CHALLENGES FACING FAMILY OWNED SMEs IN BLOEMFONTEIN

by

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DECLARATION

I, **Ntombizanele Mcapu**, a student at the University of the Free State (**2018491262**) earnestly proclaim that this dissertation "Challenges Facing Family Owned SMEs in Bloemfontein". The work presented in it, hereby handed in for the partial fulfillment of the qualification Masters in Business Administration is my independent work. In the case where I have recited from the work of others, the references have been emphasised, and the sources of the information acknowledged. I also declare that, none of this work has been published before submission and that, this thesis, whether partially or in full, has never been previously submitted to any educational institution or faculty by me for the fulfillment of another qualification.

I, **Ntombizanele Mcapu**, hereby declare that I am aware that the copyright of the study is vested in the University of the Free State.

…………………………..   **16th/11/ 2023**

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ABSTRACT

Family businesses are important drivers of the economy. They are important tools in promoting employment, equal share and access to the same share of a country's national income, economic stability, and the overall stimulation of economic development. However, the majority of these businesses do not survive to the third generation of the family. Considering their role in the economy, it is important to investigate the underlying challenges that threaten their existence. Their failure rate portrays a bleak picture of the SME sector's potential to contribute meaning full to the economy, improving standards of living and eradicating poverty. The core motivation of the study was to identify challenges facing family owned SMEs in Bloemfontein. This objective was supported by the secondary objectives. These secondary objectives sought to understand the unique complex nature of family businesses. They seek to analyse the benefits of family owned businesses and their contribution to the economy. The objectives of this study also aimed to analyse the negative impact the family owned businesses have on the economy. The research also looked at how the identified challenged can be overcome to mitigate their negative impacts. To effectively conduct the study and achieve the set objectives, the qualitative approach was employed. The study targeted 12 participants from family businesses with different organisational structures. The study used purposive sampling and semi-structured interviews were carried out to collect data from the participants. The study findings revealed that family businesses have their own unique set of challenges. This is because they seek to balance family dynamics from various generations while keeping up with undiluted founding members' values and entrepreneurial spirit. Therefore, the recommendations highlighted by the study are that family businesses should strive to draw a clearly defined line between the family and the business. This can be achieved by embracing external perspectives and having a board of non-family members. This board will not work as a blood hound, but as a watch dog to ensure order.

LIST OF ABBREVIATIONS AND ACRONYMS

B-BBEE	Broad-Based Black Economic Empowerment
CEO	Chief Executive Officer
CTCIP	Clothing and Textile Competitiveness Improvement Programme.
DTI	Department of Trade and Industry
DTIC	Department of Trade Industry and Competition
FABASA	Family Business Association of Southern Africa
GAAP	Generally Acceptable Accounting Principles
GDP	Gross Domestic Product
IAS	International Accounting Standards
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IOL	Independent Online
NDA	Non-Disclosure Agreement
OECD	Organisation for Economic Corporation and Development
QES	Quarterly Employment Statistics
SASS	Sector Specific Assistance Scheme
SEDA	Small Enterprise Development Agency
SMME	Small Medium and Micro Enterprises
SME	Small Business Enterprise
Stats SA	Statistics South Africa
UFS	University of the Free State
VAT	Value-Added Tax

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CHAPTER 1

INTRODUCTION

1.1 Background

Amid the rapidly increasing unemployment in South Africa, family owned Small and Medium-sized Enterprises are regarded as the substitute solution to curb the destructive repercussion of this unemployment. SMEs are an essential vehicle to address the prevailing challenges of economic growth, unemployment, and perhaps, the equitable distribution of income (IOL 2022). To support this, Africa Forbes (2024) states that SMEs account for the majority of businesses worldwide and they are important contributors to job creation and global economic development.

Ghadoliya (2020) defines family owned businesses as entities in which the majority shareholding and control of the company lies within one or more family members, with succession planning solely based on generational off-springs. Faiz and Uludag (2019) define family businesses as businesses where family values and perspectives dominate.

In the past, business operations were carried out from residential premises. Families would normally run their commercial activities from home, and the majority of these entities operated in the informal sector. Jaskiewicz, Lutz and Godwin (2016) state that such businesses would normally operate from the family garage, and as the operations increase and outgrow space, investment in office buildings acquisition would be made.

In this modern, dynamic, and complex business environment, family businesses are operating in any form of a business enterprise, ranging from sole proprietorships, and partnerships as well as formally registered corporations. It is owing to this transition that today, such businesses, regardless of their ownership structure and size, are geographically separated from the shareholder’s residential premises. Peter et al. (2016) further agree that the more the business expands, it geographically diversifies.

There are three connected functions in the family owned entity definition, namely; the business, the ownership, and the family. The dependency and diversity of these dimensions can be presented with the three-cycle model created by Tagiuri and Davis (1996). The overlapping of these cycles demonstrates the association linking the family and the organisation, similar to possession.

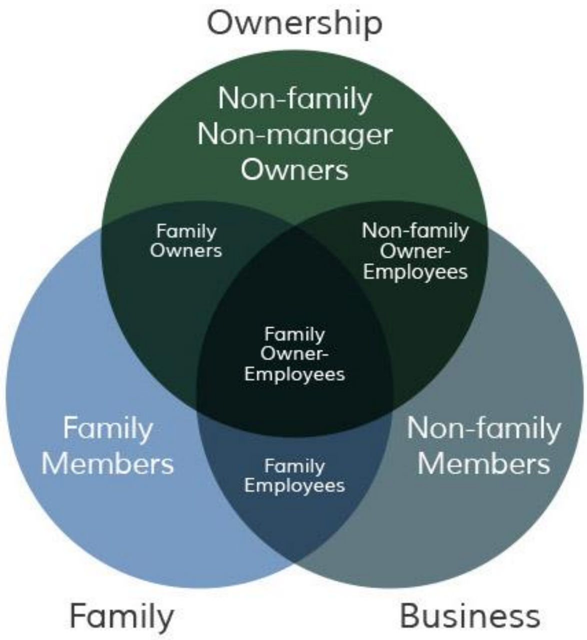


Figure 1.1: Three-circle model of the family business system (Tagiuri & Davis, 1996)

Moreover, Chin-Jung, Ying-Yu, Hsiu-Ying and Kai-Shiuan (2018) are of the view that intertwined management and ownership within family businesses are the root causes of complications.

Kammerlander and Breugst (2019) additionally contend that the particular settings of the family business, in which the professional and family issues are closely interconnected, have the potential to inform and put to challenge, traditional perspectives, such as work-family psychology.

As sometimes described, family owned SMEs are an interaction between two separate but connected institutions, the family and the business. This complex nature of the structure of family businesses is characterised by four theories; social capital, agency, resource-based, and finally the Stewardship Theory (Rahmana 2018).

The South African government recognises the importance of the SME sector in energising the country's economy and encouraging growth and development (Johnstone, Myres & Pogrund 2020). In early 2014, a service for independent company advancement was set up. Its centre order is to advance and grow private SMEs. These SMEs contribute largely to the national Gross Domestic Product (GDP) and have proved to be the major contributors to employment in South Africa (DTI 2018).

SMEs are increasingly becoming important to growth strategies implemented by the government. Bizcash (2023) states that SMEs stimulate job creation, promote innovation and entrepreneurship, introduce economic diversity, improve localised impact, boost export potential and provide a fertile ground for skills development and capacity building.

However, despite the noted ability of SMEs to stimulate job creation, Morriset (2023) states that unemployment remains South Africa's biggest contemporary challenge. Trading Economics (2024) states that the South African unemployment rate fell to 31.9% in Q3 of 2023. This was the lowest in the year from 32.6% in the prior period.

Dyvik (2023) reports that as at October 2023, South Africa had the highest unemployment rate in the G20 countries, outstripping all 19 countries. The World Bank (2023) states that the global economic environment remained supportive, but the increasingly severe domestic constraints such as weak labour market, declined mining production, stagnation in manufacturing production, load shading and production bottlenecks intensified. Against this backdrop and to curb its impact, the government is putting in place policies and programmes that will create and sustain an enabling environment for small and micro businesses (SME South Africa 2022).

The World Bank estimates that SMEs promote 90% of business and 50% of employment worldwide. It is estimated that formal SMEs generate 40% of national income (GDP) in emerging economies. The numbers are significantly higher if the contributions made by informal SMEs are factored in. The International Finance Corporation (IFC) report also detailed that SMEs account for at least 90% of formal business in the country, employing 50%-60% of the workforce and generating about 34% of GDP.

According to the International Labour Organisation (2024), SMEs are vital to achieving productive employment and decent work. They account for two-thirds of jobs globally and create the majority of new jobs. SMEs are not only important for employment creation and economic growth. They are crucial to driving innovation and competition in the market (ILO 2019).

However, more than 70% of SMEs go out of business within the first five to seven years of inception (Boucher 2022; Bushe 2019). The SME sector in South Africa includes a preeminence of family owned SMEs and therefore the importance of these SMEs and their rapid failure rate cannot be ignored.

Bushe (2019) states that the accepted view is that family owned SMEs, either operating in the formal or informal sector, are a much-needed panacea to improve economic growth, more especially considering that they contribute to job creation, equitable distribution of income and poverty eradication, among others. Nevertheless, these businesses are still faced with the rapid failure rate.

While these SMEs are seen as the lead drivers of the economy and employment in South Africa, the hard-hitting reality is that several businesses do not make it through their infancy stage (zero to one year in existence) and most of these failing SMEs are family owned ventures (Bushe 2019). The sector has been relatively stagnant over a decade, with only 14% operating formally (IFC Report).

The gauge is that 30% of family owned entities get by the (second) age of relatives, with 12% making it to the (third) age, while a baffling 3% get by to the (fourth) age and past (Harris & Ozdemir 2020). The complex nature of family businesses presents some unique setbacks in the strategic and operational level of the business. Investec (2020) states that family owned SMEs grapple with obstructions in human resources, financial resources, infrastructure and access to knowledge.

The purpose of this study is to identify the challenges facing family owned businesses (SMEs) and to propose possible solutions.

1.2 Problem statement

The problem is the inability of family owned SMEs to sustain business operations and operate as a going concern for the foreseeable future.

Vuba (2019) highlights that SMEs are the hope in an ailing South African economy. Novotna (2022) states that family businesses play a key role in the national economy, participate in the country's GDP, and notably decrease unemployment. Paralisan (2018) also states that family businesses are more likely to contribute charitably in their communities and engage extensively in philanthropic activities.

Spitulnik (2021), however, points out that while family businesses contribute favourably to the economy, they seldom survive the transition to the next generation. Family businesses are vulnerable to the transition.

1.3 Research objectives

1.3.1 Primary objective

The main objective of this study was to identify the main challenges facing the family owned SMEs in Bloemfontein.

1.3.2 Secondary objectives

Below are the secondary objectives that supported the main purpose of the study, as mentioned above:

- To analyse the benefits of family owned businesses and their contribution to the general economy in Bloemfontein.
- To analyse the consequences of these SMEs' failure on the economy in Bloemfontein.

- To recommend business continuity strategies and remedial actions to enhance family owned SMEs’ success.

1.4 Research methodology

To gain valuable insight into the research subject, the researcher adopted the following research process:

1.4.1 Research paradigm

The *epistemology* employed in this research study is *interpretivism*. Bryman et al. (2014:12) define *epistemology* as justifiable comprehension in a discipline. *Interpretivism* recognises the fundamental differences between human behaviour and natural science (Bryman et al. 2014:14).

1.4.2 Research approach

This is the general substructure for the collection and examination of data. The researcher aimed to get a richly detailed apprehension of the provocations facing the family businesses and hence followed the qualitative research approach. *The emotionalism* tradition of qualitative research was used as the researcher aimed to gain access to the ‘inside’ experiences of participants and also analyse their different subjective views on the topic interpretation (Bryman et al. 2014:41).

1.4.3 Research design

The researcher explored *phenomenological* design for this study. Bryman et al. (2014:42) state that the design allows the researcher to be part of the process but allows the participants a dominant position to discover how they interpret their experiences and make sense of their perceptions.

1.4.4 Data collection methods

The researcher accumulated information by using semi-structured individual interviews, ethnography, and focused group structured interviews with respondents. Bryman et al. (2014) define *semi-structured* interviews as pre-established but open-ended questions. *Ethnography* refers to the data collection method where the researcher completely immerses themselves in the lives, cultures, and situations being studied (Bryman et al. 2014).

1.4.5 Data analysis

The narrative thematic analyses were used to analyse data obtained from the respondents. The analysis involved identifying themes and patterns from the participants and consolidating the responses according to the emerging patterns and themes.

The services of the language editing of the final document were sought. Owing to the specialised nature of qualitative data analysis, external consultation was made, and data analysis was done by qualitative data analysts.

1.4.6 Sampling

Bryman et al. (2014:170) define *sampling* as the pre-established process of choosing a subset of individuals from a large population, based on certain unique attributes that they possess and their general importance to the findings of the study. The understanding of the topic was improved by selecting little yet knowledgeable population. To ensure that the sample represents the participants fit to respond to the research questions efficiently and accurately, non-probability subjective (purposive) sampling was employed.

1.4.6.1 Population or sampling criteria

It is a group of individuals with known similar characteristics or traits. With many of the existing SMEs in South Africa being run as owner-managed companies, with 100% shareholding belonging to one family, the population for this study is relatively large to carry out the objectives of the researcher.

The researcher interviewed 12 candidates from family owned businesses around Bloemfontein. The samples were drawn from the following categories of family businesses:

- Family businesses with the owner being the sole director;
- Family businesses where there are non-family members in the management;
- Family businesses which are entirely run by non-family members; and
- Family owned businesses which are administered by family members with the professional help of an external consultant.

1.5 Ethical considerations

The researcher guaranteed all the respondents that the issue of morals is dealt with in the way of the research methodology. The protection of the participants was the researcher's priority. It was respected and regarded throughout the study. Participants' prior agreement to partake in the survey was requested. Furthermore, the study was carried out responsibly, with the researcher upholding the principles of probity, classification, exhaustiveness, accountability, and receptiveness to public scrutiny. Authorisation was sought from all the relevant stakeholders, who might be legitimately influenced by the researcher's recklessness.

The interviews were scheduled at the convenient times agreed upon and confirmed by the respondents (participants), and this was done at least two weeks before, to allow for proper planning. Interview schedules that fall within the participants' working hours were avoided where possible or approval was sought from the superiors and management.

Moreover, virtual training and support were afforded to participants. Participants were made aware of their voluntary participation and their right to refuse to participate at any given time. The researcher also guaranteed the participants the response anonymity and confidentiality of all the correspondence shared between them, and that, under no circumstances, will the information be shared or published on compromising platforms without their prior approval.

In addition, the researcher followed the RIMS Ethical Clearance Application process to comply with the UFS Ethics Committee requirements. This also ensured that the study was aligned with the guidelines and procedures provided by the business school. The information collected was handled with strict confidentiality. Any digitally collected data, and or correspondence was password protected. The completed copy of the study will be shared with the respondents to ensure transparency.

1.6 Demarcation of study

The researcher aimed to get a richly detailed apprehension of the provocations facing the family businesses. The researcher wanted to understand the SMEs' economic importance in the economy. The relevant stakeholders, connected, external or internal were used. The views and perspectives of the respondents may be subjective, but may, however, play a crucial role in building sustainable family businesses and curbing the devastating problems that are caused by family business failures.

The sample of the study was limited to 12 respondents, selected through non-probability selective sampling. The duration of data collection was scheduled for a month, with an additional two weeks adjustment, to plan for unforeseen delays. The researcher used face-to-face and digital semi-structured interviews for data collection. Both parties agreed upon the place, time, and method of collection that is convenient and efficient.

1.7 Conclusion

The exploration study distinguished a portion of the challenges faced by family run enterprises in South Africa. From the literature, unmistakably, SMEs are perceived worldwide as vehicles for enhancing commercial advancement and employment. The investigation has likewise distinguished that the vast majority of private ventures are claimed by families or gatherings of family members. These endeavours contribute significantly to economic growth. The family examination claimed organisations in South Africa are still in their earliest stages, it centres on an investigation of the issues and difficulties that assail these organisations. With the fundamental financial role these foundations play, they are as yet confronted with a few activity challenges that undermine their ongoing concern.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Descendants of family owned businesses often lack a sense of stewardship and obligation. This results in them falling prey to dissatisfaction and boredom and eventually failing to safeguard the family wealth or treat the business with respect (Murphi, Hill and Flaherty 2022).

This chapter covers the different definitions of family enterprises. It also contains literature on the failures of family owned SMEs and the challenges thereof to apprehend the reason why there is such an appalling failure rate of family owned entities. The purpose of the study was to explore the challenges faced by family owned businesses as well as recommend solutions to the identified challenges. It was also to cap the gaps left by the early researchers of the topic. Therefore, the South African pieces of literature on this topic, as well as the literature from other parts of the world were studied for interpretations and tendencies.

The literature on the topic matter was studied to identify the challenges and theorise the problem statement. The covered literature review is focused on the local and international perspectives of SMEs. The history of SMEs in South Africa was also studied, weighing it up with the current state of affairs of SMEs today. The study shares the central role and benefits of these enterprises. It also highlights the consequences of the failure of family owned entities. In particular, the study is focused on the unsettling causes of the shocking failure rate and wraps up with the suggested remedial actions.

Differentiating between family owned businesses and non-family owned businesses is difficult. Scholars have tried differentiating between the two based on the level of involvement by family in the business; for example, the dimension of ownership and management. As such, there are various definitions of family owned entities. For this study, all definitions have been classified under two types, based on the structure and process involved.

2.2 Definitions of family owned businesses

Rollo (2023) stated that the main challenge facing the previous researchers on the family business topic has been defining exactly what constitutes a family business. The research on the definition of family business has been conceptual-based and, therefore, lacks empirical support.

2.2.1 Family ventures in the frame of reference

The phrase "family business" is broadly defined and applied. Even so, it is dominantly applied to define family entrepreneurial activities of all types. Family businesses are characterised by two components which are: owning the majority proportion of the company's equity as well as involving dominant managerial control power of the entity. These two dominant elements define the difference between family businesses and non-family owned entities. Chin-Jung et al. (2018) further define family businesses as those in which members from the same family hold more than two board directorship positions.

Roelof (2016) defines family businesses as entities where the same family is directly engaged in and controls the majority voting rights of the business. According to Roelof (2016), a family business is a distinctive symphysis of firstly, where members of the same family own equity shares exceeding 15%. Secondly, the general direction and scope of the business are dominated by family members, either holding executive positions or serving as board members. Thirdly; where the family social relationships supersite the business decisions and finally where there is a desire to maintain a sustainable generational continuity.

The Family Business Association of Southern Africa (FABASA) defines a family firm as; a venture wherein the individual who found or obtained the business: or where in any event one delegate of the genealogy is associated with the administration and organisation of the entity. On conditions where the organisation is publicly listed, investors have 25% of the voting rights through their offer capital, or if nothing else one relative forms part of the executive.

FABASA goes about as the formal mouth bit of family run organisations in Southern Africa, equally as advancing their general supremacy. Its directive embodies helping family claimed organisations with corporate administration and best practices. In addition, it offers handy answers for family companies and features successful methodologies to oversee family companies towards productivity and thriving.

2.2.2 An enterprising approach

The literature on how the variables of the family impact business operations has been given little to no attention. The past discoveries show that there is a basic correlation between the components of the household and the firm and ought to, in this way, not be overlooked. Shao and Tang (2019) further contest that current dynamics and hypercompetitive marketplaces require families to act innovatively. Lead from families must produce the contemporary financial movement on the off chance that they mean to endure and thrive over extensive periods.

Young and Cater III (2019) are of the view that new economic activities must be generated by family entities for them to endure and thrive over the drawn-out period. For successful growth, families utilise entrepreneurial action as their development technique. Advancement is supported inside the business as a blackmail of the family esteems that motivates enterprise. More often than never, struggling family businesses are characterised by leader-centred cultures. They lack appropriate corporate governance structures and ethics. These limitations are flaws that limit entrepreneurship. Usually, families give assets to the enterprising undertakings of relatives as human capital, social capital, and financial support.

Social capital encompasses relationships within the family. The human attributes of the individual members are included within the human capital; those include personal time, energy, and emotional support. As the company grows, the support from family members helps to deal with the overwhelming customer demands and changing environments (Peter et al. 2016). Money, credit, and financial investment are covered by the concept of financial and physical capital. Skills management and knowledge transfer are very crucial and have to be managed on an ongoing basis.

This is important as businesses normally lose the entrepreneurial drive as the business develops and stabilises.

Aversion to the loss of socio-emotional wealth primarily influences the decision-making in family businesses. In extreme cases, when deemed necessary to minimise the potential socio-emotional losses, opportunities for financial gains are sacrificed (Kotlar & Chrisman 2019).

In this complex and ever-changing economic environment, to remain relevant, the family business needs challenging but attainable goals and objectives. This empowers relatives to help the pioneering character of the business. It is currently not clear how information assimilation is achieved in family businesses; its importance is to enable collective problem-solving (Lansberg & Gersick 2015). A family business for the most part stems from a solid business enterprise, with many being set up to satisfy a need for a particular assistance or item.

2.2.3 Economic overview

Most family enterprises fund their businesses with financial support from less regulated financial markets, family members, and friends. The practice is increasingly famous in developing economies that cannot depend on complex administrative frameworks or frameworks that offer monetary help or investment. In South Africa, these businesses are also often substituted for an absence of the guideline by the commercial markets and are appraised to offer compelling insurance to minority investors.

Furthermore, the South African economy is dynamic and fragile and hence endangers the going concern of entrepreneurial ventures, including the family business. Currently, the database on family ventures is very limited. However, rates suggest that household ventures are the overriding type of business, they comprise about 50% of all South African SMMEs.

2.2.4 Classification of family business definitions

Structured definitions

i. Ownership control

The definitions under this category are given based on ownership and or management of the firm.

ii. Family management

Some scholars argue that the firm only qualifies as a family business if it is family ownership paired with family management. They argue that the family should exercise significant a degree of control over strategic decisions and there should be a dominating intention to leave the business in the family.

iii. Transgenerational focus

The wish and intention to pass on the firm to future generations also separate the family business from non-family businesses.

Process definitions

iv. Later generational control

To clarify the definitional ambiguity surrounding family business, Ghodolia (2020) suggests that family firms are those entities that have been closely identified with at least two generations of the family.

2.2.5 Types of family businesses

- Family owned business: This is the type of business where the significant controlling stake of the business is owned and controlled by the members(s) of the single extended family or one member of the family but with a considerable influence of other family members.

- Family managed and owned business: The controlling power of the businesses is owned by one family and the authority of this controlling interest allows them to make and implement objectives and policies. It empowers the family to have ultimate control over the company.

- Family led and owned business: The controlling interest of the company permits the members of the family to actively participate on the board of directors of the company. This allows the family a high level of influence over the company's culture, direction, and overall strategy.

2.2.6 Structure of family businesses

As mentioned in Chapter 1, family business systems follow a three-cycle model, with the first cycle representing ownership, the second cycle symbolising family, and the last cycle denoting business. Khatabook (2019) describes the different entity definitions as follows:

- **Non-family non-manager owners:** These are external investors in the business but are not actively involved in its day-to-day operations.
- **Family owners:** These are the family members who own a portion of the business but are not part of the business operations.
- **Family owner employees:** This group owns the business and is actively working in the business, normally holding managerial positions.
- **Non-family owners' employees:** These are individuals who own a proportion of a firm and are working for it but are not members of the family.
- **Family members:** This group consists of family members who are just business employees and do not have a share of its capital.
- **Non-family employees:** These are employees hired under contract. They are not family members and neither are their capital contributors.

2.3 The international perspective

According to the International Labour Organisation Report published in October 2019 (ILO 2019), SMEs are responsible for more than two-thirds of employment worldwide. They also account for the majority of new job creations. However, despite their proven ability to provide a huge share of global employment, they are still faced with major challenges when it comes to working conditions, informality, and productivity.

SMEs have less than 250 employees. In many countries, more than 90% of all enterprises can be classified as SMEs, with a large portion of those being classified as Micro Firms, with less than 10 employees (ILO 2019). New ILO data show that micro and small enterprises, together with own account workers, while maybe classified as small individually, account for a staggering 70% of employment worldwide.

Employment share by enterprise size and the self-employed around the world is demonstrated in Figure 2.1.

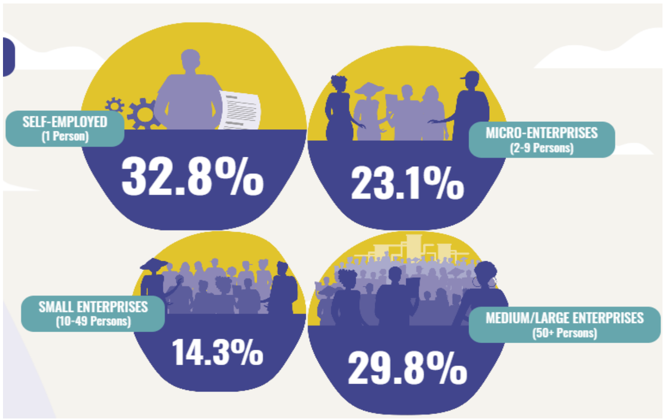


Figure 2.1: Small matters – Global evidence on contributions to employment by the self-employed, micro enterprises, and SMEs (ILO 2019)

In addition to employment creation, SMEs are also regarded as engines of economic growth and social development. In OECD countries, SMEs contribute about 50% of GDP, and some reputable global estimates put this as high as 70%. Moreover, SMEs are more likely to hire vulnerable groups, that are less likely to be absorbed in employment by big corporations, such as unskilled or semi-skilled labour force, inexperienced young people as well as older workers.

Figure 2.2 demonstrates the GDP contribution by SMEs in OECD countries.

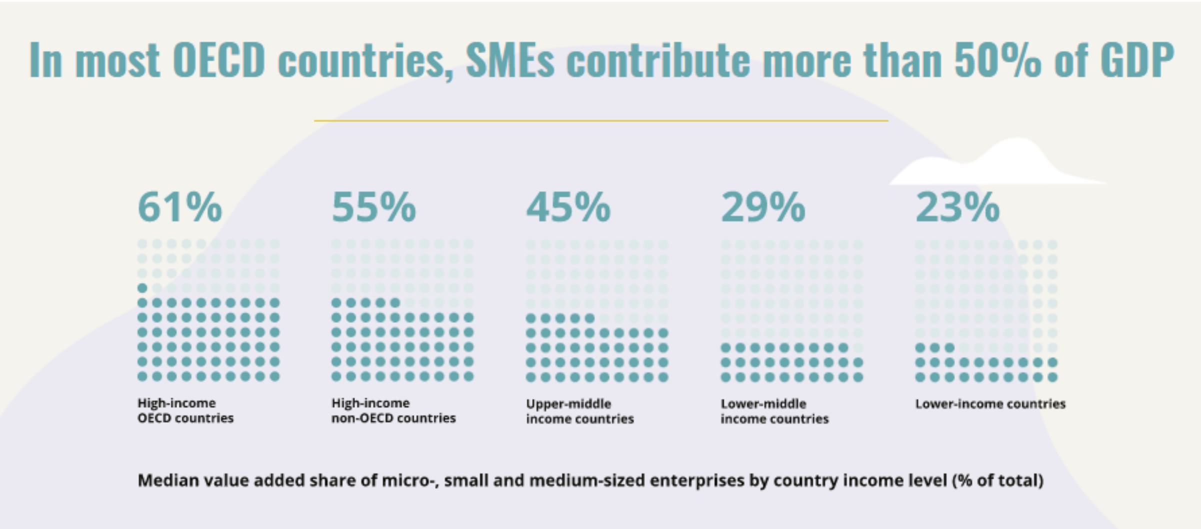


Figure 2.2: MSME country indicators (IFC 2014)

According to the World Bank report, SMEs represent 90% of Businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of the National GDP in emerging economies. The numbers are expected to be significantly higher when the informal SMEs are included. The report further stated that in emerging markets, formal jobs are generated by SMEs, which creates 7 out of 10 jobs.

However, besides the SMEs' ability to create employment, stimulate growth, and improve national GDP, SME growth is still constraint by access to finance. Access to finance is the second most cited obstacle facing SMEs in emerging and developing economies.

The World Bank report stated that SMEs are less likely to obtain loans from the bank. They rely heavily on internal finance and short-term loans from friends and family to launch and initially run their enterprises. The IFC estimates that 65 million firms, or 40% of formal micro, small, and medium enterprises (MSME) in developing countries have an unmet financing need of $5,2 trillion every year. This is equivalent to 1.4 times the current MSMEs lending globally.

2.4 The South African perspective of small and medium enterprises

Family businesses have been as common in South Africa as elsewhere in the world, they are perceived in common sense. Of the estimated 2,6 million SMEs in South Africa, about 37% are perceived as formal, and 54% of the total are micro enterprises, of which 15% are located in rural areas (OECD 2022). It was also established that two out of three owners run their businesses, while 32% provide between one to ten jobs. The number of SMEs establishment and registration has been lower than the economic growth in the last decade yet their Gross Value-added contribution increased from 18 in 2010 to 40% in 2020 (OECD 2022).

In South Africa, small to medium-size enterprises are defined and contextualised as follows:

- **Survivalist firms:** Here the income created is a smaller amount than the poverty line. This category includes hawkers, vendors, and subsistence farmers.
- **Micro firms:** In this category, the turnover is projected to be less than the VAT registration limit of R150 000,00 per year. These enterprises generally lack formality, and they include, for example, spaza shops, minibus taxis, and household industries, and employ less than 5 people.
- **Very small firms:** These are enterprises employing fewer than 10 paid employees, except in mining, electricity, manufacturing, and construction sectors, in which the figure is 20 employees. These firms operate in the formal market and have access to technology.
- **Small firm:** Here the limit is 50 employees. These businesses are generally more established than very small enterprises and display more complex business practices.
- **Medium firm:** In these firms, the maximum number of employees is 100, or 200 for the mining, electricity, manufacturing, and construction sectors. These

enterprises are often characterised by the decentralisation of power to an additional management layer.

2.5 The small and medium enterprise sector of the economy is actively promoted by several government initiatives

The following are the government initiatives that promote the SME sector:

- The National Small Business Act, 1996 (Act No. 102 of 1996): Promulgated as a replacement to the Small Business Act of 1981, it intends to provide for the National Small Business Council and the Ntsika Enterprise Promotion Agency. It also seeks to provide guidelines to the organs of the state to stimulate the SME sector in the country.
- Small Enterprise Development Agency "SEDA": Established in 2004 through the National Small Business Amendment Act, 2004 (Act No. 29 of 2004) is an initiative of the DTI to promote entrepreneurship and develop small businesses by providing customised non-financial business support services for small enterprises, that results in growth and sustainability.
- Cooperative Amendment Act, 2013 (Act No. 6 of 2013): The amendment was signed in August 2013 and became active on 1 April 2019. The Act allowed for the establishment of primary, secondary, tertiary, and workers' cooperatives. It also called for the establishment of the National Apex Cooperative to lobby the government and private sector on recommendations that have the potential of developing, improving, and sustaining cooperatives in the economy.
- SEDA Technology Programme: A division of SEDA focusing on technology business, assisting small businesses to access and acquire technology.
- Incubation Support Programmes: The primary objective of the programme is to prepare the early stage entities to supply to the local market. Its focus is on assisting the incubating to secure markets and providing a platform for skills transfer and information sharing (DTIC).
- Clothing and Textile Competitiveness Improvement Programme (CTCIP): The centre's mandate is to assist the industry in upgrading the equipment, people,

and products to reposition South Africa to compete effectively against other low-cost manufacturers.

- Sector Specific Assistance Scheme (SASS): This is an 80:20 cost-sharing scheme that intends to stimulate export growth and the participation of SMEs in the export sector and grow the export base.
- Bavumile: It was established to empower South African women in the Arts and Craft centre.
- SIZWE/FABCOS: This is a loan funding that is directed towards BEE SMEs that are incorporated and working in South Africa.

Red door funds

- Nedbank/Khula
- Khula-Akwandze Fund
- Anglo Khula Mining Fund

Banking Association SME development initiatives:

- Financial Sector Charter and B-BBEE
- Finance and Investment Committee – Credit Extension to distressed SMEs (a response to the global crisis) – NEDLAC
- Financial Sector Programme (FSP) – USAID
- SME Financial Literacy – BANKSETA and FSP
- Risk Capital Facility (RCF) – EU fund admin by the Industrial Development Corporation
- Stakeholder engagement – Gauteng Dept. of Economic Development, Industrial Development Corporation, Khula, Small Enterprise Development Agency, South African Micro-Finance Apex Fund, Development Finance Institutions, Department of Trade and Industry, donors, etc.
- Research and Knowledge Management.

2.6 Role and benefits of small and medium enterprises in South Africa

The importance of SMEs in the economy expresses itself in their contribution to the Gross Domestic Product (GDP) and the employment absorption rate. South Africa is struggling with a record-high unemployment rate; official national rates were 34,5%, according to Quarterly Labour Force Survey Q1 (2022), stagnating growth, and flopping economic policy. The International Finance Corporation (2024) estimates that SMEs employ 50%-60% of the workforce while also making a considerable contribution of 34% of GDP.

According to The World Bank, the SME sector plays a major role in developing economies. It represents 90% of businesses and absorbs more than 50% of the labour force worldwide. The World Bank further stated that SMEs contribute 40% of GDP in emerging economies. The inclusion of informal SMEs in these estimates pushes these numbers significantly higher. Mohlomi (2019) also indicates that the success of the SME sector is critical in South Africa as it creates employment across geographic areas and sectors and employs a broad segment of the labour force. The sector absorbs the skilled, semi-skilled, and unskilled labour force – the hallmark of the South African economy.

Alsaaty and Makhlouf (2020) further affirm that other major benefits of SMEs are contributing significantly to the GDP and making up the major part of GDP growth, adding vigour to economically depressed regions, satisfying the need in the marketplace, thereby increasing the standard and quality of living, increasing exports, expanding the tax base, improving efficiency in the market place by increasing competition.

2.7 Challenges facing family owned small and medium enterprises/Reasons for failure of family owned small and medium enterprises

Being a family business comes with a unique set of challenges. These include managing multiple generations of family stakeholders, reconciling family dynamics with business decisions, or scaling the business while staying true to family values. There are many obstacles to overcome. Every family has different dynamics, and managing the various generations of family members involved in the business can be tricky. Balancing family values with sound business decisions is hard, as is finding the right way to grow the business (Botha 2020).

2.7.1 Internal reasons for the failure of family owned small and medium enterprises

Internal challenges are broad. They include a lack of internal control systems, a deficiency of competent labour, and issues around income and revenue maximisation measures.

2.7.1.1 Investment in information technology (research and development)

The lack of technological advancements by SMEs denies them the opportunity for technology diffusion. In South Africa, technology is stifled by the failure of SMEs to form strong upward linkages with larger firms.

The business world is experiencing rapid technological advancements. Firms of all sizes, across different sectors, are equipping staff with digital tools. The digitalisation helps SMEs to have quicker access to information, reduce transaction costs, and better communication internally and externally. It significantly enhances the scope of trade services and helps SMEs integrate into global markets. Digitalisation also facilitates easy access to resources. It promotes and stimulates innovation (Investec 2021).

However, with all the benefits and opportunities presented by the use of digital platforms, many SMEs continue to trail behind in adoption. Besides the cost implications that come with investment in advanced technology, choosing the right software has been listed as another challenge (Valasseri 2022).

According to Valasseri (2022), the transition to new digital tools, be it subtle or advanced, comes along with complexities that might temporarily affect production and profitability. Integrating new technologies with the existing systems may affect the entire ecosystem, losing money resources, and time, while also tempering the smooth functioning of clients and vendors. Therefore, SMEs with fewer resources and less time with more to achieve are often reluctant to deploy new technologies.

2.7.1.2 Networking and location

As a family business grows, so do the risks of being in one area for too long. This can lead to stagnation and difficulty in competing in a global market. To keep up with the competition, family businesses must be agile and flexible when it comes to networking and location. As stated by Archary (2022), they must have a strong network of contacts and the ability to move quickly when necessary. Additionally, they must be able to leverage their family ties to build relationships with other businesses and potential customers. To remain competitive, family businesses must find ways to stay connected and make the most of their location.

The family business may need to have a presence in multiple locations or even internationally to maximise its potential. Waugh (2019) argues that this can be a costly endeavour, and the company must be sure that it is making the right investments. As a family business grows, so do the dangers of being in one spot for too long. This can bring about lethargy and trouble staying on top of things in a worldwide market. Family run businesses must be adaptive at networking and able to move quickly if necessary if they want to remain competitive in the global market. They must also remain agile and flexible, so they can move quickly when necessary (Outsourced Finance 2022).

2.7.1.3 Management competency and technical due care

Lekhanya (2015) maintains that one of the fundamental challenges holding back the growth of family owned SMEs is the lack of management and leadership capability to drive performance. The survival, growth, and sustainability of SMEs depend on their good business leadership, and the ability to lead, manage and maximise the limited available resource output.

Founders of family SMEs often lead the business (Kirsty Graig Associates 2017). However, as the business grows, more complex business structures emerge. Therefore, firms have to supplement their managerial competencies to avoid the executive limit, at which they are incompetent and damage the business. This “executive limit” concept is consistent with the internal causes of failure. Most of the primary leadership blunders that fail in businesses are:

- Embarking on the business merely as survivalist ventures;
- Underestimating business time requirements;
- Blurred lines between family obligations and business resources;
- Absence of a proper marketing plan;
- Absence of financial responsibility; and
- The ambiguity of business strategy.

Wentworth (2021) highlights some of the marketing skill challenges relating to the SMEs as follows:

- Gain an understanding of the market and potential for growth;
- Market segmentation;
- Market needs analysis;
- Education and training;
- Competitiveness; and
- Marketing of products and services.

A further concern is the degree of skills the board uphold. This is because most of the heads of family businesses are not equipped with the necessary skills to deal with their businesses effectively. Owing to substantial family members' authority, the firm's behaviour closely reflects the will of the family members. The governance is characterised by personalism, benevolent family members' contracts, as well as less formalised management practices. Market demands and changes in how the business is led make the authority not so much conventional but rather more adaptable.

Alsaaty and Makhlouf (2020) state that there are many reasons behind SMEs' failure, with many of them often put under one classification "poor management". The most recognised causes are a lack of product differentiation, profit erosion, overdependence on one or a few customers, competition rivalry, poor inventory management, fraud, legal disputes, failure to seek external advice, rigid and unproductive business culture, poor internal communication, as well as overlapping responsibilities.

2.7.1.4 Recruiting and retaining top talent in the market

A good working environment, flexibility, development opportunities, and motivated teams are conditions highly valued by today's workforce. Talent is a fundamental foundation in all companies. It is ideal to build teams that are capable of facing new challenges and promoting growth.

However, recruiting and retaining top talent in an organisation may entail six months of wage increases, performance bonuses, trainee programmes, and financing post-graduate studies for employees. This is a costly option for SMEs. SMEs are competing with big firms over the same labour pool. Big organisations have big budgets, consolidated labels, and better visibility than SMEs.

In addition, SMEs mostly do not have a Human Resource department (Eva Financial Solutions 2019). The recruitment and termination of employment are the responsibility of the owner and are usually based on nepotism more than meritocracy. They are a one-man show, with the owner dealing with the suppliers, customers, administration of the business, production, shareholders, and putting out the fire in general. They have no time allocated for growing the business and attending to the more important strategic aspects of the business. There is usually no formal document containing the job description, employee profile, objectives, scope, and limits. Vacant positions are normally filled without extensive research on the knowledge, capacity, experience, and personality traits needed for the position.

2.7.1.5 Lack of planning

Most of the family SMEs are brought into existence for survival. There is normally no detailed plan on how the business is going to operate; there are no well-defined short and long-term goals. As a result, there is no understanding of markets, funding needs, costs, responsibility, and other crucial requirements of the business (Eva Financial Solutions 2019).

Myeko and Madikane (2019) further argue that a lack of financial records and internal control systems has also been identified as another challenge facing family owned businesses. This also fails to separate family/personal accounts and business accounts. The use of a company account as a personal account will cause confusion in the long run. Business owners struggle to track costs and fail to measure profitability.

2.7.2 External factors leading to family business failures

External factors leading to family business failures are discussed in this sub-subsection.

2.7.2.1 Market and economic variables

- Interest hiking cycles at hand: Despite surviving the worst of the pandemic over the past two years, SMEs in South Africa still have to weather several storms locally and internationally. The rising petrol costs and interest rate hikes have had a knock-off effect on small businesses (Business Partners Limited 2022).

  The Business Partners Ltd SME Confidence Index Q2 (2022) reported that of the surveyed SMEs, 88% were affected by the interest rate hikes during the first six months of 2022, while 59% noted that their sales were affected by consumers' reduced spending on non-essentials. 89% of the surveyed SMEs also mentioned the direct effect of the record-high petrol prices, which affected the cost of production and distribution costs.

- Load-shedding: The prevailing energy crisis in South Africa equates to massive revenue losses. According to the National Energy Regulator of South Africa, in 2008, 23 days of load-shedding resulted in a revenue loss of R50 billion – the equivalent of R2,17 billion per day. The energy expert Chris Yelland also commented that the 2004 controlled blackouts had a "serious negative economic impact".

  Since 2019, SMEs in South Africa have again been struggling to operate efficiently amid the rolling blackouts that roll out for approximately five hours a day. Grocery stores and food outlets throw away perishables, while service providers fail to meet the needs of their clients. Owing to a lack of resources and financial constraints, SMEs cannot afford costs associated with mitigating the loss of revenue, such as generators and renewable sources of energy and this also affects their ability to pay employees (Dietrich 2019).

As outlined by Alumo Energy (2020), some of the worst and most commonly felt effects of load-shedding are failed Wi-Fi, poor staff morale, loss of planning, broken/damaged equipment, paid idle time, and compromised security.

- Domination by large enterprises (stiff competition): According to the Competition Commission of South Africa Economy Concentration Tracker Report (2021), there is high inequality in company income when the overall distribution of income across all tax-paying employees is taken into consideration. As per the report, the Top 10 companies earn 86% of the income, while the significant bottom 50% earns only 1,6% of income. Indicative of this inequality, SMEs account for 95% of tax-paying companies, while earning only 25% of the total turnover.

2.7.2.2 Infrastructure

Good infrastructure enables SME development (Bureau for Economic Research 2016:9). It promotes the sustenance of the existing SMEs and the emergence of new ones. A lack of access to good infrastructure impedes growth and significantly renders the cost of doing business high. Development Bank of Southern Africa also stated that businesses cannot function without proper infrastructure.

Oboko and Goldman (2016) further state that infrastructure is a critical factor for economic development. It interacts with the economy through the production process. Any change in the quality of the available infrastructure greatly impacts production and organisational performance. While government is investing time and resources in promoting SME development and sustainability through a conducive policy and regulatory environment and incubation, difficulties around transport, utilities, and access to infrastructure remain constraints (Dietrich 2019).

The infrastructure deficiency in South Africa remains a compelling challenge for SMEs. Poor transportation infrastructure and lack of public services, such as proper sanitation, telecommunications, clean piped water, and electricity place massive constraints on SMEs' development and sustainability (Dietrich 2019). Businesses will experience bottlenecks, while some will not survive long-term if substantial funds are not funnelled into the development, repair, and maintenance of infrastructure (DBSA 2023).

2.7.2.3 Corruption and crime

The prevailing harsh economic conditions in South Africa have pushed the levels of crime rate to a record high. In this regard, SMEs are equally affected. In their 2019 economic survey of South Africa, the OECD found out that the increasing crime rate is forcing SMEs to increase more on security spending more.

Apart from the much-published corruption within both the government and the public sector, fraud is a major concern for South African SMEs. Mohamed (2022) states that South Africa ranks very close to the top for economic crime. The State capture is a good example of how corruption is affecting the economic environment in South Africa. Xego (2020) further articulates that the South African business landscape is characterised by two distinct types of corruption; grand corruption and repressive demand-side corruption, where officials demand a facilitation fee to award SMEs government opportunities. The alleged widespread looting of COVID-19 resources is a clear demonstration of these issues.

2.7.2.4 Onerous labour laws

In South Africa, labour laws are a significant regulatory obstacle to business growth, particularly in terms of laying off staff.

2.7.2.5 Inefficient government bureaucracy

Similar to many other economies in the world, South African government policies are instrumental in promoting and enhancing entrepreneurial activities. They set a conducive environment upon which new businesses can be initiated and sustained BER (2016:10).

2.7.2.6 Access to finance and other valuable resources

In family owned SMEs, the business is characterised by a heavy reliance on insider finance from owner-manager, family, and friends. By far, owner-funded capital represents the most widely used source of finance, followed by investments by family and business partners (OECD 2020).

OECD (2020) also suggests that the lack of access to finance remains a challenge for SMEs in South Africa, hindering their growth and sustainability. The factors contributing to poor access to finance include, but are not limited to, lack of readily available credit information, lack of suitable formal finance products available for SMEs, lack of appropriate assets available to small enterprises for surety and collateral, and the perceived riskiness of small businesses financing. All these factors reduce the availability of credit to small enterprises while also increasing the cost of credit to these businesses.

Moreover, contributing to the lack of access to finance by SMEs is the lack of credit information sharing. Credit information services for corporate clients and retail businesses are ingrained and highly advanced through several credit and risk assessment tools. However, for SMEs, there are no well-established, readily available tools to guide credit and loan facilities. In general, information asymmetry hinders lenders from making sound and informed credit decisions in the SME space (OECD 2020).

The SMEs' high infant business mortality in South Africa is also a significant contributing factor to the lack of access to funding. This failure rate, together with the prudential regulations under Basel III after the 2008-2009 credit crunches, which resulted in the global financial crises, results in a cautious approach to extending credit to the SME market (OECD 2020).

Another primary constraint in SME financing is the lack of an adequate register of assets to be pledged as collateral when applying for credit in the financial sector. In addition to this, most SMEs' capital is movable, in the form of livestock, inventory, equipment, or raw material. However, credit providers prefer mostly immovable assets over movable assets as collateral. The lender’s ability to claim such assets as collateral should the borrower default is limited (OECD 2020).

2.7.2.7 Lack of access to markets

One of the key barriers to South Africa’s attempts at growing the SME sector is the constrained and limited access to markets for these entities (Parliamentary Monitoring Group 2019). The ongoing struggle of SMEs to connect with potential buyers remains a challenge. According to McKinsey (2020), SMEs overly rely on a small number of clients, giving them bargaining power. Msomi and Olarewaju (2022) maintain that access to markets by small businesses remains a predominant challenge for these entities.

The complexity of the sustainability standards is preventing SMEs from accessing both public and private markets (Parliamentary Monitoring Group 2019). There is no support mechanism to guide township enterprises through onerous procedures. The crucial factor is for SMEs to find their place in the value chain.

Mohlomi (2019) also states that with the current increase in globalisation, there is a rapid and constant change owing to sustainability and product standards, foreign market requirements, certification, digitalisation, customs procedures, and industry regulations. Adopting these is costly for SMEs.

Family related enterprises encounter outer commercial environmental difficulties, for example, economic situations, coupled with an absence of certainty in government policy regarding electricity unit rates, e-tolling and taxes, and exchange rate fluctuations.

2.7.3 Critical challenges inherent family owned business

Every business is threatened by several factors, both internal and external. It can be the changing economic conditions, the lack of capital, or the general rivalry in the market (Sasco 2023). According to Thombson (2015), family owned businesses experience these challenges as well, but they also have unique inherent challenges that come about from the inability to separate business and personal lives.

Fabian and Steinberg (2021) further argue that family conflicts, charges of nepotism by non-family staff, and communication challenges can interfere with the growth ambitions and smooth operations of the business. The following challenges have been listed as inherent to family businesses:

- Rivalry among family members
- Lack of proper financial government structures
- Lack of case studies to pass down
- Failure to Incorporate Non-Family Professionals into Leadership Positions
- Playing favourites to family members
- Lack of succession planning
- The imbalance between loyalty and ambition
- Inability to address work/ life balance
- Downplaying the Importance of Research and Benchmarking Globally

Rivalry among family members: The issue of who qualifies to lead the family business remains an overarching challenge in family enterprises. Factors such as age, blood lineage, and qualifications are likely to result in "entitlement". This results in rivalry among family members. The attitude of entitlement can be viewed through three scenarios, namely i) Entitlement due to role confusion, ii) Entitlement due to role dissatisfaction, and iii) entitlement due to family perception of fairness (Family Business Consulting Group 2023). Family rivalry can pull families and their businesses apart, result in court battles, and cause irreparable damage to the corporate image and reputation of the company (Strathmore University Business School 2021).

Failure to incorporate non-family professionals into leadership positions: Strathmore University Business School also stated that in most family businesses, matters about finances are considered private. In such businesses, owners fear opening up to non-family members about the finances of the business. This cripples professionalism and limits business potential. Competent individuals, who are not family members, are not consulted for informed decision-making, which results in failure in the long run.

Lack of case studies to pass down: In protecting their intellectual secret, most family business founders fail to document their winning formulae that can provide much-needed valuable insight to the vulnerable new generation taking reigns. Cronin (2021) is of the view that family businesses will benefit from sharing their origin story. She stated that, the best stories are told in the voice of the founder “Be authentic”, secondly, every company runs against a set of unexpected problems – talk about setbacks as well as successes, thirdly, by celebrating new chapters in family businesses – keeping the story up to date.

Lack of proper financial government structures: In the business context, financial governance includes the ability to stay in good standing with compliance requirements such as IFRS, IAS, GAAP, and so forth. Good financial standards translate into the ability of a business to collect, calculate, and present financial data as per international regulatory rules. It is prudent to separate the family business funds from the family’s financial needs. Compensations, expenses, and budgets are some of the financial aspects that need to be formalised in family businesses. Family members are appointed to positions within the business for family reasons (Accounting Village, 2021). As such, their uniform requirement to comply with their legal requirements for accounts, tax returns, VAT, payroll, etc. is compromised due to a lack of appropriate skills and experience.

Playing favourites to family members: According to Patmos (2019), no good comes with allowing nepotism to be a deciding factor in business human resources. Nepotism allows the misalignment of skills and experience in the role. Nepotism is an act of hiring family members based on family ties and not meritocracy (Zgheib 2015:142). Most family businesses promote family members to senior management roles even when they are not skilled enough to embrace their responsibilities (Vistage 2020).

Kotlar and Chrisman (2019) state that to safeguard force and authority inside the business, administration structures depend on casual dynamics. As such, hiring and authority delegation are primarily based on family ties, not on meritocracy.

Employing and terminating family operations is, in general, for the greater benefit of the household than for the business (Peter et al. 2016). Underperforming family members are retained because they are struggling to be employed elsewhere. Human asset issues that constantly surface in family owned businesses find some kind of balance between nepotism and meritocracy, as well as overseeing privilege.

Lack of succession planning: Succession planning is regarded as the biggest challenge facing family owned businesses. SIGMA (2018) states that succession conversations in family businesses are inherently emotional and more complex due to financial concerns, individual expectations, and family dynamics. Handing off the control, management, and leadership of the business is arguably the greatest challenge in family businesses. Members of the family businesses often do not want the business side of things to affect the family relationships (MGIWorldWide 2023).

The insufficient exchange of authority and possession from one generation to the next best explains the absence of longevity. Lansberg and Gersick (2015) found that the complex power transition compromises the continuity of these firms they always venture into. South African family businesses, for the most part, do not engage in progression arrangements. Thus, most family businesses have no proper succession plan in place.

The imbalance between loyalty and ambition: In most cases, family businesses offer the first opportunity for a successful career. It presents young family members with business-wide exposure and experience that can elevate their careers to the highest levels (Magma Chartered Accountants 2023). However, for some, this may be more of an obligation than an ambition. Some family members may be expected to take over the reins when they have different career interests (Quant Investment Management 2023). This may result in goal incongruence, conflicts, uncertainty, and disengaged management.

A normal business challenge is the expectation that the most seasoned offspring of the family will accept power over the business. It is argued that the appropriate trade must be an ardent business individual who has the propensity to lead it, a vision for future firm improvement and progression, and a compassionate character. Delicate subjects incorporate pay contrasts, non-relative responsibility, opening, disciplining family members, or not recruiting offspring. Empirical studies conducted in the US found that there is a dramatic decline in the firms' performance at the point where somebody from the cutting edge turns into a new CEO (Chin et al. 2018).

Leggio and Mandez (2020:23) further suggest that in family owned businesses, there is little alignment between personal preferences and the overall business strategy. In the family owned business setting, the lack of goal congruency can become a threat to business performance, growth, sustainability, and longevity.

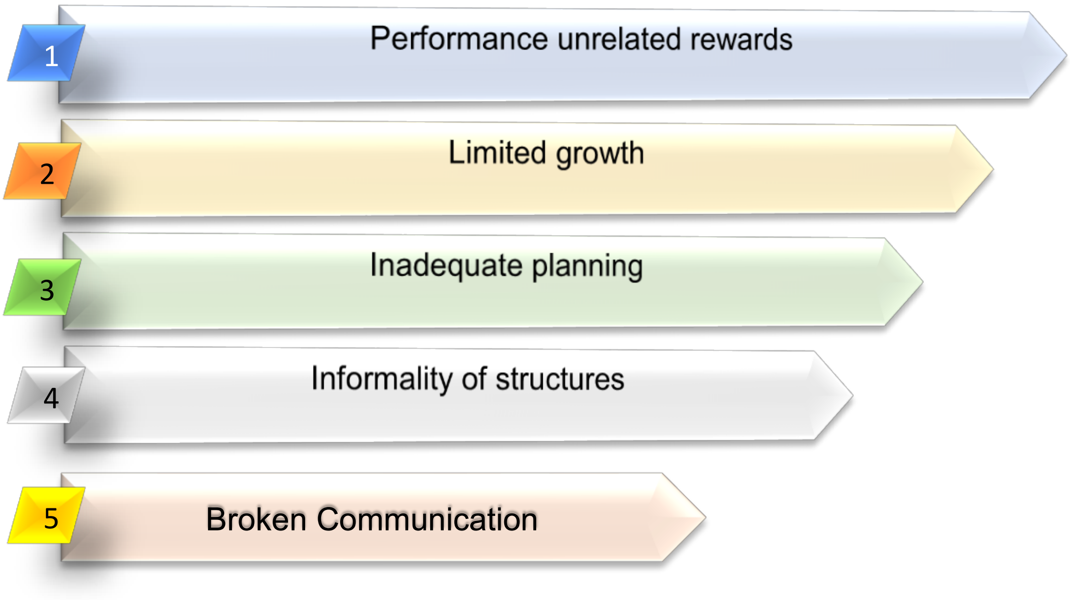
Kotlar and Chrisman (2019) also view the involvement of family in business as giving rise to a troublesome exchange between the progression of shared history, qualities, and customs. It also gives rise to desperate requirements for hierarchical and vital developments emerging with the progressively powerful competitive environment.

Blurred lines between work and family matters: Family businesses are clouded by family dynamics and politics. Equally worth noting is the fact that family business affairs affect family relationships, culture, and values. It is often very difficult for business management and family leaders to draw boundaries between the family and the business.

A number of family owned businesses do not concentrate exclusively on a business mandate (accumulation of wealth). Family businesses put more emphasis on family and more extensive social motivation, for example, social attachments, security, and culture, just as they work on neighbourhood individuals and/or the utilisation of local suppliers. Peter et al. (2016) further argue that viable mergers may be sacrificed in an attempt to protect the family name's reputation. In addition, family values have infused the firm and fostered long-term business ties with customers, suppliers, and employees. Founders are usually concerned with the family legacy, status, and reputation.

Poorly structured family business governance: Properly planned and documented governance structures, with clearly defined roles and responsibilities ensures that everyone's interests are aligned with the interest of the business as a whole. This helps to prevent the possibility of conflicts in the long run. As long as people understand their roles and responsibilities, conflicts and misunderstandings can be avoided (IFB 2022). Where governance structures are in place, understood, and known by everyone, communication flow improves, and productivity increases. Family businesses rely firmly on trust to run the business. Trust alone is not sufficient to guide strategic decision-making (Vistage 2020).

2.7.4 Other operational challenges faced by family owned businesses



2.8 Family business critical success factors and key performance indicators

2.8.1 Five Cs of family business success

According to Botha (2020), family owned businesses turn to outperform non-family businesses in the long run, if such entities are organised and managed well. Credit Suisse Credit Report 2006 also stated that family owned businesses are often agile and resilient in times of recession.

Researchers such as Danny Miller and Isabelle Le Breton-Miller (2005) studied various global family businesses. They discovered that what gives family owned organisations a unique edge as best performers over non-family organisations is what they refer to as the 4C advantage. These enable them to compete effectively and include continuity, community, connection, and command.

- **Continuity:** Publicly traded companies invest with the next quarterly earnings or the next shareholder report in their minds. They strive to maintain and achieve goal congruency in every business dealing in which they engage. This limits the investment portfolio of the company. However, family businesses invest with a long-term mindset. Their main focus is not on next month's or quarter's earnings, but rather extends to decades to ensure business continuity and sustainability.

  This long-term mindset affords family businesses a significant advantage. It translates into capital being allocated in a more pragmatic, sustainable, and disciplined manner (Bushe 2019).

- **Community:** Most family businesses start as just that – family. Families inherently have a degree of unity that naturally becomes an inherent part of the business. As more members, family or non-family members are brought into the fold, the sense of unity holds from it. The founding family's objectives and values are shared and adopted by everyone who joins the business, essentially uniting the tribe. As these values and goals are instilled in everyone, they develop a cohesive and collaborative workforce.

- **Connection:** The majority of these businesses start as small local establishments in the neighbourhood. The fundamental unique foundation of these organisations is that they are not built only on the exchange of goods and services. Founding families invest time and effort to forge connections and shared experiences with all their stakeholders. As the business grows and expands geographically, these strong forged relationships continue and help foster loyalty.
- **Command:** Family businesses are in command of their operations. This allows agility, less bureaucratic and rapid decision-making, and rapid flexibility to the changing needs of the market. Communication is unencumbered. Ideas can be discussed, plans be made and developments be actioned more quickly than in bureaucratic constraint organisations.

2.8.2 Critical success factors and key performance indicators

The table below demonstrates the critical success factors and the related key performance indicators for family owned businesses according to Harland 2017.

Table 2.1: Critical success factors and related key performance indicators

Critical success factors	Key performance indicators
Proper succession planning *(Poor transitioning and a lack of proper succession planning are the biggest factors of family business failures.*)	• Establishment of a strong and effective board with independent directors. • The skills and experience of the next generation to take the reins. • The level of involvement and the degree of dependency on business cash flow by the retiring generation.
Professionalised structures *(Professionalising operations is inevitable as the business grows; however, this is usually an added layer of complexity for family businesses.)*	• Forming a family council • The hiring of external managers • Development of a robust, administrable, and legally binding shareholders agreement.
Well-developed strategic plan *(Poor strategic planning or lack of strategic direction hinders growth and limits expansion.)*	• Flexibility in annual budget flexing to seize new investment opportunities. • A well-detailed strategic plan, with goals and objectives.
Innovation *(Lack of awareness of the impact the technology has on business continuity is killing most family*	• Availability of technology equipment and software • Training is offered to employees on the proper and sustainable use of technology.

Critical success factors	Key performance indicators
businesses.)	
Empowerment of next generation	

2.9 Conclusion

SMEs are the much-needed panacea to drive the prosperity and economic well-being of any country and have a significant impact on the GDP of the country. They are an important vehicle to address the prevailing challenges of equitable distribution of income, high unemployment rate, and overall stimulation of economic development as well as suitable economic growth (Bushe 2019).

The review of the literature revealed that SMEs are facing a number of both internal and external challenges that hinder growth and sustainability. Internal challenges include poor customer satisfaction, lack of management experience, lack of functional skills, and lack of access to finance and other valuable resources. External factors are lack of proper infrastructure, high rates of corruption and crime, lack of proper networking channels, stringent labour policies and inefficient government bureaucracy, lack of access to finance, and the rising costs of doing business.

As a strategic contributor to tackling the economic challenges facing South Africa, SME development and sustainability is flawed. The SMEs' ability to absorb unskilled and semi-skilled labour, as well as utilise local suppliers and talent highlights that priority should be given to their development and sustainability. Presently, the leading story on family owned SMEs is about what is failing to occur, and not what should be done to improve their efficiency. Family SMEs are operating in an environment that is ill-suited for their unique requirements.

The SME economy is mainly stagnant because of many constraints, internal or external, operational or administrative; a big bang revolution has to be made to accommodate SMEs and their special needs. They need to be equipped with entrepreneurial skills, marketing skills, financial management skills, conceptual and decision-making skills as well as innovative and creative skills. In today's complex and dynamic economic environment, SMEs need to be flexible and adapt to the changing needs of the customers and the more efficient and effective ways of doing business.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter covered the literature on the challenges facing family owned small to medium-sized enterprises. Globalisation and digitalisation have blurred boundaries that were clearly defined in the past. The quest to study facts and the desire to bring about solutions has triggered intensive research in different fields.

To successfully undertake a research process, different techniques are used in collecting, measuring, and analysing data, and processing it into useful information. This process is referred to as research methodology. Therefore, this chapter explores in detail the research methodology employed for this study, as it is a crucial, pre-defined activity that impact the sufficiency and quality of the data used. If done properly, a research methodology ensures that the outcome of a study is representative of the whole population and that the programmed objectives of the study are attained.

Research methodology defines the target population for the study, as well as the sampling used to conduct the study. It also details the sampling criterion and motivation. It provides the data collection methods used and identifies the data analysis methods invited for the study.

This chapter is aimed at outlining the research techniques and methods applied to compile the findings as influenced by the previous chapter and presented in the following chapter. The chapter explains the data collection instruments and strategies used. Characteristics of the research methods discussed in this chapter include research approach, research design, population, and sample definition the data collection tools used, the management of those tools, their validity as well and their reliability. The chapter concludes by explaining the statistical techniques applied for analysing data to draw inferences. The data collection ethical considerations are also presented in more detail in this chapter.

3.2 Research paradigm/approach

The orientation of the study is qualitative and deemed to be the most appropriate approach to attain the answers wanted. The qualitative approach to research is concerned with the experiences of the individual that is under investigation. It is often referred to as gaining the insider's perspective.

The *epistemology* employed in this research study is *interpretivism*. Bryman et al. (2014:12) define *epistemology* as justifiable comprehension in a discipline. *Interpretivism* recognises the fundamental differences between human behaviour and natural science (Bryman et al. 2014:14). The key concern of the qualitative approach is the participants' views and not that of the researcher. It emphasises how they interpret the subject based on their knowledge of it, and not influenced by the researcher.

3.3 Research design

According to Bryman (2014:100), a research design is a general plan outlining the techniques to be used to gather and analyse data for the research study. It is a strategy, structure, and plan of the study, critical in finding the answers to the research questions and control variables.

In conducting primary research, there are three elementary kinds of research designs used, namely: qualitative, quantitative, and a combination of the two (Ashim 2020). Notably, the choice of the appropriate and most suitable research design centres around the research nature, the underlying patterns that enlighten the research, the possible limitations, and the research setting.

Seeking to get an insight into the phenomena being researched, the researcher employed a qualitative research design. Qualitative research seeks to interpret and make sense of data by identifying abstract concepts. It is concerned with establishing the reasons underlying the phenomena in question (Bryman et al. 2014:41).

The researcher explored *phenomenological* design for this study. Bryman et al. (2014:42) state that the design allows the researcher to be part of the process but allows the participants a dominant position to discover how they interpret their experiences and make sense of their perceptions.

3.4 Sample design

According to Bryman et al. (2014:170), a sample is the segment of the population that is selected for investigation. Bryman et al. (2014:170) also state that it can be selected by using non-probability or probability procedures. The selected sample should be representative of the population it was selected from. In perspective, a sample should possess and reflect features of the population.

A method that is employed to select a sample to determine the characteristics of a population is called sampling. Bryman et al. (2014:170) define *sampling* as the predetermined process of selecting a subset of individuals from a large population, based on certain unique attributes that they possess and their general importance to the findings of the study. Increasing comprehension of a topic is accomplished by having a generally little yet cantered population.

As stated by Naeem (2019), a sample of a population in a research study is frequently used for the following reasons:

- **Research simplification:** It is less complex to study a sample of a population that is representative than to study the population as a whole;
- **Time-saving:** Studying the population as a whole can consume time, particularly if there is a large population or if it is dispersed over a big geographical area;
- **Cost-cutting:** Interviewing, observing, or using questionnaires to gather data from each component of a population can be very expensive if the population is big and geographically dispersed over a big area; and
- **Determination of the specific properties** of the whole population.

The key reasons for sampling in this study were as follows:

- Lowering of costs;
- Greater precision of results;
- Quicker data gathering; and
- Availability of the elements of the population.

Qualitative research is not about the numbers but about how richly detailed the insights and views provided by participants are. Therefore, a sample size as small as six respondents is acceptable. However, it is important to maintain a sample size sufficient enough to allow the researcher to conduct interviews until repetitive data emerge. Once data saturation has been reached, the interviewer may decide to stop the data collection and advance with data analysis

3.4.1 Types of sampling design

The sampling method used by the researcher to select the representative sample is an important part of the research. To draw valid conclusions from the results, the researcher has to carefully decide on how to select a sample that is representative of the population, with no bias, and acceptable levels of confidence level and margin of error. According to McCombes (2023), two primary types of sampling methods can be used to select a research sample. They are probability sampling and non-probability sampling. The study used non-probability sampling.

3.4.1.1 Probability sampling

In probability sampling, each member of the population has a known, non-zero chance of participating in the study. According to Dudovskiy (2022), the core of the probability sampling technique is randomisation or chance. Probability sampling methods use some form of random selection.

3.4.1.2 Non-probability sampling

To ensure that the sample represents the participants fit to respond to the research questions efficiently and accurately, **non-probability subjective** (purposive) sampling was employed. In qualitative research, there is no definite approach to determine the sample size of the study (Lopez & Whitehead, 2013). According to Tuckett (2004), the richness of the data collected is more crucial than the number of participants used. Therefore, the sampling and the sample size drawn were influenced by the assumptions made, based on the likelihood of achieving the purpose, context, and more insight into the collected data.

3.4.2 Population

South African economy has a handful of family owned SMEs, with the majority starting as survivalist ventures. There is no reliable database about family business statistics in South Africa; however, estimates indicate that they are the predominant form of business. They comprise 80% of all South African businesses and about 60% of the companies listed on JSE (Maas & Diederichs 2007). These entities are found in different industries, from agriculture, retail, construction, funeral homes, art, creations, etc.

3.4.3 Sample size

The sample size for this study was 12 participants. In this study, the population was the family owned SMEs in Bloemfontein. The definite population size of family owned entities was unknown, as there is no database providing a clearly defined list of registered family owned SMEs. The target sample size was drawn from The Free State Black Business Chamber (FSBBC), and The Free State Chamber of Commerce and Industry (FSCCI) database. The researcher used the following criteria to select the relevant and most appropriate sample:

- The business must satisfy the definition of the family business
- Be in existence for at least three years
- Have intentions to run the business for the next generation of the family.

Table 3.1 provides a sample of respondents interviewed by category.

Table 3.1: Summary of participants selected for the study

RESPONDENTS	INDUSTRY	SAMPLE SIZE
Family owned business owner-manager	Any	3
Family owned businesses where there are non-family members in the management team	Any	3
Family owned business run with the professional assistance of external consultants	Any	3
Family businesses where employees are dominated by family members	Any	3

3.5 Data collection method

The researcher employed semi-structured interviews to collect data from the selected research participants. As stated by Bryman et al. (2014:216), semi-structured interviews allow the interviewer to vary the sequence of questions on the interview schedule to give them the latitude to ask further "follow-up questions" on significant replies. Questions of this nature are more broadly framed and cover a wide range of contexts. Semi-structured interviews occupy a space between structured and unstructured interviews (Welman, Kruger & Mitchell 2005:166), and involve an interviewer having an interview schedule with a list of fairly specific topics to be covered (Bryman et al. 2014:224).

Sarandakos (2000:256) outlines several methodological aspects of a qualitative interview. The researcher extracted and used a few of them to guide the interview and give meaningful results, as follows:

- The primacy of the respondents – respondents were treated as experts giving valuable information.
- Openness and flexibility – for the comfort of the respondents, no standard format was used; the interview was open to change as deemed necessary.
- Explanations were allowed of findings that emerged during the interview and interpretations were allowed.

A qualitative interview is a flexible approach where the primary actors are the respondents. The data collected from these interviews are used to support the phenomena or to develop new insights into the phenomena under discussion. Therefore, the relationship between the researcher and the participants was built, as it was crucial in continually shaping the process of engagement. Both parties are active participants in the process.

There was a pre-defined interview schedule to guide and structure the interview. To gain a richly detailed insight from the respondents, the interviewer occasionally deviated from the outlined sequence on the schedule or even changed the wording to ensure that the questions were relayed well to the interviewees. There was also a need for questions that were not listed on the schedule but had a bearing on the theme, depending on the responses and the background of the various respondents.

The researcher aimed to reach the sampled respondents through emails, and telephone calls to secure appointments. The interviews were conducted face-to-face, and through digital platforms such as Zoom, Microsoft Teams, or WhatsApp video calls, depending on the most preferred platform by the participants. Mostly, the reliable, suitable to use, and credible platform that guarantees the confidentiality and dependability of the data collected was used.

The non-disclosure agreement was signed to ensure confidentiality and participants' anonymity.

3.5.1 Construction of interview questions

To reduce the design error and improve the reliability and dependability of the data collected, the researcher used the following descriptors:

- Assumptions were not used.
- Delicate questions were not asked.
- Ambiguity was avoided.
- The questions were structured easily and simple vocabulary was used.

The interview schedule contained 14 questions established from the review of the literature (Annexure A). The list of questions was deliberate to increase the understanding of factors affecting family owned businesses in Bloemfontein. The questions contained factors that the researcher deemed sufficient to obtain the answers needed and to fulfil the purpose of the study.

3.5.2 Recruitment strategy

The researcher selected the family owned businesses that were suitable in terms of geographical location, communication system, demography, and transportation accessibility. The prospective respondents were visited before the commencement of the interviews for the researcher to introduce herself and the purpose of the study. On agreement, the researcher took the contact information, and any other correspondence was made via email and telephonically. The researcher scheduled the interview times with the participants via email or telephonically, allowing two weeks from the agreement to the actual interviews taking place. This was to allow the participants to prepare and also to ensure that the scheduled times were convenient for the participants and did not result in lost work time. The researcher met face-to-face with the interviewees to conduct the interviews.

Interviews lasted 45 minutes to an hour, varying for each participant. The interviews were done during off-peak times (either during lunch times or after hours). However, where it was impossible to conduct interviews during the off-peak times, the researcher asked for permission from the supervisors and manager to conduct interviews. Such interviews took 30 minutes maximum to avoid a significant loss of time off work.

3.6 Data analysis

As defined by Kelley (2023), data analysis is a process of extracting and processing raw data into relevant and valuable user information. It is regarded as the core activity of the research. It is a process where patterns are identified, inferences are made from the data collected, and a conclusion is reached. It is a very structured and mechanical process, which has to be performed to make use of the data collected.

The main aim of this section is to outline the researcher’s analysis of the data collected. This process usually includes the reduction of gathered data to a controllable size, the development of summaries, the observation of patterns, and the application of statistical techniques. It is a process of assembling, transforming, and modelling data to emphasise useful information, propose conclusions, as well as supporting decision-making.

This research study followed a qualitative research approach to research. In analysing data collected through qualitative research instruments, Bryman et al. (2014) state that there are three most frequently used analytical strategies for qualitative data analysis, as follows:

- Analytic induction: In this method, the researcher seeks a universal explanation of a phenomenon by continuing the gathering of data until no exceptions or irregular cases are found. If inconsistencies are found, the researcher must choose between reformulation and redefinition of the hypothesis.
- Grounded theory: A theory that was obtained from data, methodically gathered and analysed through the research process. Data collection, data analysis, and the resulting theory stand in close relationship with one another. The method is too prescriptive and over-emphasises the development of concepts than theories.
- Thematic analysis: This is a flexible method of qualitative data analysis. It is not confined to a particular philosophical orientation. The objective of thematic analysis is to identify, analyse and describe patterns or themes across the data sets.

The narrative thematic analyses were used to analyse data obtained from the respondents. The analysis involved identifying themes and patterns from the participants and consolidating the responses according to the emerging patterns and themes.

The analysis took into consideration the key messages from the respondents. The key important notes were quoted to preserve their original meaning and not to dilute the initial meaning by the respondents. The study interview schedule also included descriptive statistics that analyse the demographics of the participants and the study findings were cross-checked to confirm the reliability, dependability, and concurrency of the information shared.

The services of the language editing of the final document were sought. Owing to the specialised nature of qualitative data analysis, external consultation was made, and data analysis was done by qualitative data analysts.

3.7 Ethical considerations

According to Fleming and Zegwaard (2018:209), in addition to the researcher selecting appropriate research methodologies and methods, the importance of fundamental ethical considerations in conducting research involving human participants is equally critical.

The researcher guaranteed that the issue of morals is dealt with in the way of the research methodology. The protection of the participants was the researcher's priority. It was respected and regarded throughout the study. Participants' prior agreement to partake in the survey was requested. Furthermore, the study was carried out responsibly, with the researcher upholding the principles of probity, classification, exhaustiveness, accountability, and receptiveness to public scrutiny. Authorisation was sought from all the relevant stakeholders, who were legitimately influenced by the researcher's recklessness.

The interviews were scheduled at the convenient times agreed upon and confirmed by the respondents (participants), and this was done at least two weeks before, to allow for proper planning. Interview schedules that fall within the participants' working hours were avoided where possible or approval was sought from the superiors and management.

Moreover, virtual training and support were afforded to the participants. The participants were made aware of their voluntary participation and their right to refuse to participate at any given time. The researcher also guaranteed the participants the anonymity and confidentiality of all the correspondence shared between them, and that, under no circumstances will the information be shared or published on the compromising platforms without their prior approval.

In addition, the researcher followed the RIMS Ethical Clearance Application process to comply with the UFS Ethics Committee requirements. This also ensured that the study was aligned with the guidelines and procedures provided by the business school. The information collected was handled with strict confidentiality. Any digitally collected data and/or correspondence was password protected. The completed copy of the study will be shared with the respondents to ensure transparency.

In research, ethical considerations are a set of principles that guide the research design, practices, and approach. Researchers must always adhere to this conduct when collecting data from people. Bhandari (2022) states that these considerations work to –

- protect the rights of research participants;
- enhance research validity; and
- maintain scientific or academic integrity.

These principles ensure that participation in research is informed, voluntary and safe for research subjects. Bhandari (2022) further indicates that researchers need to balance between pursuing important research objectives and using ethical research methods. Below is a list of ethical consideration principles that guide the conduct of the research study:

- **Informed consent:** Denzin and Lincoln (2011) suggest that informed consent is the cornerstone of ethical research. Participants must be fully informed of what is expected of them, what questions will be asked of them, how the data will be used, and what consequences (if any) there could be. Participants must provide explicit, active signed consent to take part in the research. They must be made aware of their rights to access their information and their right to withdraw at any time before the interviews without any penalties or suffering. The researcher, therefore, aims to provide written consent to all the participants to sign as evidence of the voluntary agreement to participate in the research.

- **Breach of confidentiality:** The identity of participants should be kept confidential and anonymous. This assurance extends beyond the mere protection of their names, to avoidance of using self-identifying statements and information. As stated by Fleming and Zegwaard (2018:211), participant anonymity and participant confidentiality are two terms commonly used synonymously when in fact, the two are different. Anonymity means the participant's identity is unknown to the researcher. This is common in anonymous surveys and questionnaires. However, confidentiality means the participant's identity is known to the researcher but the responses have been de-identified and the identity is kept confidential. This is common in interviews.

The researcher signed a confidentiality agreement with the respondents to assure them of anonymity, legitimate privacy, and confidentiality of the information shared. The researcher also provided an introduction to the UFS Ethical Clearance Protocol, which guides the general expected conduct and behaviour during the commissioning of the research.

- **Risk of harm:** Harm can come in different forms. Those include physical harm, social harm, economic harm, legal harm, and psychological harm. It is best to consider every possible source of harm and concrete ways to mitigate them (Bhandari 2022). There are high numbers of SME failures, exacerbated more by the prevailing economic stagnation in South Africa, coupled with poor public infrastructure and high inflation and interest rates. How this information is communicated to employees of such companies may threaten their job security and affect their morale and productivity in general. Therefore, the researcher ensured proper communication and understanding of the purpose of this study.

- **Loss of work time:** The researcher ensured to conduct the interviews during no peak hours or after working hours if that suited the comfortability and convenience of the respondents. To an extreme point, the scheduled times that fell within working hours were communicated with supervisors and management in advance for approval. Management was notified accordingly for interviews that went beyond the set timelines for authorisation.

- **Negative impact on professional/personal relationships:** Employees participating in employer-based research are more likely to be vulnerable due to their susceptibility to coercion or undue influence. The employee's decision to participate should not affect hiring and firing, promotion, employee performance evaluation, or any other employment benefits (Resnik 2016).

  Employees who were reluctant or afraid to voice their views for fear of damaging relationships and losing their jobs were reassured of the strict response anonymity and tight confidentiality of the information they shared. This was well achieved by signing an NDA or confidentiality agreement.

- **Research involving the deception of participants, concealment, or covert observation:** Any potential observation of participants who wanted to conceal information or hesitated to provide an opinion was addressed through a reassuring commitment to keep the information confidential. In addition, the participants were assured that their rights were protected unless they provided consent for such information to be shared. The confidentiality agreement was used to protect the views of the participants. Therefore, they were guaranteed absolute confidentiality.

- **Risk to the researcher:** For participants who were not comfortable sharing the information with the researcher, the researcher reaffirmed the promise to uphold the confidentiality of information, as well as the anonymity of the participants. The participants were reassured that the information they shared would not be shared with a third party without their consent.

- **Potential conflict of interest:** This is a very widespread ethical problem (Agandona 2004). In research, conflict of interest are situations where professional objectivity may be compromised because of competing financial, personal, or professional connections or personal values and stands (George 2022).

The inclusion of family owned directors and managers as part of the selected sample and questioning their view on the subject would compromise their open engagement, mainly because they may feel more responsible for the failure or success of the business. However, the participants were reminded that the value of their contribution was critical as they are the engines supporting the business structure and strategies. Their viewpoints and opinions would provide a comprehensive and rich picture of how they viewed things.

The approaches encouraged the participative engagement of staff beyond the study and benefitted the participants beyond the study. Therefore, the participants were motivated to engage with the study and add value to other matters beyond their purview. Since a consent form was signed by the participants, some terms and conditions committed included keeping the opinions of individual participants private and confidential.

3.8 Demarcation of study

The researcher aimed to get a richly detailed apprehension of the provocations facing the family businesses. The researcher also intended to understand the SMEs' economic importance in the economy. The relevant stakeholders, connected, external or internal were used. The views and perspectives of the respondents may be subjective, but may, however, play a crucial role in building sustainable family businesses and curbing the devastating problems that are caused by family business failures.

The sample of the study was limited to 12 respondents, selected through non-probability selective sampling. The duration of data collection is scheduled for a month, with an additional two weeks adjustment, to plan for unforeseen delays. The researcher used face-to-face and digital semi-structured interviews for data collection. Both parties agreed upon the place, time, and method of collection that is convenient and efficient.

3.9 Conclusion

The chapter scrutinised the research methodology relating to the study. It provided a short overview of the research design that was used for this research paper. It laid a foundation for the following chapter. The research methodology was explained and the research process was described. It explained how the sample was selected, how data was collected, and importantly, the use of triangulation to ensure reliability and objectivity.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The previous chapter discussed parts of the research methodology, including sampling method design, data collection methods, and data analysis and interpretation strategies used in this study.

This chapter looks at the empirical findings of the study, as guided by the processes discussed in Chapter 3. The chapter is the analysis, discussion, and interpretation of data collected, into useful combined and expressive information. Bloomberg and Volpe (2018) stress the fact that data analysis and interpretation should correspond with the research purpose, objectives, and employed methodology. This means that the study findings should align well with the objectives of the research study. Therefore, the triumph of the study cannot be established if data analysis and interpretation are not done properly. Therefore, the purpose of this chapter was to –

- systematically present the findings of the research study; and
- analyse and interpret the findings of the research study

Several probing questions were asked to extract the data and to inform the discussion of the phenomenon being researched. The study targeted the participants who knew the subject matter well, thereby upholding the epistemological, interpretivism paradigm. The shared views and opinions were captured without diluting the original meaning. The researcher also safeguarded the phenomenological research design of the study to avoid influencing responses from the participants.

As outlined in previous chapters, the study followed purposive non-probability sampling. As guided by the methodology, the semi-structured qualitative interviews were conducted for 12 participants. All 12 scheduled interviews were conducted face-to-face and the data collection took approximately three weeks.

4.2 Empirical findings

4.2.1 Response rate

The response rate, also known as the return rate, refers to the total number of valid responses to the survey questions. It is the total number of people who responded to the survey, divided by the total number of sampled people. The response rate of the study was 100%, as all the sampled participants were interviewed. Table 4.1 depicts the response rate of the study from the sampled participants.

Table 4.1: Response rate

RESPONDENTS	SAMPLE SIZE	NUMBER OF RESPONSES	THE RESPONSE RATE OF SAMPLED PARTICIPANTS
Family owned business owner-manager	3	3	100%
Family owned businesses where there are non-family members in the management team	3	3	100%
Family owned business run with the professional assistance of external consultants	3	3	100%
Family businesses where employees are dominated by family members	3	3	100%
Total	**12**	**12**	**100%**

4.2.2 Reliability of the questions

The interview questions were constructed to address the main objective of the field study as well as the secondary objectives of the study. The interview questions were reliable as they addressed all the intended purposes.

4.2.3 Data analysis

The data analysis and interpretation process started with the transcribing of the audio interview recording. The transcription was checked and cross-verified for accuracy, to retain the responses and richness of raw data as given by the respondents. The transcripts were uploaded on atlas.ti in preparation for thematic analysis. Atlas.ti automates the transcripts; and eases effective coding and retrieval of codes, quotations, and themes.

The narrative thematic analysis was used, guided by the thematic analysis criteria steps by Bryman et al. (2014), as follows:

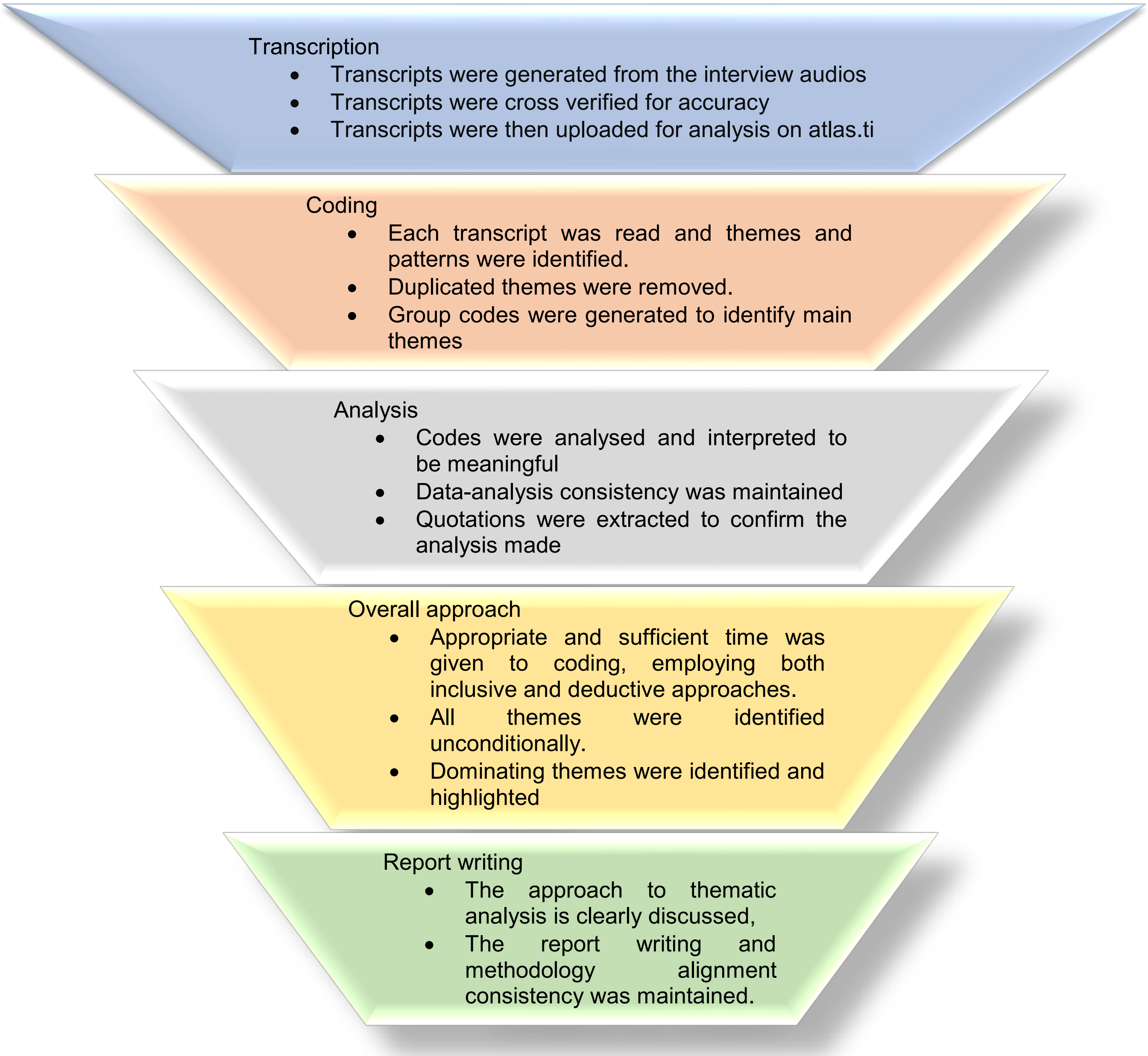


Figure 4.1: Thematic analysis criteria

The participants' responses were coded through an all-inclusive process to establish codes. The deductive approach was then applied to the comprehensive code lists to identify key themes raised by the participants. The generated codes were grouped into themes, as the basis for data analysis and interpretation. The identified themes were refined and used to communicate the key findings of the study.

The top seven identified themes are discussed in Table 4.2.

Table 4.2: Top seven identified themes

THEMES	SUBTHEMES	DEFINITION
Recruitment	• Nepotism over meritocracy • Hiring inexperience family members • Lack of training • Unclear roles and responsibilities • Position mismatch	The hiring and firing of staff in family businesses is clouded by tradition and nepotism. Employee selection is not competence based. Nepotism prevails over merit.
Organisational structure	• Family business imbalance • Cross command • Succession feud	The family business organisational structure is filled with family members at the strategic level. The family values and dynamics translate into business values.
Growth prospects	• Limited infrastructure • Technology limitations • Narrowed external funding • Poor management styles	Limited asset base and lack of access to external funding limit the growth prospects of the family business.
Talent retaining	• Remuneration and	Family business inherent

THEMES	SUBTHEMES	DEFINITION
(high turnover for non-family members	benefits imbalance • Poor management styles • Exploitation	challenges make it difficult for these businesses to retain external talent. They usually experience high non-family staff turnover due to unsatisfactory rewards.
Resource wastage	• Mismanagement of resources • Lack of internal controls • Funds misdirection • Family members not applying internal controls	The blurred line between family and business results in resource misdirection and misuse. Moreover, the lack of control systems paves the way for resource mismanagement.
Dissatisfactory service	• Poorly organised staff • Disgruntled employees • Limited resources	Nepotism results in the hiring of an inexperienced workforce that ultimately fails to deliver to the esteemed customer's expectations.
Brand management	• Social exposure • Marketing budget	Family businesses do not embrace the power of brand exposure. They have a limited budget for marketing.

4.3 Research results

Following the thematic analysis of the coded challenges cited by the participants, the resulting patterns and messages were interpreted and analysed. In this section, the outcomes of the study are discussed. It entails the key findings of the study and analysis of every section of the interview schedule. The participants' responses were preserved to retain the original meaning. The subsequent section profiles the interpretation of the analysis made, and supports the arrangement of the semi-structured interview schedule.

4.3.1 The business founder

Question 1 aimed to establish the founder of the business and to identify if there is any relationship, besides the employer-employee relationship between the founder and the participant. From the participants' responses, it was established that the business founders are the current business managers in the business. Some participants had prior relationships with the employer, before the employer-employee relationship. The most relevant prior relationships are being family bound, a friend to a family, or an acquaintance to a family member or family friend.

The respondent remarked:

> *This business was founded by Mr. X, who has since been the manager of this business from its inception. Mr. X is a good businessperson. He is my uncle. And he has given a few of us jobs that we appreciate.*

It seems most family businesses are run and managed by the founder. In their response to who the founder of the business is, and how they relate to them, one responded said;

> *The business is being run and managed by the founder. The founder has been in charge of the business's daily operations from the start of the business, with support from friends and family. The founder used to work with my sister and upon his successful launch of the business, my sister put in a good word for me.*

One responder said:

> *The business was founded by the father of the current managing director. He took the reins after the passing of his father and retained all the employees. I was hired by the father while he was still the director after I randomly applied for the job. There was no advertisement for the vacant position; I was just trying my luck.*

Another response was as follows:

> *The business was founded by the father and is administered under a registered Trust, run under the laws and regulations guiding the Trust in South Africa. For a decade now, the business was entirely run by family members and it was struggling financially. The current Trustee then decided to involve external expertise. The advice was to have an in-house finance personnel and I was recommended. That was how I landed my role in the company.*

The dominating responses were that the founder of the business was also the active managing director of the business. There was only one company that was administered as a Trust asset. Two out of six businesses sampled has passed on to the next generation and none of the sampled business have reached 3^{rd} generation.

From the responses, it is evident that family business employees are a combination of family members and non-family members. The repercussions of this are discussed in the subsequent sections.

4.3.2 Number of employees

Question 2 sought to identify the number of employees in the business. This was also to establish the dominance of family members' employees to non-family member employees. The pattern of the responses to this question emphasised more on two themes, namely recruitment and organisational structure. Regarded as a strong response to this question was the imbalanced ratio of family members to non-family members in the majority of these businesses, which is supported by the following responses:

> *There are seventeen (17) permanent employees in the company. Four of these are family members. Three (3) are occupying the only available managerial positions, while one has no specific role in the business.*

It is equally important to note that where the family members to non-family members ratio is significantly low, the headcount quantities are overweighed by the positions of power held by family members' employees. This was stated by one responded in the following statement:

> *The business is relatively small in terms of employee headcount. There are nine (9) employees. Two of which are family members (spouses). They hold two dominating positions of power, one being the CEO and the other the COO.*

Furthermore, the majority of the responses pointed to family members being in the dominating position. The responses indicated that the management team is always overshadowed by one or a few individuals, who have the added advantage of being family members. This further disregards the headcount as a relevant point to use in assessing the family business efficiency. One response stated that:

> *There are currently 27 permanent employees in the company. There are six (6) family members and they are all holding managerial positions*
>
> Another respondent said;

> *There are many employees. However, the majority of them are working outside the office, in our remote projects, they are never in the office. The office has only nine administrative employees, of which five (5) are holding managerial positions. The founder is also the managing director, surrounded by the finance manager, the human resource manager, the project manager, and the health and safety manager. All the departmental managers are non-family members. However, their main challenge is the command style of the managing director.*

The responses to Question 2 revealed strongly the type of organisational structure that exists in family businesses. Most of these businesses have the dominating power and control vested in family members. The family opinion and stance still dominate. Some participants even argued that family members tend to discuss family issues over dinner or whatever the family occasion may be. Decisions are made there and brought to the board room as merely announcements and not open discussions.

4.3.3 Employee qualifications

Question 3 sought to establish the merits and or grounds used when recruiting staff. It specifically asked the participants about their qualifications, the skills they possess as well as the experience they have. Participants' responses revealed that qualifications are merely considered an important element of recruitment in family businesses. The pressing matter is always opening a space for a distressed family member looking to be absorbed into employment or as a return to a family member or a friend for the previous good deed towards the family. Some indicated that where qualifications are required, there is usually no appropriate technical experience or training offered. In their response, they stated that:

> *I am a qualified chartered accountant with +2 years of working experience, obtained from an Accounting and Audit firm. I was hired to be the finance manager for three business units, operating in the health sector. I am familiarizing myself with the sector on the job. I was the first professional finance personnel to be hired here. There was no handover, or any proper controls in place. I am working with the CEO and the COO, who happen to be family, spouses to be more precise. I am often told of the huge financial decisions that have been discussed and decided between the two. It is frustrating. I mean, most of the time feel like a trophy finance manager.*

The duplication of positions also seemed to be another challenge in family businesses. Family members are sometimes forced into the company as a survivalist resort. Sometimes, this results in role duplication as they are hired for positions that are filled already.

> *I do not have a university degree. My uncle is the owner of the company. I asked for the job and the only document I could present to motivate my request was my recently obtained code 10 driver's license. The company had enough drivers already, but I was also desperate for the job and my uncle was eager to assist. That's how we got more drivers than the company needed but we are somehow making it work.*

Qualification-job mismatch is also not rare in a family business. When recruitment of staff is significantly based on family members' needs and not business needs, there is a high possibility that family members will be employed for any vacant post, regardless of the qualifications they hold. One participant supported this as follows:

> *Our boss hired his cousin, who happened to be a fully trained and certified Safety, Health, and Environmental representative (SHE rep) who was stationed at one of the outside construction projects. He was soon deployed to do administrative office work, which turned out to be a complete disaster.*

Job mismatch does not only result in poor service but also extent to customer dissatisfaction. Asked about the qualifications they possess, or even the experience they have in the position they are occupying, one responded said:

> *I hold a degree in nursing and I am well experienced in it. I have worked in one of the big public hospitals in the province before joining the private sector. There is a difference. I am frustrated when I have to work as a nurse and be a pharmacist at the same time. I would choose taking vitals any day over dispatching medicines. My efficiency in what I do is largely influenced by my enthusiasm. If I do not like it, I do it with little to no moral at all.*

Qualifications remain a concerning issue in most family businesses, as succession and managerial posts are based on family blood lineage or obedience to family culture and beliefs. It is highly likely to have a fully qualified CA, a Master's degree holder, or an engineer under the management of an inexperienced entry-level chef.

> *The company is currently run by the youngest daughter who is a paper-qualified chef. She took the reins from her sister, who had to resign due to marriage. The company has a fully qualified CA and an MBA holder for a finance manager, a project manager with more than a decade of experience, an assertive and firm human resource manager as well as a few other professionals. Well! We are in a sinking ship as they say. An inexperienced CEO, who is arrogant and prideful to even seek external professional advice,*

portraying an "I know it all" kind of behavior, while every department is messy and trembling down is our biggest challenge now.

Qualifications, experience, and training play a major role in an efficient recruitment system. However, in family businesses, as evidenced by the responses from the participants, nepotism is still favoured over meritocracy. Family member employees are either hired without qualifications or over-hired to fill crucial positions that require best-suited candidates with the necessary merits to run the business. On the contrary, highly skilled non-family members, with vast experience and good qualifications are underemployed, undervalued, and unrecognised for their worth. They are subjected to inappropriate and poor leadership.

4.3.4 Management recruitment policy/process

The motivation for Question 4 was to identify how the management of the family business is decided and hired. The participant's responses leaned more toward the recruitment and organisational structure themes. The overwhelming responses to this question point to nepotism remaining a challenge for most family business managers. To support this claim, FM 4 views were as follows:

…… so this means that some people do not need much to be in managerial seats. Being the bearer of the surname is sufficient to qualify you for a position. We have had several managers who were appointed solely on their being part of the family.

Equally important, the responses confirmed that most family businesses do not advertise managerial positions. The shortlisting is done by family, from the list of possible candidates within the family. The listing criterion is not only biased but also not qualified or experienced for the job title in the discussion, as follows:

We are never even aware of the vacancy at times. The outgoing of the existing manager and the planned incoming of the new manager remains a family matter. The employees get told of the new manager on the day they resume their duty, or even days later.

Furthermore, as discussed in Chapter 2 under the literature review, recruitment in family businesses is mostly cultured towards bias and favouritism over meritocracy. Critical positions are occupied by uninformed family favourites while promising candidates yet family black sheep seek deserving positions from external employers. This does not only result in business mismanagement but also in resource misdirection and misuse, family feuds that affect the effectiveness and efficiency of the business, and in poor management styles and disgruntled employees.

> *The business was run by the owner, with the unwavering support and assistance of the eldest son. However, upon the return of the third (last born) child from India, where she was said to be pursuing her studies, the father stepped down and had the daughter run the business, now as a superior to the brother. It got messy and the eldest son resigned three months later. It took the return of the father to re-stabilise the business. The daughter may be well qualified but she was not afforded appropriate training. She ran the business down, pushed the good candidate out of the business, and strained relationships.*

However, some responses demonstrated that some family businesses are disciplined. A few of the disciplined ones have clear recruitment policies and attract external talent. Responding to this question, the participants said:

> *We have an in-house HR department. The open posts are advertised on our social media platforms and pinned on our notice board. We are not excluded nor refused an opportunity to apply as internal employees should we wish to.*

> *Our HR always gives us first preference for any available vacancies. Sometimes, when none of us apply or when we do not meet the requirements, we are asked to refer friends or give recommendations. It is a fair practice in my view.*

> *My boss handles all the issues pertaining to staff and their welfare. He practically engages in issues such as hiring, disciplining, solving conflicts, terminating contracts as well as firing. He is responsible for hiring and in many*

cases, he poaches managers from other small businesses. Sometimes, he gets recommendations from family friends, and or business associates, of potential candidates.

The recruitment of managers remains an important determinant of the business future state of family businesses. The deliberate nepotism or family lineage succession proves to be a challenge where candidates are not required to at least meet certain minimal academic requirements to be considered for crucial positions. The fair recruitment practice attracts fresh talents and brings about diversity within the organisation. The availability of the HR office should not be underestimated.

4.3.5 The greatest highlights (strengths and fears) of future businesses

The attention behind Question 5 was to establish the perceptions of the employees about the business continuity, its longevity as well as its existence as a going concern for the foreseeable future. The question sought to identify the business strengths and opportunities as well as the weaknesses and threads, as perceived by employees. It sought to map down the SWOT analysis of the family entities.

The existence of family businesses is not all bad. Family businesses are the biggest drivers of the economy. These businesses, operating in both formal and informal sectors, are significant contributors to the total GDP. Drawing from their nature as family businesses, they are benefiting from several internal and external factors that strengthen their stance in the market. This was further supported by the responses below:

The current manager has been the manager of the business for 13 years now. There is currently no plan to vacate the office. The manager will leave his position only if triggered by life events – illness, death, and or forced retirement.

The longevity of the reigning manager brings stability to the business. It offers direction in planning, execution, and monitoring of strategic plans. There is also a strong sense of commitment and accountability in the family business. Family members understand that it is not only the business that suffers from mismanagement, but also that the family’s needs and reputation are at stake.

In family businesses, the communication channel is always open and the reporting line is less bureaucratic. New ideas are normally discussed over family dinner and conclusions are reached. This reduces the amount of time and resources that would otherwise be needed in a non-family firm where reporting and discussions are strictly formal and follow a pre-established order.

> *It is very common to have our managing director in the open working space conversing and engaging with the employees. We hardly hold formal pre-planned meetings, issues are normally discussed over informal setup and decisions are taken much faster.*

Family businesses’ common strength is having a wider pool of resources. It is easy to pool resources from family members, friends, relatives, and other family run business associates. These resources can be invested interest free to grow the business capacity and achieve common goals and ambitions that ultimately benefit the company.

However, most of these family businesses are still face with several fears. Poor Internal controls weaken their financial policies, their operational controls and also administrative systems. This conclusion was drawn from the participant’s responses, to what their greatest fears about the future of the business are.

Financial planning and management are the greatest fears of family businesses. Owners usually fail to separate their personal financial affairs from that of the company. The company financial resources are always burdened by the family household and leisure expenses. This was noted from the response that said:

> *The business will not be able to finance its expansion; it may require an injection of external funding to expand in the future given the opportunity. The company is doing well on paper but struggling with liquidity because of poor*

financial planning. A lot of generated cash is misdirected and used for personal expenses.

Moreover, the flawed recruitment system, influenced mostly by nepotism, coupled with lack of training and position-role mismatch continues to be the common fear in family businesses. Most of these businesses are overstaffed to accommodate family members; some are understaffed to avoid hiring non-family members while others have critical positions being occupied by inexperienced members of the family. Fb3 highlighted this by saying:

We now have a big problem of having more drivers hired on permanent contracts. About 90% of them are related to our managing director, who is also the sole shareholder of the company. It is an unnecessary salary expense. Some of them can go up to a week in a month not working because drivers exceeds number of available vehicles.

Equally important is the involvement of the manager's friends in the business. Not only do they disrupt office hours by showing up announced and conversing in inappropriate tones for the office environment, but they also give instructions and orders to staff, that results in confusion and disrespect.

… his friends do as they please. They show up unannounced and pose endless demands from me. I always have to leave my work to attend to their requests. I most of the time feel exploited. I was hired for this company and not many others that are owned by his friends.

The above response raised other fears surrounding the family businesses. Few of the qualified and experienced candidates are exploited. They become office all-rounder by default. They carry multiple tasks and responsibilities with the same salary. This was heard from a response that follows:

I was hired as the finance manager for the construction company. Six months in, the management diversified and opened a funeral home. I was required to assume the duties as the finance manager of the other company, which in my *honest view, is an independent company. This was done as an order, and without any amendment to the initial contract.*

Into the bargain is the issue of non-performance-related bonuses and incompatible benefits and remuneration. In family businesses, there imbalance between family employees and non-family employees is appalling. Bonuses are not performance related and benefits are not proportionate to their contribution. One response pointed out the following:

The junior family staff members have subsidized medical aids designated cars and fully loaded phones, while the non-family senior staff does not have any company-subsidized benefits. We always strive to perform beyond esteemed customer expectations to be recognized while they deliver mediocre without any fear of being sidelined.

The family business imbalance was also mentioned as one of the factors affecting the future of family businesses. Unresolved family disputes have the potential to affect business efficiency and effectiveness. The participant stated:

The business runs smoothly when there is peace at home. On the contrary, where there are unresolved family disputes, unrelated to business affairs, business is affected. There is broken communication, which affects reporting and delegation, absenteeism increases and workload is commanded. It makes the work environment hostile.

The inherent existence of the family businesses is characterised by structural and administrative fears. However, with proper systems and controls in place, these fears can be mitigated. A lot of them are the result of poor management, and inefficient and ineffective controls.

Although these businesses have troubling fears that are threatening their going concern, there are still good business practices and traits that reaffirm their continuity. Family businesses usually can forge long-standing trade relationships with both their suppliers and customers. They become part of the family.

Furthermore, due to the inherent trust between the family members, trust is a given trait in family business. This allows open discussions and constructive criticism at the top level. Leadership that employs a greater sense of trust allows employees a free space of authenticity, which can result in the breeding of more brilliant ideas. Authenticity and a culture of trust can pave the way for professional growth and overall firm development.

4.3.6 Critical issues contributing to the failure or success of the business

The purpose of Question 6 was to map, in order of criticality and importance, the issues identified in question 5, and their potential impact on the success or failure of the business. In the strategic direction of the business, the game plan is to capitalise on strengths to seize available opportunities, while eliminating or mitigating threats that might build on our fears and hinder progress or goal attainment.

The responses to this question leaned more towards the biased organisational structure and flawed recruitment policy being the most critical factors that threaten business continuity. Most family businesses were said to have a good customer base, exceptional market share, and a brilliant selling idea. However, the majority of them fail to protect the business by recruiting and retaining appropriate talent. Efficient and effective employees are at the heart of every successful business. The failure to recruit appropriate talent by a family business is critical to the failure or success of the business.

Moreover, the capabilities of the management play an important role in the success or failure of the business. The incompetent managers are usually overwhelmed, not informed about the important aspects of the business, and frustrate employees. Frustrated employees are dissatisfied, disgruntled, and have low morale. This hampers productivity and quality. This was also highlighted with the following response:

> *Not having a clear reporting line can be confusing. Sometimes, delegation alone is not enough. Having a proper induction and a good support system is important in core positions.*

4.3.7 Succession planning

The motive for Question 7 was to establish the family business preparedness for the smooth transition of the business from the current generation to the next. The probes of this question seek to find the off-service preparation for the retiring senior staff, the grooming of the upcoming managers, and the minimum requirement for managerial positions for the next lineage.

Current leaders play a significant role in setting the tone for the transition when leadership change is forthcoming. Proper and well-defined succession planning is vital for every business. It assists in ensuring that the transition of the businesses from one person's reign to the other is smooth and does not result in business loss. A properly executed succession plan protects the business from uncertainty. All the stakeholders are prepared on time for the future management of the company and this can eliminate unnecessary competition.

> *We know who is going to lead the company when our boss retires. He has been working with his eldest daughter for quite some time now and she handles almost all the business aspects under the direct supervision of her father. We call her 'young boss lady' and that melts his father's heart.*

In addition, the succession pool is often within the business. The successors in family businesses are predetermined based on birthrights. In rare cases, the appointment is based on hard work and recognition. Either way, this saves recruitment costs and preserves the company culture and values.

However, not all these businesses prepare for succession.

Family businesses after-service benefits are usually limited. More often than never, there are no provisions for retirement packages, it being pension lump-sums, retirement annuities, or provident funds. Long-term office bearers normally retire with a thank you message, and a fully funded company farewell party. And unfortunately, that is normally all they can offer after many years of hard work and commitment.

The only deduction from my cross salary is the statutory UIF and the PAYE. The company offers us only the cross remuneration as a monthly reward. There are no preparations for retirement packages. It is your responsibility as an individual.

Moreover, the requirements of the successors of family businesses are sometimes not based on merit. Successors are chosen based on family lineage, or based on pure nepotism, where the favourite child is considered fit to run the family business. There is an absence of competence-based selection. Families prioritise tradition and nepotism over merit. This results in ill-prepared successors being appointed for critical roles.

Our boss's eldest daughter is a business management graduate and currently pursuing her MBA. She gets invited to the board meeting and her questions, comments, and suggestions reflect a disciplined business candidate. However, the family has two sons, none of whom are studying business-related courses. Senior managers believe the business to be the family legacy and cannot be left in the hands of females so the sons are potential successors.

The issue of non-competence selection is also worsened by inadequate succession training and development. Family businesses do not invest in succession training. Successors, therefore, struggle to adapt to their new roles and responsibilities. This may lead to a decline in overall business performance. The respondents revealed that this is one common reason why these businesses do not survive to third or fourth generations.

The businesses started shaking after the death of the father, who was the founder and managing director of the business. The issue of his succession caused family disputes and a drastic change in organisational structure. None of his successors were familiar with the business's core values and principles. They all wanted to bring in some fresh ideas but failed to harness the existing systems that were guided by past experiences and the owners' wisdom.

Succession planning is the crucial phase of the family business life cycle. Navigating its pitfalls is critical for business continuity and sustainability. Issues such as family conflicts and rivalry, inadequate external perspective, and prioritising tradition, and nepotism over competence are the greatest obstacle to family business's smooth transition from the current generation to the next generation.

4.3.8 Role of technology in the success of a business

In this modern business environment where technological advancements are rapid and complex, businesses need to transform drastically to maintain their operations and survive. Studies and past macro environment events such as the COVID-19 pandemic have shown that family businesses are quicker to solve complex problems than non-family businesses. They have shown the flexibility to transform and adapt to new changes due to less process and reporting bureaucracy and closeness of the processes and management of a firm.

Businesses need to continuously transform and reconfigure their capabilities to remain relevant in the market. Family businesses need to discuss how to survive in the competitive global marketplace, with a powerful economic impact.

However, most family businesses do not feel the need for enterprise software, or elaborate business software. However, as businesses grow by adding more products and services employing more people, and increasing customer base, investment in technology becomes a necessity. The investment in technology does not necessarily mean ERP or a supply chain management system. There are cloud-managed, IT and automation products that are targeted for small business enterprises.

Today, family owned businesses are investing in technology to reach a wide range of targeted audiences. The truth is marketing has drastically changed. Customer needs and behaviour have changed. The way people browse for better offers, and review service levels and product quality has changed. The digital marketing landscape has been made more affordable and user-friendly by the use of social media platforms. Many family businesses are directly benefiting from this. They expressed the following:

We have recently opened a funeral parlour. Our biggest competitive advantage is our graveyard décor and luxury fleet. To reach our target market, social media has been our primary platform for advertising. We upload pictures and videos for all our services and that has assisted us in acquiring more clients. Many of them have said they saw our services on Facebook and Instagram.

Social media platforms allow businesses to open virtual compelling pages for their niche market. Many small business are marking their digital footprint even in places where traditional marketing could not have reached.

Technology also enabled cloud management utilisation. With cloud-managed productivity tools, family business families can store and protect digital information, automate processes, such as reporting and invoicing, allow staff to work remotely to increase productivity, and expand services to improve convenience for the customers, in other words, such as acceptance of credit and debit cards. Family businesses are now able to gain insight into financial performance through the use of accounting software.

We have recently moved our accounting from manual to digital record keeping. At inception, we were using Excel, but now have improved to quickbooks for better record keeping.

The availability of affordable domains has also improved the family business brand recognition and easy communication within the organisation. Employees have personalised work email addresses. They can set up work email signatures. This professionalise emails and improve the corporate image of the company to its external stakeholders. Moreover, the ability of emails to store massive communication assists in terms of cross reference when such a need arises.

4.3.9 Business financial stability

Question 9 intended to establish the business's financial stability. Businesses exist to make a profit and maximise the shareholders' wealth. However, due to the nature of family business interdependency with the family and ownership, these businesses tend to suffer financial instability. This is because management usually fails to separate the family's financial affairs from those of the business. These businesses are often profitable but not liquid. Liquidity is the blood life of every business. The respondents highlighted that the business has the undoubtable ability to generate profits but poor cash management always results in cashflow problems:

> *In the past year, the company has grown in terms of revenue generation. However, there are months when the salaries are paid in portions. That is, the company may pay 70% of the salaries as they fall due and commit to paying the remaining 30% as the succeeding month progresses.*

Family business salaries have proved to be a significant expense of the business and sometimes the business fails to keep up with the timely payments. Employees are sometimes paid after two weeks from the date the salaries were due;

> *In other to settle the company creditors on time, salary payments are sometimes postponed until the company has generated or collected enough from its receivables. We are now accustomed to the practice.*

It is also evident that the revenue generated for a certain period is sometimes not enough to cover all the recurring expenses as they fall due. Businesses may tap from their savings to settle their salary bills. Taping from company savings results in a reduction in company reserves, that could have otherwise been used to expand the business and generate more income. One respondent said:

> *In one particular month, the company had to request a temporary overdraft facility from the bank to settle salaries. In my view, this signaled nothing but poor cash planning and management, as well as financial instability.*

Family businesses struggle not only with the issue of salary payments but also the salary increments. In most of these businesses, salary increments are done after three years or more. Employees earn the salaries agreed upon during employment offer until they get alternative offers or when their loyalty has been established.

Commitment and hard work do not guarantee a salary increment. The respondents expressed the following:

> *We have been with this company for as long as it has been in existence but we have never been offered a salary increment. Our previous attempts to request increments were not only futile but threatened our jobs. The topic triggers our manager.*

The bad working capital management and cash flow imbalance also compel these businesses to pay basic salaries only. There are no monetary perks or fringe benefits for managers, non-family members managers especially. These businesses do not compensate for hard work and commitment. They do not offer subsidised medical aids, housing allowances, cell phone allowances, or even transport allowances.

Performance evaluation is not performed and performance-related bonuses are hardly paid out. It has also been established that financial instability is often not just an internal problem but extends to external creditors. Creditors on 30-day terms are often paid late. With some creditors, family businesses take advantage of long-standing relationships and negotiate payment term extensions.

> *We have several trade accounts for material procurement. These accounts are often frozen before the payment can be made. Some of these creditors have even decreased the credit amount available to us due to late payments.*

Failure to settle liabilities as they fall due goes beyond internal expenses and trade creditors. Some of these businesses even fail to pay the critical statutory expenses as required. Businesses are required to be on good standing with statutory requirements to be good corporate citizens. It was established that some fail, as indicated below:

> *We have a hefty debt with the revenue authority. We have made the payment arrangements to enable us to comply and get a tax clearance certificate but we have failed to honour our arrangement multiple times. Our last*

arrangement approval was very heavy due to our several failures to honour our agreement with the revenue authority.

Statutory financial obligations are often not met by most family businesses. Attending to this question, participants highlighted the following:

The company has been taken to labour on different occurrences regarding non-compliance with the minimum wage as well as collecting UIF from employees but failing to declare the collected money to the relevant department. It is still an ongoing case.

Based on the responses given on the financial stability of family businesses, it is clear that most of these businesses are financially struggling. A lot of them are generating good profits but due to the mismanagement and misdirection of financial resources, these companies struggle with working capital management and liquidity.

4.3.10 Common business challenges that the business faced

The motive behind Question 10 was to identify the common challenges that these businesses have faced, their frequency, the level of the organisational structure that they affect, and how they were addressed.

Chapter 2 of this study covered the literature review of the challenges facing family owned businesses. The responses of the participants of this study highlighted that most of the challenges discussed are still the standing challenges for many family owned businesses. These challenges lean towards all the identified eight themes in this study. They are operational, administrative, and financial challenges. The most evident root cause of these challenges is at the strategic level. This is mainly because the leadership style family business's leadership style is top-down. Decision-making is centralised and includes family dynamics.

The dual command in a family business has been highlighted as an ongoing challenge to junior staff. This is often the challenge where the entire family is managing the business, but has a different perspective of how the business should be run or how command and delegation should be passed. Some businesses are run by different members on different days, and instructions differ for each day.

> *We have the boss and the boss lady. One is the CEO and the other is the COO. They have a different perspective on the values of the business and their leadership style differs completely. In one instance the boss lady ordered me to buy fresh flowers for graveyard decoration, while the boss insisted I buy artificial flowers. None of them was willing to compromise, nor were they willing to discuss the issue amongst themselves before passing it to me as an order. This had me stuck in-between and not knowing which instruction to fulfill.*

The lack of a clearly defined internal control system has been called up as one of the challenges that family businesses are facing. Employees are usually not aware of what steps they should follow in executing some processes while others even fail to follow a proper reporting structure.

> *My greatest challenge is uncontrolled costs that are the result of haphazard unplanned procurement and purchases. Also, our people cross boundaries. You get a general worker putting in a material requisition form to the finance department, while they should have reported to the foreman and foreman to the project manager, the ultimately the PM to the finance manager. Processes and procedures are not known.*

Non-competence selection results in unskilled and inexperienced staff that lack work ethic and corporate discipline. Everyone wants to report to the big boss when there are middle-level managers.

> *Employees often report their absenteeism to the managing director. They lay their compliant to the managing director, while there is an HR office. It is challenging and takes a lot of work to teach them the role of middle-level management.*

Middle management positions are held by inexperienced staff, hired on nepotism. Their challenge is not being able to set controls and systems in their departments. To most of them, leadership is a title and not a commitment to empower others and drive change.

> *The fleet manager is inexperient in what is supposed to be his expertise. He has no direction and this results in assets mismanagement and misuse. There is no proper vehicle handover from one driver to the other, there are no periodical vehicle inspections, the travel locks are not filled and vehicle license dates are not recorded. In some cases, some employees are found to be driving vehicle cars without valid driver's licenses.*

The inefficiency of one department affects other departments. The misuse of the company fleet results in increased fuel costs and maintenance and repairs costs. This affects the finance department's ability to control costs and maximise shareholders' wealth.

Family business recruitment policy is also flawed. Favouritism, bias, and tradition prevail over competence and passion. The minimal requirement for family business recruitment is being family. In this case, other qualities such as professional training, experience, education, and soft skills are disregarded.

The other common challenge that was raised is the title role mismatch and the imbalance of family member employees' remuneration to that of non-family members. Family members are often remunerated more than their non-family members workmates. This practice discourages skilled and well-qualified non-family members from committing to their jobs and delivering beyond expectations. They opt to deliver the bare minimum as their hard work and commitment are not recognised.

> *We are two project managers and we have been assigned different projects fairly. However, the other project manager is a family member. He is cousins with the managing director. I have been meeting my targets and reaching set deadlines but our salaries differ significantly. I am even more qualified but the treatment is different.*

There are many challenges facing family owned businesses, many of which have been discussed in the previous chapter. Many of these challenges are inherent to the nature of the family business.

4.3.11 Awareness of external funding programmes

Question 11 intended to establish the awareness of family business to external financial assistance. The responses to these questions continued to show that small businesses are still faced with insurmountable challenges when it comes to access to external funding.

External funding is not all lucrative for small family businesses. This was drawn from their responses. Accredited reputable lenders often have pre-approval requirements for businesses before offering them funding, it being in the form of repayable loans or grants. The requirements are often hefty for small businesses to satisfy.

Family businesses are often aware of the available external government funding agencies but often get discouraged by the conditions attached to the funding. Repayable loans are often paid back with steep interest rates. Instalments of the loans are mandatory, irrespective of the financial performance of a business for the period. No payment may result in downgrading credit scores or even legal proceedings.

> *External loans come along with steep interest rates that are not capped. That means we will be obliged to pay our installment even under unfavourable circumstances. Failing we may be forced to liquidate and lose the business forever. Gradual organic growth is a safer option.*

Some lenders require collateral against borrowing. Small family businesses do not hold enough immovable assets to pledge as collateral against lending. In the case where there are assets to be pledged as security, the risk of doing so normally outweighs the benefit. Family businesses, therefore, opt for risk return borrowing arrangements that guarantee the continuity and sustainability of the company.

Legit registered lenders require collateral for borrowing. We are more about safeguarding the family assets for future generations than short-term goals that may result in business failure.

Governments offer low-interest loans to small businesses, or partial loans, of which a certain percentage is a grant. However, there are also demanding requirements to qualify for such. These may include the availability of viable and investable business plans. This involves costs. Some requirements are female ownership, youth ownership, and rural area or peri-urban development. It is not always easy to meet these requirements.

4.4 Conclusion

Chapter 4 was aimed at analysing the data collected. The primary objective of the research study was to identify the challenges facing family owned SMEs. Equally important was the establishment of the benefits of family owned SMEs and how their failure affected the economy.

The participants shared rich insights on the challenges, weaknesses as well as strengths, and opportunities for family owned businesses. First, the participants shared their views on what they consider the administrative challenges of the family owned businesses. The majority of the respondents indicated that most of the family business challenges are rooted in their overlapping structure. These businesses are interconnected to the family and its dynamics. This interconnection and interdependence pave the way for administrative, structural, operational, and financial challenges. It is in the face of these challenges that the majority of these businesses barely survive to the third generation.

Although several challenges are threatening the existence and continuity of family businesses, inappropriate recruitment, lack of well-planned succession planning, non-family members discrimination and resource management have been identified by the respondents as the most pressing challenges.

The majority of the respondents have raised concerns over the recruitment policy in family businesses. The indication is that these businesses value tradition and nepotism over competence. It has been highlighted that critical positions are held by inexperienced family members who often struggle to demonstrate passion and competency in their respective roles.

Family businesses' lack of succession planning was also flagged as the main challenge facing family businesses. Senior family managers are said to be reluctant to initiate early induction of potential successors.

It was also established from the responses that family businesses are biased towards non-family members. The remuneration and general employee packages of family members and non-family members significantly differ. The imbalance of rewards is believed to affect employee morale and general firm productivity. The dissatisfaction of non-family employees results in high staff turnover. This results in the firm failing to retain talent. High staff turnover also results in increased labour costs. This is because of the recruitment costs incurred for every replacement needed.

However, the availability of these challenges does not completely erase the positive contribution of the family business to the economy. These businesses are drivers of the economy. It can, therefore, be concluded from the analysis of the collected data that challenges experienced by family businesses are the results of their complex nature. The interconnectedness of three separate systems into one has its inherent challenges.

The following chapter presents the conclusions and recommendations of the study. It is important to note that the conclusions and recommendations are not absolute. There is no one definite formula for the success and sustainability of the business, however, there are general practices that can elevate struggling businesses a step further. And that is what the study sought to achieve in the following chapter.

CHAPTER 5

FINDINGS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a conclusion to the study that was aimed at establishing the challenges facing family owned SMEs in Bloemfontein. The primary objective of this study was to identify the main challenge facing family owned SMEs in Bloemfontein. In addition, the study sought to assess the impact of the rapid technological advancements on the daily operations of family businesses. The fundamental aspects involved conducting a thorough literature review on the topic as well as gathering raw data on the topic from the sampled population. The gathered data was processed into meaningful information through analysis and interpretation of the insights shared.

The paradigm was complemented by the phenomenological design and ethnomethodological tradition. The respondents' views were examined using narrative thematic analysis. These were discussed using a graphical representation of dominating themes arising from the collected data.

The failure rate of family owned SMEs, which has resulted in high unemployment in recent years, is a continuing problem in South Africa, as supported by the literature. As a result, it is important to understand the complex nature of family businesses, and the challenges they are facing. This will enable family businesses, founders, and managers to understand the inherent complexity of their businesses.

Moreover, the study aimed to pursue the following secondary objectives:

- To analyse the benefits of family owned businesses and their contribution to the general economy in Bloemfontein.
- To analyse the consequences of these SMEs' failure on the economy in Bloemfontein.
- To recommend business continuity strategies and remedial actions to enhance the success of family business SMEs.

The section below provides a summary of all the previous chapters of this study as well as the findings. The chapter further provides recommendations and discusses the achievement of the research objectives, as well as the limitations of the study. The chapter also highlights the areas for further research and the final section gives the conclusion of the study.

5.2 Key findings of the study

The study was structured to enable it to respond to the study objectives, and the following findings were made, as indicated in the subsections below.

5.2.1 To conduct a literature review of the study

The review of the literature revealed that the definition of what constitutes a family business is in itself difficult. Differentiating between family owned businesses and non-family businesses is difficult. The research on the definition of family business has been conceptual-based. Scholars have tried differentiating between family businesses and non-family businesses based on the level of involvement by families in the affairs of the businesses. There are many definitions for family businesses.

It was also established that family businesses are the big drivers of the economy worldwide. Most of these businesses started as survivalist entities for families and are responsible for more than two-thirds of employment worldwide. The literature also discussed the history and role of these businesses in South Africa, highlighting mostly their notable economic impact, through employment and contribution to GDP.

Equally important was the discussion of all the efforts put forward to promote and develop the sustainability and longevity of these businesses. However, due to their nature, family businesses come with a unique set of challenges. Every family has its dynamics, and managing various generations of family members involved in the family while staying true to family values has proved to be the biggest challenge these businesses are facing. These businesses have several challenges that threaten their sustainability and longevity.

5.2.2 To identify the main challenges facing family owned businesses

According to the conducted literature review and the data collected from the sampled respondents, the challenges of family businesses are the result of their complex nature. The challenges emphasised most were administrative, financial, and operational challenges.

The involvement of the family in the business was the greatest challenge highlighted by the respondents. The respondents expressed that the biased treatment between the family member employees and non-family member employees results in an unconducive working environment for non-family member employees. These include unbalanced remuneration packages, priority to tradition and nepotism, family conflicts and rivalries affecting business affairs, and inadequate external perspective.

Commercial environment difficulties were also flagged as challenges encountered by family owned businesses. These are characterised by the absence of certainty in government policy regarding electricity unit rates, e-tolling and taxes, and exchange rate fluctuations.

Internal challenges are broad. Covered challenges include a deficiency of competent labour, issues around income and revenue, lack of internal controls, biased board of directors, blurred line in family and business affairs, and absence of legitimate planning and lack of succession planning.

5.2.3 To analyse the benefits of family owned businesses and their contribution to the economy

The exploration study highlighted that family owned businesses, either operating in the formal or informal sector are a much-needed panacea to drive the economy and stimulate economic growth. These businesses contribute immensely to job creation and sustaining employment, which then results in equitable distribution of income and poverty eradication. Small business account for two-thirds of employment in the country and accounts for a staggering 70% of employment worldwide.

The benefits of family owned businesses are also recognised in their significant contribution to GDP. These entities promote 90% of business worldwide according to the World Bank estimates. It is also estimated that SMEs generate 40% of the national GDP in emerging economies.

In addition, family businesses benefit from the long-term vision of their objectives and goals. These businesses are not myopic. The concept of family legacy makes it easy to have long-standing strategic clear purposes generation after generation.

5.2.4 To analyse the consequences of Family business failure on the economy

Family businesses are contributing to job creation and a nation's income (GDP). Failure to sustain the operations of businesses results in unemployment.

5.3 Recommendations

After the discussion of the literature review, the collection, analysis, and interpretation of data, the following recommendations are made:

- **Family businesses must develop proper succession plans**

  The availability of an effective succession plan ensures that the values, legacy, and entrepreneurial spirit of the founders are preserved and continue to thrive. Effective succession planning can be achieved through the following:
  - The implementation of competence and merit-based selection – recruitment should not be based on tradition and nepotism. Individual qualifications, experience, and commitment to the business should also be prerequisites for selection.
  - There should be inclusion of non-family board members. The business has to embrace external perspectives by inviting independent advisors and industry experts to provide fresh insights and challenge existing paradigms.
  - Senior managers should initiate early and frequent conversations about succession expectations with all the relevant stakeholders. They should also seek professional guidance to guide a well-defined succession plan that addresses both business and family dynamics.

  - There should be an establishment of structured training and mentor programmes. The programme should combine on-the-job training, external academics, and guidance from experienced family members or industry experts.

- **Improve recruitment policies**

  Family businesses should improve their recruitment policies. Non-family member HR experts should be employed to run the affairs relating to human assets. There are also external HR consultants who assist businesses with their HR-related matters. Family businesses should utilise these consultants' services to improve their recruitment policies.

- **Establish performance-related evaluations**

  Family owned businesses should set KPIs and CSFs for different divisions. These KPIs and CSFs should act as the basis for performance evaluations and monitoring. Evaluations should be graded on very strong, strong, good, and performance needed. Those who are graded performance needed should be placed under mandatory development programmes.

- **Establishing proper financial systems**

  One of the highlighted challenges facing family owned businesses is the inability of the founding business to separate business financial resources from those of the family. The establishment of an independent finance office will eliminate the misuse of finance for reasons not relating to the smooth operation of the business.

- **Draft the internal controls to guide daily operation**
  Family business members who are involved as employees do not follow orders. If there are articulated internal control policies and procedures, with punishable measures, this will ensure that people follow orders.

- **It is further recommended that the following interventions be made:**
  - Family businesses should also look to do business with the government and not only focus on the private sector.
  - Family businesses should be innovative and introduce new products in the market.
  - The government should establish business incubators to allow business owners a platform to improve their skills and develop their businesses.
  - The regulatory bias toward credit allocation should be dealt with. Small businesses should also benefit from external funding programmes from independent borrowers and commercial banks.
  - The Revenue Authority (SARS) should introduce tax incentives for these businesses and provide free tax training.

5.4 Recommendations for future research

The information shared by the participants in this study was comprehensive. It can potentially inform the need for future research, particularly the inaccessibility of funding opportunities to family owned businesses from trade creditors and commercial banks. Further research studies can investigate how well SMEs can build up their credit rating without hurting their reserves and assets as collateral. There could also be further investigations on the impact of family dynamics, management skills, personal motivations, and values on the general performance of the business.

5.5 Limitations of the research study

Undertaking this research study had its challenges, which are outlined below:

- The interviews took longer than the researcher intended. This was because the respondents had other commitments and scheduled times were changed to suit their needs.
- Owing to the limited time the interviewer had to finish the interview process with each participant, most of the probing questions were not answered. The interviews covered mostly the main questions.
- Some participants avoided giving more information for sensitive questions, which limited the ability to make informed conclusions based on limited information.
- The participants at the ground level were not as well informed as participants and the strategic level. Some considered this as running perfectly well.
- Some of the sampled participants were family members and they were not free to give it all out. They were giving limited information to protect the businesses.

5.6 Conclusion

This chapter observed the achievement of the objectives of the research study, the study findings, recommendations, study limitations as well as areas for further studies in connection with the study titled *Challenges Facing Family Owned SMEs in Bloemfontein*.

The main findings of the study revealed that family businesses are agile, have long-term visions, forge good trade relationships with suppliers and customers, and are permissive. These attributes play a crucial role in family business longevity and sustainability. However, the study also revealed that family businesses are clouded by family dynamics and dominating decision-making at the strategic level. The biggest challenge linked to family members' domination is the lack of competence-based selection.

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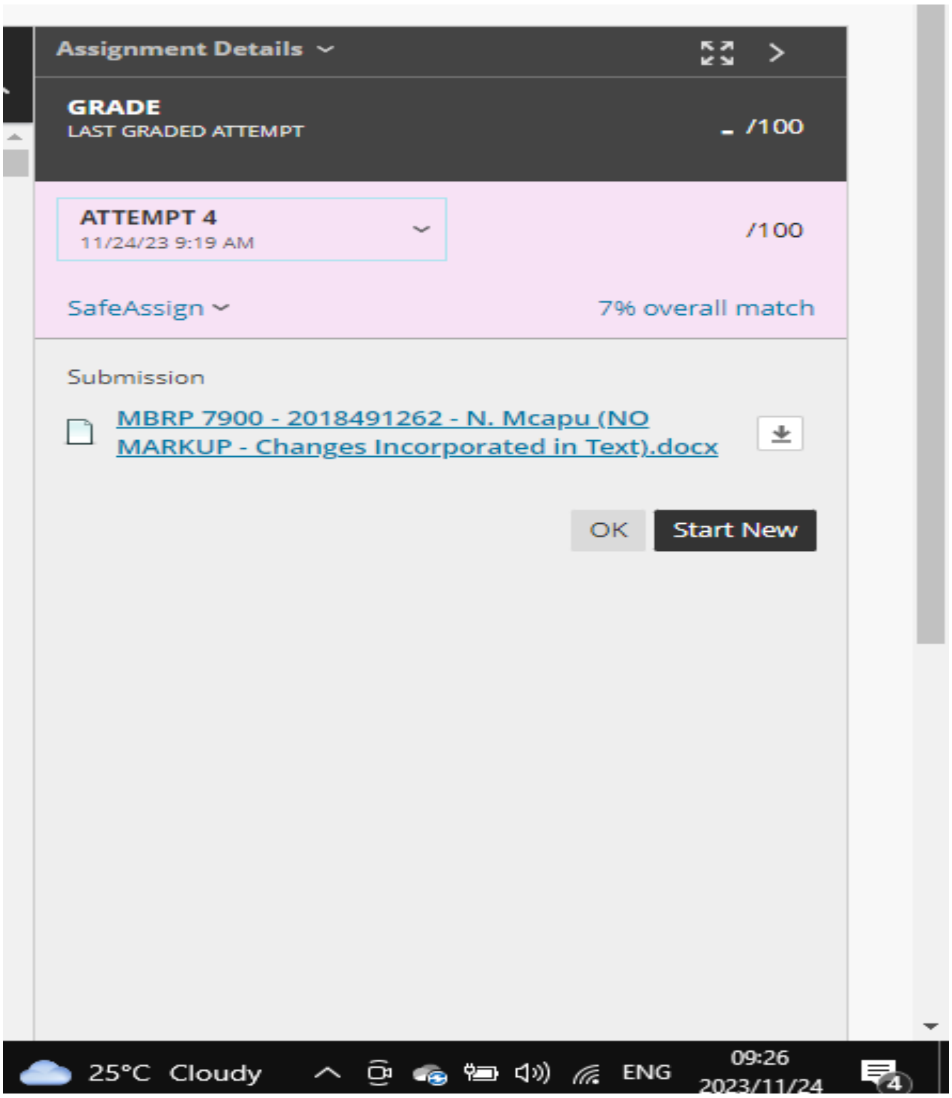
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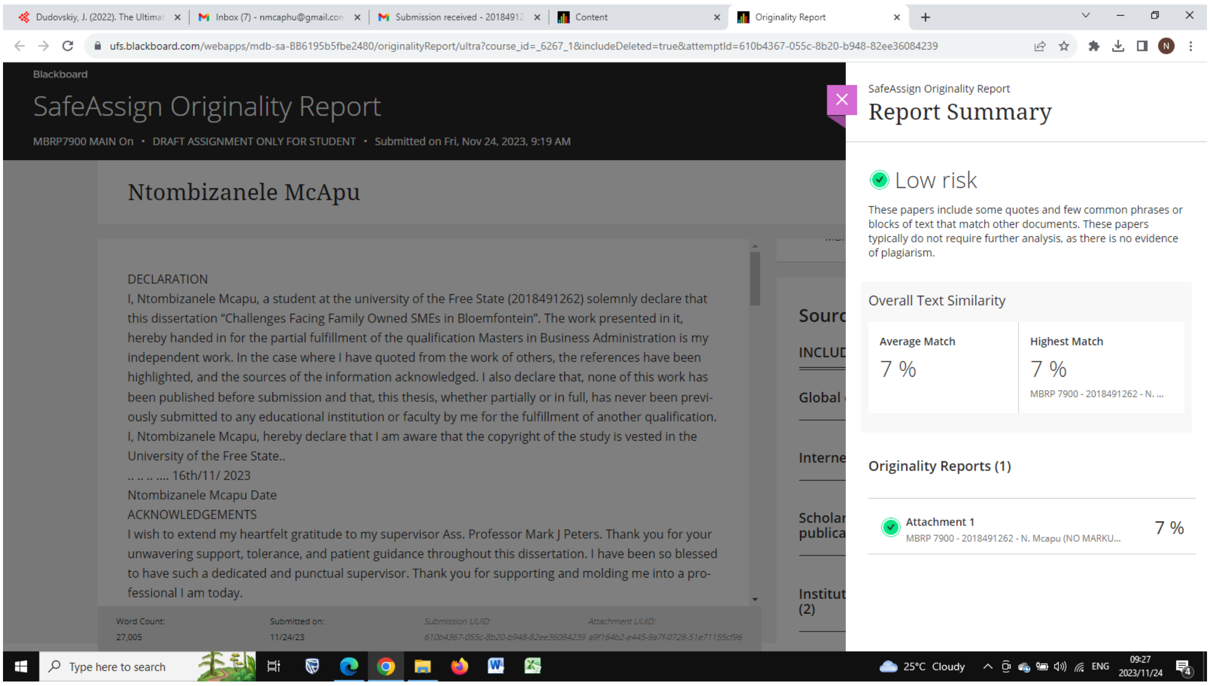
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