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Delegation of authority and responsibility in a family business

Kamel al Akhal

Abstract

Family business is a successful organizational structure in worldwide business. Family businesses are usually tightly held companies with authority and control with the family member directors. One of the prerequisites of fine leaders is their ability to delegate authority and responsibility to their subordinate managers so they can concentrate on more strategic issues. However, evidence from the literature suggests that not all company directors within a family business structure are willing to let go of authority. Why? What can be done about it? Within a family business case study, semi-structured interviews with family directors, managers and workers were used to collect data that addressed these two research questions. A key finding is that there are expectation-perception gaps among leaders and followers in a family business with respect to delegation of authority. Effective delegation in this company and in others would benefit the directors, managers and workers. Delegation reinforces feelings of mutual trust, provides 'workload balance' for supervisors and develops worker skills, engagement and integration.

Key words: small business, family business, delegation, leadership

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Introduction

Family business is a successful form of organizational structure around the world. Family run businesses are usually tightly held with authority and control with the family member directors. In Australia, family owned businesses believe they have a competitive advantage over other businesses in terms of customer relation and employee retention (Family Business Australia 2009).

In any business, leadership is a key determining factor of success because it involves the interaction between leaders and followers to achieve specific goals (Hughes, Ginnett and Curphy 2006). One of the prerequisites of fine leaders is their ability to delegate authority and responsibility to their subordinate managers so they can concentrate on more strategic issues (Thompson, Strickland and Gamble 2008). Delegating gives authority to subordinates to perform certain tasks and be responsible for the outcome, and so contributes to the empowerment of the individual and development of the company (Cole 2008; Hughes et al. 2006). Failure to delegate and give autonomy can put pressure on the business because research has shown that better business performance is related to more frequent delegation (KPMG 2008; Hughes et al. 2006).

Nevertheless, not all company directors within a family business are willing to let go of authority because of trust issues. They believe that their subordinates lack managerial skills or are unable to be as effective as the company owner or director (Chaneski 2008; Nefer 2008; Hughes et al 2006; Pollock 2001). This fear results in directors assuming tasks that could be delegated to subordinates and neglecting tasks of more strategic importance (Cole 2008). That is, delegating is directly related to prioritising.

This report aims to analyse authority delegation in the family business context. It will use literature evidence, the researcher’s work experience and interviews with family business personnel to analyse how perception gaps in understanding delegation exist between leaders and followers. The analysis produces a list of recommendations for managers and directors of the case and other family businesses. Its contribution is its triangulation of views about delegation from directors, managers and workers that identified some expectations-perceptions gaps; its focus on delegation within a family business; and its insider researcher/manager's gradual understanding of the complexities of delegation.

This report will present overviews of the leadership and delegation literature in the context of a family business, as well as the researcher's real life experience of delegation within family businesses. Interviews with leaders and followers from one family business will then be analysed to deduce key learnings and recommendations.

Orientation

Family business's contribution to any economy has made it a target for entrepreneurship research (Kuratko 2009). Family owned and controlled companies make up 65-80% of worldwide business enterprises (Poutziouris, Smyrnios and Klein 2006; Gersick 1997). The business is usually started by an entrepreneur for the purpose of wealth creation and lifestyle transformation, and it develops into a family business as a natural progression with offspring involvement in the enterprise (Kuratko 2009). However, family businesses can have problems. For example, 'Family businesses are often accused of lacking professionalism, preferring informal, rather than formal, management approaches' (KPMG 2008, p. 13). Indeed, most family businesses do not survive past the third generation (Vallejo 2007). A family business has to build uniformity, common goals and values among its members to better position itself for growth and development. This growth requires leadership that brings about an organisational structure in line with delegation and succession by merit.

That is, leadership is an ingredient of sustainable family business prosperity (Kemp 2009). Leadership is a process of interaction among leaders and followers within the context of a specific situation (Hughes et al. 2006). Different leaders have different skills and they influence their subordinates differently in different environments. Followers also play a role in the realization of team goals, being an integral part of the leadership process (Hughes et al. 2006). A good leader is someone who can get the best out of their subordinates and achieve results through them. This is why good leaders know when, why and how to delegate (Cole 2008).

Delegation is what leaders ought to do to free more time for more strategic issues while ensuring other tasks get done by their followers (Hughes et al. 2006). To delegate authority is not so much as to relieve oneself of power and responsibility as much as to share the responsibilities with a team, thus making the operation more efficient. This efficiency comes from the empowerment and engagement of employees and consequently from their raised level of satisfaction which is a precursor for higher employee retention, sense of belonging and effectiveness (Noe, Hollenbeck, Gerhart & Wright 2008). The leader’s task is therefore to know what to delegate and to whom, within the guidelines of equitable treatment among employees (Hughes et al. 2006). Delegation makes subordinate jobs more diverse and interesting, improves worker skills and frees the leaders’ time to do more important leadership tasks (Cole 2008).

However, this research seeks to address two questions. Why is it that not all company directors within a family business structure are willing to let go of authority? And, what can be done about it.

3. Introducing the case studies

Case research was chosen to answer the complex questions involved (Rowley 2002). The researcher’s access to the family businesses allowed rich data to be gathered to address the research questions and hence a two-case study methodology was selected (Yin 2009). Semi-structured interviews were the chosen technique for data collection because their richness best fits the explanatory nature of the questions (Saunders, Lewis and Thornhill 2007). That is, semi-structured interviews ‘tend to be preferable when complex, personal or sensitive issues are being probed’ (Hannabuss 1996, p. 24).

Employer 1. The first employer was an entrepreneur who built an integrated business based around a seized opportunity with high revenue potential and sustainable profit margins at the time of establishment. The board of this family business consisted of the investor as chairman and his two nephews: one as an executive director and one as non-executive director. None of the three had technical background or the relevant industry experience. They recruited the researcher to run the production side of the business. The company started with a handful of employees and grew through forward and backward integration to become the leading poultry producer in its region within three years. As the company grew from small to medium size, systems and structures became necessary and so was the need for more delegation (Harnish 2006). Delegation to the production manager was very explicit when times were good; but delegation became less when external financial and competitive pressures arose. Cost reduction became the way directors wanted to save money and the executive director placed himself in the production leader role, conducting field visits and advising supervisors, workers and customers on cutting down on quality control measures like bio-security and disinfection. The supervisors and workers who had been under the direct control of the production manager were in a dilemma, forced to choose between the expert and referent powers of their manager versus the legitimate, reward and coercive powers of the director. That is, they were confused about whom to listen to: the person who knows or the person who pays (Hughes et al. 2006). The manager thought that undermining his authority in that manner displayed a lowered level of trust. Moreover, the director's failing to delegate technical matters and meddling with daily activities resulted in a hike in production costs caused by increased mortality and feed conversion ratios associated with the deterioration in disease-prevention measures.

Employer 2. The second employer was also a family business but in a different industry. It will be referred to as 'the company' for confidentiality purposes agreed with the directors. At the time of the research, this company was a large diversified enterprise with several related and unrelated business units. The board consisted of the father who was Chairman CEO with his three sons as executive directors. The company had experienced constant annual growth for the past twenty years and the directors' portfolios were continuing to grow. More delegation of authority and responsibility was needed so that the directors could free themselves to a more strategic role of growth and development.

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The researcher joined the company as operations manager for one of the business units. The operations manager answered to the director responsible for that business unit and the straightforward job structure of the unit suggested a clear-cut understanding of the job description should exist. However, the authority and responsibility delegated to him by his director was vague. His job was to use his scientific knowledge and leadership skills to involve subordinates in lifting the efficiency and effectiveness of work. However, the company's potential production capacity was still not being reached because, the manager thinks, his authority and responsibility were neither clear to him nor to his subordinates. The director was involved in operational matters on a daily basis. For example, it was common that the weekly priorities set by the operations manager in consultation with the production consultant and workers were changed by the director who had little knowledge about the work logistics and practicality of performing most tasks. Often employees would be pulled out of a job delegated to them by their manager to perform tasks asked of them by the director, resulting in a clash of priorities between the 'must-do list' and the 'wish list'.

Making things more difficult was the presence of family members among the worker pool. The director talking to these cousins about work within and outside of working hours undermined the manager's authority because those workers saw their cousin as their real manager. These low-rank employees did not go through an HR selection process but were appointed by their director cousin. Non-family workers did not want to go on record, but their thoughts were reflected by two exit interviews conducted by the researcher ~~in person~~ at the time of separation. Exit interviews provide good insights into the workplace interpersonal relations (Noe et al. 2008). The resigned workers complained about inequitable delegation in terms of job allocation - the relatives were getting the easier jobs. That situation was due to improper training or induction processes to teach the family members all aspects of the work process. One of the departed employees also spoke about the language barrier that existed, causing the split into 'us and them' that hindered sharing responsibility.

The difficulty in tackling these issues of leadership and delegation within family business prompted the researcher/manager to investigate further for this case research. The aim was to understand what directors, managers and workers thought about how delegation was practiced and how it could be improved for everyone's benefit.

Information gathering and analysis

Informal and open structure interviews were held with *the company* leaders and subordinates to get primary input, and link that to the researcher's experience. All the following perspectives were gathered from people who have worked with *the company*. This section will summarize the different viewpoints uncovered in the interviews. Three different sets of open interview questions were prepared to reflect the understanding of the three ranks of responsibility within the organisation: director, manager and worker, in regard to delegation. The questions are shown in Appendix A.

Director's perspective. Two directors supervising different aspects of the organisation were interviewed; each responsible for different business units. Director 1 gave an overview of the company summarising how they grew from one retail outlet that he ran with his dad 25 years ago, to become a diversified enterprise with 1500 employees in 2009. He added that so much growth would not have been possible without the hard work and dedication of the family through the good and the bad times. Director 2 said the company had become so complex that it was more like a structured corporate organisation run by a family executive team. In this sense, Director 2 argued that the statement on the family business website about family businesses having a competitive advantage in terms of employee retention and customer relation had to be put into context. The statement was true in small family businesses, but in a large family business like *the company* the advantages related more to the purchasing power, market positioning, branding and, most importantly, to the ability to make strategic decisions relatively quickly because the board members were usually more homogeneous and shared the same goals and values. These quick decisions, he added, contributed to the smooth operation and competitive advantage of *the company*. Both directors agreed that delegation was a challenge within the family business structure. Director 2 said he was too busy not to delegate, and Director 1 added that operational matters and strategy implementation were delegated to managers to give directors freedom for strategy crafting and control.

For the directors, monitoring/control is an important aspect of delegation. Their father, the CEO, who came from an accounting background, had put measures ‘to monitor leaks within the system’. Director 2 said that it had not been always this obvious for them and that they had to learn the hard way. In the beginning, they had no systems in place and were gullible, Director 1 said entrusting and delegating to the wrong persons had caused them considerable losses in the past. Although both directors agreed that most problems related to delegated authority and responsibility happened in good faith, Director 1 talked about their huge investment in time and money that made control an integral part of any delegation. Both directors concurred that this issue could be the result of the initial employee selection process because in a family business there is a higher ‘tendency to employ people we like even if they were not the best candidates’. Director 2 explained that this was one of the issues they had to manage while growing the business into a large corporation. Both directors agreed that the more branches on the organisation chart and the larger the number of employees within the company, the more delegation and control were needed. ‘Financial control is a matter of utmost importance and will always be closely monitored by a family member’. Control measures that successfully monitor delegated tasks are therefore believed to be directly proportional to the level of business success. Director 1 thus distinguished between ‘delegation and abdication’ and asserted that he could never relinquish authority without control, with the level of control depending on the situation and the people involved. In answering probing questions into delegation and control in the company, he added that control to him was of a personal nature (his love of farming as a lifestyle had got him to be directly involved in operations – he felt he was engaging in his passion).

When asked their views regarding the need for delegation in relation to succession planning, both directors reiterated that delegation was needed more than ever because of the growing size of the corporation. Director 2 said that succession planning in the operational sense was a bigger challenge when they were a small business than when they became a large corporation, because a small business cannot afford to attract and retain high quality employees. On the other hand, the economies of scale in a corporation contribute to the retention of high quality employees who can be delegated a relatively high level of authority and responsibility without the constant fear that they will not be up to the job. They were talking about management succession but not more senior, family succession.

Succession within the family is a different issue because both directors realized how delicate the subject was, and they gave the researcher several examples of succession related failures within other family businesses. Director 2 understood the pressure this generation will be under to involve the next generation in decision-making and business strategy in the same way their father was successful in keeping them in line. The statistics about the low percentage of family businesses surviving past the third generation was always in their minds and Director 2 said they would do whatever they could and put measures and systems in place to pass a healthy company to their heirs: ‘the plan is to stay on and introduce the next generation into the business in a progressive and structured way’.

Finally, Director 1 dismissed any plans for harvest other than those of family succession. He added that the organisation had become too complex for a trade sale and an IPO was not on their agenda because they would like to stay in full control while they could. Only if no champions existed within the following generations of the family would other exit plans be considered. He summarized the challenge of future succession within the family by the saying: ‘You can lead a horse to water but you cannot make it drink’.

Manager’s perspective. Next, I interviewed other managers. Manager 1 worked for the company in the primary industry section for five years before moving on to another family business. Manager 1 believed that delegation was important from a subordinate’s point of view because the more authority and responsibility were handed to the manager, the harder he had to work to prove he was worth the trust vested in him. (Presumably, this development would help assuage directors’ concern for control). He then commented that in theory he had been delegated as a manager ‘to run the show from budgeting to operations’ but in practice his role was more of a caretaker and supervisor rather than manager; he had no authority to hire, fire, buy or sell. His role was being managed daily by the director who had the first and last say. ‘It is hard for [Director 1] to let go, this enterprise was established by him and his father as a hobby and a passion and to pull himself out of decision-making was very hard’. He added that the presence of family members within the worker group did not make things easy for him because these workers did not respect the work structure and they would always rather get direction straight from their cousin than from their manager.

He compared these ways to those of his new employer, and said that even though the new employer had better structure and a clear-cut delegation, the manager felt that family members were again too attached to the sentimental value of the business, whereas directors of non-family corporations would know how to better detach themselves from the daily grind. Another point of similarity between both family businesses was the absence of a sound strategic plan; the vision was there but the interpretation of that vision into a strategy was lacking. Succession planning in both family businesses was similar in that the CEO wanted to stay on board until he could no longer perform his duties. He also noted that a director trying to manage daily activities and technical matters often fell into the trap of acquiring the cheapest goods and services to save on costs, but this was not necessarily the most cost effective or the most efficient procedure. Manager 1 summarized his views about delegation by saying that family business directors might ‘delegate job descriptions’ but did not give managers real autonomy to run operations.

Worker’s perspective. Finally, I interviewed workers. Worker 1 who had worked in the family business for four years still wondered who was really running the operational side of the business. He said that his manager knew what had to be done, had a clear understanding of priorities which he tried to explain to the workers, and delegated jobs and tasks accordingly. Nevertheless, the worker believed that this manager had no ultimate control and had to pass operational issues by the director. This issue was obvious because priorities got changed and workers got pulled out of the task they were doing to do another job. The worker said: ‘the long term and medium term plans are actually short term plans because they get changed all the time’. He also believed that ‘the manager tried to rotate jobs among workers in such a way to break the routine and swap easy and difficult jobs so as to maintain a level of equity among workers’. The manager did not distinguish between workers in terms of work structure and he had no special treatment for family member workers. Worker 1 believed that this might have caused some problems for the manager from the family members - efficiency was not high on their agenda because they would only respect time when the director was on site. In short, Worker 1 believed that 'the manager had no real authority outside the umbrella of the director'.

Worker 2, who had worked for *the company* for eight years, agreed with what Worker 1 said, but he added that often family member workers were pulled out of a job they were doing and were sent to do personal jobs for the director, causing the manager and the rest of the workers to 'chase their tails' to keep up with work demand. Worker 2 had a few altercations with family members and said, 'Too many family members meant too many bosses to please'. He added that the manager could not delegate any of his responsibilities because there was too much daily involvement from the directors who interfered with priorities and did not consider feedback from the bottom-up. In this sense, Worker 2 saw the manager title as an 'honorary title' because most of the time he was labouring instead of managing.

The conflict between theoretical delegation and practiced delegation within the family business in the case study, as well as the overall success of that family's organisation, stirred my curiosity about how things get done in functional units that are part of the parent organisation. For this reason, an interview was conducted with a back office employee who worked in the accounts department. This employee asserted that delegation was a need rather than a luxury at his office because it was practically impossible for directors to be involved in the office's daily operations. Her line manager had clear delegated authority to run and oversee his department and he in turn explicitly delegated responsibility to each employee about their weekly schedule and daily routine. 'Things don't get changed from above and if they did, the employees wouldn't be able to tell as all assigned tasks came through their line manager'.

Analysis of past experiences and interviews

The interviews with respect to delegation from all perspectives along with the researcher's experience show inconsistency of understanding between leaders and followers. Even the straightforward disclosure of Director 1 that he liked to keep tight personal control of operations within that business unit, concurs with the feeling of incomplete delegation of authority and responsibility within the lower ranks. The findings of the above research can be summarised in these ways:

- Directors believe they are doing their role in delegating tasks and duties with monitoring control measures.
- The size of the family business and the size of the business unit affect the level of delegation and director involvement.
- Delegation and succession in family business are two important challenges that owners face.
- Managers believe they do not have enough power to lead and manage effectively and efficiently.
- Having family members as subordinates who have direct interaction with the director exacerbates the feeling of deficient authority by the managers.
- Managers' and workers' level of responsibility is directly proportional to their satisfaction levels.
- Feedback, interaction and communication are important ingredients in the smooth operation of the business (including monitoring/control) because they exemplify leadership.

Looking back at the issue of delegation, how it is presented in the literature and how it is practiced at the company in question, suggests there are expectation-perception gaps among leaders and followers. Slack, Chambers, Johnston and Betts (2006) state that a sound operations strategy results from top-down direction *and* bottom-up feedback which should be the case at a family business. Formal and informal two way communication among all levels has to be in place to let leaders and followers understand each others' mindsets. The effects of improper delegation on strategy as well as people and process management are summarized below:

Strategic management: in turbulent times strategy crafting and execution becomes more important than ever; understanding internal and external influences and planning for the short and long term is what sustainable competitive advantage is about (Thompson et al. 2008). In the second case study, several examples of cutting corners to save on production costs contradict the preceding theory of sustainable management in that the short term plan should be an integral part of the long term business strategy and not an independent money-saving exercise. Sound business practices are no mystery for the researched company because the parent organisation does them very well. The overall competitive advantage the organisation holds in the market place concurs with the research results that larger businesses are better at strategising and measuring performance because they 'are more likely to have formal business plans covering the various functions' (KPMG 2008). Treating the company as a business rather than a hobby, and withdrawing sentimental engagement will remove the chains that hinder its progress.

Human resource management: a formal human resource plan for the business is essential; it reduces favouritism especially when family members are part of the worker group (KPMG 2008). Cousins in the case study were inducted into the business with no HR involvement, no training and no clear understanding of their job description. This situation has created vertical and horizontal conflict with their manager and their peers. Cultural and language barriers within the multicultural worker group have not been properly addressed, creating feelings of dissatisfaction; everybody should have been integrated in a 'company culture' within which cultural diversity is a virtue (Noe et al. 2008). Training, delegation and equitable task diversification is another way to reduce dissatisfaction and better engage workers preparing for succession at the worker-manager level.

Operations management: in the current environment, few people understand where they fit in the system because of the constant interference with daily activities. Managers and workers need to feel a sense of purpose and contribute to the operations strategy through bottom-up feedback and experience (Slack et al. 2006). This can be implemented by proper delegation of authority and responsibility to managers and workers giving them autonomy in what they do, and improving methods of monitoring/control.

Leadership: the director and manager of the company are not fulfilling the true meaning of leadership. The director's role is to free up valuable time to strategise for the future instead of getting stuck in the nitty-gritty of daily work processes. He has to focus on the results and not how they are accomplished because followers can create more efficient implementation procedures if given the space (Battles 2005). The manager's role is to make sure workers have the capacity to do all tasks delegated to them by training and coaching. The need for training and coaching was evident from current and past employees' needs. 'Leaders lead for tomorrow while managers manage for today' (Hughes et al. 2006); in the researched company there was a conflict of authority as both director and manager ended up concentrating on the short-term objectives. Another role the director should do is influence his managers to transform the worker group into a homogeneous team, instead of a collection of workers who are sometimes in conflict.

Delegation and business success

The director and the manager should respectively work towards organisational long-term and short-term success. This is achieved through delegation and appropriate monitoring/control but is hindered by micromanaging (Chaneski 2008). Micromanagement, in contrast to direction and support, brings about feelings of dissatisfaction, indifference and poor performance. Alternatively, effective delegation frees valuable time for planning, develops people skills and attitudes to work, and hence improves productivity (Willis 2009). Improved productivity is facilitated by an effective manager who plans the work structure, organizes the resources, controls performance and directs people by delegating and motivating (Battles 2005). 'Empowering others with real responsibility only happens when managers schedule sufficient time to communicate their expectations and listen to what subordinates really think and feel' (McConalogue 1993).

In short, delegation and business success are inseparable. When used effectively, delegation brings benefits to the workers, managers and the business as a whole. It instils feelings of mutual trust, provides 'workload balance' for supervisors and develops worker skills, engagement and integration (Nefer 2008). The following steps based on recommendations by Early (2009) could provide the basis for successful delegation:

i. Be a leader: train employees to effectively exploit their skills.
ii. Build relations with the team to instil mutual trust and understanding.

iii. Be situation-specific: remember the interaction between leaders and followers depends on the situation (Hughes et al. 2006). Different situations need different levels of monitoring/control and intervention.
iv. Explain the need for tasks to engage employees and for some monitoring/control.
v. Focus on what gets done, not how it gets done.
vi. Ask questions to get feedback so employees contribute to the work structure and not just take orders.
vii. Be assertive in telling rather than asking when flexibility is not an option such as working for a deadline with no time for exploring ideas.

Conclusion

Delegation is an ingredient for success in family as well as non-family businesses. The contribution of this research about that delegation is its triangulation of views about delegation from directors, managers and workers; its focus on delegation within a family business; and its insider researcher/manager's gradual understanding of the complexities of delegation, including its expectations-perceptions gaps.

The research finds that family member directors have trust issues with their subordinates and therefore do not delegate authority and responsibility well. This situation also reflects on managers' understanding of authority and responsibility and how they convey that to their subordinates. Directors have to step back from being immersed in operational procedures and concentrate on results and performance. The high stakes in terms of their money and time investment have a great bearing on the leaders' mindsets and their reluctance to delegate. That reluctance can be reduced by implementing effective delegation procedures that bring benefits to the workers, managers and the business as a whole by instilling feelings of mutual trust, providing 'workload balance' for supervisors and developing worker skills, engagement and integration. Communication is a key ingredient for effective delegation that bridges the gaps of understanding between expectation and perception on all levels of authority, a topic for further research.

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Appendix A **Interview questions**

Questions were not necessarily asked in the following order.

Director questions

1. Family business website states that family-owned businesses believe they have a competitive advantage over other businesses in terms of customer relation and employee retention. Do you agree and why?
2. KPMG 2008 survey suggests succession planning is one of the shortfalls because CEOs have no after-plan. What is your experience?
3. Relation between level of control and success. Do you believe absolute authority has to be with family members? Why?
4. As a company director what do you delegate and to whom?
5. How do you control managers who have considerable levels of authority and responsibility?
6. Have you had issues with power abuse from your subordinate managers? Do you have trust issues with your subordinate managers?
7. Less than 20% of family businesses survive the 3rd generation. What are your plans to be among the successful minority?

Manager questions

1. What do you think about the theory and practice of delegation of authority and responsibility in your workplace?
2. What jobs get delegated to you?
3. What jobs do you delegate?
4. Do you end up doing tasks that you believe you can delegate?
5. Do you have sufficient levels of authority to effectively delegate?
6. Does the presence of family members as subordinates affect your delegation ability knowing that you are a subordinate to their relative?

Worker questions

1. What do you think about delegation at the company?
2. What is your understanding on the authority delegated to your manager by his superior? What are his responsibilities?
3. Do you believe authority is properly delegated from the director to manager to worker? Is it structured and clear?
4. What is your understanding of your responsibilities and those of your peers? Are they clear?

5. How do you find the work structure at the company? Do you think anyone gets special treatment or is delegation equal to all?
6. What gets delegated to you and what do you think should be delegated to you?
7. Does the presence of family members and cultural differences affect the efficiency of operation?