



**MNE3704**

May/June 2016

**FAMILY BUSINESS MANAGEMENT**

Duration 2 Hours

70 Marks

**EXAMINERS**

FIRST

SECOND

EXTERNAL

MRS MS RADEBE

DR NS RADIPERE

DR MN MOOS

**Closed book examination**

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The paper consists of 16 pages including this page

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

- Your **student number**
- The **module code (MNE3704)**
- 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 this answer book provided.

**[TURN OVER]**

**SECTION A**

Answer <b>all</b> the questions in this section
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**QUESTION 1**

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

*ESTATE PLANNING FOR THE FAMILY BUSINESS*

Thomas Sages and David Wales were old-time friends who grew up and went to school together. Their ties were further strengthened when David's son married Thomas' daughter. When David died a few years earlier, the shock was great for Thomas. David had not only been Thomas' closest friend since they were young, but he was also his business associate – contributing 10% of the business equity when Thomas started the expansion of his supermarket chain. The recent passing away of David's wife, Laura, revived the wound in Thomas. Upon his return from the funeral of his friend's wife, Laura, Thomas looked stern and preoccupied.

Thomas found himself thinking about the future of the business he had so successfully built. Two of his children worked in the business and he felt rather comfortable with their ability to lead it forward – even though he had occasional disagreements with them about new developments. His concern, revived by the funeral, was more about the transfer of his ownership stake. He had written a will many years ago and he thought that he should revisit it.

The high quality grocery store that Thomas launched in 1954 had quickly developed into a very successful supermarket chain, thanks to his entrepreneurial drive. While his son, Louis, born from a first marriage, had never been included in the business, the three children from his second marriage had all worked there. The two youngest, Caroline and Timothy had made their way up. Caroline was in charge of the consumer credit division and Timothy of the supermarket operations. Their older brother, Charles, however, had left the business after some tension.

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When his children joined the business, Thomas gave each of them 5% equity, to link the responsibility of ownership to that of management. His wife, Martina, his friend, David, and a fund for the managers, each owned 10% of the capital.

David's shares had gone to his only son David Jnr, who was married to Caroline, Thomas's daughter. Thomas wondered how he should transfer his own shares, which represented 55% of capital. One of his first questions was whether or not to link ownership and leadership of the business. Caroline and Timothy would probably not wish to deal with a "sleeping partner" such as Charles, especially given the fact that Charles had left the business with some bitterness. An option would be to give Charles some real estate and to give shares to the other two.

Splitting the real estate from the operations had been done by other family businesses for similar purposes. Maybe Charles should even be encouraged to trade his 5% stake against some real estate. Thomas then wondered if the business should be further split: real estate to Charles, "bank" to Caroline, supermarket operations to Timothy. However, the fact that David Jnr (Caroline's husband) owned 10% of the shares and that the management fund also owned 10% of the shares meant that the matter needed to be closely examined. At this point, Thomas also realised that he needed to better understand the consequences of the latest inheritance laws – they had recently changed and he was not sure what his wife, Martina, should receive should he die before her. He also needed to think about Louis, his elder son, who never received shares from the business, but was entitled to a share of the inheritance. Their relationship had been distant for many years, but they had grown closer recently and Thomas wanted Louis to be part of the plan. Thomas decided that he needed to discuss these issues with his trusted advisor and he picked up the phone.

*(Source Adapted from Christine Blondel [www.kpmgfamilybusiness.com](http://www.kpmgfamilybusiness.com))*

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3 2 Centennial family companies have learned to govern family business interactions and mitigate shareholder disunity

Describe five (5) formal structures and processes through which centennial family businesses govern shareholders disunity (5)

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**ROUGH WORK PAGE 2**

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