

FAMILY-OWNED BUSINESSES: AN ASSESSMENT OF THE VARIOUS LEADERSHIP STYLES AND ITS INFLUENCE ON MANAGEMENT DECISION-MAKING

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Abstract

Family-owned businesses are usually associated with a low rate of survival. Statistically, less than three in ten will survive the first 50 years. However, statistics show that around 65% of all business enterprises are family-owned, and in a country with an unemployment rate as high as ours, building enterprises for future generations is critical. The literature acknowledges that management leadership styles play an important role within family-owned businesses in terms of decision making. The research consists of quantitative analysis conducted on a family-owned business in Kwa-Zulu Natal, South Africa. The target population selected for this study consisted of forty-two employees. Respondents were surveyed using a forced-choice questionnaire. Findings revealed that the laissez faire and democratic leadership styles seem to be predominant at the organisation. However, there is still a need for more transformational leaders within the organisation, in an attempt to enhance the motivation, morale, and performance of employees. Leaders should create an environment of team spirit as people work more effectively when they feel acknowledged as part of a team. Failure to do so could hamper the growth of the family business.

Keywords: Management, Leadership Styles, Perceptions, Impact, Decision-Making, Growth.

1. INTRODUCTION

Family-owned businesses have deep roots in South Africa, dating back to the pinnacle of apartheid when access to good jobs was restricted. Family businesses sprang up everywhere, as people of colour embraced the spirit of entrepreneurship. Sharma (2004) explicated that the principle reasoning behind academics conducting research on family-owned businesses has been the recognition of the influence and significance of these businesses in the global economic landscape. In other words, family-owned businesses, predominantly the small-to-medium sized, are the grassroots of the global economy, and are clearly the most commonly found businesses around the globe (Heck & Trent, 1999). The study assesses the various leadership styles and its influence on management's decision making within a family-owned business in Kwa-Zulu Natal (KZN).

2. BACKGROUND TO THE PROBLEM

Bergtheil Imports and Exports is a family-owned organisation which is located in Durban, Kwa-Zulu Natal. The company was officially registered as a Close Corporation in 1992. The company began by purchasing and supplying zips to various businesses within the clothing and luggage industries. The company initially commenced business with only five employees.

Five years later, through the families initiative, capabilities and passion the business had grown steadily both in turnover and profitability. Family businesses are fast becoming the dominant

form of business enterprise in both developed and developing economies, and play an important role, both economically and socially.

In 1997 the company was able to purchase its first set of machinery. This machinery enabled them to manufacture their own zips. In its niche market it was widely acknowledged as a leader and its products are widely distributed throughout South Africa and internationally.

The company slowly began to expand, and started a new division which dealt with the import of a wider variety of zips and fabrics from China in an attempt to cater to the needs of its growing customer base. From a business perspective things were looking very good. Evidence of this included improving profitability, a highly positive cash flow, product innovation, business expansion and four family members firmly in control as CEO and Directors. Today, the company employs forty-two employees.

Over the past 300 years or more, family businesses have been making a progressive impact on the South African economy, and will continue to offer substantial prospects for economic growth in both South Africa and neighbouring countries. Apart from facing parallel business and environmental challenges to those of non-family-owned businesses, family-owned businesses face added challenges because of their unique nature and familial interpersonal relationships. These include problems arising from family conflict, emotional issues, sibling rivalry, varied leadership styles and resistance to change.

3. PROBLEM STATEMENT

When family members work together, emotions may interfere with business decisions. Conflicts may arise as relatives view the business from different perspectives. The owner of Bergtheil Imports and Exports explained that currently the organisation does not have a clear chain of command; there are no lines of authority for decision-making. Hence all directors are allowed to give instructions to the staff. At times this has proven to be quite frustrating for the employees and in turn has given rise to conflict among the management team as all the directors have varied leadership styles.

4. AIMS AND OBJECTIVES OF THE STUDY

The aim of the study was to investigate the various leadership styles used by management of a family owned business in Durban, KZN. The study also evaluated the influence of the management's leadership styles on decision making within the organisation. Within this context, the major objectives were identified as follows:

- to investigate the various leadership styles that exist at family-owned businesses;
- to evaluate how the leadership style used, influences decision making in the organisation.

5. BRIEF LITERATURE REVIEW

According to Lussier (2006: 462) most researchers on leadership focus on analysing behavior of leaders, rather than analysing their traits. To find the best leadership style for all situations, researchers have attempted to identify differences in the behavior of effective leaders versus ineffective leaders.

Nieman and Bennett (2005:101) suggest a number of desirable characteristics of effective leaders, such as motivation, which is a strong desire to influence others with a focus on the set objectives of the organisation; intelligence, which is verbal as well as quantitative competence, including the ability to handle complicated information; integrity, which is honesty and truthfulness with followers and others; self-confidence, which is being decisive and assertive without being

arrogant; having knowledge or a clear understanding of the job, organisation and industry; and lastly drive which is the willingness to take the initiative with a need for achievement.

Leaders are the ones who set the tone of the organisation, define its values and norms, and create and maintain a persona of what the organisation is like (David and Ricky, 2006:61). In general, leaders have a powerful source of influence on employees' work behaviours (Yukl, 2002:89). The leader sets the tone for his or her followers through his or her own visible behaviour that communicates assumptions and values to others as well as through informal messages (Lewine, 1995:49).

Rao and Krishna (2006: 641) identified three types of leadership styles which influence decision making which is autocratic, democratic and laissez faire. These are discussed below, amongst other leadership styles that may prevail in an organisation.

5.1 Autocratic or Authoritarian leaders

Autocratic leaders are the one who take decisions without consulting their subordinates, are very directive and allow no participation. The leader usually oversees work from close quarters and exercises full control over subordinates. This style of leadership is appropriate only when decisions genuinely need to be taken quickly and when there is no need for input from the team (Rao and Krishna, 2006: 641).

According to Lussier (2006: 34) authoritarian leaders' focus, on directing and controlling behavior to ensure that tasks get done and closely oversee performance. According to Koontz and Weihrich (2010: 314), an autocratic leader commands and expects compliance, is dogmatic and positive. Leaders under autocratic leadership are led by the ability to withhold or give rewards and punishment. Autocratic leadership is extremely important when quick decisions are needed which is usually the case for family businesses. In this case there is no need to involve workers because it will delay the decision making process.

Lussier (2006: 34) further mentions that the autocratic style is highly appropriated when interacting with low-capability employees, by giving instructions and describing exactly what the task is, when, where and how to perform it. On the contrary Nieman and Bennet (2005:102) mention that group sizes affect the style of leadership in that the larger the group, the more formal or autocratic the leadership needs to be. However, there are many times in a family business this type of leadership is prevalent even though there is a small group of employees.

5.2 Laissez-faire or Delegative leaders

Rao and Krishna (2006: 643) state that laissez faire leaders turn an entire problem or project to subordinates. In this type of leadership complete freedom is given to the group in such way that they allow people within the team to take many of the decisions. The impact of this leadership style works well when the team is highly capable and motivated, and when employees do not need close monitoring or supervision.

Koontz and Weihrich (2010: 314) agree with Rao and Krishna (2006) that the Laissez Faire leader uses his or her power very little, and allows people within the team to make decisions. Such leaders depend largely on subordinates to set their own goals and the means of achieving them. In a family owned business the ultimate aim is to make a profit and this type of leadership style may not work to its fullest. Characteristics of laissez faire leadership style include: group members set goals and decide things on their own; the leader is a passive observer of things; the leader does not decide, does not control or exercise influence over the group; the leader abdicates responsibility; members operate in an unrestricted environment; and communication is open and can take any direction (Koontz and Weihrich, 2010: 314).

5.3 Democratic or Participative leaders

Democratic leaders encourage subordinates to participate in the decision making process (Rao and Krishna, 2006: 642). However, allowing teams to provide an input in decisions vary from leader to leader. A democratic leadership style is important when team agreement matters but it can be quite difficult to manage when there are lots of different perspectives and ideas. According to Koontz and Weihrich (2010: 314) the following features describe democratic or participative leaders: involve people in decision making and goal setting; attitudes, feelings, suggestions of members are considered while making decisions; freedom of thinking and action is available to a reasonable extent; two way, open communication between members; and the opportunity to use one's potential in the service of the organisation exists.

5.4 Employee-centred leadership

This leader emphasises the employees' personal needs and the development of interpersonal relationships. The leader uses the group rather than individual decision making, encourages subordinates to set and achieve high performance goals and attempts to treat the followers in a sensitive, considerate manner (Grobler 2001:268).

5.5 Production-centred leadership

This leadership emphasises tasks and the methods used to accomplish them. The leader sets high work standards, organises tasks carefully, prescribes work methods to be followed and closely supervises the subordinates' work (Grobler, 2001:271). Employee-oriented leaders are associated with higher group productivity and higher job satisfaction while production-orientated leaders tend to be associated with low group productivity and lower job satisfaction (Robbins and De Cenzo, 2002:190).

5.6 Transformational leadership versus Transactional leadership

Among the various theories of leadership and motivation relating to effective organisational change management, perhaps the most prominent is the transformational-transactional theory of leadership. Transformational leaders inspire and motivate followers through personal vision and energy (Cooper, 2003:28). Furthermore, transformational leaders are leaders who engage with followers, focus on higher order intrinsic needs, and raise consciousness about the significance of specific outcomes and new ways in which those outcomes might be achieved. Transactional leaders, on the other hand are leaders who exchange tangible rewards for the work and loyalty of followers. They tend to be more passive in comparison to transformational leaders who demonstrate active behaviors that include providing a sense of mission (Cooper, 2003:28).

6. RESEARCH METHODOLOGY

A quantitative research technique was chosen for this study in an attempt to collect suitable quantifiable data in response to the research questions. Every employee was handed a forced-choice survey questionnaire to complete. The quantitative method permitted the study to ask all participants identical questions which allowed for significant assessment of responses from all participants. The justification in using a survey questionnaire was that it was a cost effective way of collecting data from the respondents of the organisation under study.

7. RESEARCH FINDINGS

According to figure 7.1 below, research findings reveal that a collective 43% of the respondents agreed that the staff were given the independence to schedule their work and 24% of respondents remained neutral. This result is suggestive of the laissez faire leadership. Rao and Krishna (2006: 643) state that laissez faire turns an entire problem or project to subordinates. In this type of leadership complete freedom is given to the group in such way that they allow people within the

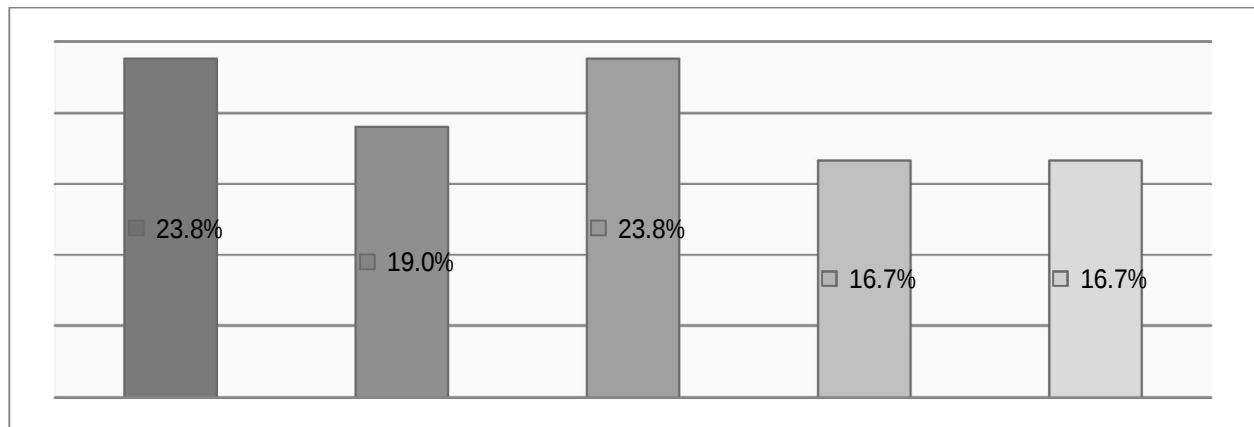
team to make many of the decisions. The impact of this leadership style works well when the team is highly capable and motivated, and when employees do not need close monitoring or supervision. The advantage of this type of leadership is that working independently can be motivational for some people.

Table 7.1 Staff are given independence to schedule their work

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	10	23.8	23.8	23.8
Agree	8	19.0	19.0	42.9
Not sure/Uncertain	10	23.8	23.8	66.7
Disagree	7	16.7	16.7	83.3
Strongly Disagree	7	16.7	16.7	100.0
Total	42	100.0	100.0	

Source: Vartikka Indermun MBA Dissertation, Regent Business School 2012

Figure 7.1 Staff are given independence to schedule their work



Source: Vartikka Indermun MBA Dissertation, Regent Business School 2012

Figure 7.2 below indicates that a collective 74% of the respondents agreed that their leaders delegate tasks to subordinates. Managers at the organisation should learn to delegate tasks to their employees as delegation is the process of giving decision-making authority to lower-level employees. Effective delegation can benefit the manager, employee and the organisation

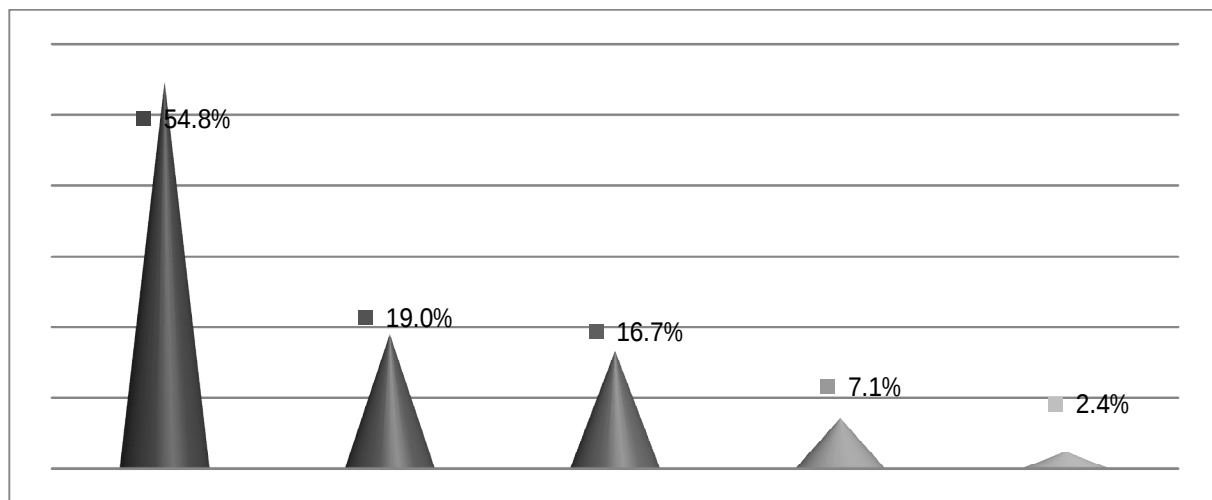
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Table 7.2 Delegation of tasks to subordinates

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	23	54.8	54.8	54.8
Agree	8	19.0	19.0	73.8
Not sure/Uncertain	7	16.7	16.7	90.5
Disagree	3	7.1	7.1	97.6
Strongly Disagree	1	2.4	2.4	100.0
Total	42	100.0	100.0	

Source: Vartikka Indermun MBA Dissertation, Regent Business School 2012

Figure 7.2 Delegation of tasks to subordinates



Source: Vartikka Indermun MBA Dissertation, Regent Business School 2012

Figure 7.3 below reveals that an overwhelming 77% agreed that their leaders promote open communication and sharing of information. According to Koontz and Weihrich (2010: 314) a democratic leader is one who allows for a two-way open communication between members and allows people to be involved in decision making. When employees are involved in decision making they are able to share information amongst each other. Employees represent a source of

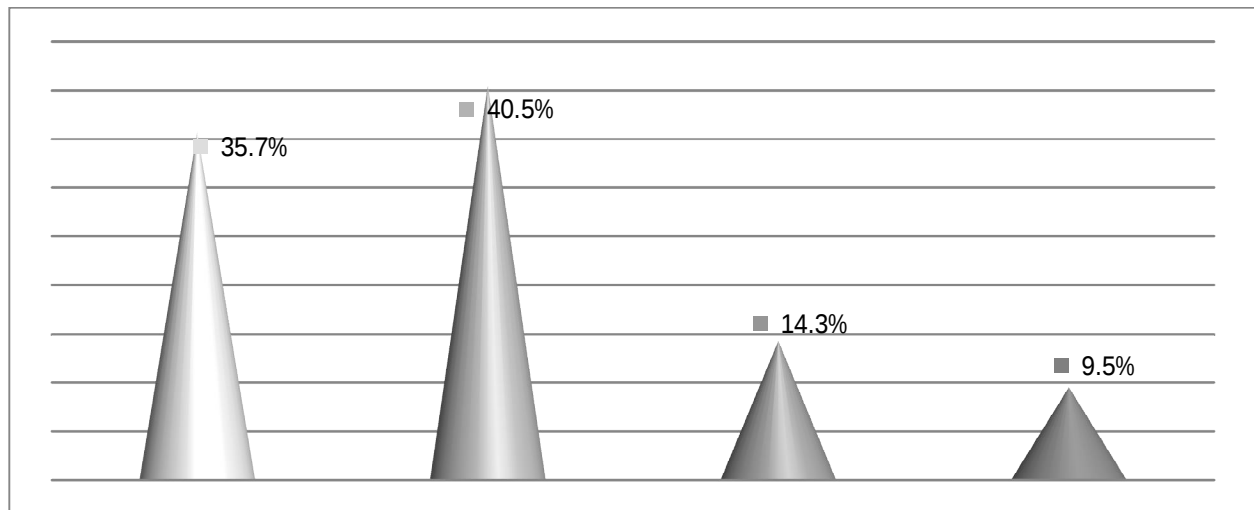
knowledge and ideas, but oftentimes that resource remains untapped. Involving employees in the decision-making process not only empowers them to contribute to the success of an organisation, but also saves the company time and money, in increased productivity and reduced outsourcing.

Table 7.3 Promote open communication and sharing of information

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	15	35.7	35.7	35.7
Agree	17	40.5	40.5	76.2
Valid Not sure/Uncertain	6	14.3	14.3	90.5
Strongly Disagree	4	9.5	9.5	100.0
Total	42	100.0	100.0	

Source: Vartikka Indermun MBA Dissertation, Regent Business School 2012

Figure 7.3 Promote open communication and sharing of information



Source: Vartikka Indermun MBA Dissertation, Regent Business School 2012

According to Figure 7.4 below, 71% of the respondents agreed that they are given the power to make decision. These results suggest the democratic style of leadership. The 19% of the respondents who were unsure and the 10% who disagreed are probably those who are not in any type of decision making situations. Organisations therefore have to empower their non-managerial staff with job related decision making. This helps in cultivating a climate of learning and autonomy. Management should hold regular meetings with staff so that they can get

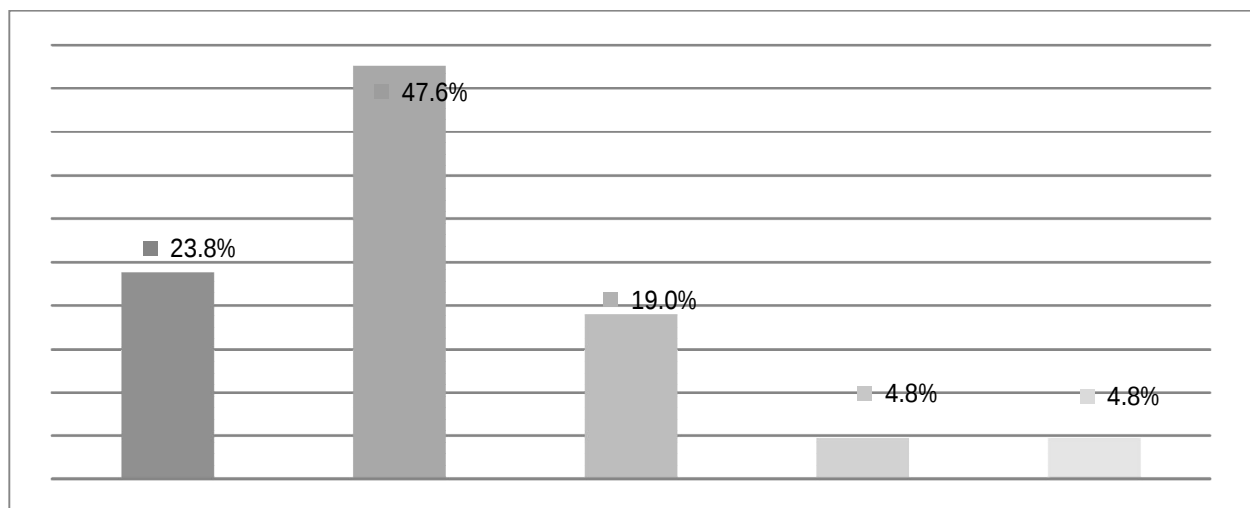
involved in decisions related to their work. Democratic leaders encourages subordinates to participate in the decision making process. (Rao and Krishna, 2006: 642)

Table 7.4 Power to make decisions

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	10	23.8	23.8	23.8
Agree	20	47.6	47.6	71.4
Valid Not sure/Uncertain	8	19.0	19.0	90.5
Disagree	2	4.8	4.8	95.2
Strongly Disagree	2	4.8	4.8	100.0
Total	42	100.0	100.0	

Source: Vartikka Indermun MBA Dissertation, Regent Business School 2012

Figure 7.4 Power to make decisions



Source: Vartikka Indermun MBA Dissertation, Regent Business School 2012

8. RECOMMENDATIONS

The key findings from the study showed that the laissez faire and democratic leadership styles seem to be predominant at the organisation. However, there is still a need for more transformational leaders in an attempt to enhance the motivation, morale, and performance of employees. This can be done through a variety of mechanisms. An investigation into these various mechanisms is recommended as it would prove beneficial for both the organisation as well as the employees.

There are no simple or quick solutions to the unique challenges faced by family-owned businesses. But the first thing to do is to recognise a problem or one that may develop. It is recommended that regular meetings with management be conducted to talk about plans, programmes, strategies and problems to ensure the sustainability of the company.

In addition it is recommended that management should engage with employees and assist them with gaining a sense of identity and self to the project and the collective identity of the organisation. As leaders they should strive to be role models for employees, leaders who inspire them and make them interested, challenges them to take greater ownership for their work, and who has an understanding of their employee strengths and weaknesses, so as to align them with tasks that enhance their performance.

9. CONCLUSION

Literature has revealed that it is critical to recognise that family businesses make significant contributions to a country's economic development and therefore need to be managed in a way that would help it to stay alive. As a business owner, the most important resource in the business is the people. Employees are the competitive advantage of any organisation and therefore need good leadership to direct, guide and motivate people towards the attainment of a given set of goals in an organisation. Good leadership, like good management, helps an organisation to succeed. Most organisational theorists agree that effective leadership is one of the most important contributors to overall organisational success. Thus the quality of an organisation's leadership determines the quality of the organisation itself.

Leaders should understand that if threats are used employees can turn against the organisation. Employees should rather be made aware of the negative consequences of not getting results especially in meeting company targets. Leaders of family business must understand that providing pleasurable rewards creates eager and productive workers. Furthermore, leaders should create an environment of team spirit as people work more effectively when they feel like they are part of a team as they don't want to let others down.

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