



MNE3704
MNE3044

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FAMILY BUSINESS MANAGEMENT

Duration . 2 Hours

70 Marks

EXAMINERS :

FIRST
SECOND
EXTERNAL

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Use of a non-programmable pocket calculator is permissible.

The paper consists of 4 pages

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You may answer this examination paper in either English or Afrikaans

Make sure that the following information appears on the cover of your answer book

- Your **student number**
- The **module code (MNE3704 / MNE3044)**
- The **sections and the numbers** of the questions you have answered

Section A is a compulsory section which you have to answer. In Section B you must answer any two of the three questions

Answer the questions in the answer book provided to you

Please indicate the section and number of the question clearly when answering.

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SECTION A

Answer all the questions in this section

QUESTION 1

Read the case study and then answer the questions that follow.

CASE STUDY TIRE RACK

Somebody ought to stock a few of every tire, sell them over the phone, and ship them, thought Mike Joines when he had trouble finding the right performance tires for his sports coupe. When Joines approaches his father-in-law, Peter Veldman with the idea, Veldman instead asked Joines to help him open a retail tire store that now sells more than 2 million tires each year. After seven years, the two were taking so many phone orders they closed the store and added phone lines.

Veldman is now president and patriarch of Tire Rack, a family-owned Internet and mail-order tire retailer. His wife, Wilma, four of their six children, and two sons-in-law also work for Tire Rack. The family members who work at the firm live within five miles of each other, and Matt Edmonds, marketing vice president and Veldman's son-in-law, described the working relationship almost "impossibly pleasant." While they "have their moments," the family gets along very well, he says. So well, that they want the company "to feel like a family" to all 401 employees.

Tire Rack sells name-brand tires to consumers and to other retailers who don't want to wait more than two days for delivery. For consumers, Tire Rack ships to its network of recommended installers, or to their homes, or to the service shop of their choice. Tires account for 85 percent of its business, and the rest comes from sales of wheels, springs, and similar parts.

According to Joines, Veldman has been the company's biggest growth proponent, pushing hard for the company to adopt an Internet strategy in 1996 when few were taking the plunge. Now, the Internet business accounts for almost half of sales and most phone customers have used the Web site for research.

Customer service is Tire Rack's priority, Joines says. The goal is offering the "best product at the right price in the shortest amount of time." He feels that educating consumers on the best tire for their car helps the firm win and retain customers. It is said they probably benefit by being the seller of multiple brands, so there is no appearance of pushing one brand. Sales staff tests different tires with varying state of wear on ice, water, and dry pavement to better help customers. Customers can pull their cars into one of the service bays at Tire Rack where they can have tires installed that they have ordered by phone or the Internet.

Edmonds says, "Word of mouth and references are still our biggest source of new customers." The company, which has more than a million square feet of warehouse space in four locations, says it sells more than 2 million tires a year, or a set for every 100 people who buy tires. Its Web site gets 2.4 million visitors a month, more than any other tire company and more than many automakers, according to Alexa Internet, an Amazon.com company that ranks Web traffic.

(Source: www.tirerack.com)

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QUESTION 1

- 1 1 "Veldman is a great asset and driving force for the business, *Tire Rack*" Motivate this statement with two phrases/sentences from the case study (2)
- 1 2 Are the working relationships between family members in the case study, *Tire Rack*, good? Motivate your answer (3)
- 1 3 What qualities do you think have contributed to the success of *Tire Rack*? Support your answer with statements from the case, and exclude any answers given in 1 1 and 1 2 (7)
- 1 4 Many family businesses cease to exist after 10 years. This is mainly due to a lack of succession planning which involves the transition of managerial decision making from one generation to the next. Which four steps should the family business owner (such as Veldman) address when developing a succession strategy, as part of his succession planning? (4)
- 1 5 According to the systems-theory perspective of family-owned businesses, sub-optimisation of the family-ownership-management system occurs when family members have a propensity to adopt a (1) family-first, (2) ownership-first, or (3) management-first perspective on issues. Differentiate between the three perspectives (9)
- 1 6 Given the size of Peter Veldman's estate as president and patriarch of *Tire Rack*, he could do enough to avoid extraordinarily high estate taxes. What pitfalls should he avoid in estate and ownership transfer planning? (5)

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SECTION B

Answer any two of the following three questions in this section

QUESTION 2

- 2 1 The dominant decisions in a family business, according to the theoretical definition are "controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Poza, 2010:6). Thus, four factors emerge and they are uniquely synthesised in the family business. Define these four factors (4)
- 2 2 Nonfamily managers and outside advisors play a critical role in facing the facts to ensure business continuity, so creating an environment that promotes their retention and continued commitment are essential. Summarise the ways in which a beneficial environment for nonfamily managers could be created (7)
- 2 3 Governance is a complicated subject when it comes to family businesses because of the sometimes-competing agendas of family, ownership, and business management. Illustrate with a figure the positioning of the Board of Directors/Advisory Board, and other governance structures of family-owned, family-controlled businesses (9)

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QUESTION 3

- 3 1 Successful businesses create and capture significant value by doing things that differentiate them from the competition. One way to ensure this is to create value with unique business models. Distinguish between the seven sources of value on which family businesses can build competitive advantage (14)
- 3 2 The Interim CEO (Chief Executive Officer) Spouse is one of the role types in the transfer of power of a family business. "When installing an Interim CEO Spouse, it can constitute an adaptive response to the goal of keeping the family business under the founding family's control across generations, while not subjecting the business to unmotivated, untested, or incompetent leadership" (Poza, 2010: 123). Discuss three reasons for appointing an Interim CEO Spouse (3)
- 3 3 Researchers studying commitment in family businesses identify different motivating factors that compel the next generation towards a pursuit of careers in the family business. Reasons for the next generation's decision to join the family business can vary, but may include (1) affective commitment, (2) normative commitment, and (3) calculative commitment. Briefly analyse the differences (3)

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QUESTION 4

- 4 1 Business valuation is the art of estimating the economic value of an owner's interest in a business. It is important that the family business owner know the assumptions and be able to track how any change in an assumption can change the value of the business. What are the underlying factors that impact on the value of a family business? (8)
- 4 2 The role of the Board of Directors is prominent in the governance of the relationship between a family and its business when the owner-family-business interaction is preserved as a positive-sum dynamic
- 4 2 1 Describe the primary roles (not responsibilities) of the Board of Directors (9)
- 4 2 2 What are the major responsibilities of shareholders to a company? (3)

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TOTAL

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