesting to study whether the findings of this study hold true for family businesses across all sectors, both listed and unlisted; and when utilizing family firm definition that is more representative of what South African business consider to be a family firm in order to increase the external validity of the research results.

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***1. Percentage held by a single family?**

- Less than 51%
 More than 51%
 Not a family business

Please specify percentage held by family

***2. Number of years since inception?**

***3. Which generation(s) do the current owners represent? Please tick all appropriate boxes**

- Founding generation
 2nd generation
 3rd generation
 4th generation
 Inherited the business
 N/A

***4. How many full time employees are in the business?**

- Less than 50
 51-200
 More than 200

5. Management positions in business, please fill in the number of people and the least level of education in each category

	Family: number	Family: education	Non-family: number	Non-family: education
CEO	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Director	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Management team	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
General manager	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

***6. Transfer of leadership to next generation anticipated?**

- Yes
 No
 N/A

7. Existence of succession plan?

- Yes
 No

***8. Choice of successor**

- Family member identified as successor
 Non family member identified as successor
 Haven't identified a successor
 N/A

***9. Corporate governance - existence of board?**

- Yes
 No

Impact of Family Ownership on Firms' Performance: Textiles, Clothing,

10. Composition of the board, please fill in the number of people

	Family	Non-family
Executive board members	<input type="text"/>	<input type="text"/>
Non-executive board members	<input type="text"/>	<input type="text"/>

11. Please elaborate on the positives/successes of the business due to family effect

12. As you think about the future of the business, what are the challenges that you face due to family effect?