

SURVIVING THE BUSINESS IN THE LONG RUN: A STUDY OF FAMILY ORIENTED SMEs IN DEVELOPING ECONOMIES

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Abstract: Whilst the majority of family oriented SMEs are suffering from survival problems in the long term, some businesses perform successfully over generations. This article explores the emerging themes which are related to the business longevity of family oriented SMEs in Sri Lanka. Addressing a lack of knowledge in the area, our strategy of enquiry used a qualitative approach coupled with semi-structured interviews; 17 owner-managers of family-oriented SMEs were interviewed and the results were subsequently transcribed for the analyses. The results indicated that the founders' tacit knowledge of producing goods or services, consequently transferred to heirs in family oriented SMEs, drive the survival of businesses for longer periods in Sri Lanka.

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Introduction

Sri Lanka is a South Asian country whose indigenous management and business practices have been developing in a rich cultural heritage for the past 2500 years, and also have been influenced by the teachings of Buddhism (Ranasinghe, 2011). As a result, teamwork and a long tradition of strong family ties in business have been common for Sri Lankan businesses, especially in the case of Small and Medium-sized Enterprises (SMEs). In Sri Lanka, a family business is ideally limited to members of a single, extended, multi-generational family. Consequently, these businesses are relatively small in terms of capital and number of employees. Sharing of social, psychological, economic and security values among family members is a typically observed facet of Sri Lankan family culture (Jayawardena, 2000). Most SMEs in Sri Lanka are rooted in a firm family context, and owners of these businesses expect family involvement in business activities, as well as sharing economic values with family members. In these small businesses, the managerial positions are largely reserved for family members, with each individual's behavior influenced by having family. Due to this, in the Sri Lankan business culture, the enterprises are family-based and small in scale.

From the literature which concerns family businesses, it seems that all over the world these businesses outperform non-family businesses in the short term. The same literature proposes that these businesses rarely continue to the second generation from the founder. However, contrastingly, there are some studies which conclude that some family businesses are progressing effectively over generations and overcoming burdens which are unique to SMEs (De Alwis, 2015). In literature, there is only a limited amount of studies which address how some of these family firms are progressing effectively, and as a result, any emerging themes and concepts of the long-term survival of family owned SMEs in Sri Lanka are unknown. This present study focuses on understanding the emerging themes behind the longevity of family businesses, and it explores the current business strategies of owner-managers of family oriented SMEs in Sri Lanka. It seems that to understand the success of family-owned SMEs, more emphasis should be given to intangible resources, like the tacit knowledge which is handed down through the generations. Accordingly, utilizing the resource-based view model as the theoretical lens for the study, the main goal of this study is to understand the themes behind survival of family firms in the long-term. Following the introduction of the study, the remainder of the article is structured into four sections, namely theoretical and literature review, the methodology of the study, results & discussion, and finally the conclusion.

Theoretical and Literature Review

The literature review in this article is comprised of two parts. The first part discusses the theoretical lens (Resource-based View) of this study. The second part discusses family-oriented SMEs and business longevity.

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Resource-based View (RBV) of the business

The RBV of a business suggests that a business's internal resources, which are accumulated through a period of time, are viewed as tangible and intangible drivers in the sustainability and continuity of the business. The knowledge, skills and methods specific to any industry play a huge role in the survival of a business (Barney, 1991). However, the RBV is based on two specific assumptions. Firstly, this theory presupposes that an individual business possesses unique resources, which cannot be imitated or copied. This indicates the uniqueness of the individual business in the case of its resources (Barney, 1991). Secondly, RBV assumes that there is a difficulty in resource mobility due to higher cost of transacting. Such resources cannot be separated from the business and could not be bought in the market (Barney, 1991).

Family-oriented SMEs and business longevity

Throughout the world, in previous studies family businesses have been defined in a multitude of varying ways. This study treats family businesses as unique, inseparable, synergistic resources with capabilities arising from the family involvement and their interactions (Kellemarrens et al, 2012). At the current time The Ministry of Industry and Commerce of Sri Lanka (2014) recognizes SMEs as enterprises or business entities with less than 300 employees, coupled with an annual turnover of less than Rs. 750 million. According to this definition, almost all micro-scale businesses are also identified as SMEs. Moreover, most SMEs in Sri Lanka are family-orientated. The business longevity of SMEs has been addressed by many researchers earlier.

Studies regarding Entrepreneurship have extensively discussed the longevity of SMEs. De Clercq and Voronov (2011) highlighted the importance of legitimacy and profitability in sustaining SMEs, as well as the entrepreneurial abilities of SMEs. They recommended balancing business profit and sustainable growth. Analyzing SME performance grounded in RBV, Terziowski (2010) found intangible resources to be a main factor for business sustainability in the 21st Century. This was in addition to identifying business culture and innovations as determinants in the performance of SMEs. Rangone et al. (1999) argued that RBV was a foundation to identify the potentials of SMEs in case of survival, and their study found out long-term competitiveness was a function of resources of the business. Knowledge has been identified as the prime resource for making innovations, which gives a business competitive advantage over similar businesses in the present economy of global knowledge. At the same time, all other physical resources, like land, labor and capital, have been gradually replaced by intangible resources such as human capital. In the global competition, even a very small business located in a rural area has been highly challenged by other businesses. Irrespective of the size of the business or the industry, almost all businesses in the global market have a high chance of continuing and surviving. In a study of 600 family businesses, Díaz Morlán studied succession in family businesses and concluded that the intergenerational knowledge transfer is a determinant of longevity. Researchers in this field have studied the positive and negative factors of business longevity and, in general, business longevity has been adequately examined by previous studies. However, there are only a few studies regarding family-oriented SMEs.

Methodology

This study was conducted by implementing a qualitative approach. Purposive sampling was used to select both cases and respondents. 10 family-oriented SMEs from Sri Lanka were selected as cases for this research, and 17 owner-managers were selected as respondents. The interviews were privately held and successfully conducted. The respondents and cases were chosen with regard to the history of the business and the business experience of the respondents. Data was collected mainly via semi-structured, in-depth interviews. Data collection consisted of 17 interviews and 10 business cases. Before the data analysis, coding and categorization of respondents' views from interviews helped to identify common patterns and themes from both within-case and across-case analysis. Content analysis, the analytical tool selection and the analysis were carried out through the lens of RBV.

Results and discussion

The main goal of this analysis was to understand the concepts behind the survival of family-oriented SMEs over several generations in Sri Lanka. The coding of transcriptions of interviews ended up with three main categories, namely family involvement, intangible assets and tangible assets. When the detailed content of each category was analysed, some interesting themes emerged.

In the analysis, it was clear that family contribution to the development and survival of the business takes place through the tangible and intangible resources of SMEs. One of the key findings of this analysis was that the degree of contribution by each person depends on the business type and its family objectives. Both business and family objectives are prioritized in family businesses. In terms of development and survival, this analysis indicated that intangible resources are more powerful than tangible resources in family-oriented SMEs. Family members involved in the business have passed their business secrets and experiences as tacit knowledge to their successors or trustworthy business associates. Often, no one else can copy or imitate such knowledge, and it is only transferred among specific family members. This happens in the businesses over generations. Respective members of SMEs have preserved intangible resources like tacit knowledge more than other assets of the businesses. Interestingly, this may not be the case in non-family business where there is no family involvement and accordingly, intangible resources are identified as the main resource of family oriented SMEs in Sri Lanka. Another finding is that when a family business is sustained through successive generations, the founder's legacy and culture has an important role to play. Most of the positive work manners, attitudes and practices have been created in the business and have become a part of its history. Such positive concepts in a business have been clearly supported by the legacy of the business founder in family-oriented SMEs in Sri Lanka. Following direct quotations from respondents of interviews provide enough evidence about this founder legacy and tacit knowledge sharing.

- Case 04, Res: 02 “Our business is a result of founders’ effort. My fathers’ father has started this business and handed over to my father before his death. He has given all required knowledge including all business secrets to my father. My father did the same for us”
- Case 08, Res: 01 “Nobody else, other than me, in this world knows how to mix all these ingredients together to make this a solid production. All the time, I do the process alone and manually. I do not need to make others to know about this mixture”
- Case 09, Res: 02 “Business continues based on our handful experience. Once the knowledge goes to unwanted people, it is the end of the business”
- Case 02, Res: 01 “I will give my all business secrets and experiences once a person, one of my sons, is ready to take the business. My experiences are more precious for them than the business assets”
- Case 01, Res: 01 “my mother said, business is nothing. It is all about personal relationship with people”

In most cases, family involvement in SMEs is natural in developing countries. Accordingly, family involvement is one of the most common areas of analysis. In this study one interesting theme amongst all others stood out. In surviving businesses, it is the legacy of the founder which emerged as a strong concept in family-oriented SMEs. When the current management of family-oriented SMEs implement the concepts and practices introduced by the founder, those practices make the current management hard working, confident, trustworthy and committed to the business. In addition, the tacit knowledge of producing goods or business processes as an intangible resource contributes to the business surviving in the long term. Commonly, this tacit knowledge is transferred by owners to successors or very trustworthy business associates as business secrets. With this practice, family-oriented SMEs keep their products and services unique when compared to other similar businesses. This study is limited by neglecting the need for business innovations to be competitive and survive in the long term. Almost all of the previous studies into organizational learning, organizational development, entrepreneurship and family businesses have highlighted this factor.

Conclusion

The findings of this study indicated how family oriented SMEs survived over generations through their intangible resources. On the one hand, findings of this study give answers to the everlasting problem family-oriented SMEs, business survival in the long term. On the other hand, this analysis shows the benefits of family involvement which can result in longevity and sustainability of SMEs. This stresses the need of handling family matters in businesses effectively, so as to sustain the business for a longer period. At this stage, practitioners and policy makers in this field are well

facilitated by this finding. Further, the emerging theme of intangible resources has proved that intangible resources are more powerful than tangible resources in a family-oriented SMEs in terms of development and survival. The tacit knowledge of producing goods or business processes is identified as the strongest intangible resource which contributes to business continuation. Accordingly, the tacit knowledge of operating business activities, transferred among close family members, is called business secrets. This kind of business secrets are identified as the main intangible resource of family-oriented SMEs. These findings direct the owners of family-oriented SMEs to understand the potential of family orientation in their businesses.

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