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**An assessment of management practices in Chinese  
family-owned SMEs in the Cape Metropolitan area**

**A 20-credit research report submitted in partial fulfillment  
of the requirements for the Degree of:**

**MASTER OF MANAGEMENT**



**by**

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**Date : November 2004**

**DECLARATION**

I, YUPING declare that “An assessment of management practices in Chinese family-owned SMEs in the Cape Metropolitan area” is my own work and that all the sources I have quoted have been indicated and acknowledged by means of proper references.

Signature.....Date.....

## **ABSTRACT**

This research is an examination of Chinese Family-Owned Business (CFOBs) that focuses on their management practices. The purpose of the study is to explore the management characteristics of CFOBs by means of interview data collected from five CFOBs in the Cape Metropolitan area. The interviewees are all involved in the food services, property development, food processing, furniture and clothing retailer businesses. The emphasis of the project concentrated on the establishment; expansion and growth; ownership and leadership; management structure; the impact of cultural factors and the strategy for the future as well as challenges in terms of competitors and environments.

In contrast to prevailing cultural and institutional accounts of CFOBs behaviour, CFOBs generally use an informal and unstructured approach when it comes to management practices. They tend to use family members to be in charge of key management positions, with highly centralized management control and strategic decision-making. CFOBs possess special characteristics not generally found in other cultures. For example, trust would be the most important part in doing business among the Chinese, whereas “building trust” would be the main emphasis in facilitating business relationships.

The results of the study showed that, in general, the five cases of CFOBs still followed many of the traditional management practices associated with oversea Chinese family business as reviewed in the literature. The results also showed that there is a very slow evolution toward more professional management practices to achieve sustainable business development among these CFOBs.

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## **TEN KEY WORDS**

Business management

Chinese culture

Chinese family—owned business (CFOBs)

Entrepreneur

Entrepreneurship

Management practice

Management principles

Relationship

Small business

Trust

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## CHAPTER 1. INTRODUCTION

### 1.1 INTRODUCTION

Kao (1993) states that privately owned Chinese businesses, most of which are located outside mainland China itself, make up the world's fourth economic power after North America, Japan and Europe. Most of these companies are in the form of family businesses where ownership and managerial control are both concentrated within a single-family unit. The overseas Chinese have a world-wide reputation for being astute entrepreneurs and competitive in business. Furthermore, overseas Chinese family businesses have gained a reputation for their cost efficiency, responsiveness and flexibility. Their success is based upon a relatively simple 'personally managed' organization operating within a network of kin and ethnic relations (Kao, 1993).



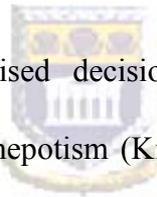
Fundamentally, Chinese family business strategies and management systems have their origins in Chinese culture and philosophy (Menkhoff, 1993). Without a deep understanding of such origins, it is difficult to comprehend fully the complexity of business relationships and practices as well as the underlying values and social forces which continue to shape Chinese family-owned businesses (CFOBs).

Therefore, this research project also intends to briefly assess the Chinese culture. Chinese culture is not the exclusive privilege of the Chinese, but rather a way of thinking that can be learned by all over time. The value of this way of thinking goes far beyond simply enabling

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one to do business with the Chinese. In fact, exposure to this learning may be exceptionally useful both in personal endeavors as well as in one's business career (Hodder, 1996).

A CFOB can include up to five subgroups: core family members, close relatives, long-term employees, distant relatives and unrelated employees. The closer to the core one is, the more dominant the position they will possess. This is based on Confucian philosophy, which places the family unit as the fundamental economic unit (Chen, 1995b). Management tends to be informal with decisions often made for subjective, rather than objective reasons. However, an informal organization can cut down on formal work processes, thereby speeding up communication as well as response time (Chen, 1995a).



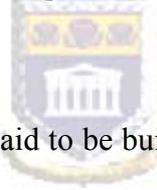
CFOBs are characterized by centralised decision-making, autocratic and paternalistic leadership styles and the existence of nepotism (Kirkbride and Tang, 1992). The head of a Chinese family—owned business typically is a “paterfamilias,” all-powerful in both social and economic spheres. He delegates key activities and positions to members of the family. Within the family, confidence in his judgment borders on the absolute (Murray, 1996). Chinese management is human-centred (Menkhoff, 1993). Business relationships are always built on the notion of friendship, loyalty and trustworthiness (Sheng, 1979). Chinese businesses are almost always family firms because, within traditional Chinese culture, you can only trust close relatives. Chinese trust their families absolutely, but they trust their friends and acquaintances only to the degree that mutual dependence has been established and trust invested in them. With everybody else they make no assumptions about their goodwill (Redding, 1990).

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Boisot and Child (1996) state that most CFOBs have strong corporate cultures based on traditional values such as loyalty, filial piety (deep respect and love to his/her parents), diligence, humility and frugality. It has a significant influence on the business strategies of traditional CFOBs where family relationships are stressed. Tong and Yong (1997) argue that extensive networking and relational contracting are based largely on *relationship* and *personal trust*.

In terms of the above, this research project aims to identify whether the 5 CFOBs interviewed manage their enterprises in a style similar or different to those reported in the literature.

## **1.2 MOTIVATIONS AND RESEARCH QUESTIONS OF THE STUDY**



The dynamics of Asian economies are said to be built upon the Chinese family business. The Overseas Chinese have played a significant role in Asian economies and Chinese entrepreneurs have been dominating the economies of Hong Kong, Taiwan, Singapore and most other Southeast Asian countries. Many of these enterprises are in the form of Chinese family business where ownership and managerial control are both concentrated within a single family. The importance of the Chinese family business has been paid much attention by scholars and researchers in this field.

However, due to the absence of published research on CFOBs (as independent variable) in a South African context, the following research questions can be postulated:

- What is the reality of CFOBs in South Africa?
- What kinds of management practice do they pursue?

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- Do they follow the same principles as described in literature reviews published by the scholars in this field?
  - Do they implement a unique style of management?
  - What are the characteristics of their management style?

### **1.3 HYPOTHESIS**

From the above questions the following hypothesis was formulated:

CFOBs obey the same management practices in terms of cultural perspective, no matter which country they operate in.

### **1.4 OBJECTIVE OF THE STUDY**



This study gives a brief examination of CFOBs in the Cape Metropolitan area and it will assess the present management practices of five CFOBs. Therefore, the objectives of this study are:

- 1.4.1 To study the management style of CFOBs in the Cape Metropolitan area;
- 1.4.2 To compare and identify similarities and differences in the management style between the CFOBs in the Cape Metropolitan area and similar Chinese family businesses, as reported in the literature.

### **1.5 DELIMITATION OF THE STUDY**

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With regards to the nature and scope of the study, this study is about the assessment of Chinese family-owned business (CFOBs) and it intends to gain a better understanding of CFOBs in terms of cultural underpinnings, business strategies and management practices of these enterprises (its structure, internal processes and current challenges).

The research emphasis is on CFOBs in the Cape Metropolitan area and (based on their management practices) to develop a broad understanding of these practices. The research focuses on management issues and cultural issues.

## **1.6 METHODOLOGY**

The foci of the study are based on both primary and secondary sources of information related to the topic. Primary information will be acquired by means of questionnaires and interviews, which will assist the researcher to obtain invaluable opinions in order to achieve the research objectives. Interviews will be conducted in the Cape Metropolitan area with five selected Chinese entrepreneurs to determine their experience and attitudes towards family—owned business in terms of their management practices.

The information collected by means of the questionnaire also will assist the researcher to gain more clarity and to solve uncertainties on a series of questions, such as “What do you think are the most important management problems in your business?” The answers can indicate certain priorities among family members in terms of trust, relationship, co-ordination, etc.

In addition, from an international perspective, a secondary survey of articles and other

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published sources will be made to develop a framework within which this study will be conducted.

## **1.7 SIGNIFICANCE OF THE STUDY**

The study will attempt to identify and confirm the elements of management in the context of CFOBs and aim to contribute towards an understanding of Chinese family businesses in a foreign business environment, more specifically in the Cape Town Metropolitan area.

## **1.8 STRUCTURE OF THE STUDY**

The first chapter is an introduction that covers the objective of the study, the delimitation of the study, methodology and significance of the study. The chapter also presents a structure of the study, gives a briefly introduction for each chapter in order for the reader to have a general understanding of this study.

Chapter 2 presents the literature review. By means of a related survey of the literature, Chapter 2 focuses on identifying the management style of CFOBs to illustrate the management framework of CFOBs from a theoretical perspective.

In Chapter 3, a general introduction for each case based on the interviews will be presented. The interviewees will focus on the owners of CFOBs, as well as family members involved in the enterprises. In order to give the reader a clear view of five CFOBs, each case focuses on the following fields: the reason of establishment; the ownership& leadership; management

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structure; succession plan; strategic planning; and challenges in terms of competitors and environments.

In Chapter 4 the researcher discusses some management issues based on the information gained from the interviews. For example, structure, leadership and decision-making, management control and external relations perspectives. In addition, the findings will be compared to findings from the literature on Chinese Family—owned Businesses.

Chapter 5 presents a summary of the research. In addition, conclusions drawn from this study will be presented and recommendations, as derived from the study, will be made.



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## CHAPTER 2: LITERATURE SURVEY

### 2.1 INTRODUCTION

This chapter is about the theoretical survey of CFOBs. In terms of a definition of family business, the researcher cited Longenecker, Moore and Petty's definition (2000:27) and indicated some advantages of family business as well. With regards to the Chinese family business, the researcher presented different authors' viewpoints and arguments to establish a theoretical framework of CFOBs.

### 2.2 DEFINITION OF FAMILY BUSINESS

There is generally familiarity with the concept of a family business, a friend or acquaintance, or perhaps members of one's own family, who may be involved in (or own) a family business. The family business is the most significant and universal form of business organization. Longenecker, *et. al* (2000: 27) define a family business as an enterprise in which family members are directly involved in the ownership and/or functioning of the business. A business is also considered as a family business when it passes from one generation to another.

Longenecker, *et. al* (2000: 30) identify the following benefits or advantages of family involvement in a business:

- Family relationships are very strong and family members tend to stick with the business through thick and thin.

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- Family members will sacrifice their income to keep the business going.
  - The fact that it is a family business can be used in marketing campaigns to distinguish the business from its competitors, highlighting a strong commitment to the business, high ethical standards as well as a personal commitment to serving its clients and the community.
  - When family members work well together, they make good business partners, which ensure a competitive edge.
  - Family businesses focus on the long term.
  - Family businesses emphasize quality because their good name is at stake.
  - The same values that are pursued at home are brought to the business and this ensures a secure foundation for the business.



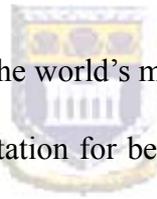
From the above findings, it can be argued that if the values of the family and the business are sound, this could provide the business with additional advantages.

A family business has its own unique characteristics and in this chapter, a summary of these views are presented to illustrate the management framework of CFOBs and management practice from a theoretical perspective.

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## 2.3 LITERATURE REVIEW

China is a country built on traditions (King, 2002: 135) and in this regard Clayre (1984: 67) argues that one of its most respected traditions is a preference for the family unit. The closeness of the family unit is carried over into the economic life of the country. Family members not only live together, but also work together in the fields or in enterprises. The advantage of this is that families have a guaranteed labour force that is not only loyal and but can also be trusted. The disadvantage however is that positioning within the business is not always based on merit and competence, or trustworthiness which can ultimately impede growth.



The Overseas Chinese make up one of the world's most effective economic cultures (Redding, 1990:233) and they have earned a reputation for being highly entrepreneurial. Chen (1995a) states that this is partly attributed to their risk-taking business strategies and their common striving towards achievement and success. In this regard a unique business structure was developed by the overseas Chinese business people, known as Chinese Family-Owned Businesses (CFOBs). The CFOBs are operated by three interrelated systems. Literally there are "Chinese", "Family-owned" and "Business". "Chinese" implies the Chinese cultural environment or context; "Family-owned" means this system is subjected to family domination or ownership, while "Business" assumes that the operation follows economic and business principles. Chen (1995a) argues that CFOBs are strongly influenced by the notion of patrimonialism, which covers themes such as paternalism, hierarchy, mutual obligations and responsibilities, family focus, personalism and extensive networking. In this regard, CFOBs are unique in terms of structure and management processes.

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With regards to the leadership style, Chen (1995b) argues that the organizational structure of the CFOBs is strongly influenced by the notion that power is associated with ownership. This notion leads to an autocratic leadership style, with the boss controlling all of the information, finances and management powers.

Murray (1996) views that if all of the top management positions in the typical CFOBs are not filled by family members, other strategic positions are usually reserved for close relatives and for those who have worked for the family for a long period of time. Since CFOBs are essentially family owned, top management positions are filled by close family members with the head of the family assuming the overall command, whereas non-family members have to serve the enterprise for a long period of time before they are trusted and promoted to senior or top management positions.



When comparing Chen's (1995a) and Murray's (1996) arguments, they have a similar view in terms of organizational structure of the CFOBs. Therefore the researcher makes this assumption based on the two author's viewpoints: the majority of CFOBs follow an autocratic leadership style. However, the researcher doubts if this assumption is true, once the autocratic leadership style may or may not be suitable in family business. Tsang (2001) says that the authoritarian leadership style seems to work, because of the moral authority inherent in "the boss" as founder of the business group and his resultant unrivaled experience. Within this framework, the CFOBs provide a high degree of flexibility accompanied by intense managerial effort. These desirable traits are encouraged by ties of mutual obligation. Because of the authority, the owners of CFOBs can make fast decisions when the outside competitive

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environment is changing and without any consultation.

According to Murray (1996), the general analysis of CFOBs shows that the employees are not specialized and the jobs they are allocated are not standardized. The lack of structure in most CFOBs does not allow for a clear definition of an individual's tasks and responsibilities within the organization. Western style human resource management is hardly followed in the CFOBs. Most family businesses are relatively small in size, although there are some that have become very large. Management tends to be informal with decisions often being made for subjective, rather than objective reasons. However, Chen (1995a) is concerned that an informal organization can reduce the formal work process, thereby increasing communication as well as response time.



A critical element of CFOBs is the desire to sustain and nurture family members. According to Murray (1996), the hierarchical and paternalistic nature of Chinese families is carried over into the business, ensuring less bureaucracy and quicker decision-making.

## **2.4 THE CHARACTERISTICS OF MANAGEMENT IN CFOBs**

CFOBs are characterized by centralised decision-making, autocratic and paternalistic leadership styles and the existence of nepotism (Kirkbride and Tang, 1992:47). Professional managers are seldom employed, as the Chinese do not trust outsiders. According to Tsang (2001) the internal system of coordination and control is also highly personal, and tight control is exerted on financial and production management.

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Probably the most distinctive feature of CFOBs is its Chinese way of business management (Tony, 2001). From a global point of view, Chinese entrepreneurs in South East Asian regions manage their businesses like a family (Wong, 1988). Wong (1988) uses the terms “entrepreneurial familism” to denote the dynamics of the Chinese family business. In Wong’s view (1988:142-3), entrepreneurial familism involves “the family as the basic unit of economic competition”.

As will be argued in terms of leadership and ownership, the Chinese family business, based on a patriarchal leadership, enhances common ownership of family wealth for business finance and development. Its vertical hierarchical structure facilitates transmission of the entrepreneurs’ operating goals.



Tony (2001) identifies three major characteristics of CFOBs. First, a feature which enhances the power of the father-figure is the common ownership of family belongings. Possessions are normally seen as belonging to the group. A Chinese family enterprise uses filial piety (deep respect to his/her parents), face, moral obligation, pressure to live up to family expectations and family training to ensure that its members conform to the goals of the family business (Redding, 1990:101).

Secondly, a Chinese family firm is governed by paternalism. Paternalism means the owners of the family enterprises consider themselves as patriarchal business leaders who confer welfare benefits on their employees. A survey of overseas Chinese family enterprises reveals that a majority of Chinese entrepreneurs take the position that “my staff is my family” (Redding 1990:156). They exhibit a strong sense of responsibility toward employees that was

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not only moral, but also economic (Tony, 2001: 25). Decision-making rights are not normally disputed. Loyalty and its extension in diligence are under normal circumstances offered from below as part of the exchange (Redding, 1990: 61).

Thirdly, a Chinese family firm engages extensively in business networks and nepotism. The operation of Chinese business networks is, in fact, an extension of the family culture (Tony, 2001:26). To ensure that such networks operate reliably, Chinese family businesses pay special attention to trust in business transactions. It is important to be able to deal with people who can be trusted. For them, “who you know is more important than what you know”. The Chinese family business does not rely on formal contracts, instead, trust is the foundation for financial arrangements and other transactions. Interestingly, decisions based on mutual trust have lower transaction costs than those based on mistrust (Tsang, 2001). Nepotism, which is both reinforcement and a result of the family firm structure that prevails, is a means of counteracting the problem of trust (Tony, 2001: 26). Chinese trust their families unconditionally, but they trust their friends and acquaintances only to the degree that mutual dependence has been established and trust invested in them.

With regards to the characteristics of CFOBs, Redding (1990: 205-206) lists ten characteristics of CFOBs that he asserts are "reasonably standard". Each is discussed briefly:

2.4.1 CFOBs are generally small scale, with a relatively simple organizational structure. As CFOBs are typically centered around a family patriarch, the organizations themselves tend to be simple structures, designed to maximize the efficiency of a central business unit. The structures of CFOBs are based on either production or sales or service.

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2.4.2 CFOBs normally focus on one product or market. Due to limitations of scales and finance, they tend to focus on one product or market only. In addition, the owners of CFOBs rarely rely on branding to market their products, thus they rarely interact directly with consumers. They avoid advertising and modern promotion mediums to maintain a low profile, while typically acting as suppliers to others. Therefore, the value chain is simple and easy to maintain and this kind of business structure is easy to be controlled by one owner as well.

2.4.3 Centralized decision-making with a heavy reliance on one dominant executive. Family control means that decision-making in the enterprise is centralized and often through a patriarchal owner at the top of the enterprise. There is little delegation of authority and subordinates are not consulted. In addition, communication between superiors and subordinates is commonly direct, implicit and one-way.



2.4.4 There is a close overlap of ownership, control and family. CFOBs are run as a family business, the family is placed above all and there are strong ties between extended families. Key positions in the firm are held by family members or close relatives, and promotions and appointment are done from inside.

2.4.5 A paternalistic organizational climate. CFOBs have an owner/manager who acts paternalistically—an autocratic, centralized style of management without involving workers in decision-making and individual initiative is suppressed. Most of the time employees fear to disagree with the owner.

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2.4.6 Linked to the environment with personalistic networks, the small companies are linked in networks 'like a spider's web' and relationships are translated best as friendships with a continued exchange of favours. Thus, relationships are a dominant socio-cultural strategy which has been incorporated into business. Networks are not formally organized, but based on personal relationships established and consolidated on the value of trust, which refers to 'credit' in the sense of services and goods offered against the promise of future repayment, but also to the 'credit rating' of the person who applies for credit. This network serves as a substitute for limited company resources in the CFOBs and it allows for flexibility and facilitates responsiveness to shifts in the international environment.

2.4.7 CFOBs are normally very sensitive to matters of cost and financial efficiency. One thing that Chinese are good at, however, is financial management. Bjerke (2000) points out that Chinese entrepreneurs have excellent mastery over financial levers. In their daily business dealings, they pay close attention to managing cash.

2.4.8 CFOBs are commonly linked strongly, but informally, with related legally independent organizations handling key functions, such as parts supply or marketing. In addition, CFOBs often succeed in finding a market niche and this is based on a narrow perception of the marketing function. However they do not believe in advertising and promotion.

2.4.9 They are relatively weak in terms of creating large-scale market recognition for brands.

2.4.10 They have a high degree of strategic adaptability. Bjerke (2000) states that Chinese replace strategic thinking in business with flexibility and they are very good tacticians.

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Chinese business leaders are highly adaptive and pragmatic.

Murray's (1996) study on the "Overseas Chinese" in Southeast Asia produces similar results which includes the following:

- A dominant individual as the head of the expatriate Chinese company,
- Most, if not all, top management positions are filled by family members,
- Strong familial control despite holdings that on occasion total billions of dollars and is wide- ranging in terms of industries and countries of operation,
- A tendency of these firms to engage in as many of their business relationships as they can with people of similar culture.



Two of the above analyses of CFOBs are done by Redding (1990) and Murray (1996). Redding argues that 10 characteristics of CFOBs help to explain much of their success. Similarly, Murray (1996) lists 4 characteristics, all of which but one overlapped with those of Redding (1990). Murray (1996) adds more detail in the areas of Chinese culture and Redding adds more detail in the areas of internal financing and marketing.

To date, however, there are only a handful of empirical studies that has been conducted to verify the nature of Chinese family businesses. Empirical evidence shows that the Chinese family business system still prevails even when the scale and scope of Chinese family businesses have expanded. Inevitably, Chinese family businesses do adopt some of the practices of western firms, such as recruitment of professional managers. However, essentially the ownership, stakes and control of management are still in the hands of family

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holding companies and family members.

## **2.5 MANAGEMENT CHALLENGES**

Chan and Chiang (1994) state that many Overseas Chinese started as merchants and traders that moved into property-related businesses and afterwards into any business deemed profitable. Their firms generally exhibit an entrepreneurial, intuitive, fast decision-making and paternalistic management style. The founders of the Overseas Chinese firms generally had little formal education and even less formal, Western-style business education, in fact, it appears if their business education originated from their experiences (Chan and Chiang, 1994).



It has become common knowledge in management literature that family-owned businesses are restricted by their management practices and, therefore, cannot grow beyond a certain size (Yeung, 2000). Indeed, it is believed that facets of Chinese culture influence the forms that the management style takes (Kirkbride & Tang, 1992). This refers to aspects of the Chinese management practice relating to paternalism, nepotism, personalism and fragmentation. It is generally believed that familism is detrimental to economic development (Kirkbride and Tang, 1992). Redding (1990) postulates that because of cultural restraints on trust, decentralized decision-making is not developed and this inhibits growth.

Nepotism may lead to the dominance of family reasoning over business logic. Family members are favoured when deciding the delegation of control, promotion and recruitment (Wong, McReynolds and Wong, 1992), even if they are inept. There is difficulty in exercising

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authority for fear of offending the favoured member. (Gersick, David, Hampton and Lansberg, 1997). The company's efficiency and labour potential will be affected if it cannot make personnel decisions based on merit. Thus, nepotism, coupled with the distrust of non-family members, hinders the expansion of the business. Moreover, CFOBs remain small because the family seeks to hold profits within the family, resisting external financing (Murray, 1996).

In terms of succession planning, Walter (2001) argues that management succession is the transfer of authority, responsibility and control of the family business from one generation to the next. It is a process that takes place over a period of time, requiring co-operation of all people on the management team. Carney (1998) argues that traditional Chinese family businesses encounter difficulties to manage and reinvent the business. They see higher profit margins associated with knowledge embedded (high valued-added) products and services in the world market. They also need to find positions for their sons and daughters in the family business after they return with an overseas education. However, new or second generation owners need to change and be adaptive to change in the fast-changing business environment.

According to a Chinese proverb, wealth never survives the third generation. In that context, Murray (1996) found that only 30 percent of family-owned businesses make it to the third generation and fewer than 15 percent make it to the fourth. Succession problems are widely-regarded to be characteristic of Chinese family businesses. Another reason why Chinese family businesses tend to fragment over time is that of equal inheritance among succeeding male generation members (Hamilton, 1997). Shareholding becomes too spread out and no individual from among contending family members emerges as a decisive leader for the firm. As such, potential conflicts among siblings may dissolve the family business

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(Cheng, Gan and Wong, 2001).

## **2.6 ANALYZING THE MANAGERIAL APPROACH OF CFOBs**

In analyzing the managerial strengths and weaknesses in CFOBs, the structure used by Redding (1990:206) will be applied, which is based around four fundamental requirements. These are vertical cooperation, horizontal cooperation, control and adaptiveness.

### **2.6.1 Vertical cooperation**

The organizational hierarchy is tightly disciplined, with the founding family being the key stakeholder. Hierarchy is a natural cultural tendency, the organizational hierarchy is informal and personal. The basis for this is Confucian paternalism, a cultural value that applies not only to family members, but also, to some extent, all employees. Higher levels within the hierarchy manifest a feeling of responsibility to those below, while subordinates manifest loyalty and a willingness to work hard.

There are organizational weaknesses in paternalistic vertical cooperation. Employees who are not in a direct line to benefit from paternal benevolence may feel like outsiders and thus elicit less loyalty and be less motivated. Factions and cliques tend to form around particular figures in the hierarchy. As influence is achieved through personal ties, cultivating the right people may be more important than actual job performance.

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### 2.6.2 Horizontal cooperation

Horizontal cooperation facilitates coordination of inter-departmental activities and effective external links with suppliers and contractors. Such lateral relationships might in general be expected to be problematic due to the structure of society around numerous autonomous family units, with little natural community or larger group cooperation.

Making deals are therefore the basis of operating externally to the firm. It is based on trust rather than formal contracts. This is seen as a key competitive advantage of CFOBs. Trust significantly reduces the costs of legal and systemic processes. Speed, flexibility and even reliability are also enhanced through maneuverability of informal networks.



### 2.6.3 Control

The ability to achieve goal congruence within the firm is less systemic and more personalistic. Formal control systems may not be necessary, because reliability is built in *via* key people and relationships. This means less internal auditing and reporting are required to maintain an effective informal control system.

On the other hand, the most crucial shortcoming of personalized control may be its limited domain, hence the vast majority of companies remain small. Also, the boss controls information and may use this control to ensure dependency of his employees and even to ensure that they cannot outperform him. At best, in the overall scheme of things in the mind of the boss they may provide little feedback that is considered to be of any worth. For example, goal setting is regarded as an internal family affair and is not done in collaboration with all those doing the work. Without goals that are mutually agreed upon objectives,

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workers may lose interest and become less motivated. Without a clear division of labour, clearly set tasks and job specifications, work efforts can lack focus and time is wasted as people work out for themselves how to best do their work.

With growth, professional management is ultimately considered, but the making of deals is still handled by the family in the traditional way. This can lead to power conflicts between the professionals and the family entrepreneurs. Professionals still tend to be excluded from the inner circles of management. Since family owners usually retain control over pay increases and other crucial personnel matters, professional managers may lack real authority within the workforce. Also, with less formal management control systems, objective assessment of employee performance may be lacking and top management may only pay special attention to loyalty or other less professional attributes. Redding (1990) argues that firms with such unstable means of control cannot meet global competitive standards.

#### **2.6.4 Adaptiveness**

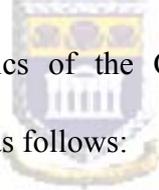
The control system provides flexibility, speed and the opportunity to move ahead based on the intuitive decisions of the entrepreneurs. Given the central monopoly over information, one or a few key figures probably have superior business intuitiveness. These individuals often started the business from scratch and have experience in every aspect of the business. A dual ability, to both perceive a need for change and then to manage the change is a great strength of CFOBs.

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With the strategic flexibility that is characteristic of small-scale enterprises with simple decision-making structures, CFOBs can switch quickly to other products, their chief executives can act decisively and the internal economies can adjust.

## 2.7 CONCLUSION

In this chapter, the researcher presented some views from the literature to illustrate the management framework and style of CFOBs from a theoretical perspective. Based on that, the researcher then generated the characteristics of Chinese family businesses. The researcher looked at the factors that make a family business unique and also examined the culture of Chinese family businesses. According to the authors' views of CFOBs cited in this chapter, there are some common characteristics of the CFOBs in terms of their management perspective. These can be summarized as follows:



- CFOBs are characterized to be small in size as it is easy to control;
- The leadership style of the CFOBs is more autocratic;
- Most of the CFOBs adopt a centralized decision-making system;
- CFOBs are fully centralized and the owners exercises tight control power;
- Top management positions are filled by close family members;
- Based on Chinese family culture, CFOBs are highly paternalistic;
- The internal system of coordination and control is highly personal;
- Tight control is shown concerning financial management;
- Trust is a critically important factor and non-family members are seldom selected to take charge of key management positions;

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- CFOBs are more flexible, because of the informal and unstructured approach to management control;
  - Establishing and maintaining networks plays an important role in CFOBs.

Family business has its own unique characteristics. This is especially applicable when family businesses are operated by Chinese people, which shows us more unique characteristics. In the following chapter, the focus is on more practical examples to illustrate the management practice of the CFOBs, based on information gained from personal interviews with five Chinese-owned and managed enterprises.



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## **CHAPTER 3: OVERVIEW OF FIVE CHINESE FAMILY-OWNED BUSINESS IN THE CAPE METROPOLITAN AREA**

### **3.1 INTRODUCTION**

In this chapter, the researcher selected five different CFOBs as target cases within the Cape Metropolitan area. In order to give a brief introduction of each case, the findings focus on the following areas: establishment, expansion and growth, the ownership & leadership, management structure, the impact of cultural factors, strategy for the future and challenges in terms of competitors and environments.

### **3.2 THE BRIEF INTRODUCTION OF THE REALITY OF CFOBs IN SOUTH AFRICA**



Unlike CFOB's influences in terms of the economy in Southeast Asia, there is no similar large scale enterprise of CFOBs in South Africa. The reason is that CFOBs come to be the dominant form for the coordination and control of economic activity in the societies where the overseas Chinese flourish. CFOBs in South Africa have their own scope due to the minority of the population of overseas Chinese, but they definitely exist.

Due to mainly political and economic reasons, Chinese people migrated to South Africa and most of overseas Chinese are from the island of Taiwan. These Chinese might have tried to avoid some political conflicts and to prolong their family lives, or they might have found South Africa as a more suitable country to live in. Most of the overseas Chinese run their

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business through linkages to China (imports from China), although some also established business networks with other Overseas Chinese in South Africa. Since 1994, the South African Government started to establish strong diplomatic relationships with the Chinese Government and therefore more and more Chinese people from mainland China immigrated to South Africa due to favourable business opportunities. Most of them started businesses involving external partnerships, rather than through traditional family-membership. Therefore, today most of CFOBs in South Africa are operated by Taiwanese.

### **3.3 CASE 1: Chinese Restaurants “Fortune Garden”, “Taiwan City” and “Jade Court”**

#### **3.3.1 Background**



The “Fortune Garden”, “Taiwan City” and “Jade Court” Chinese restaurants are managed by Mr Liang, a Taiwanese expatriat. The restaurants are fully decorated in Eastern style décor and when customers walk in, they feel like they are in China and really enjoy the oriental cultural atmosphere accompanied with traditional Chinese music. Mr Liang has more than fifteen years of experience in the restaurant business.

#### **3.3.2 Establishment, expansion and growth**

Mr Liang came to South Africa with his older brother when he was 20 years old. After working in a Chinese restaurant for 5 years, he set up his own restaurant with his older brother in Johannesburg. The two brothers ran the business quite well and went to Namibia in 1983 to open another restaurant (Mr Liang’s wife is from Namibia). In 1988 however, due to political reasons and policy issues facing the Overseas Chinese, they relocated their business

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from Namibia to Cape Town and set up the “Taiwan City” restaurant in the city centre of Cape Town. Mr Liang is proficient in entertaining customers and knows how to appeal to the tastes of customers. Based on his brilliant business recipe, he opened another two restaurants in 1993 and in 1999 respectively. To date, these three restaurants are running well and each has a different target market. The Fortune Garden focuses on tourists from mainland China and can accommodate more than 200 tourists at one time. At times during the high tourism season, there are over one thousand guests in one day.

Established in 1988, the Taiwan City is located in the Canal Walk Centre when the Centre was opened. Relying on the preferential location, the restaurant focuses on both tourists and the local market. The holding capacity is the same as for the Fortune Garden, besides the high tourism season, it also can make up its turnover through entertaining local people. The smallest restaurant is Jade Court in Tyger valley Center, which was established in 1993 and it targets a different market in comparison to the other two restaurants, which mainly focuses on local people.

### **3.3.3 Ownership and leadership**

These three restaurants were all established through family membership by Liang and his brother before 2000. Mr Liang’s brother retired in 2000 and sold all his shares to Mr Liang. At present all these three restaurants belong to Mr Liang and he is in charge of all three restaurants together with his immediate family.

### **3.3.4 Management structure**

Mr Liang is the head of the three restaurants and assumes the position of final decision maker.

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His wife is managing the Jade Court restaurant. Mr Liang's assistant (non-family member) is managing the Taiwan City restaurant and she has been working in the restaurant for more than 5 years. Also, Mr Liang is managing the Fortune Garden restaurant. However, overall he is managing all three restaurants. In these three restaurants, there are no clearly defined functional areas, as managers take on all the responsibilities of the business. That is, finance, purchase, human resource etc.

### **3.3.5 The impact of cultural factors**

It is apparent that Mr Liang possesses many values. For example, his integrity is apparent in his business dealings. His personal mantra of diligence and frugality is epitomised in the decades of hard work required to establish three restaurants. Mr Liang has two sons and the elder son (21 years old) is working at the Jade Court restaurant, while the younger son sometimes works at these three restaurants as a waiter (14 years old only). He keeps an open mind and listens to his sons and at the same time, he encourages his sons to think big, often citing this analogy, "If you want to eat fish, go out to sea. Don't just eat from the plate." He says: "I don't force my sons to take over my business, they should pursue their own goals", but he still hopes his sons can eventually take over.

An interesting fact to note is that Mr Liang's wife is not Chinese. At the early stages of the business, she was in charge of the accounting functions of the restaurant businesses. As the businesses expanded, she took on a management position and ran one restaurant by herself. It is not common for a non-Chinese person to run a Chinese family business, even if she is a member of the family. Mr Liang is quite proud of his wife in this regard.

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### 3.3.6 Strategy for the future

Nowadays, more and more Chinese restaurants are emerging in Cape Town, because there are so many opportunities to make a profit in running these types of enterprises. Cape Town is a famous tourist destination (Frank, 2004), with natural views and some of the best long-line beaches in the world. Also, Cape Town is a new destination for Chinese people who are fond of travelling (*China Daily*, 2001). As a result the restaurants are becoming more vital with the increase of Chinese tourist groups. Everybody wants to share in this “big cake”. The competitive environment is also much more intense than before in terms of price and quality.

Mr Liang has put significant effort into drafting his business plan. This includes reasonably priced, top quality food plus excellent services which is the answer to reach his goal. So far, Mr Liang is quite happy with the operations of these three restaurants and he does not want to open more restaurants.



When he retires, Mr Liang wishes to sell his businesses. However, he does not intend doing nothing afterwards. Mr Liang wants to open a small restaurant and does not care where it is located and how much it will earn, as long as he has something to do and enjoy for the rest of his life with his family.

## 3.4 CASE 2: “Golden Dragon” furniture factory

### 3.4.1 Background

The Golden Dragon furniture factory was established by Mr Li Shu in 1980 when he arrived from Taiwan. His eldest son, Steven Li, joined the factory in 1996 and subsequently took

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over the management of the enterprise. The main activity of the factory is the designing and manufacturing of chairs and sofas.

### **3.4.2 Establishment, expansion and growth**

Mr Li Shu started the business in a small shop about 24 years ago. He did the actual upholstery while his wife, a machinist, made the patterns and cut the fabric. At that time they had a staff of eight. In those early days Mr Li worked late on most nights and his children were around on the factory floor in the evenings, helping out where they could. Today, the business has been handed down from one generation to the next and consists of a staff compliment of 55 with one showroom in Cape Town.



The turning point for the Golden Dragon furniture factory was the emergence of the second generation in 1996 when Steven graduated with a Masters degree in marketing from the University of Cape Town. At that point, the goal of the enterprise changed. It was no longer just aimed towards survival. Instead, Steven had loftier ambitions, with his modern management ideas. From 1998 onwards, customer demand for designs escalated. The Golden Dragon has now become a company that is furnishing the finest five-star hotels, as well as many wealthy private individuals. Their list of clients is in itself recognition of their position as number one in Cape Town when it comes to craftsmanship. On any working day the factory floor is filled with really beautiful chairs and sofas, each one custom-made. Designs are both traditional and international, with many of the designs originating from China. Expense is not spared where quality may be compromised. Key materials are also imported from China and a special foam substitute is used giving a smoother finish to the upholstery.

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### **3.4.3 Ownership and leadership**

Mr Li and his wife hold a 40% share in the Golden Dragon and each son has a 15% share. This therefore means that Li's family's owns a majority share in the factory. The business is therefore under the Li's family control and Mr Li's eldest son, Steven, is the managing director. Contrary to popular belief, there was no large "generation gap" between Mr Li and his son. This was due to the Mr Li's open-mindedness. He was careful as not to exert excessive pressure on his son. At the same time, Steven showed immense respect for his father. He was eager to learn and preserve the company's heritage. There was open communication, thus ensuring a smooth transition of power. Indeed, Steven truly feels that one of his greatest achievements is having further built up the Golden Dragon's reputation.



### **3.4.4 Management structure**

Mr Li has four sons and their jobs and responsibilities are clearly defined, each has a key position. The eldest son, Steven Li took over the business as managing director in 1996, with Mr Li remaining as chairman, the other three sons took finance, purchasing and manufacturing position respectively.

### **3.4.5 The impact of cultural factors**

Steven's father holds many cultural values that were passed on to his son. These values helped shape the management culture of Golden Dragon. His father was the typical Chinese businessman, a benevolent authoritarian who engaged in top-down decision-making. Yet, he was patrimonial in that he treated his staff like family. Other critical values which Golden Dragon's corporate philosophy is modeled upon are integrity, diligence and trust.

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### 3.4.6 Strategy for the future

At the start, none of the family members had business skills and everyone had to learn by trial and error. Steven's father was a superb craftsman and had always had good dealings with tradesmen, but managing the business was a different matter. "Running a manufacturing company is not easy. Everything is changing all the time", Steven said, "We have a good product and a good reputation. We need to maintain and further develop them. There are also some other factories in this field. Although we are the best, we need to put more effort into it. You never know what could happen in the future".

The real strength of a family business lies in loyalty and continuity. Working on a problem together lightens the burden of decision-making. However running a family business has both advantages and disadvantages. One of the major lessons is that with good common sense family problems within the business can be managed. As Steven claimed, 'We ran into problems as we grew, a small company does not need structures and systems, whereas a bigger company does. Communication becomes essential, otherwise people overstep the boundaries into each other's territories and arguments follow. Such arguments are especially bad when they exist within a family. We found that we had to work out a job description for everyone'.

Steven hopes that his current move to computerize the manufacturing operation will speed up the flow of business. He also has ideas involving dividing the factory into two focus areas, one for commercial customers and the other for private customers. He also wants to expand into the export market. Steven admits that he has always wanted to be the best at whatever he does. If he succeeds in his primary aim, the Golden Dragon will rise rapidly in the next five

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years in the South African furniture manufacturing market.

### **3.5 CASE 3: Lan's Property Development Company**

#### **3.5.1 Background**

The company's history dates back to 1982, the year in which Mr Lan and his wife established it. The core business activities included the hiring and selling of construction equipment and the development of residential property for resale. Approximately 75% of the company shares are under the direct control of the members of Mr Lan's immediate family, while 25% of the company is owned by his brother-in-law.

#### **3.5.2 Establishment, expansion and growth**

Mr Lan started his business in 1972 and engaged in importing goods from China. He imported garment products and shoes on a monthly basis and sold these goods to local retailers, thus earning profits through the price difference between importing and distributing. Through these endeavors, he accomplished his targeted capital accumulation. In 1982, he set up a business in the property retail market with his brother-in-law as a partner. Mr Lan is an intelligent business person who can always spot opportunities to further develop his business interests. He bought large tracts of land and built houses on them. In terms of capital funding, he attained bank loans by using the land he bought as collateral to finance his business. His brother-in-law was a construction foreman and has worked in this field for more than 15 years. There is about 35 staff in Mr Lan's construction team. They are fully-skilled workers within the building and construction industry. Low-skilled workers are temporarily employed when necessary and most of them are from the local labour market.

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Presently, two separate housing estates have been build by Mr Lan's company and he named two main streets after his two children. Mr Lan also renovates old houses and resells them at a profit. An additional business is the hiring and selling of construction equipment at low and competitive prices. Mr Lan ran an import business previously and therefore also imports construction equipment.

### **3.5.3 Ownership and leadership**

As previously stated, Mr Lan and his wife owns 75% of the company shares and 25% of the shares belongs to his brother-in-law. He takes full responsibility in running the business and he does not employ any professional managers. In his opinion, nobody besides himself can acquire the business opportunities within today's fast-changing business environment.



### **3.5.4 Management structure**

Mr Lan is the chief executive officer of his company and his wife is in charge of the finances. His brother-in-law assumes the responsibility of managing the construction team. He has two office assistants helping him process the daily documents from banks statement, customer transactions and suppliers. At present, his son also works in the company as an office manager. In Mr Lan's opinion, it can only help his son to be involved in the business so that the process of succession can be attained when he retires in the future.

### **3.5.5 The impact of cultural factors**

Mr Lan is a typical Chinese businessman, conservative and authoritative, placing emphasis on integrity and trust. He maintains good relationships with his business associates and keeps

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his promises. These values are instrumental in Lan's success as it helped him to build trust with his creditors and banks. As a strict authoritarian, he is feared and respected by his children and staff alike. Despite his tough exterior, he treats his staff very well.

He started grooming his son as early as 1998, forcing him to join the company and teaching him the ways of doing business. Mr Lan believes that power struggles are the cause of most CFOBs' downfalls, but states emphatically that this will not happen in his company as authority and roles are clearly defined and duties delegated. Each sibling has his/her own role to play and complement each other. Most importantly, there is mutual trust and respect. In ensuring continuity, Mr Lan expects his son to take over his business when he is old enough to do so.



### **3.5.6 Strategy for the future**

Thus far the business is doing well. Mr Lan is fairly satisfied with the financial situation of his company. Undoubtedly, the success of the business is dependent on the leader's ability. Most of the time, Mr Lan can quickly gain the advantage over his competitors in terms of capturing the business opportunities, but he also has many shortcomings compared to other large property companies in terms of investment capital and business reliability. Mr Lan still operates a small property company and therefore cannot compete with large local property companies in South Africa.

Mr Lan is a successful businessman, but unfortunately his only son is not interested in his business even after he was forced to work in the company. Unlike his father, the son prefers academic life instead of business life and this gives Mr Lan a lot of headaches. Mr Lan does

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not want to employ a professional manager to assist him in his business and he always said to his family members: ‘The company is our company. You have to take your own responsibility to help me to make more money. Outsiders are outsiders and you cannot trust them because they are not your family members.’

What is the strategy for the future? Mr Lan has no idea as to how to answer this question. This is evident in him saying, ‘We will see what is going on. You can not forecast the future, the only thing we have to remind ourselves is that don’t be lost in any time and in any situation. You are the time controller and opportunity controller’

### **3.6 CASE 4: “Meatballs Zhang” food factory**



#### **3.6.1 Background**

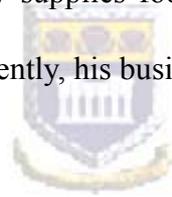
The “Meatballs Zhang” food factory was established in 1989 by Mr Zhang and his wife. Besides manufacturing meatballs, Mr Zhang also supplies food to Chinese merchant fleets when they need replenishment at Cape Town wharfs. Mr Zhang took advantage of this as he had a good relationship with merchant fleets and imported merchandize from China and sold them to local Chinese, Korean and Japanese immigrants. Mr Zhang thus adopted a diversification strategy to maintain his business.

#### **3.6.2 Establishment, expansion and growth**

Meatballs are traditional Chinese food made by Taiwanese people. It is also one of the more popular foods eaten, especially when Chinese people eat “hot pot”. If not eaten, the hot pot will lose some of its taste. When Mr Zhang arrived from Taiwan with his family in 1989, he

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started making meatballs according to a special recipe from his hometown. Mr Zhang and his wife were the only two workers in his workshop then, because they did not have enough money to employ workers. With their input and the special recipe for making meatballs, their foods were considered to be of good quality, with prices lower than their competitors. With this, Mr Zhang established his own brand, “Meatballs Zhang” and the majority of immigrant Chinese around Cape Town prefer Mr Zhang’ meatballs. After two years Mr Zhang realized that he needed more workers to increase the output of meatballs and employed four local workers in his factory. In the meantime, he imported new production equipment from Taiwan to accelerate the production of making meatballs. “Meatballs Zhang” served as a representation of Chinese food. Also due to the brand, he discovered a market in supplying merchant fleets from Taiwan. He now supplies food to them and thus has good customer relations with the merchant fleets. Presently, his business is doing well.



### **3.6.3 Ownership and leadership**

Mr Zhang enjoys 100% ownership of his workshop, because he set up the business on his own. He also takes full responsibility for his workshop and his replenishment business with merchant fleets. According to him, a small business does not require a formal management system. Mr Zhang feels that at this moment he can handle all the business activities himself.

### **3.6.4 Management structure**

Mr Zhang believes that even though there is no formal management system in his workshop, his way of management works and he still follows the informal management system practiced by his family members. Mr Zhang has three daughters and one son and they all work in the workshop. His son is the only one who works full-time, while his three daughters work

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part-time and have their own responsibilities. For example, the eldest daughter is in charge of inventory taking, the second daughter is in charge of customer quotation and the youngest daughter works in accounting. The son works with Mr Zhang, because it is expected that he will take over the business in the future. Mr Zhang's wife is both housewife and assistant manager in the workshop. Besides the family members, Mr Zhang also employs six staff members, of which one was elected to supervise the others. In Mr Zhang's opinion, this is a good way to manage the workers by allowing them some kind of autonomy and authority.

### **3.6.5 The impact of cultural factors**

Like Mr Liang, Mr Zhang also has many values. His integrity, personal diligence and frugality are apparent in his business. He encourages his children to study further so that they can have a formal qualification to do what they wish as a career. This is the main reason why he moved his family from Taiwan to South Africa. Two of his daughters are studying at the University of South Africa at present. His son does not want to study, but prefers to work in the workshop.

Mr Zhang treats his staff as though they are close friends. He trusts them and allows them to work independently. He tried to teach them how to produce meatballs using his special recipe, but they were not able to reproduce them accordingly. However, the staff are all willing and capable in his workshop.

### **3.6.6 Strategy for the future**

“Meatballs Zhang” is a strong brand, which dominates the food market within the Cape Town Chinese society. There is no other workshop in Cape Town which makes meatballs like Mr

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Zhang. At the start of his business, Mr Zhang had a few competitors in the food market. However, because of his competitive advantages (good taste, low price and reliable quality), his competitors' workshops all closed down. Mr Zhang wants to explore the broader market for his meatballs in Cape Town, but due to religious obstacles (his products contain pork meat), he could not introduce his meatballs to local supermarkets. Since Johannesburg has a big Chinese population, he found other markets by extending his business and establishing a network with other Chinese supermarkets in Johannesburg. Every month he delivers two mini containers to his clients in Johannesburg. This channel is still in operation.

Mr Zhang is not only satisfied with his present business, but already has two other projects in the pipeline. One project involves opening a food replenishment shop for merchant fleets in Mauritius and he intends to run this business by himself, whilst the "Meatballs Zhang" workshop will be managed by his family. Another business idea involves establishing a tissue manufacturing business in partnership with two people from Mainland China. This venture is already in the negotiation process.

Mr Zhang has already informed his son that when his son gets married, he will take over the "Meatballs Zhang" workshop permanently and he will guide his son with the managerial and operational activities of the business. Mr Zhang's hobbies are calligraphy and painting and when he retires, he wishes concentrate on these pastimes. His wish is to open his own exhibition in the future. Just like he said, "Because life is too short, we have to enjoy the life".

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### **3.7 CASE 5: “K-K Fashion shop”**

#### **3.7.1 Background**

The “K-K Fashion Shop” was established by Mr Wang in 1999 and its main business activity is selling clothes and shoes imported from China. The K-K Fashion shop is located in the Guguletu shopping mall where most low-income people are regular customers. It sells cheaper clothes and shoes compared with other clothing shops in Cape Town.

#### **3.7.2 Establishment, expansion and growth**

Mr Wang and his wife came to Cape Town from Mainland China in 1998. At first, he did not have a real plan as to how to set up his business in Cape Town. His intention was to travel the whole of South Africa as a way of enjoyment. As he was previously a salesman with 10 years working experience in China, Mr Wang found that there were numerous business opportunities in South Africa. Therefore, he changed his mind and he settled down in Cape Town. Mr Wang thought that the two easiest ways to achieve his goal was to open a restaurant which is in line with following the common path preferred by overseas Chinese. This is based on the notion that most overseas Chinese prefer to open up restaurants as their first business to survive in a foreign country. Another way was to start a clothing business where one can easily acquire clothes from wholesalers. These wholesalers import garments and textile products from China at the lowest price and distribute them to different local retailers.

He chose the second approach and opened the first “K-K fashion shop” in the Guguletu shopping mall. In order to minimize the business risk, his wife rented a booth in Green

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Market Square to sell clothes and shoes, instead of working in the shop. In Mr Wang's opinion, if his business was not profitable, at least his wife could keep them alive with the money she made. The first K-K Fashion shop was so successful that Mr Wang decided to expand his business. He attributes his success to his experience as a sales person and targeting the right market. At the beginning of 2000, he took over another clothing shop in the same shopping mall. Meanwhile, his wife closed the booth and joined him in the second shop. Mr Wang's business has now become a family business. In 2002, he opened the third "K-K Fashion shop" in a different shopping mall and used the same consumer targeting strategy. Mr Wang's nephew also joined the "K-K Fashion shop". By this time, three family members were working in the K-K Fashion shops chain, with eleven African assistants.

### **3.7.3 Ownership and leadership**



Mr Wang and his wife enjoys 100% ownership of these three shops and he pays his nephew a salary. Mr Wang's wife plays an important role in terms of leadership, because most of the time Mr Wang is not in the shops and his wife takes on the responsibility of managing the shops. His role is to constantly supply the shops with goods.

### **3.7.4 Management structure**

Mr Wang's wife is in charge of the daily management of the shops. Mr Wang takes the sole responsibility of organizing and supplying goods and negotiates prices with wholesalers. Mr Wang's nephew is in charge of the third "K-K Fashion shop". Mr Wang is the final decision-maker if there are big business deals to be made or events to be organized.

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### **3.7.5 The impact of cultural factors**

Mr Wang applies more integrity in his business dealing compared to other ordinary salesmen working in the retail field. In his opinion, integrity is of utmost importance if one aspires towards a successful career. He still follows his own principle, which is doing businesses honestly, even though sometimes these principles are not followed by his business partners (wholesalers). However, he believes that this is the right way to do the right things and he always reminds his nephew of the correct principle. He only trusts his family members in terms of running the business. In his opinion: ‘I deal with my business partners with integrity, but I don’t believe they deal with me in the same way. The only people you can trust are your family members’.



### **3.7.6 Strategy for the future**

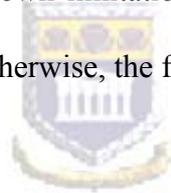
The price and quality of goods are two major determinant factors for retailers to obtain a competitive advantage over competitors. Therefore the competitive environment in the retailing sector is very intense. In order to keep the business running well and have a competitive advantage over other clothing shops, Mr Wang has to maintain good relationships with wholesalers in order to obtain low prices and high quality goods. He spends most of his time setting up his supply chain network with suppliers. Without suppliers, he has no business at all. Without his shops, the suppliers would still have significant business, because there are so many retailers in their supply chain.

Due to the above mentioned factor, Mr Wang does not want to open a fourth K-K Fashion shop. He wants to change his passive approach concerning his supply chain network and become more active in this network. Instead of imitating, Mr Wang thinks more towards

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innovation. He is attempting to establish import channels to further enhance his supply chain network and distribution of goods to other retailers. Meanwhile, he can also sell goods in large quantities in his own K-K Fashion shops and through this he is not only a retailer, but also a wholesaler.

From a management perspective Mr Wang has big plans for his business. He said: “I could not employ any professional person as my manager due to limited finances, but I can mould myself into a professional manager”. Currently he is studying towards a Management Science degree as a part-time student at the University of Western Cape. In his opinion, the more modern management ideas he learns, the more he can incorporate these into his business. He states that, “a family business has its own limitations; we must bring modern management knowledge into the family business. Otherwise, the family business will be bogged down”.



### **3.8 CONCLUSION**

The CFOBs that were selected covered the service sector, the manufacturing sector, the construction sector and the retailer sector. Each case has its own characteristics in terms of establishment, management structure and competitive advantage. They also have some similarities in terms of the impacts of cultural factors, ownership and leadership on their businesses.

In these five CFOBs, the Golden Dragon is the only case where the second generation took over the business. The Fortune Garden is the only case where the owner employed a non-family member as a manager. The K-K Fashion Shop is the only case where the owner

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came from Mainland China and Meatballs Zhang is the only case where the owner diversified the businesses. Lan's property company is the only one where 25% of the company shares does not belong to the owner himself (although the person is still his family member).

Generally speaking, the management practices of the five CFOBs are quite similar to literature reviewed. In the following chapter, the researcher will discuss in more detail the types of management practices based on the information collected from the interviews.



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## **CHAPTER 4: FINDINGS**

### **4.1 INTRODUCTION**

The findings of this study are based on information gathered from interviews with five CFOBs in the Cape Metropolitan area. Having studied the five cases, the researcher analyzed several findings regarding the characteristics of CFOBs as reviewed in the literature and also points out the kinds of management style these CFOBs adopted.

The questionnaire consists of 28 questions, which contains demographic questions and questions to elicit information on management style and operational procedures. The demographic questions include type of business, type of ownership, age of business and number of employees etc. The remaining questions are divided into open-ended questions and close-ended questions. The data were collected during the period between May and July 2004.

### **4.2 THE GENERAL CHARACTERISTICS OF CFOBs**

The general characteristics of CFOBs consist of the profiles of the business and the profiles of the respondents. The business characteristics cover four basic areas namely; type of business, number of employees, age of business and type of ownership (see Table 4.1, p 46).

On average, CFOBs employ a high percentage of family members. Especially in the case of Meatballs Zhang, 50% of the employees are family members. However, in the case of the

‘Golden Dragon’ and the property company, they have a significantly lower percentage of employing family members. Reasonable explanations can be found from the industry these enterprises are involved in, namely the construction industry and the manufacturing industry. These two sectors are more labour- intensive compared to other sectors.

In terms of age of business, only the K-K Fashion shop is less than 10 years old. With regards to the type of ownership, four out of the five cases are sole proprietors in nature.

Table 4.1 General characteristics of CFOBs

	Chinese restaurant	‘Golden Dragon’	Property company	Meatballs Zhang	K-K Fashion shop
Type of business	Food services	Furniture	Property development	Food processing	Clothing retailer
Number of employee	24	55	37	6	11
Active family member	3	6	4	6	3
Age of business	16 years	24 years	22 years	15 years	6 years
Type of ownership	Sole proprietor	Sole proprietor	Partnership	Sole proprietor	Sole proprietor

The characteristics of respondents include four areas namely, age of owners, educational level, management generation and gender (see Table 4.2, p47). On average, the age of owners is relatively high and only one respondent is younger than fifty years. The educational level is low and only one owner (Mr Wang) has a diploma/degree. With regards to gender, all

respondents were male.

Table 4.2 Characteristics of respondents

	Chinese restaurant	'Golden Dragon'	Property company	Meatballs Zhang	K-K Fashion shop
Age of owner	52 years old	65 years old	54 years old	55 years old	37 years old
Educational level	Middle school	Primary school	High school	Middle school	College
Management generation	First	Second	First	First	First
Gender	Male	Male	Male	Male	Male



### 4.3 ANALYZING AND DISCUSSING THE FINDINGS

The findings focus on the following areas: organizational structure, management process, succession planning, Chinese culture and trust, business network, entrepreneur and strategic planning. The following are the factors that have been identified.

#### 4.3.1 Organizational structure

Generally speaking, the organizational structure of CFOBs can be described from the following aspects: family-owned assets, small-scale business, simple structure and nepotism.

##### 4.3.1.1 Family-owned assets

In the case of the Chinese restaurant, Mr Liang started the business in partnership with his

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brother, but he eventually acquired all the shares of the restaurants and currently runs the restaurants on his own. With regards to the property development company run by Mr Lan, he has all the decision-making power, although his brother-in-law owns 25% of the company shares. Therefore, the enterprise is owned by two families, but is controlled by one single family. The other three enterprises are all sole proprietorships and the owners are the sole decision-makers.

All the owners of the CFOBs view their enterprise as a family-owned asset and would not like to share the ownership with other non-family members. As a consequence, the ownership and power of management in these CFOBs are controlled by one single family. It can be argued that CFOBs are driven by the objective of maximizing their family wealth.



#### 4.3.1.2 Small-scale business

These five CFOBs in Cape Town are of a rather small-scale and the number of employees hired is very limited (as can be seen in Table 4.1). According to the information gathered from the interviews, the researcher found that four CFOBs hired fewer than fifty employees each and only one ('Golden Dragon' furniture factory) hired more than fifty employees. It is only the 'Golden Dragon' which operates as a second generation enterprise. Due to the more modern management style and practices of the second generation leader, it tends to follow practices which are not as strict as those applied by the other four enterprises. Therefore it is reasonable to say that they hired more employees than the other four CFOBs.

#### 4.3.1.3 Simple structure

The CFOBs are not only small in size, but also simple in structure. The CFOBs concentrate

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their functions on either production ('Meatballs Zhang'), sales (K-K Fashion shop), or service provision (Chinese restaurants). They have no formal systems of regulation and the functions of each department in the CFOBs are not clearly specified. The duty of each position is not well-defined and the working procedures are not standardized. As a result, the employees have to follow the orders as given from the owners and do various tasks in different fields. In the case of the Chinese restaurant, the chef in the kitchen has to check the inventory of the cooking material and make an order list every weekend. The chef also takes the responsibility of managing the kitchen and the kitchen staff. In the case of 'Meatballs Zhang', although Mr Zhang's three daughters have different roles in terms of the enterprise operation, they are still involved in other daily operations such as purchasing, delivery and production.

#### 4.3.1.4 Nepotism

Nepotism means the practice of favouring one's relatives when one has the power to give them good jobs. From the interviews it has become obvious that there is strong nepotism in CFOBs. Where the enterprise's managerial structure is not clearly delineated, the owner has control of the whole business and makes decision by himself. As the enterprise grows to the extent that the business activities are beyond his control, the owner will usually appoint family members, or relatives, to key posts of the organization to help him deal with the daily management tasks. They try to keep the ownership of the family enterprises in the nucleus family and extend preference to hiring extended family members and relatives, rather than non-family members. This preference was found to be applicable in all the cases.

In the case of the K-K Fashion shop, Mr Wang asked his nephew to help him operate the third shop and in the case of the 'Golden Dragon', all Mr Li's family members became involved in

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the business as it expanded.

In the case of the Chinese restaurant, Mr Liang appointed his wife to be in charge of the Jade Court Chinese restaurant and also pushed his son to be involved in the daily management of the Jade Court restaurant.

In the case of 'Meatballs Zhang', Mr Zhang's three daughters help with the daily management in terms of inventory, bookkeeping and quotation. In the case of the Property Company, Mr Lan's brother-in-law is in charge of the construction team. In all five cases, the family members are paid a salary.

#### **4.3.2 Management process**



The management process in CFOBs can be regarded as the process applied by the way the owner deals with people according to his relationship with them. These relationships are explained under the following subsections:

##### **4.3.2.1 Leadership style**

The owners of these CFOBs usually assume an authoritarian leadership style, or rather an informal, subjective and paternalistic style of leadership. To protect and maintain the position of authority, they control all the information related to guiding their organizations and permits employees to know only that part of the information pertaining to their activities in the enterprises. A typical example is in Mr Lan's case (property development) in which he controls all the information in his company. His brother-in-law only knows when and where he should take his construction team to work and knows nothing about the contract or finer

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details of the construction project and how much profit the project will earn.

#### 4.3.2.2 Decision-making procedures

As the owners of the CFOBs regard the family business as their personal property, decisions about major goals in the business are kept confidential. Important matters are rarely discussed with other people, not even with family members. The owner of the CFOB seems to be the person “who is knowledgeable about all aspects of the enterprise and he is the key broker of enterprise knowledge”.

In the case of Meatballs Zhang, Mr Zhang has two projects in the pipeline. In terms of the two projects, he is the final decision-maker and nobody knows any details except his wife. In Mr Lan’s case, there is nothing debatable in terms of running the business and decision-making. He controls all the information and makes the final decisions on his own. Since they have regular family board meetings, a different case can be found in the ‘Golden Dragon’ furniture factory, which appears to be more democratic in terms of decision-making.

#### 4.3.2.3 The control process

Due to the lack of formal job descriptions for each position, it is very difficult for the owners to evaluate employees’ performance on the basis of specific criteria. In view of this managerial shortcoming, the owners of the CFOBs tend to rather expect ‘loyalty’ from employees. To those who show high loyalty and who seem to have done their best work, the owner always rewards with an extra bonus. In the case of the Chinese restaurant, Mr Liang pays the chefs he employs a different bonus at the end of the year. He states the reason for the bonus differential is that some of his workers look after his business well and hence he

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regards them as part of the family. This notion can be described as ‘loyal non-family members’.

### **4.3.3 Succession planning**

All the owners of the CFOBs indicated that their family-members would be the next generation of management when they retire. However, the owners have not indicated the specific retirement time. In their opinion, it will very much depend on how the business is doing. None of the five CFOBs has a formal succession plan, but a common observation was that the first-generation leader prepares for their children’s succession way in advance.

In the case of the Chinese restaurant, Mr Liang’s sons started helping out in the business at a young age during their holiday periods, starting from the bottom rung of the ladder. In the case of ‘Meatballs Zhang’, Mr Zhang’s children all work in the factory and his son has already informed him of aspiring to taking over the business when he is married. With regards to the case of the Property Company, Mr Lan forces his son to be involved in the business, even though his son does not like the business life.

Four of the CFOBs are in their first generation and only the ‘Golden Dragon’ is in a second-generation ownership. The researcher believes that this observation correlates with the informal management system of the family business and the age of the business. Regarding the owners’ view on succession planning, it is not deemed necessary by CFOBs to have a formal written succession plan in a small family business. In the case of the K-K Fashion shop, the business is only 6 years old and the owner is younger than the others. Therefore, there is no formal succession plan either.

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#### 4.3.4 Chinese culture and trust

The dominant culture of CFOBs may perhaps be explained by Confucian culture. As a guide to Chinese ethical principles, Confucianism has deeply influenced Chinese societies and places emphasis on the value of the family. It has been observed in all the cases that the owners adhered to the values of honesty, integrity and diligence and these values are also the disciplines implemented in their enterprises.

All the owners of the CFOBs believed that trust is the most important factor for their business. Trust in family members is practiced by the owners and this shapes the management culture of the succeeding generation. In setting up their business, the owners of the CFOBs are driven by a need for survival and then need to feed their families. They trust family members more and delegate minimal responsibilities to outsiders and provide job opportunities to their family members. In this regard, more important from the perspective of running a family business is the notion that monitoring costs would be minimized. This may be true for any family business in general. In all the five CFOB cases, only the Chinese restaurant owner appointed a non-family member into a key management position. Only after the non-family member served the enterprise for five years, was she trusted and promoted to a senior position. In this regard, the non-family member is employed based on trustworthiness and loyalty. In terms of the other four CFOB cases, the main component of the human resources related to management is still family members and they are all employed based on trustworthiness. For example, in the K-K Fashion shop, Mr Wang's nephew is the manager of one shop. In the 'Golden Dragon', the four sons are in charge of different management positions. In the case of 'Meatballs Zhang', Mr Zhang's children are in charge of accounting,

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quotation and inventory. Even in the case of the property company, Mr Lan asked his son to be involved in the daily management functions and appointed his brother-in-law as the leader of the construction team.

#### **4.3.5 Ethnic business networks**

All the owners of the CFOBs viewed that it is important for their business to network with other businesses and the function of networks is that they utilize personal business networks to acquire orders and acquire more business opportunities. As a result of using business networks, little use is made of impersonal channels, such as advertising or sales promotion. More even, their business practices reveal a high degree of goodwill and trust and agreements between trading parties are mostly made verbally on an informal basis. All the owners of the CFOBs agree that it is essential to have a good business network and also effective business operations.



In the case of the Chinese restaurant, Mr Liang has good relationships with selected tourism agencies and tourist guides. Using his business networks, Mr Liang made arrangements with these agencies to ensure he can obtain regular tourist bookings. As a sales promotion, he will give discounts to the tourism agencies and tourist guiders.

In the case of the ‘Golden Dragon’, it has forged business linkages with suppliers in Mainland China, because most of the raw materials used in the production processes are imported from China. This business network was established by Mr Li and most of the suppliers have been Mr Li’s good friends for a long time. Steven (the second generation) stated that he feels that this kind of business network is not reliable due to the lack of formal

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contracts and paper work. In the future, when he takes over the business, his plan is to establish a new supply network with formal contracts and a standardized supply chain. This observation appears to be a deviation by the second-generation ownership as opposed to the networks established by the first generation owners.

In the case of the property company, there have also been some business networks between Mr Lan and some suppliers in Mainland China. Mr Lan indicated that the business network is strongly based on the mutual trust and the fact that all the suppliers are his old friends. He is used to the business network and he does not want to do anything to change it.

In the ‘Meatballs Zhang’s case, trust is the single-most important factor in maintaining good relationships with the merchant fleets. Personal networks are regarded as significantly more important as formal contracts and most of his orders are made on verbal agreements. In Mr Zhang’s view, if one wants to do business, one must trust one’s business partners.

An uncertainty in these five CFOBs is the K-K Fashion shop. Although Mr Wang follows business principles to establish his business networks, it seems that they do not work well. It was difficult to extract an exact answer from him during the interview. Relative to the other cases interviewed, he is still very young and it could be that he has not been able to establish long-term relationships with his business networks.

#### **4.3.6 Entrepreneur**

In each CFOB, a clear leader (i.e. the owner) is very prevalent. The owners lay the foundation for the business through their entrepreneurial efforts and their entrepreneurial role and

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authoritative personality are instrumental in the setting up of the business. Timmons and Spinelli (2003) refer to this person as the “lead entrepreneur”.

Generally, the owners of the CFOBs interviewed have a low level of education. However, in terms of doing business, they tend to be successful by relying on business experience and business abilities in the field they are involved in.

Three owners of the CFOBs (except ‘Golden Dragon’ and K-K Fashion shop) stated that a management system is not really important to their business. Also due to the low education background, the owners do not have an academic understanding of the factors constituting a sound management system and they could not explain their leadership and human resource management control process. They viewed the management system as a kind of operating method only implementable in a large -scale organization, rather than a small business like theirs. In their view, it is not really necessary to employ professional people to assist them in the running of the business.

In view of their perceived lack of tertiary education, the owners place a significant emphasis on education, in wanting their children to complete their education before joining the enterprise. Therefore, as the potential successors, they tend to receive more education than their predecessors and are less conservative and therefore more receptive to new ideas. Additionally, the second generation does not face the start-up difficulties their predecessors had.

In the case of the ‘Golden Dragon’, the second generation leader, Steven, received more

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education, professional training and exposure to Western style management when compared to his father. Naturally, the son tends to apply Western principles and practices in the running of the family business. He also favours the recruitment of qualified non-family professionals. However, in expanding the businesses, Steven (as the second generation owner) does not blindly embrace Western management practices. Instead, it is done through careful retention of Chinese values and the selective introduction of Western professional management practices, thereby effectively combining the best of both management styles.

In the case of the K-K Fashion shop, Mr Wang tends to adopt professional management practices in the running of his business. This can be found in Mr Wang's interest in gaining a better insight and knowledge about modern Western management by attending university. This is evident in Mr Wang's statement that 'A family business has its own limitations and we must bring modern management knowledge into the family business; otherwise, the family business will be bogged down'. In fact, Mr Wang is willing to employ a professional person as a manager to assist him in running the business. The problem is the salary, because he could not afford the same level of salary as other large -scale organizations.

#### **4.3.7 Strategic planning**

Strategic planning means that to maintain long-term success and survival, one plans actively to prosper in the business and add new strategies to the business as the market environment changes. In the case of the Chinese restaurant and the Property Company, they only have verbal and vague goals and mission statements in terms of strategic planning, concrete and clear objectives and visions are absent. Furthermore, they do not have any strategic plan to expand their business. In Mr Liang and Mr Lan's view, they are quite satisfied with the

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current business operation and they would like to carry on with the business in its current format.

In the case of the ‘Golden Dragon’ and the K-K Fashion shop, they have clear visions and specific strategic plans to expand their business. Reasonable explanations are that both the ‘Golden Dragon’ and the K-K Fashion shop are inclined towards using more professional management practices in order to achieve sustainable business development and growth. Therefore, they look more frequently beyond the present operational aspects of the business and they make strategic choices with regards to the long-term goals of the business.

On the other hand, the Chinese restaurant and the property company tend more towards a traditional Chinese management culture and they are not really considering professional management practices. Therefore, they prefer to keep the business small and it is therefore easy to control.

The case of ‘Meatballs Zhang’ could be placed in-between professional management practice and traditional management practice. Mr Zhang has a clear vision as to how to expand his business, but he does not want to adopt modern management systems to fulfill his strategic plans. In this regard, there is some contradiction.

#### **4.3.8 Competitive environment**

The five owners have different opinions in terms of competitive environment. In the case of the Chinese restaurant and the K-K fashion shop, the owners stated that their competitive environment is quite intense in terms of price and quality of products.

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In the case of the ‘Meatballs Zhang’ and the ‘Golden Dragon’, the owners indicated that they have less competitive pressures compared to other sectors, such as retailing and service sectors. They obtain more competitive advantages base on the good quality of products and good prices of products as well.

In Mr Lan’s (the property company) case, he has few competitors within the Chinese society. However, he indicated that he could not to compete with local large construction companies, due to the small- scale of his business and financial supports.

With regards to the competitive environment, all the owners of the CFOBs look more to other businesses operated by Chinese people at the same sector in Cape Town. In other words, this can be described as competition between different Chinese businesses. The major competitor is still the Chinese business operated in different fields and they pay little or even no attention to local non-Chinese businesses competitor.

#### **4.4 SUMMARY**

This chapter dealt with the observations that the researcher explores during the interviews. The researcher discussed the findings from the perspective of organizational structure, management process, succession planning, Chinese culture and trust, business network, entrepreneur and strategic planning. With regards to organizational structure, the researcher described it in terms of four factors: family-owned assets, small-scale business, simple structure and nepotism. With regards to the management process, the researcher clarified it in

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terms of leadership style, decision-making procedures and the control process.

For succession planning, the researcher observed that none of the CFOBs has a formal succession plan. In terms of Chinese culture, the researcher found that Confucian culture was dominant in the CFOBs and all the owners of the CFOBs considered trust as the most important factor for their business. In terms of business network, the researcher observed that all the owners of the CFOBs put a significant effort into maintaining their business relationships with their partners and to develop their businesses. From an entrepreneurial perspective, all the owners were assumed to be entrepreneurs, since they are the original founders of the enterprises (Neitherless to say, the second generation is also an entrepreneurs). The researcher also found that there was a tendency among the owners towards a willingness to improve their management knowledge. In terms of strategic planning, the researcher did not find a common similarity among these five CFOBs.

The findings from the cases show that there are many points similar to the literature reviewed in chapter 2. These similarities are that of leadership style and decision-making processes that CFOBs adopt which are more or less the same with the findings of authors in this area of research. In terms of succession planning, management culture and business networks, the five cases follow the exact model as in the literature review.

From the findings, the researcher established that there is a very slow evolution toward more professional management practices to achieve sustainable business development and that traditional management culture (trust and interpersonal network) still remains a very important ingredient of the CFOBs success. In this regard, the researcher will have more

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discussions in the following chapter in order to explain how these two management concepts work together.

From the findings, the researcher also found that the CFOBs have their own advantages and disadvantages. In the following chapter, the researcher will present recommendations obtained from the cohort of the five CFOBs.



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## **CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

In this chapter, the research project is summarized and the findings of the previous chapter will be discussed. In addition, the researcher will also make some recommendations based on the conclusions and provide recommendations for future research.

### **5.2 SUMMARY**

This study was about the assessment of Chinese family-owned business (CFOBs). The objective of this study was to study the management style of CFOBs in the Cape Metropolitan area. It was also aimed at comparing similarities and differences in the management style between CFOBs in the Cape Metropolitan area, and that of similar Chinese family businesses as reported in the literature.

Chapter 2 presented the literature surveyed and the research cited some authors' views to illustrate the management framework of CFOBs from a theoretical perspective. According to different views on the Chinese family business, there were some common characteristics of Chinese family business. In terms of leadership style, CFOBs tend to be more autocratic and most of them adopted a centralized decision-making system. In terms of organizational structure, CFOBs prefer to operate as small-scale enterprises. They are easy to control and their organizational structures tend to be flat. Top management positions were filled by close family members or relatives and they only trust family members in key management

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positions. Thus there was strong evidence of nepotism in CFOBs. In terms of business network, networking played an important role in the CFOBs and most of CFOBs were heavily relying on business networks to obtain business orders instead of formal contracts.

In Chapter 3, the researcher selected 5 different CFOBs as target cases in the Cape Metropolitan area, with a general introduction for each case based on the interviews. The interviewees focused on the owners of CFOBs and the research focused on the following fields: the reason of establishment; the ownership and leadership; management structure; the impact of cultural factors; strategy in the future; and, challenges in terms of competitors and environments.

Chapter 4 presented the observations from the interviews. In terms of organizational structure, the researcher discussed it on the basis of four factors: family-owned assets, small-scale business, simple structure and nepotism. With regards to the management process, the researcher clarified it into leadership style, decision-making and management control. For succession planning, the researcher observed that none of the CFOBs has a succession plan. In terms of Chinese culture, the researcher found that Confucian culture was dominant in the CFOBs and all the owners considered trust as the most important factor in their businesses. In terms of business network, the researcher observed that all the owners put a significant effort into maintaining their business relationships with their partners.

In the final chapter, the summary, conclusions and recommendations are presented.

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### 5.3 CONCLUSIONS

This research project investigated Chinese family-owned businesses (CFOBs) and information was gathered from 5 owners of Chinese family business in the Cape Metropolitan area. The focuses of the two main research questions were: what are the characteristics of CFOBs? And, what kind of management style the CFOBs adopt? The above two questions have been answered by identifying certain significant variables. These variables were: organizational structure, management process, succession planning, Chinese culture and trust, business network, entrepreneur and strategic planning.

Based on the findings of the research, the researcher concluded that many of the characteristics of Chinese family-owned businesses conform to those found in existing literature, which include being small-scale with a simple management structure, authoritarian leadership style and tight management control and trusting family members or relatives only. These points are similar to findings in previous studies of Redding (1990), Chen (1995) and Tony (2001).

CFOBs are typically family-owned and operated and family members almost always maintain controlling interest in the enterprise. Also, it is often found that in examples of CFOB's only close relatives fill key management positions in the enterprise and outsiders are not normally allowed to fill top management positions unless they have served the enterprise for a long time.

Due to CFOBs typically being centered around the family unit, they tend to be simple in

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structure and the owners can easily direct the divisions. The CFOBs also operate through a business network in order to maintain its further development. Family control means that the function of decision-making in the enterprise is highly centralized. In addition, there is little delegation of authority, as even minor decisions often must be approved by the owner. It therefore adopts an authoritarian leadership style. In this regard, CFOBs has a strong owner/manager directing the enterprise and making all decisions. In other words, ownership and management control are all in the hands of the controlling family member, who is usually the founding member or his successor.

After studying the five cases, the researcher found that there is a slow tendency toward professional management practices to achieve sustainable business development. However, traditional management culture (trust, interpersonal network) still remains a very important ingredient of the CFOBs. Support for this observation and deduction is further strengthened by the following examples:

First of all, it was found that Confucian culture is the dominant culture in the CFOBs. Therefore, the enterprises can be viewed as the results of arranging the interpersonal relationship in the enterprises and most owners are still under the influence of Confucianism in managing their business. The owners of the CFOBs still have the tendency to assign family members or close relatives to key posts in their businesses and dealing with them based on trust and interpersonal relationships that they have with them.

However, constructing and managing a business in modern society on the basis of the Confucianism culture may lead to some difficulties. When the enterprise is still small-scale,

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most of the employees are family members and the business activities are relatively simple. The owner has absolute power with regards to the business management and assigns his family members to key posts to help him operate the enterprise. Thus, it exemplifies the typical characteristics of family members. Yet, when the organizational scale of CFOBs increases, the owners start hiring non-family members to join the work force. The increase in business activities and the division of labour forces the owner to make the choice of adopting a formal management style and setting up regulations for operating the enterprise, or forces him to follow the old way of management by depending on family members. In other words, the owner chooses between the practices of “rule-by-man” or “rule-by-law”. Especially for the second generation, they tended to prefer adopting a formal management style to operate the enterprises. However, in the ‘Golden Dragon’ case, the leader (second generation) could not give up all the old practices of “rule-by-man” and still follows the management of “rule-by-law”. He is still influenced by the traditional Confucian management culture and sometimes the influence comes from his father.

In this research, the researcher also discovered some limitations that obscure CFOBs further development. The following limitations are:

The first limitation is that centralization and autocratic leadership style tend to make CFOBs inflexible and discourages those employees in the enterprise from taking responsibility.

The second limitation is that the structure of CFOBs is suited to small enterprises and there seems to be a principle of limitation to the growth of family business beyond a certain point. It can be explained through the following: there are only a finite number of members in a

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family. Thus, expansion would quickly exhaust the supply of managerial competency and the enterprise cannot grow any further.

The third limitation is that the owners of CFOBs rely heavily on business networks. Four owners of the CFOBs are fathers and they are all more than fifty years old. The over-concentration of business networks and personal ties in the father's hands may threaten the survival and continuation of the family enterprise especially in the case where the father may become seriously ill or in instances of sudden death. No other family members are empowered to effectively manage in such a leadership and management vacuum.

The fourth limitation is succession planning. The question of succession planning remains the "Achilles heel" of CFOBs and makes CFOBs unstable when power passes from one generation to another. Traditionally, if the family wants to keep the management under its control, the owner may select a child to manage the business rather than a non-family member who may be more capable. In addition, an entrepreneur's selection is often passed to the eldest son, but the question of who can best run the enterprise, or who has the most interest in the enterprise is not as important as status within the family. Consequently, the "reign" may fall into the hands of an inept family member. There is an exact example of this in the case of the property company. The researcher observed that the owner's son has no interest on his family business, even though his father pushes him to be involved in the business.

The fifth limitation is the lack of strategic planning. Although literature postulates that modern professional management practice leads to improved strategic management, the

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CFOBs under review adopted traditional management practices and they have no clear visions and objectives. Therefore, it leads to no strategic planning to expand their business and compete with their competitors.

## **5.4 RECOMMENDATIONS**

Based on the conclusions and limitations discussed in the findings of the study, the following recommendations can be made:

### **5.4.1 More modern professional management practice should be incorporated into CFOBs.**

As discussed previously, the first four limitations are all rooted within the traditional management style. In order to compete in the modern economy and obtain sustainable development, the researcher suggests that CFOBs must decentralize decision-making, invest more heavily in human resources and provide opportunities for non-family members to rise within the management structure. The researcher strongly suggests that CFOBs develop and implement professional, performance-based human resource management practices to replace the traditional management culture and emphasis on personal relationships that are ill equipped to deal with an environment of accelerating competition and increasing complexity.

### **5.4.2 Strengthen the strategic planning and seek for long-term development.**

In terms of strategic planning, CFOBs need to look more frequently beyond the present operational aspects of the business, consider the broader directional alternatives available to the enterprises and make strategic choices with regard to the long-term plans for the

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enterprises.

### **5.4.3 Recommendations for future research**

Generally speaking, this study achieved its objectives, but since the scope of the research was based on five enterprises in the Cape Metropolitan area only, a more in-depth understanding may be required on elements identified in this project. The following recommendations for further research can be made:

#### **5.4.3.1 Relationship between family and business**

It has been claimed that family patterns from a Chinese perspective have an impact on the development of business. For example, family involvement in a Chinese context leads to a competitive advantage or disadvantage? Some authors viewed that the family was a poor vehicle for the entrepreneurial drive and others viewed that family was an engine for the development of business. In this regards, the researcher suggests that the future research should focus on exploring the relationship between family and business. Does family concept make businesses prosperous? Or does the businesses make family prosperous?

#### **5.4.3.2 The linkage between CFOBs and South African family business as well as other ethnic business**

In generally, due to different cultural backgrounds among Chinese and South African people, they may have different corporate cultures of running their family businesses. Therefore, the challenge is to explore if there are differences between Chinese family business and South African family business? For example, since the enterprises from these two groupings are inextricably linked in terms of the buying and selling of goods and services, the business

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interaction may be further explored.

#### 5.4.3.3 The role of women in CFOBs

The researcher found that there was a common phenomenon in which the owners' wives were all in charge of finance among these five CFOBs. This phenomenon provides a basis for further studies on the women's roles in the family business, not only for Chinese family business, but also if this phenomenon is prevalent in other ethnic owned business.

#### 5.4.3.4 Capital formation of CFOBs

Most family business start as a family concern and the primary source of capital is either the individual himself or his relatives. In a foreign investment environment, the aim of the research is to determine the major resources of capital to establish a business and how they accumulate capital in order to further development.



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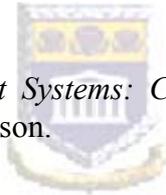
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**APPENDIX 1:**



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23 April 2004

Dear Respondent

## **PARTICIPATION IN A STUDY OF CHINESE FAMILY-OWNED BUSINESSES**

The purpose of this letter is to invite you to participate in a research study being conducted through the Department of Management at the University of the Western Cape.

The underlying theme of the research project is to determine and develop an understanding of management practices in Chinese family-owned businesses.

In order to undertake this study, five Chinese family-owned enterprises in the Cape Peninsula have been identified. Your enterprise has been selected to form part of this project.

This study has a potentially extensive impact on the well-being of family-owned and managed enterprises in South Africa.

Therefore, it would be appreciated if you could complete the enclosed questionnaire, which should take approximately 45 minutes.

The data collected will remain anonymous and confidential.

The researcher is registered for a Master's degree in the Department of Management at the University of the Western Cape.

Thank you for your participation.

Yours faithfully

Dr Kobus Visser  
(Study Leader)

Miss Yu Ping  
(Researcher)

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## APPENDIX 2: QUESTIONNAIRE

1. What kind of business do you run?

Sole proprietor       Partnership       Close corporation       Others,  
specify.....

2. In what year was this business started?

3. Or when did you take it over from your parents?

4. How many employees (excluding the owner) are in your business?

Full time...      Part-time...

5. How many family members (excluding the owner) work in the business?

6. Are these family members paid a salary?      Yes...      No....

7. Do you employ a manager?      Yes...      No...

8. Is the manager a family member?      Yes...      No...

9. Are these people employed on:       trustworthiness       loyalty       merit        
competence       others, explain...

10. What kind of tasks do family members do in your business?       Leadership       Workers

11. What kind of tasks do non-family members do in your business?       Leadership        
Workers

12. Do you think trust is a most important factor for your business? If yes, please explain...

13. Do you think a management system is important to your business? If yes, please  
explain...

14. What do you understand in terms of leadership?

15. What do you understand in terms of control process?

16. What do you understand in terms of management style?

17. What do you think about Human Resource management?

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18. Do you think it is necessary to employ some professional people to assist you to in the running of the business? If yes, what specific tasks should these managers do?
19. Do you think it is important for your business to network with other businesses?
20. What is the purpose/function of such networks?
21. Do you have any strategic plan to expand your business? If yes, please explain...
22. What do you think about the competitive environment around you?
23. When do you plan to retire?
24. Do you have a succession plan? If yes, please explain...
25. Who will be the next generation of management?  Family-members  Non family-members?
26. How is discipline implemented in your business?
27. Who makes decisions in the business?  Owner alone  Owner and close family members  Owner and professional managers  Others, explain...
28. Any other comments you wish to make?