The influence of family dynamics on business performance: does effective leadership matter?

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Received 30 April 2023
Revised 22 August 2023
Accepted 22 August 2023

Abstract

Purpose – Family businesses have a dual objective of profit making and providing opportunities for family members. This duality leads to a conflict that may bring poor team work and communication, which is difficult to reconcile. Thus, the study looked into how the performance of family enterprises is affected by family dynamics. Additionally, it examines the relationship's ability to be mediated by effective leadership.

Design/methodology/approach – The study adopted a quantitative, explanatory research approach. The study population was family-owned enterprises in KwaZulu-Natal's South Durban Basin, of which 236 were chosen using a snowball and convenience sampling technique. Data was analysed using various descriptive and inferential statistical techniques, namely, multiple regression and the standard deviation.

Findings – The finding of the study shows that family dynamics significantly influenced business performance both directly and indirectly through effective leadership. Besides, the family firms with larger employee sizes have better effective leadership that positively contributes to the business performance.

Research limitations/implications – The study recommends that family businesses should train their members to ensure leadership effectiveness.

Originality/value – This study is unique in that it was conducted in Black Townships and focusses mainly on businesses owned by families of Indian descent that need to prepare for leadership/ownership. It also contributes to academic literature on family dynamics and will encourage families to recognise the importance of strong leadership in controlling family dynamics to improve business success.

Keywords Effective leadership, Family business, Family dynamics, Performance

Paper type Research paper

1. Introduction

A family-owned business (FOB) is one where numerous members of the same family hold key positions as managers or owners at the same time or over the course of several years (Miller *et al.*, 2007). It is directly affected by the same family members whose shared goal is to generate wealth for themselves and their offspring (Maas and Diederichs, 2007). Because of the sharp spirit of competitiveness that exists amongst family members, family business

Competing interests: The authors declared that there is no competing interests.

Submission declaration and verification: The authors declare that the article has not been published previously in any form and in any language.

Journal of Family Business Management
Vol. 14 No. 3, 2024
pp. 515-533
Emerald Publishing Limited
2043-6238
DOI 10.1108/JFBM-04-2023-0058

dynamics is a very intricate and convoluted affair (IFB, 2016). The family's major purpose is to ensure that all members are nurtured and developed, while also offering equal opportunities and benefits for all members. The basic purpose of a firm, however, is to thrive, provide good/services, and be viable (Burns, 2003). Therefore, since family members are involved in both parts, it is not uncommon for there to be social emotional conflicts regarding the business as well as the family. Often, it is difficult to reconcile the pervading issues, and this could be a contributing factor as to why family owned small businesses are not sustainable (Maas and Diederichs, 2007).

Since the family business contributes significantly to the national economy, it becomes critical to appreciate its complex family connections, which can sometimes endanger the long-term viability of this type of firm (Chrisman *et al.*, 2012). On a global scale, family businesses are the most common and family members typically run the family business (Palalic and Smajic, 2021). Private family businesses are the most widespread organisational type on the planet, and they are regarded as the lifeblood of global economic ecosystems (Guedes *et al.*, 2022). They have significant roles on countries' economic success (Rachmawati *et al.*, 2020). Given their economic importance, it is not unexpected that specialists are dedicating significant time and effort to researching the achievement of FOBs and the factors that influence them (Palalic and Smajic, 2021).

Acquaah (2016) defines family business research as "the investigation of the causes and effects of variations caused by family business engagement." It has established itself as a mainstay of family business research literature, fostering the emergence of fresh explanations for how families run their enterprises (Barrett, 2014). A family business, according to Louangrath (2015), is a transition between an entrepreneurial enterprise and a formalised SME or fully established corporation, and its existence may be justified using a range of theoretical viewpoints. Entrepreneurial theories can be used to describe family enterprises at the most basic level, whereas firm theories can be used at a more complicated level. Furthermore, in terms of theoretical explanatory capacity for describing cognitions, emotions, relationships, and conflicts in family businesses, psychological theories offer promise. Consequently, no "theory of family business" exists (Brundin *et al.*, 2023).

Amongst the theoretical approaches to family business study include systems theory (Acquaah, 2016; Barrett, 2014), agency theory (Karra *et al.*, 2006), altruism (Cheng *et al.*, 2023), and the socio-emotional wealth (SEW) viewpoint (Acquaah, 2016). For example, Agency theory is a decent starting theory of the family enterprise that takes into consideration its unique dynamics as well as its role as a family institution (Karra *et al.*, 2006). Scholars are worried about altruism in the family business because it fosters family enterprise solidarity, which improves family enterprise development (Cheng *et al.*, 2023) and promotes loyalty and dedication to both family and business (Schulzea *et al.*, 2001). Furthermore, family business have lesser agency costs compared to non-family enterprises due to ownership and control goal alignment as well as altruistic behaviour (Acquaah, 2016). According to systems theory, in a family business is a system of business and family overlaps, that links one another as a system (Poza, 2007). Through long-term investment and altruistic behaviour, a distinct, valuable, resource combination that blends family and commercial systems can be established and passed down for future generations (Li *et al.*, 2023). The socio-emotional wealth (SEW) perspective, which is based on stakeholder management theory has of late drawn interest in the field of family business (Acquaah, 2016).

While the family business allows for positive and peaceful coexistence this is sometimes impossible, more especially with the young generation who have different career aspirations and ideas (Muske *et al.*, 2002). The failure of these businesses to sustain themselves from generation to generation worries a wide range of stakeholders, including the family, owners, and government (Williams *et al.*, 2013). Williams *et al.* (2013), notes that, "approximately 66% of family businesses fail during the second generation transfer, with only 15% surviving the third generation transfer." Intergenerational connections are hampered by family engagement, which is the overlapping of familial and professional relationships (Li *et al.*, 2023). Conversely, Miroshnychenko *et al.* (2023) stated that in contrast to nonfamily enterprises, their behaviour is embedded to a continuing orientation, whose aim is to transfer the firm from one generation to the other. They also found that smaller and younger family enterprises outperformed larger and older family firms during the Covid epidemic. Therefore, examining how much family dynamics affect business performance is crucial.

As with any business venture, challenges are an inherent part of its survival and FOB's are no exception. The major challenges centre on size, location, technology, government rules and regulations, power struggles as well as interpersonal familial rivalry and conflict (Eddleston *et al.*, 2013). Given this concern, entrepreneurial thinking encompasses business prospects that present the harsh reality of uncertain business environments and their associated end results (Dhliwayo, 2007). Therefore, it becomes imperative for the family-owned businesses to focus on both leadership (family) and entrepreneurship (business) to avert the harsh realities of uncertain business conditions and economic downturn. Besides, family business dynamics are expected to shape the business performance outcome. In line with this, a system of classification relating to the impact of family business ownership and control on the success of the business was created by Rutherford *et al.* (2008). This pointed to a relationship being, neutral, negative or positive. For instance, Saidat *et al.* (2022) found family ownership had a negative impact on performance whereas, Guedes *et al.* (2022) established that it had a positive impact in the long term. Family business performance is impacted by the work done by incumbents and successors (Li *et al.*, 2023). In addition, Miroshnychenko *et al.* (2023), points out that family involvement significantly impacts positively on the business' financial performance.

The "big father's" leadership style may also have a bearing on the family control and business performance relationship. The degree to which control is delegated is one fundamental difference in leadership approaches (Akparep *et al.*, 2019). According to Palalic and Smajic (2021), the extent to which the firm's founder delegated authority to other firm members may have an effect on the link between family influence, control and business success. Team leadership is beneficial in a family business.

In FOBs where noneconomic purposes are important antecedents, it is important to consider both economic and non-economic variables in performance measurements (Alves and Gama, 2020; Basco, 2017). The difficulties experienced vary greatly depending on the business size, its location, technological progress, and governing restrictions (Phikiso and Tengeh, 2017). This is true because family requirements and financial concerns are both present in family businesses (Chua *et al.*, 2018). Therefore, even while this occasionally has an impact on the profitability of the company, decisions typically act to maintain family values and reputation as well as the corporate capital (Alves and Gama, 2020). Therefore, these concerns require the clarification of contributions from factors such as nature of family dynamics and size of the business towards financial performance.

Phikiso and Tengeh (2017) and Farrington (2009) both highlight concerns about the challenge of managing a family business, which includes managing its social and emotional problems. Some of these challenges include family strife, authoritarianism, organisational rigidity, nepotism and change resistance (Zellweger, 2017). In order to achieve family peace and a smooth transition, exchange links between family members may be essential (Daspit *et al.*, 2017). It is therefore, important to investigate exactly why leadership is not given prominence in small family businesses (Maas and Diederichs, 2007) as the low business survival rate (Farrington, 2009) may result from ineffective leadership. Testing both the direct effect of family dynamics on company survival and continuity plus the indirect influence through leadership effectiveness is therefore necessary.

The study was carried out in South Africa, where of all companies listed on the local Johannesburg Stock Exchange (JSE), 60%, are family enterprises (Rabinowitz *et al.*, 2018). Family enterprises have significantly boosted the local economy during the past 300 years. Of all enterprises in South Africa, over 80% are family-run (Van Buuren, 2007). More than half of family-owned firms in the country fall under the category of small to medium-sized firms and employ 20 people or less on average.

For the family firm to continue to be innovative and entrepreneurial, a demanding and realistic future vision is necessary (Maas and Diederichs, 2007). The government's support for SMEs is responsible for the family-owned business sector's explosive growth in South Africa (Hjorth and Dawson, 2016). Despite their significant economic contributions, South Africa's new business survival rates are often low (Farrington, 2009). Furthermore, emerging economies are turbulent and weak, putting entrepreneurial initiatives, including family businesses, at risk (Astrachan, 2010). Because of the important role they play in South Africa's socioeconomic development, their generational survival is critical to the country's economic prosperity.

The contribution of this study includes; first, while a plethora of studies have been conducted on family-owned businesses, this study is unique in that it was conducted in Black Townships and focusses mainly on businesses owned by families of Indian descent that need to prepare for leadership/ownership. Further, it is peculiar to KwaZulu-Natal province and no other townships and or urban areas. The study has contributed to the empirical studies on these two aspects in a South African context. More such studies on family businesses are always welcome, especially given the contribution they make to the country's economy. Second, the results are expected to contribute positively to the corpus of academic knowledge on family dynamics and inspire families to recognise the need of strong leadership in managing family dynamics to boost business performance. Third, it is one of the first studies to examine effective leadership independently of family dynamics and examining it as mediating in the link between family dynamics and business success. Last but not least, this study also takes into account the link between the firm's staff size and firm generation. It tends to look into the indirect and direct effect of family dynamics on firm performance in light of the aforementioned facts.

2. Theoretical reviews and hypotheses

2.1 Family dynamics (FD) and business performance (BP)

Attempts to explain company performance using family management and familial variables have yielded conflicting results (Audretsch *et al.*, 2013). Literature imply that family participation in company ownership and management may significantly reduce costs, hence improving firm performance, even though the evidence is frequently conflicting (Gill and Kaur, 2015). The majority of research points to a positive effect of family ownership on market value and financial success (Audretsch *et al.*, 2013). That means, family firm ownership can lead to long-term performance (Aronoff and Ward, 2011; Azizi *et al.*, 2021). In particular, studies that compared family owned business (FOB) against non-family owned businesses shows that both financial and market performance is higher for FOBs. That is, there is strong evidence that family businesses are more successful economically than non-family businesses (Gill and Kaur, 2015). This may be due to family firms' ability to achieve better levels of financial success over time as a result of their distinctive and incomparable resources (Azizi *et al.*, 2021; Martnez-Romero *et al.*, 2020; Cirillo *et al.*, 2020; Saidat *et al.*, 2019).

Numerous studies demonstrate a positive relationship between FOB and performance (Saidat *et al.*, 2022). Razzak and Jassem (2019) discovered a positive correlation between family member identification within the business and firm performance, whereas, Ng *et al.* (2019) identified an opposite relationship (Palalic and Smajic, 2021). The long-term orientation of the family firm increases their economic, emotional, psychological, and social commitment to the company, which in turn improves performance (Guedes *et al.*, 2022). Because incumbents and successors play crucial roles in family businesses, their work influences not just individual outcomes, but also corporate outcomes, such as business performance (Li *et al.*, 2023). With a large body of research from around the world, Miroshnychenko *et al.* (2023)'s findings show that family participation in the business had a strong favourable effect on financial performance.

Entrepreneurial family relationships boost business performance, but the type of relationship also matters, according to Adjei *et al.* (2019). The entrepreneur's children and spouse have a good relationship with business performance, whereas the entrepreneur's siblings do not (Adjei *et al.*, 2019). On the other hand, Brannon *et al.* (2013) found that biological and marital relationships have a positive and negative effect respectively, on a business' initial sales. A partner's entrepreneurial ambitions, are most likely to be passively and actively opposed by his or her spouse, thereby limiting the financial performance of the business and opposing goals between spouses can result in detrimental conflict (Van Auken and Werbel, 2006). Intra spousal conflict also negatively affects performance. In addition to ties to the family, the spirit of competition frequently causes rivalry and conflict since family members want to see the business succeed (IFB, 2016). Corporate success can also be hampered by disputes between family members over the degree of spouse participation in decision-making (Van Auken and Werbel, 2006). On the other hand, it is crucial to understand how disparities in family structures and company involvement affect and are affected by one another in order for family businesses to survive, grow, and succeed (Gill and Kaur, 2015).

Family business dynamics is a very intricate and complicated affair because of the keen spirit of competition that prevails amongst family members (IFB, 2016). Family ownership has an overall impact on performance depending on how it is paired with control structures and management (Pindado and Requejo, 2014). Family control increases firm performance and market value in Western Europe (Maury, 2006). However, in certain European countries, such as Poland, the performance and family ownership relationship is non-linear (Pindado and Requejo, 2014). This variation of findings necessitated further investigation in different countries. It is also evident that employee sound interpersonal relations are crucial to the success of the organisation. Therefore, family dynamics must be explored to better understand how they impact leadership effectiveness and establish how best they can be managed to enhance business performance. As a result, it's proposed that,

H1. Family dynamics positively and significantly influence business performance

2.2 Family dynamics and team leadership

According to Miller and Le Breton-Miller (2005), family enterprises have historically been characterised by centralised leadership structures in which knowledge and authority are centred on a single dominant leader. However, family firms are progressively using more collaborative leadership models (Järvelä *et al.*, 2020). Many different leadership dimensions are typically considered in generic leadership studies. However, there is currently a lack of an academically and practically effective approach to measuring family firm leadership (Neffe *et al.*, 2020). That is, although it is critical for family firms, effective leadership is a neglected subject in the family business literature (Neffe *et al.*, 2020). Due to this, family firms with unique leadership structures have recently drawn more scholarly attention (Fries *et al.*, 2021).

Due to their unique leadership contexts, family enterprises are more likely to display various family firm-specific leadership behaviours, such as paternalistic attitudes (Fries *et al.*, 2021). But in reality, how do successful family executives and those who are not, appear like leaders and what similarities and differences might they share? Family enterprises with many members sharing the leadership role may be better able to coordinate their efforts into effective co-leadership when compared to CEOs who lack familial history (Järvelä *et al.*, 2020). Because of this, effective executive leadership must keep family and business together (Neffe *et al.*, 2020). That is because, the development and execution of shared leadership were hampered by issues such as incumbent leaders' refusal to cede control, resistance to change, relationship confusion, and longer decision times (Järvelä *et al.*, 2020). Therefore, it's hypothesised that;

H2. The better the family dynamics in a family owned businesses the better the practice of effective leadership.

2.3 The indirect effect of family dynamics (FD) on business performance (BP) through team leadership

Miroshnychenko *et al.* (2023) claim that family ownership of the business positively and significantly impact financial success when the controlling family actively participates in management. In other words, the success of the business, the ownership group, and the family depends on how well each group is led. When family members contribute diverse forms of human and other resources, successful businesses thrive and survive (Wilson *et al.*, 2013). Without this contribution, FOBs will not be able to thrive and sustain themselves. It is also a given fact that poor leadership result in poor performance (Miller *et al.*, 2007). Also, there are many conflicts between family business interests, according to earlier studies on family firm leadership (Kotlar and De Massis, 2013). The benevolent actions of the family CEO will inevitably improve profits (Minichilli *et al.*, 2010).

It is difficult to explain how family ownership improves firm performance (Audretsch *et al.*, 2013). Because family connections differ in terms of coherence and conflict (Brannon *et al.*, 2013), the mediation impact may change (Adjei *et al.*, 2019). Family businesses may be reluctant to change the way things are typically done because the routines are seen as a fundamental component of successful enterprise (Guedes *et al.*, 2022). Pindado and Requejo (2014) contend that family owners have an impact on company strategies, succession planning, and ownership structure choices, all of which are likely mediators in the relationship between firm performance and family control. Even though these factors are connected to leadership, it is imperative to factor in, the mediating function of effective leadership. This is likely to ensure that family businesses can operate more effectively (Azizi *et al.*, 2021), thanks to the interplay between ownership, family, and business management.

The relationship between family control, influence, and firm success, may depend on how much the leader delegated authority to other firm members (Palalic and Smajic, 2021). Family businesses may be unwilling to cooperate or interact with partners, and they may also struggle to locate suitable management (Guedes *et al.*, 2022), which may have negative consequences on the team leadership. Razzak and Jassem (2019) found a slight inverse relationship between family control, family influence, and business performance. Thus, business-owners should strive to apply great leadership ambiances in order to build good socio-emotional wealth, in the entire business (Palalic and Smajic, 2021).

Due to the unique characteristics of founders' leadership roles and their propensity to acquire power, founder CEO control (i.e. entrepreneurs) may have an impact on business performance (Pindado and Requejo, 2014). Some research indicates that familiarity in business leadership is beneficial to performance and relates to an organisational leaders' strong obligation to the firm they control (Minichilli *et al.*, 2010). The shared leadership approach profits from familiarity (Järvelä *et al.*, 2020; Bövers and Hoon, 2020). Because the effectiveness of skilled leaders in family business systems is so important to the system as a whole, we need to understand what they actually accomplish. Poor leadership can also reduce the positive correlation between the family ownership structure and business success (Azizi *et al.*, 2021). This entails testing the special concerns of family relations in family company as well as the function of leadership effectiveness. Therefore, we proposed that;

H3. Family dynamics indirectly affect business performance through the practices of effective leadership.

2.4 The moderating role of firm's generation

The spirit of competition in FOBs leads to conflict and rivalry because family members are keen on sustaining the business so that it can be handed down to future generations (IFB, 2016). Hence it becomes imperative for all family-owned business to tap on new markets and resources to transfer the business for the next generations (Spinelli and Adams, 2012). When a generational business transfer takes place, in addition to passing on its financial assets, it also transfers its social and cultural capital (Machek *et al.*, 2014). On the other hand, a study by Zellweger (2017) provided insight into the family dynamics involved in providing financing for the business. He stated that a negative correlation could arise between the older generation and the young generation who prefer to forgo growth (Alves and Gama, 2020). In order to ensure business continuity when selecting a successor, family may access a wider range of human capital and talents by appointing multiple leaders (Järvelä *et al.*, 2020).

Because family enterprises are known for their ability to survive, recover, and thrive for extended periods of time, despite environmental shocks, they are an especially attractive organisational setting to study (Miroshnychenko *et al.*, 2023). According to Razzak and Jassem (2019), the performance of family businesses was positively correlated with the rekindling of links through dynastic succession. On the other hand, researchers found that founder-led businesses performed better than those run by the second generation (Palalic and Smajic, 2021). In contrast to non-family enterprises, their behaviour is rooted in their aim to pass the business from one generation to the next. Due to this need, to preserve and pass over the business, family businesses may also aim to invest more wisely. However, for the variations in strategy, organisation, and goals to be meaningful, they must ultimately affect performance (Azizi *et al.*, 2021). These discrepancies occur as a result of the variable amount of firm capability required for strategy creation as well as disparities in family company dynamics. The findings of other studies highlight the need for additional research by showing how difficult it is for family-owned enterprises to maintain competent family leadership through generations. First generation enterprises rely heavily on family for finance because they have fewer options for raising capital. Family businesses have a long term orientation and are less myopic (Alves and Gama, 2020). There are exceptions to the pattern, as shown by a study by Behn *et al.* (2005) that revealed the second generation is reluctant to take over the family business. Harmony may be negatively affected by the reluctance. This indicates that the second generation firms are less effective in managing family dynamics towards developing effective leadership. Therefore;

H4. The second generation firms are less effective in influencing family dynamics towards effective leadership.

2.5 The moderating role of firm size on effective leadership (EL) and business performance (BP)

Performance analysis shouldn't be limited to looking only at financial performance, as the goals and objectives of FBs inherently differ from the others (Alves and Gama, 2020). Leadership in family businesses is also different from that in other entities due to family emotional ties that are involved (Carney, 2005; Gomez-Meja *et al.*, 2011; Fries *et al.*, 2021).

Block *et al.* (2011) found that young and large family firms were significantly impacted favourably by leadership. However, the different family business definition used in the single investigation may have skewed the results (Gill and Kaur, 2015). González *et al.* (2012) found that family enterprises, on average performed better in cases where the founder was operationally involved, albeit this effect decreased with the size of the firm. Therefore, it's proposed that;

H5. Effective leadership influences business performance more in family firms larger in size than smaller firms.

Given the above theoretical foundation, the following conceptual framework (Figure 1) is provided.

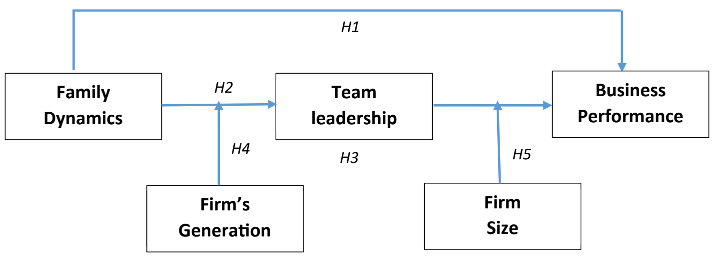
3. Research methodology

3.1 Research design and approach

An empirical, quantitative, design was adopted because it was important to collect a large quantity of data to lend credibility to the findings. This is because, the quantitative paradigm's methods create data that is frequently generalisable to larger populations. The study participants are chosen at random from the study population, and predetermined hypotheses about the links between different variables are tested using statistical tools. An explanatory research design is used to test this hypothesis. Besides, descriptive design is employed to assess the existing level of family dynamics, effective leadership, and family business performance.

3.2 Sampling

The identification of family-owned enterprises to be included in the population proved to be a significant and time-consuming task, as there was no widely recognised ranking list of family-owned firms in the South Durban Basin of KwaZulu-Natal, where data was collected. It was established from the eThekwini Municipality database listing available that there were 4,500 businesses in KwaZulu-Natal. This is, therefore, considered the population of businesses in the area of study. The snowball sampling and convenience approach were employed. The approach was used because it the difficult to access a reliable database on family businesses from the South Durban Basin of KwaZulu-Natal. Due to the absence of family business data on the South Basin region of KwaZulu-Natal, initial contacts with 23 businesses were made through random telephone and physical calls on the available data base and those referred to by individual acquaintances. This was the total (initial) number that agreed to participate in the study after about 50 calls from the available directory. A sum of 18 businesses were picked from the data base and 5 were referred from acquaintances.



Source(s): Authors own creation

Figure 1.
Conceptual framework

The selection criteria were to establish if the business was (1) family owned and (2) had been operational for at least five years.

The snowball sampling method is extensively used where a target population is unknown and infrequent and is hard to choose samples (Saunders *et al.*, 2009). A sum of 536 questionnaires were e-mailed and faxed using convenient, random, and snowball sampling; 221 of them were returned, yielding a response rate of 41.2%. A cover letter accompanied each questionnaire to safeguard respondent's privacy. Consequently, 221 respondents were included in the study sample.

3.3 Data collection instruments

A structured questionnaire with closed-ended questions was self-administered to collect data. The questionnaire comprised four sections. The first section is about demographic factors, which include variables such as firm age and generation, measured as single items. These demographic factors are used as moderator variables. The second section contains family dynamic items. Five elements that make up the construct "family dynamics" are developed based on the theoretical grounding. Responses were required on a five point Likert scale ranging from 1 (strongly agree) to 5, (strongly disagree). Family Dynamics was developed to assess harmony within a family-owned firm. This would represent the potential difficulties that family member employees may have when switching roles between family and work. This was based on, Ratten and Jones (2020), Von Schlippe and Frank (2013), Phikiso and Tengeh (2017) and Von Schlippe *et al.* (2021).

Part three comprised five items on effective leadership. Effective leadership (team leadership), measures a mix of task and relation behaviours and was based on, Yukl (2011), Yukl and Mahsud (2010), Larsson and Vinberg (2010), Shin *et al.* (2011). This was measured using a five-point liker scale as the other constructs. The fourth part of the questionnaire contains information about family business performance. Respondents used a five-point Likert scale to show the extent they agreed with the various statements. Performance as a construct was designed to measure whether there was sufficient capital to ensure the business is viable for sustainability. Performance primarily depends on the study of Caspar *et al.* (2010) and Neubauer and Lank (2016).

3.4 Data analysis

The data obtained was statistically examined using SPSS 23.0 for descriptive statistics. The study employed Hayes Process Macro for SPSS 23.0, to test the hypotheses. This evaluates both the study's direct and indirect effects. The analysis employed 5,000 bootstrap re-samples at each level of the mediator and a bias-corrected 95% confidence interval (Preacher *et al.*, 2007). Descriptive and inferential statistical approaches were used to assess the data.

3.5 Data quality assurance

Prior to doing the analysis, the data's suitability for conducting factor analysis was evaluated. Numerous studies recommend that the sample size of the data be 200 or more in order to conduct factor analysis, and since the sample for the study consists of 221 instances, the applicability of the data is thus established. When conducting factor analysis, the initial step would be to determine the correlation between the variables/constructs under discussion. A convenience sample of 10 business owners from the South Durban Basin of KwaZulu-Natal was used to pre-test the questionnaire. The objective was to first check the questions for clarity to determine whether it could be finished in a reasonable amount of time (about 15 min), and then to elicit feedback regarding the content validity by asking respondents to describe any challenges they encountered when correctly completing the questionnaire. In response to the feedback and ideas from the pre-test participants, the survey instrument was revised. The questionnaire had to be rewritten to remove any jargon, contradictions, or leading questions. The final study did not include the ten pretest responders.

The initial estimate of Cronbach's alpha to assess the questionnaire's internal consistency was created. The resulting output of 0.815 for the questionnaire thus indicates that it is reliable, and deletion of certain items (variables) would not have had much impact on the Cronbach's Alpha. This also qualified all variables (related to the constructs) included in the questionnaire, as eligible for inclusion.

4. Results and discussions

The study results and findings in relation to the hypotheses developed, are discussed next.

4.1 Descriptive statistics

The number of years in operation and generation of business is analysed using a frequency pie chart. Although respondents were provided with up to fourth generation, responses were only limited to the first and second generation with 64.3% and 35.7%, respectively (Figure 2), as illustrated in the figure below.

The results are comparable to data showing that only 30% of family enterprises in the US and the UK remain family-owned by the second generation. According to Bjuggren and Sund (2001), one factor for the less survival of family firms is the practise of families passing on their firms to their offspring rather than more capable professional managers. According to research, family business failures and break-ups are caused by power conflicts and internal feuds amongst siblings and extended family members (Klein and Weaver, 2000).

The mean value for performance (M = 3.6875, SD = 0.4738) in Table 1 indicates that the family business performance is at a moderate level. That is, they are not sufficiently monitoring performance towards long term growth and sustainability, which need further improvement. Similarly, the results of family dynamics (M = 2.578, SD = 0.6038) and effective leadership (M = 2.709, SD = 0.3299) are not sufficient. The family members need to work more as a team with good communication and enjoy working together by openly expressing their differences of opinion freely and willingly. To be effective, family business leaders have to motivate and inspire subordinates, leading others to lead themselves, and remunerating subordinates adequately for their efforts. There is statistically significant

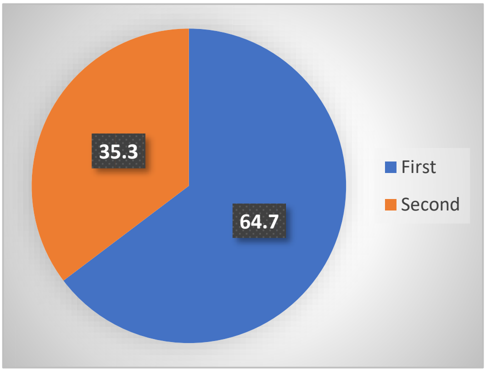


Figure 2. Generation of the business

Source(s): Authors own creation

correlations between the family dynamics and performance and between effective leadership and performance. Performance is significantly correlated to all the four (4) variables under study and only negatively to firm generation −0.261 (Table 1). This attests to the significance of these variables to family business survival. On the other hand, effective leadership does not significantly correlate with the other 3 variables (save for performance), signifying its independence to firm age, firm generation and family dynamics. This result shows the need to focus on leadership effectiveness, and its situational nature (Hersey and Blanchard, 1977). It can be confirmed at this stage that leadership does matter, in the linkage of family dynamics and firm performance.

4.2 The role of family dynamics on leadership effectiveness and business performance

The first hypothesis found that family dynamics had a favourable and statistically significant influence on business performance within family enterprises in the South Durban Basin of KwaZulu-Natal. We present statistical proof of the direct relationships amongst the mediator, independent variables and the dependent variable (Table 2).

Dynamics have a considerable favourable effect on business performance, according to this finding (b = 0.1511, t = 3.1566 p.01). This means that the first hypothesis is supported. This finding is similar to previous findings, despite minor changes in the variables examined in the test. For instance, family ownership and control are significantly and positively correlated with accounting success yet are statistically less strongly correlated with market performance (Gill and Kaur, 2015). Adjei *et al.* (2019) found family relationships pertaining to children and/or spouses to be more significant for company performance. The financial performance of family firms with unique characteristics improves and is maintained through time (Cirillo *et al.*, 2020; Martínez-Romero *et al.*, 2020; Saidat *et al.*, 2019; Azizi *et al.*, 2021). Particularly, the presence of better communication amongst family members will lead to better business performance. This good communication improves the nature of family dynamics which will minimise the conflicts amongst the family members (Aronoff *et al.*, 2011). That is, the positive collaboration amongst family members raises the chances of having common goals and team work which increases firm performance.

The results of the second hypothesis test indicates that family dynamics can positively and significantly affect leadership effectiveness within family firms in the South Durban

Constructs	Mean	St. dev	1	2	3	4	5
Performance (1)	3.688	0.4738	1.000				
Firm Age (2)	1.73	0.447	0.214**	1.000			
Firm Generation (3)	1.36	0.480	−0.261**	−0.422**	1.000		
Family dynamics (4)	2.578	0.6038	0.192**	−0.028	−0.099	1.000	
Effective Leadership (5)	2.709	0.3299	0.373**	0.067	−0.074	0.084	1.000

Source(s): Authors own creation

Table 1. Results of descriptive analysis

	Consequence					
	M (EL)			Y_1 (performance)		
	Coefficient	T	P	Coefficient	t	P
X1 (FD)	0.0956	2.5499	0.0115	0.1511	3.1566	0.0018
M (EL)	–	–	–	0.6327	7.2241	0.0000

Source(s): Authors own creation

Table 2. Estimates of total effect

Basin of KwaZulu-Natal. This indicates that the presence of good relationships and team work amongst family members will lead to better practices of leadership that improves its effectiveness. That is, as family business members are enjoying work together as a team, openly expressing differences of opinion freely, the effectiveness of leadership become better than when this is absent.

Theoretically, altruism in the family business strengthens family enterprise solidarity, which benefits family enterprise development (Cheng *et al.*, 2023) through cultivating loyalty and dedication to the business and family (Schulzea *et al.*, 2001). Thus, this research shows the effect of family dynamics which contains solidarity amongst family and further shows their effect on the family enterprises' performance. Besides, agency theory considers the specific dynamics of family enterprises and their place as family institutions (Karra *et al.*, 2006). Building on agency theory, the study finding clarifies further the consequences of family dynamics including team leadership and family firm performance. For example, conflicts of interest between management and owners are mentioned in agency theory (Barrett, 2014). However, the specific role of team leadership in successfully handling this conflict has to be considered in accordance with agency theory. The finding, that a family business integrates family and business systems, and that resource integration mode can be established and transferred for the long term is built on the systems theory.

4.3 The mediating role of effective leadership

The study results shows that effective leadership significantly and positively moderates the family dynamics and business performance relationship.

Particularly, the association between family dynamics (FD) and company success was shown to be partially mediated by effective leadership (EL) (b = 0.0605, BCa CI [0.095, 0.1425]) (Table 3). The results were confirmed by bootstrapping because the 95% confidence interval (CI) surrounding the indirect effects (b = 0.0605, LLCI: 0.200, ULCI: 0.380) did not contain zero. This is because, according to Preacher and Kelly (2011), Kappa squares of 0.01 are classified as having a small impact size, 0.09 as having a medium effect size, and 0.25 as having a big effect size.

This finding suggests that family dynamics indirectly affect business performance by promoting good leadership. That is, improved leadership effectiveness results from a healthy family dynamic, which also improves business performance. For instance, a number of researchers found that having family top management involved generally improves performance (Azizi *et al.*, 2021). This shows that the families' top management effectiveness which occurs from the good dynamics amongst the family members has contributed to the better business performance. Besides, effective employment modes (related to good family dynamics) and leadership styles are necessary to enhance employee performance in any family-owned business (Liu *et al.*, 2011). This result may imply that employees are more concerned about performing their tasks "as instructed" than to be participating in the design, execution, and management of tasks as part of a team (participatory leadership). This leads to the effectiveness of the leadership. This good leadership in fact results in good performance (Miller *et al.*, 2007). Therefore, family businesses with better family dynamics and better effective leadership are likely to perform better than their counterparts. These businesses

Table 3.
Estimates of direct and indirect effect

Relationships	Coefficient	*t*	*P*
FD→EL → performance (direct effect)	0.1511	3.1566	0.0018
FD→EL → performance (indirect effect)	0.0605		[0.0950, 0.1425]

Source(s): Authors own creation

monitor performance diligently and focus on long term performance and growth by diversifying risks.

4.4 The moderating role of business generation and firm size

Hypothesis 4 examined the moderation of business generation in the relationship between family dynamics with effective leadership. In contrast, hypothesis 5 examined the moderation effect of firm size on the association between team leadership and firm performance. The fourth hypothesis is unsupported (Table 4). That is, whether the businesses are first-generation or second-generation, it has little bearing on how family dynamics contribute to developing good leadership.

This study found that, firm generation has no significant influence on the effect of FD on leadership effectiveness. Even while firm generation does not have a large influence, past research has found that family businesses prioritise long-term viability above generational changes in ownership and management (Aronoff *et al.*, 2011).

Hypothesis 5 proposed that "Effective leadership influences business performance more in family firms larger in size than smaller firms". The result indicates that this hypothesis is supported. That means, the leadership practice is more effective amongst firms with larger employee sizes, which leads to better performance. Firms with a larger workforce are more likely to have a wider pool of participants contributing to improved business performance. Similarly, Block *et al.* (2011), Gill and Kaur (2015) found a particularly good influence in the setting of large-sized family firms.

5. Conclusions and practical implications

By examining the mediating role of effective leadership as well as the moderating roles of firm generation and size, the study aimed to examine the effect of family dynamics on firm performance. According to the descriptive statistics result, the degree of performance of family-owned firms in KwaZulu-Natal's South Durban Basin is moderate. Thus, there is a need to sufficiently improve their performance towards long term growth and sustainability. Similarly, the practice of effective team leadership is not sufficient which requires the family members to work more as a team.

The correlation analysis demonstrates that family dynamics and performance, as well as good leadership and performance, are statistically correlated. The results, however, show that family firm success is unrelated to firm generation. Similarly, effective leadership does not significantly correlate with the firm size, firm generation and family dynamics. This

	DV: Effective leadership $R = 0.179$; $R^2 = 0.032$; $F = 2.248$; $P = 0.084$				DV: Performance $R = 0.527$; $R^2 = 0.277$; $F = 26.087$; $P = 0.000$			
	Coeff	se	*t*	*P*	Coeff	Se	*T*	*P*
Constant	2.302	0.3131	7.353	0.000				
FD_total	0.154	0.1197	1.286	0.199				
Generati	0.128	0.2385	0.535	0.593				
Int_1	−0.047	0.0939	−0.504	0.615				
Constant					4.288	1.195	3.587	0.000
EL_total					−0.346	0.440	−0.785	0.433
Firm Age					−1.311	0.637	−2.057	0.041
EL_Fage					0.556	0.235	2.369	0.019

Source(s): Authors own creation

Table 4. Results of firm generation moderation

shows that effective leadership is the same in different generation of firms and different firm sizes. Therefore, family firms have to improve their team leadership as they grow and as they pass through generations.

The result from regression analysis indicates that the overall FB success depends on the effectiveness of leadership. Practically, there are inadequate positive family dynamic practices and leadership effectiveness in family businesses. To ensure that there is effective management of teams in family businesses, there is a need for clarification of various roles and responsibilities. The study thus recommends that team management strategies be introduced to improve FB performance. To ensure that there is highly effective leadership; recognition, shared vision, authority, open communication, and work engagement are recommended.

The study found that family dynamics contributes positively both directly and indirectly to the improvement of business performance. Therefore, it is recommended that policies should be formulated to enhance the smooth flow of activities and improve family dynamics. The business should have a code of ethics and conduct that is adhered to by all individuals in the organisation irrespective of seniority. This policy will outline procedures for dealing with various issues in the business for long-term success with minimal family conflicts. During family meetings, the skills of everybody should be ascertained to assign each person a role based on his or her skills. Minimising role conflict should be encouraged. This can be achieved by role assignments based on capability rather than seniority.

6. Limitations and future research direction

The study was cross sectional as opposed to longitudinal, and so the responses could be different if a survey was done at a different time. The study sample was restricted to family firm owners in KwaZulu-Natal's South Basin who had been in operation for at least five years. The findings cannot therefore be applied to other parts of the world or other South African provinces. The results of the study should generally apply to a larger population taking this into account. The same study could be done with a more national coverage. This will be more representative than having a regional understanding of family as is the case with this study. It would also be more appropriate to compare national results with other regions of the world to ascertain whether the results would display familiarity or not.

The study group's snowball sampling procedure has a disadvantage in that it has the ability to inject bias into the statistical conclusions. In addition, we only surveyed people who expressed a willingness to take part in the study. Only owners who believed their enterprises were legal or lucrative were likely to participate given the sensitive nature of information gathered. This survey might only include businesses whose owners believed it wouldn't reflect poorly on them. In family business research, this unwelcome self-selection bias frequently occurs. Therefore, by minimising the aforementioned bias and choosing probability sampling procedures, future research should attempt to take into account a wider variety of family businesses.

Factors such as firm generation, leadership effectiveness, and firm age have been purposively selected to test their role on the linkage between FD and FB performance. However, other internal and external factors could be assessed in future studies to determine if they significantly influence family business performance. For instance, more studies need to be conducted to assess the role of professionalism and family commitment.

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