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# Survival of Family Oriented Micro and Small Firms: a Study of Retail Stores

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*Abstract.* Irrespective of the operational scale of businesses, survival of family owned firms (FOFs) in the world are considered to be challenging while family oriented micro and small firms (FOMSFs) have become the real victims of such survival problems. However, in spite of all constraints faced, some of FOMSFs have been able to dominate in most of the economies of the world by providing a considerable contribution to national development for over generations and thereby making the business a success. Accordingly, considering the contradiction in the literature on FOMs and MSFs, the main goal of this study is to understand the survival of FOMSFs in the longer period in Sri Lanka. instrumenting qualitative methodology and using inductive methods, the sample of the study included family oriented micro and small scaled retail stores (small shops which day today sellers of consumer items) located in the Western Province of Sri Lanka. Using the purposive sampling technique, 42 retail stores that existed for at least 20 years were selected as the sample. Forty eight in-depth interviews with the owners of stores based on an interviews guide were conducted and subsequently transcribed, coded and categorised. The coding process of transcriptions ended in four categories, namely obtaining the advantage of the location, obtaining the benefits from the founder legacy, utilising social capital and selling on credit facility to customers. In the light of Resource Based View theory (RBV), detailing of four categories based on individual respondents as the unit of analysis revealed that the location of retail stores has provided wider access to customers enabling the majority to access the shop. The dignity, recognition and financial capability of founder have given an identity to business by the patronage of day today customers in the area. Having a wider community and business network by the owning family has created strong social capital based on activities of the retail store and outside throughout a longer period of time. Similarly, selling goods and services to customers on credit basis has become a tradition and a common feature of almost every business.

*Keywords:* Firm survival, family business, micro and small firms, retail store, Sri Lanka

## 1 Background of the Study

Family oriented firms (FOFs) all over the world are in dilemma in surviving in the long term irrespective of their scale and nature. Similarly, regardless of ownership or governance orientation of a firm, life expectancy of a majority of micro and small firms (MSFs) is also limited to several months or years. FOFs can take many different forms. This study uses the definition of FOFs by Habbershon, Williams, McMillan (2003). They define family business as "unique, inseparable, synergistic resources and capabilities arising from family involvement and interactions". For the purpose of the study, management of the business by family can be described as the ways and means of owning and managing the business by the family members (see Kuruppuge and Ekanayake, 2016). Also, the concept of "family" includes an extension of nuclear family to include other relatives such as aunts, uncles, grandparents and cousins.

As a developing country, the economy of Sri Lanka is dominated by micro, small and medium-scale enterprises (MSMEs) while other privately, publicly and non-governmental organization (NGOs) owned firms carry out their businesses in the economy (Kuruppuge and Ekanayake, 2016). Sri Lanka has reported a percentage of contribution of SMEs to Gross Domestic Product is around 30 (ADB Annual Report, 2012). Further, SMEs contribute 20% of exports of the country, 30% of the production value added in the manufacturing sector, and employed 35% of the total workforce in Sri Lanka (ADB Annual Report, 2012) . Interestingly, about 90% of SMEs in Sri Lanka are owned by families and many of them consist of micro and small scale then medium size firms. Other than family owned SMEs, privately held, family owned large scale businesses and family owned listed Companies in the Colombo Stock Exchange are playing a major role in the economy. In this context, researchers in this field inquire of family businesses which are surviving in business through generations and prospering the business over generations as such firms report good performance contradictory to literature in the world. Arguably, Gamage (2004), in his study on the SME sector, found that up to 85 per cent of businesses face significant survival challenges, whilst more than 75 per cent fail within five years of startup of businesses in Sri Lanka. Yet, some family owned business in Sri Lanka had grown from a small scale business to a large scale business in a very short period. Some businesses have grown over generations out performing financially parallel to non-family businesses. Literally, as far as family oriented micro and small firms (FOMSFs) are concerned, the running these firms for a longer period has become a formidable challenge. However, in spite of all constraints faced, MSFs have been able to dominate in most of the economies of the world by providing a considerable contribution to national development. Exceptionally, some of Sri Lankan FOMSFs continue for over generations and thereby making the business a success. These contradictory findings of previous studies have created lacuna of knowledge about the long term survival of FOMSFs. Accordingly, the main goal of this study is to understand the survival of FOMSFs in the longer period in Sri Lanka.

The study aims to provide both theoretical and practical contributions. It documents the results of an under-studied issue in literature, namely the business survival aspects of FOMSFs. At present, many studies have discussed the problems associated with business continuation of FOFs. However, scant attention has been paid on themes how FOMSFs continue with ups and downs for a longer period. Further, the economy of developing countries such as Sri Lanka depends largely on the contributions made by the micro, small and medium scales enterprises, among which a significant proportion is FOFs. And majority of such firms face growing problems. Hence, proper understanding of success themes of longevity of FOMSFs can play an important role in literature facilitating the increment of GDP of the country, and uplifting the living standards of the citizens. For example, by providing employment opportunities. Beside the background of this paper, the remainder consists of four sub-sections namely literature review, the methodology, data analysis and discussion and conclusion.

## 2 Literature and Theoretical Review

Resources are recognised as any kind of assets that assist to an organisation to reach its goals or critical success factors which help to make the organisation performance effective (Bryson et al., 2007). Resources are two distinct as basic and higher order (Madhavaram and Hunt, 2008). Higher order resources consist of basic resources and they are usually recognised as competencies and capabilities (Evans et al., 2006). Competences and capabilities are a sub-set of processes, bundle of actions, techniques, tools, abilities that assist to reach of goals of a firm. For example money, methods, skilled knowledge, expertise, trust, and competencies are considered to be resources irrespective of their nature. However, Resource Based View (RBV) views sustainable competitive advantage of a firm is generated only by resources that are infrequent, valuable, limited possibility to copying or duplicating, and difficult to substitute (Bromiley and Rau, 2016). The RBV is generally viewed as a perspective more than a theory as it does not bring testable hypotheses or falsification.

Particularly, as proposed by Hitt et al. (2015), the RBV does not facilitate falsification. When performance of firms is concerned, one can argue that firms differ from one another based on the resources accumulated. Family firms which have more resources are stronger in obtaining competitive advantages over other firms of similar nature and survive in the business longer (Kuruppuge and Gregar, 2017). In that sense the RBV becomes a sensible theory in case of firm performance, longevity and sustainability. Specifically, this theory implies that organisations cannot obtain competitiveness only by routine practices which are not a component of RBV resources. Meanwhile, Schumpeter (1942) viewed that firms that have accumulated more resources, are stronger in surviving sudden business turbulences. Selznick (1957) firstly emphasized the importance of distinctive competencies in the event of sustaining a business longer. Identifying competencies, he was in view that the manager's role is recognising, investing and protecting of such resources. Barney 1991 also argued that organisational survival, growth and performance are dependent on scarce, imitable, valuable resources which are capable of gaining competitive advantages over similar firms in the market. The role of distinctive competencies in this is identified as crucial.
Recent researchers in this field have viewed resources of a firm slightly different. Highlighting dyadic relationships among partners of firms, Arya and Lin (2007) mentioned that relational resources are more important to performance outcomes of a firm. Similarly, Lavie (2006) evaluated the relational resources as alliances in which the individual partner cannot generate and maintain to obtain competitiveness in the business. Such analysis have concluded that the imitability and scarcity of relational resources in networking have created the potential to obtain competitive advantages. Moreover, Barney (1991) and Wernerfelt (1984) concluded that resources and capabilities are prime requirements for organizational survival, development and sustainability. Confirming the teaching of RBV, resources as a bundle of available and accessible to organization were then diversified into three categories as human, physical and organizational (Barney, 1991). Human resources with employees like experience, skills, competencies; physical resources such tangibles like lands, buildings, equipment and then organizational resources like norms, culture, systems have imparted the diversification of resources. Proving the diversification, Wade and Hulland (2004) mentioned performance of a firm as a function of information system and its relation to human and other firm's resources. Ultimately, most of current scholars in this field posits that resources in every aspects in a firm influence the improvement of capabilities and capabilities are more likely to direct the firm to the right direction (Hitt et al., 2015).

## 3 Methodology of the Study

This research instrumented in qualitative methodology using inductive methods. The sample consists of micro and small scaled family oriented retail stores (small shops which day today sellers of consumer items) located in the Western Province of Sri Lanka. This province of Sri Lanka is recognised as the most developed province out of the nine provinces in the country. Further, this province holds a majority of FOMSFs in the country while contributing the highest portion for the GDP of the country. In general, retail sector in Sri Lanka is basically coordinated from Colombo which is the largest city in the Western Province and is the capital city of the country. Currently, changing pattern of consumptions and rising growth of per capita has forced the retail sector to expand in every corner of Sri Lanka. The retail market sector in urban areas is dominated by leading retail business outlets such as Cargills, Kells Super, Arpico, Abans and Laugfs. Such business establishments carry out the retail business as supermarkets, hypermarkets and convenience stores in city areas in the country having more than 500 outlets. In addition to those large scale retail stores, thousands of privately held convenience retail shops are managed individual entrepreneurs and another several well-known outlets operate as Laugfs Sunup Supermarkets, Star United, Ceylon Tobacco Company, Nestlé, Keells Food Products, Lion Brewery, Distilleries Company and Hemas Companies. However, majority of retail selling stores are established in a city or the suburban areas. Still the country side or remote areas are dominated by micro and small size retail shops. Accordingly, the sample for this was chosen considering the fact that retail shops are located in the remote areas of the province.

Using the purposive sampling technique, 42 retail stores that existed for at least 20 years were selected as the sample. Majority of shops in the sample is located in countryside of the Western Province. Forty eight in-depth interviews with the owners of stores based on an interviews guide were conducted and subsequently transcribed, coded and categorised. All the interviews lasted for around 30 minutes and took place in the business premises itself in 2016. Interviews were conducted in local languages and then translated into English by the researchers with all exclamations and hunches. Content analysis with pattern matching facilitated the analysis and unit of analysis was individual responses.

## 4 Data analysis and Discussion

Coding process of transcriptions ended in four categories namely obtaining the advantage of the location, obtaining the benefits from the founder legacy, utilising social capital and selling on credit facility to customers. Analysis of categories in detail resulted in themes to understand how FOMSFs runs for a comparatively longer period in Sri Lanka.

The location of retail stores has easily shown wider access to customers and could compete with similar firms. Most of FOMSF are located in a junction where several roads are connected together. And the location have shown the potential for customers to access the retail shop easily while customers can approach other requirement like visit post-office, dispensary for medical treatment. One of the respondents (currently the owner of the retail shop) from the third generation of the business existence elaborated that

> ‘No any other shops or settlement was there when my grandfather start his business here. Later, all these facilities were established by people arrived from other areas. However, now we have a good business because of different services available in this junction’ *(Interview 33, retail shop 30, third generation).*

According to his view, this shop was the first settlement in the junction. Subsequently, all other settlements/shops had reached the junction in the small village. However, currently, the junction has been developed in a rapid phase where customers can find most of the day today needs and services. Even though, several other similar retail stores were established later in the same area, this particular FOMSF remains without having much affected by other similar shops.

> ‘We have never lost our customers as a result of starting similar other shops in the village. People used to come here and buy their needful’ *(Interview 06, retail shop 06, second generation).*

Other respondents reviewed his experience about the location of their FOMSFs as below. These two respondents represent the first and third generation respectively of the business start-up.

> ‘The bus halt is recognised by our shop name as this bus stop is in front of our shop. Any person who wants to know about the village, mostly come to our shop and would inquire from us’ *(Interview 26, retail shop 23, first generation).*

> ‘Earlier, electricity was available only up-to this shop. All others beyond this point of the village had to come to our shop for electricity requirements such as charging batteries’ *(Interview 06, retail shop 06, second generation).*

From the above quotations it is evident that the location of the business premises, even though it is very small, has a great role to play. Interestingly, the location of the shop has been chosen by the first owner (founder) of the business, probably, several years ago (average 20 years). Yet, still even the business is transferred to next generation, with all structural changes of the shop took place over generations, the premises of the shop still remains unchanged. However, the location of the retail shop has strengthened a tight bond of togetherness among customers and thereby enabling the owning family of the retail store to run it for a longer period of time.
The dignity, recognition and financial capability of founder in the area have given recognition to the business by the patronage of day today customers. Most of the FOMSFs are dominated at village level according to financial capability, dignity and social recognition of the founder (people call the owner as *Mudalali*) of the business. Even though the scale of the business is micro, a fixed customer base could be maintained by the owner of the business based on the above facts. In addition, relative relationships, friendship and togetherness have bridged villagers and owners of these shops together.

> 'I have no ability now to attend for community activities in the village. Now I am too old. But villagers keep inviting me as a tradition. My son attends those representing my-self sometimes' *(Interview 42, retail shop 38, first generation)*.

> 'It is difficult to run a retail shop without cooperating with people from village' *(Interview 30, retail shop 27, second generation).*

> 'People are also not simple as we think. They respect us as we are financially sound. Once we have no money, nobody will recognise us' *(Interview 17, retail shop 15, second generation).*

The authors of this article could identify mutual inter-connection or inter-dependences in social life between the owning family of the business and most of villages. That has happened mainly due to financial capability and dignity of the founder of the business. This tightness has benefitted both parties together. Borrowing money, equipment, vehicles for short term requirements, selling the harvest of the villages' garden through retail shops, fulfilment of social needs like inviting for family events are some examples for villages. At the same time, owning families have also benefited by having regular customers thought out the year. However, as a result of the mutual inter-dependences, FOMSFs could have expanded the life of the business longer.
Having a wider community and business network by the owning family has created a strong social capital based on activities of the retail store throughout a long period of time. Other than tangible resources which accumulated throughout years, intangible resources like social capital FOMSFs based on networking also play a role in Sri Lanka. Being the place where many people meeting together for various, social, political and religious activities, the retail shops have become the coordinating centre of the village. The other feature of these kinds of shops in case of networking is that people get together in these places for reading newspapers, drinking coffee/tea and gossiping in addition to buying their day-today requirements. As a result, social capitals of owning family of these business shops are considerably higher.

> 'Postman keeps letters of villages in our shops as it is difficult to travel beyond this point because of the construction of the bridge. When villages come to buy goods, they collect their letters as well' *(Interview 46, retail shop 40, second generation).*

> 'All utensils and equipment of *maranadara samithiya* (welfare society) are kept in our premises' *(Interview 46, retail shop 40, first generation).*

> 'My father is coordinator of political matters of opposition party. He still has better network of members of the party in this area' *(Interview 19, retail shop 18, second generation).*

Similarly, selling goods and services to customers on credit basis has become a tradition and a common feature of almost every business. These activities have enabled the retail store to continue for a longer period. As far as a family in remote areas of Sri Lanka is concerned, it is a conjugal unit of husband, wife and dependent children. Generally, only the husband earns money for the other members of the family. As a result, people from remote areas are used to buy day today needs from retail shops of village on credit basis which implies that once the customer has money, they pay the debt as whole. Generally, the payment of credit takes place once in a month. Selling goods and services on credit basis by retail shops does not effect it routine operations as majority of customers makes the payment in cash at purchasing. However, several respondents have quoted about selling on credit in their retail shop as given below.

> 'We receive cash from debtors at the last week of every month. Our debtors pay all commodities they buy during the month after they receive salary from their working place' *(Interview 29, retail shop 27, second generation).*

In one way, respondents treat selling goods and services on credit basis as a benefit for their business as they can receive money in bulk at the end of the month. Some owners of retail shops clearly know that customers buy goods from them as customers do not have other option than buying at least an alternative item if the real required item is not available. On the other hand, some owners believe selling goods on credit basis as a threat for their business.

> 'The problem of doing a retail shop in village level is selling thing on credit basis. Some people even do not pay the bills in a considerable period and do not come to the shop till they make the bill paid' (*Interview 13, retail shop 12, first generation).*

At the same time, an owner mentioned very directly as follows.

> ……….. 'Sir, nobody can operate a retail shop in village selling goods only for cash. We actually do operate our business because of selling on credit basis. If they have money to pay in the cash counter, they do not come to our shop and they may go to the super market in the city to buy quality products for cheaper prices'…….. *(Interview 03, retail shop 03, second generation).*

As a whole, the analysis of this study explores that the location of retail stores has provided wider access to customers and could compete with similar firms. Further, according to business owners of second generation of the business, the owning family has created a strong social capital based on business and activities of the retail store throughout a longer period of time. Present owners review the social capital as a weapon to keep a stable customer base. Similarly, selling goods and services to customers on credit basis has become a tradition and a common feature of almost every FOMSFs.

## 5 Conclusion

The main goal of this study is to understand the survival of FOMSFs for a longer period of time in Sri Lanka. Four categories namely obtaining the advantage of the location, obtaining the benefits from the founder legacy, utilising social capital and selling on credit facility to customers have brought interesting findings about the survival of FOMSFs in Sri Lanka. Looking through the theoretical lenses of RBV, one theme that emerged from this analysis is that the longevity of FOMSFs is mostly dependent on the founder's strategies than the current owner's business strategies. As highlighted in the literature, family businesses are recognised as traditional and conventional in business focus

(Astrachan Binz, 2014; Allio, 2004; Poza, Alfred, & Maheshwari, 1997). And most recent researches have considered the traditional approach as a drawback of family firms in obtaining competitive advantages over similar firms. Nevertheless, such researches have only considered large scale and renowned family firms than micro and small firms. Inconsistent to these findings and providing contradictory conclusions of FOFs, this study indicates that traditions and the conventional approaches of FOMSFs have helped them to survive for a longer period of Sri Lanka.

One of the other newest theme emerged in this study is that the importance of social capital in case business operations of FOMSFs. This theme also emerged partial to the teaching of RBV theory. The social capital or networking of people based on friendship or relative relationship is not a very important fact in the case of functioning of a business in an urban area. Yet, when remote areas are concerned, it is such important theme to keep customers attached to the business. Selling goods and services to customers known by the owner of the business, financial capability of the owner and founder legacy have also made the attachment of customers to the business stronger. Ultimately, the business family ability of building a long lasting network with customers of the vicinity not only in business matters but also in other social activities have enabled business to survive longer. It has proved that the limitation of business vicinity has uncountable value of social capital for FOMSFs operations in Sri Lanka as well.

Theoretically, findings of this study would enhance the knowledge base on the survival of FOMSFs. Practically, current owners and managers could use this knowledge for the selection of their business sustainable strategies in the event that a majority of FOMSFs are not sustainable in the longer run. However, the results of this study should be interpreted carefully with limitations such as sample size, sample area, type of FOMSFs and the time sphere of the interviews. Future researchers may continue their studies in the same field with a view to finding a research gap remove one of the above limitations of this study.

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