

**DEVELOPMENT AND TESTING OF A MODEL FOR THE  
FORMALISATION OF HUMAN RESOURCE (HR) PRACTICES IN  
FAMILY-OWNED ACCOMODATION SMEs IN SOUTH AFRICA**

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## DECLARATION

I, **Willard Nyamubarwa**, student number \_\_\_\_\_ do hereby declare that this research report submitted to the Central University of Technology, Free State for the degree Doctor of Human Resource Management is my own independent work and has not previously been submitted by me at another University/Faculty. I further cede the copyright of the thesis in favour of the Central University of Technology, Free State.

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**Date: July, 2020**



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This work is a celebration of determination and will-power. *Veni, vidi, vici*. I dedicate this work to my late mother and sister whose memory keeps me going. My greatest gratitude goes to the following people for walking with me along this long and winding road:

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*The race is not unto the swift, nor the battle to the strong, neither yet bread to the wise, nor yet riches to men of understanding, nor yet favour to men of skill; but time and chance happeneth to them all. Ecl. 9.10. Amen.*

## ABSTRACT

This study sought to develop and test a model for the formalisation of human resource practices among family-owned accommodation Small and Medium-sized Enterprises (SMEs) in South Africa. This is against the background of extant literature indicating that (1) the family-owned accommodation SMEs have become work intensive and their success depends heavily on the proper management of the social and technical skills of employees, (2) human resource practices in SMEs in general are reactive and informal unlike those in larger companies, and (3) the calls by policy makers to formalise SMEs to widen the government tax bracket, create employment and redress the legacy of apartheid inequalities. Such calls have not been adequately addressed by previous studies that focused on drivers of formalising HR practices among SMEs using single and limited factors in individual studies. As a result, this study takes a holistic approach through a sustained exploration of how personal and environmental factors interact with selected factors that are critical in decision making as espoused by the Unified Theory of Acceptance and Use of Technology (UTAUT) model to influence the decision to formalise HR practices by owner-managers of family-owned accommodation SMEs in the Free State Province of South Africa. The selected factors are *Effort Expectancy*, *Performance Expectancy*, and *Facilitating Conditions*. Basing on the UTAUT model, an explanatory structural model depicting the proposed interaction was developed. Data was collected conveniently from a sample of 206 owner-managers of family-owned accommodation SMEs in the Free State Province of South Africa. The model was then tested using Structural Equation Modelling (SEM).

The findings of the study indicate that the decision to formalise Human Resource practices in family-owned accommodation SMEs is driven by both the owner-manager's personal characteristics and factors within the operating environment. Specific factors such as *Availability of institutional support*, *Performance Expectancy*, *Effort expectancy* and *Facilitating conditions* emerged as salient factors that drive the decision to formalise HR practices in family-owned accommodation SMEs. In turn, these factors are driven by the owner-manager's *Level of Education*, *SME Size* and *SME Location*. Finally, the study contributed to the field in various ways. Theoretically, it adds on to the literature on decisions to formalise HR practices by adopting and

modifying an existing model and testing it within the HR context of family-owned accommodation SMEs. Practically, the study provided insights into the drivers of the actual decision to formalise HR practices in family-owned accommodation SMEs. These drivers may be useful to HR practitioners and policy-makers in their designing of appropriate initiatives that will assist family-owned accommodation SMEs to formalise HR practices in South Africa and beyond.

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## LIST OF ABBREVIATIONS AND ACRONYMS

AMO	-	Ability-Motivation-Opportunity
BBBEE	-	Broad-Based Black Economic Empowerment
BPA	-	Best Practices Approach
BI	-	Behavioural Intention
CFA	-	Confirmatory Factor Analysis
EU	-	European Union
FABASA	-	Family Business Association of Southern Africa
GDP	-	Gross Domestic Product
GIT	-	Green Information Technology
HRIS	-	Human Resource Information Systems
HR	-	Human Resource
HRM	-	Human Resources Management
IDT	-	Innovation Diffusion Theory
IFC	-	International Finance Corporation
ILO	-	International Labour Organisation
MD	-	Mahalanobis Distance
OECD	-	Organisation for Economic Co-operation and Development
PEU	-	Perceived Ease of Use
PU	-	Perceived Usefulness
RBV	-	Resource Based View
SAMAF	-	South African Micro Finance Apex Fund
SET	-	Social Exchange Theory
SEDA	-	Small Enterprise Development Agency
SEFA	-	Small Enterprise Finance Agency
SEM	-	Structural Equation Modelling
SME	-	Small and Medium-Sized Enterprises
TAM	-	Technology Acceptance Model
TPB	-	Theory of Planned Behaviour
TRA	-	Theory of Reasoned Action
USA	-	United States of America
UTAUT	-	Unified Theory of Acceptance and Use of Technology
VAT	-	Value Added Tax
WTTC	-	World Travel and Tourism Council



## CHAPTER 1

### INTRODUCTION TO THE STUDY

#### 1.1 INTRODUCTION

According to Eid and El-Gohary (2013) Small-Medium Enterprises (SMEs) are the lifeblood of the global economy owing to their contributions to employment creation, economic empowerment, wealth redistribution and the overall contribution to Gross Domestic Product (GDP) growth. However, as Maduku (2015) observes, compared to developed economies, the contribution of SMEs firms to GDP figures in emerging economies like South Africa is grossly understated as a result of, among other factors, the informality that characterise their business operations. As a result, some global policy makers such as the ILO (2016a) have prescribed formalisation as the all-powerful antidote needed to cure the problems impeding SMEs from effectively contributing to GDP growth in emerging economies.

The call to formalise the SME sector is even getting louder daily as more policy makers and governments alike discover the potency of SMEs in economic development. For example, Yoshino and Taghizadeh-Hesary (2018) reports that in Asia where SMEs contributes 62% of all jobs, authorities have recommended formalisation as way of unlocking the sector. Similarly, OECD (2017) reports that even though SMEs contributes 45% of the total labour force and 33% of Gross Domestic Product (GDP) in emerging economies, formalising their business practices will boost their contribution two-fold. This is evidenced by the scenario in Europe where sustained business formalisation efforts have witnessed SMEs accounting for 99.8% of the total number of firms, 66.6% of total European Union (EU) employment and generating €4,030 billion in 2016, which represents 56.8% of total exports (PWC, 2018). Similarly, in South Africa, Olawale and Garwe (2010) report that the role played by SMEs as agents of transformation, employment creators and effective contributors to the GDP can best be explored if the firms overcome a host of impediments associated with operating informally.

Based on the above outcry on the need to formalise SMEs and the significant role they play in the South African and other global economies, this study seeks to develop and test a model examining how selected factors interact factors to influence the decision to formalise Human Resource (HR) practices by family-owned accommodation SMEs in South Africa. Such an examination has ramifications for the SME sector in general, but for family-owned accommodation SMEs in South Africa, this might entail access to funding opportunities as financial institutions tend to be keen to finance SMEs that are well structured due to the lower risks of default (ILO, 2016b). In addition, an increase in the number of family-owned accommodation SMEs with formal HR practices has the potential of further translating into higher GDP contributions. This is supported by the World Bank (2013) which reports that countries with a formalised SME sector experience an increase in the levels of GDP per capita as more people get employed. Rand and Torm (2012) also report that HR formalisation by SMEs can unlock opportunities as increased efficiency increased profitability. In the case of family-owned accommodation SMEs, this can be achieved by bringing into managerial positions non-family members and in the process diluting kinship relations, endemic nepotism and familial conflicts that often plague such firms (Hall & Nordqvist, 2014).

## **1.2 BACKGROUND TO THE PROBLEM**

The family-owned accommodation SME emerged initially as “husband and wife” managed entities in the United States of America (USA) tapping into the inter-state travelling public by offering cheap overnight accommodation (Cooper, 2012). Since then, accommodation SMEs have spread across the world and are still generally operated as family-owned firms (ILO, 2010). Poudel (2013) notes that the small accommodation sector is by far the most widespread subsector in the tourism industry as tourists will eventually seek accommodation during their travels with the family-owned accommodation SME sector playing an excellent role here in providing accommodation services. Therefore, one may conclude that the accommodation SME sector represents a substantial portion of national economies across the world and contributes significantly to the Gross Domestic Product (GDP) of emerging economies like South Africa (World Bank, 2018). This significant role is evident the way the sector contributed US\$ 66 billion to Africa’s GDP in 2016 and is projected to contribute

US\$100 billion by 2020 (WTTC, 2018). Furthermore, the accommodation SMEs contribution to South Africa's GDP increased from 6% in 2012 to 8% in 2015, which shows the critical role played by these entities in economic development (Statistics South Africa, 2018).

Although the family-owned accommodation SMEs contribute greatly to economic development, researchers have raised concerns over the nature of the management principles prevalent in these firms (Laforet, 2013; Poza & Daugherty, 2013; Erdem & Atsan, 2015). Laforet (2013) identifies the source of this problem in the kinship considerations that often take precedence over established management principles in family-owned SMEs. Psychogios, Szamosi, Prouska and Brewster (2016) note further that family ownership of an SME is generally associated with a desire to remain independent and flexible and therefore the value of formal business management practices, including the management of the human resources, may be relatively low in the eyes of the owner-managers. The owner-manager and his/her family members are the initial key employees who will develop and run the firms and as such, informal relationships become a culture and key defining characteristic of conducting business and HR practices in the firm (Blackburn, Hart & Wainwright, 2013; Umer, 2012; Poza & Daugherty, 2013). As a result, informal HR management practices seem to be the norm for family-owned firms (Verreynne, Parker & Wilson, 2011) and as Laforet (2013) reiterates, various family-owned SMEs operate without any formal HR policies, which results in HR problems such as high absenteeism, direct managerial control, poor working conditions and high staff turnover.

Despite these challenges associated with managing HR in family-owned SMEs, there is evidence of intense HR research focused on these firms (Doherty & Norton, 2013; Songini, Morelli, Gnan & Vola, 2015). This research arises from the significance of these family-owned SMEs in the national and global economic development. The most prominent of these studies are carried out in Western countries (Psychogios et al., 2016); or in large economies of the East (Bae, Chen & Rowley, 2011). These prominent studies examine key factors in isolation. For example, Shehu and Mahmood (2014) examine the effect of culture while Steijvers, Lybaert and Dekker (2017)

examine the family's, Van Dut (2015) the operating environment, and Yordanova (2011) concentrates on the effects of gender on.....

Several other studies demonstrate how certain personal variables influence decision-making within the SME sector. Zhang and Bruning (2011) observes that the growth and profitability of family-owned SMEs depends solely on the owner-manager's personal characteristics such as age, gender and education. Steijvers et al., (2017) reiterate this viewpoint and report that when entrepreneurs establish a small firm, they bring with them human capital embedded in their skills, experience and personality, which are critical in the survival and growth of the firm. As such, the family-owned SME presents an image of the owner-manager's personality, education, skills, experience and other personal characteristics as the only resource endowments that the firm can use to compete against its competitors (Cacciolatti & Wan, 2012). In the context of this study, therefore, it is possible to argue that family-owned accommodation SMEs are likely to be grounded in the value systems of the owner-manager, thus justifying the need to examine the effect of personal characteristics such as age and education on the owner manager's decision to formalise HR practices.

Family-owned firms HR formalisation may also be affected, in addition to personal attributes such as age and level of education, by factors that are inherent in the structure, policies and operations of the firm itself (Kaufman & Miller, 2011). These factors include the size, age and location of the firm as well as the dominating influence of the controlling family (Kaufman & Miller, 2011; Van Dut, 2015; Psychogios et al., 2016). The significance of such environmental factors is worth considering in a study such as this considering that Psychogios et al., (2016) note that family-owned SMEs face limited human, material and financial resources in comparison to their larger counterparts, and as such are more amenable to the dictates of the operating environment. Van Dut (2015) concurs with this sentiment and stresses that budgetary constraints compel family-owned SMEs to be reactive to environmental pressures, which in turn affects their business practices like HR formalisation. This study therefore takes a cue from these scholars (Kaufman & Miller, 2011; Van Dut, 2015; Psychogios et al., 2016) in its consideration of the effect of some environmental factors, such as

firm location, size and availability of institutional support, in influencing the owner-manager's decision to formalise HR practices.

However, assuming that the above personal and environmental factors alone can account for the decision to formalise HR would be a void approach to understanding decision-making even within the HR context. This is because models such as the Unified Theory of Acceptance and Use of Technology (UTAUT) (Venkatesh, Morris, Davis, & Davis, 2003) have recently gained popularity in studies meant to explain decision-making processes in adopting technology, services and, or strategies using factors such as *Effort Expectancy* - the ease with which one finds to adopting something, *Facilitating Conditions*- the presents of physical policy or structures to easily adopt something, and *Performance Expectancy*- the belief that adopting a service, technology, or strategy will make things better. While the theoretical model has been applied in a variety of settings (Al Mursalin, 2012; Khechine, Lakhal, Pascot & Bytha, 2014; Abu, Jabar & Yunus, 2015), its application in understanding the decision to formalise HR practices among SMEs is still void. Hence, the present research proposes to integrate some of its aspects with personal and environmental factors to understand the decision to formalise HR practices by family-owned accommodation SMEs. For example, researchers such as Briozzo, Vigier and Martinez (2016) report that the owner-manager's level of education is directly related to business formalisation and yet, it can be argued that an integration of some aspects of the UTAUT model into this finding would mean that, higher educational levels could enhance the SME owner-manager's perceived capacity and the ease with which they can engage (*Effort Expectancy*) in innovative behaviour necessary to implement firm formalisation. Similarly, while Cacciolatti and Wan (2012) identify the owner-manager's age as equally critical in shaping the proper management of SMEs and the probability of the owner-managers formalising their business practices, integrating some aspects of the UTAUT model could mean that, there could be differences between young and old owner-managers of family-owned accommodation SMEs in terms of how they view the benefit (*Performance Expectancy*) of adopting formal HR practices. This assumption is explained by Songini et al., (2015) who argue that the owner-manager's risk aversion tends to increase with age. In terms of environmental factors, it can also be argued that SME location and size may have an

influence on, for example, family-owned accommodation SMEs hiring from within their vicinity (*Facilitating Conditions*) or easily hiring a professional HR person (*Effort Expectancy*) in order to formalise HR practices.

What has emerged from the literature reviewed so far is that, the decision to formalise HR practices by SMEs (including family-owned ones) may be conceptualised as the outcome of several personal and environmental factors. It has also emerged that, considering these factors alone would be doing injustice to the problem at hand, which is trying to understand the decision to formalise HR practices by family-owned accommodation SMEs. Thus, basing on the above assertions and arguments and, unlike in previous studies (Yordanova, 2011; Shehu and Mahmood, 2014; Van Dut 2015; Steijvers et al., 2017) that examined the formalisation of HR practice by using isolated factors, the present takes a holistic approach by examining how personal and environmental factors interact with the UTAUT model's *Effort Expectancy*, *Performance Expectancy*, and *Facilitating Conditions* to influence the decision by the owner-managers in family-owned accommodation SMEs in South Africa to formalise HR practices.

### **1.2.1 Problem Statement**

Extant literature reveals that HR practices in SMEs are reactive and informal unlike those from larger companies as HR formalisation is perceived as an unnecessary expense that does not add value to the firm (Umer, 2012; O'Sullivan, 2012; Doherty & Norton, 2013). This is despite the call by policy-makers and governments for SME formalisation in order to improve their contribution to economic development. For example, the International Labour Conference (ILO) (2015)'s recommendation 204, known as the "Recommendation Concerning the Transition from the Informal to the Formal Economy", calls for the speedy formalisation of the SME sector in all countries through the implementation of formal management systems as a way of promoting efficiency in the informal sector.

In addition, various studies make attempts to explain the driving forces behind HR formalisation in family-owned SMEs. The most prominent of these studies were single studies and carried out in Western and Asian economies (Wiesner & Innes, 2010;

Bae et al., 2011; Umer, 2012; Psychogios et al., 2016; Steijvers et al., 2017). This is unlike the current study, which is homing its focus in an emerging economy, South Africa. The prominent studies from this body of research examine key factors in isolation. For example, Franco and Lucas (2016) examine the effect of culture while Steijvers et al., (2017) examine the effect of the family and Yordanova (2011) concentrates on the effect of the operating environment on HR formalisation.

Therefore, this study adopts a holistic approach recommended by Chan, Chong and Zhou (2012). It intergrates personal and environmental factors with selected factors from an existing decision-making model (UTAUT) to better understand the formalisation of HR practices in family-owned accommodation SMEs. There is no known study to this day that has taken this approach to understanding formalisation of HR practices among SMEs: (1) in a developing context like South Africa and (2) among family owned accommodation SMEs. As a result, this seeks to close this gap by developing and testing an explanatory model on how selected personal environmental factors interact with *Effort Expectancy*, *Performance Expectancy*, and *Facilitating Conditions* to influence the owner-managers' decisions to formalise HR practices in family-owned accommodation SMEs in South Africa. Theoretically, the study contributes to the literature and debate on formalisation of HR practices by integrating aspects of an existing theory or model with empirical results from single studies. At a practical level, the study proffers guidelines, which can be used to formalise HR practices among the family-owned accommodation SMES in South Africa and beyond.

### **1.3 RESEARCH INITIATING QUESTION**

The research initiating question of the study is: Using an explanatory structural model, how do selected personal and environmental factors interact with aspects of the UTAUT model to explain the decision to formalise HR practices by owner-mangers in family-owned accommodation SMEs in South Africa?

## 1.4 RESEARCH OBJECTIVES

### 1.4.1 Primary objective

The main objective of this study was to develop and evaluate a model on how selected personal and environmental factors interact with aspects of the UTAUT model, such as *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions*, to influence the decision to formalise HR practices by owner-managers in family-owned accommodation SMEs in South Africa.

### 1.4.2 Secondary objectives

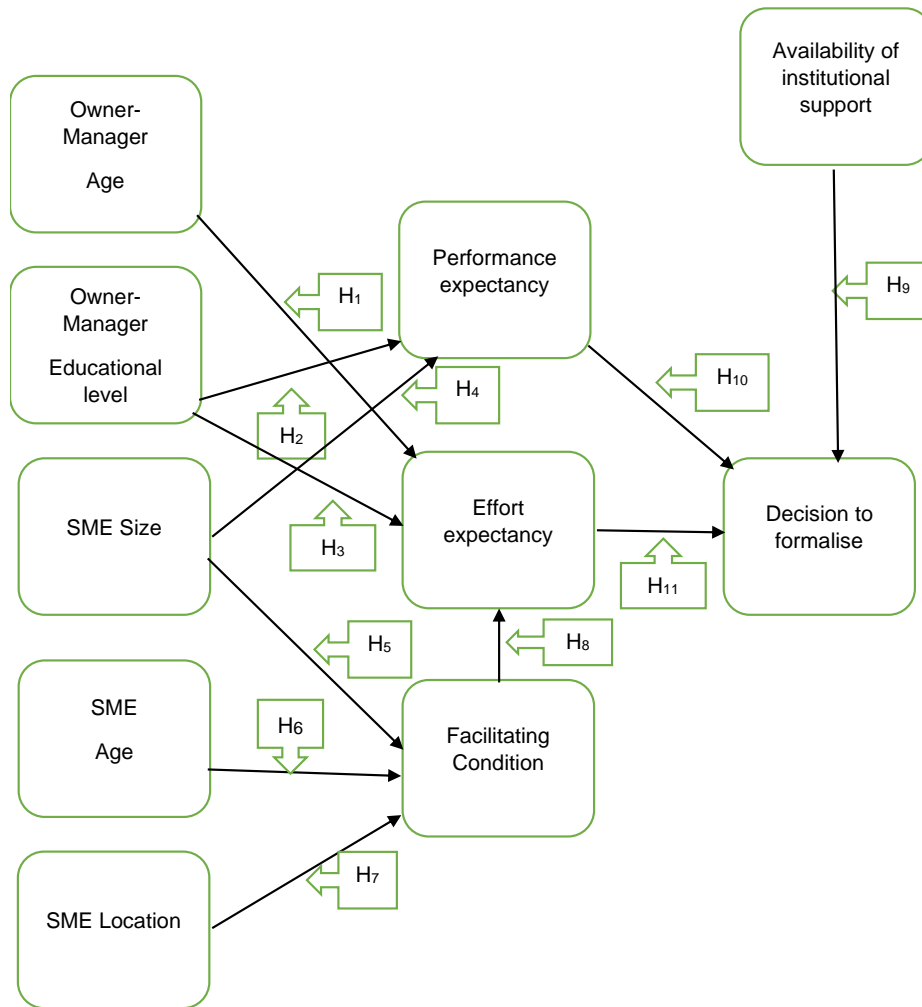
The following secondary objectives were considered in order to achieve the above-noted primary objective:

1. To propose a theoretical model that describes how selected personal and environmental factors interact with aspects of the UTAUT model, such as *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions*, in order to explain the decision to formalise HR practices by owner-managers in family-owned accommodation SMEs in South Africa;
2. To use data collected from owner-managers in family-owned accommodation SMEs in South Africa to validate the theoretical model proposed for fit.
3. To provide practical guidelines that can be used to formalise HR practices among the family-owned accommodation SMEs in South Africa.

## 1.5 PROPOSED STRUCTURAL MODEL

Basing on what has been put forth thus far, a structural model, which is based on an integrated approach that uses the UTAUT model and literature to explain the decision to formalise HR practices by family-owned accommodation SMEs in South Africa is developed for testing. The structural model proposes how selected personal (age, education) and environmental factors (firm size, location and age) interact with aspects of the UTAUT model such as, *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to explain the decision to formalise HR practices by owner-managers of family-owned accommodation SMEs in South Africa (Figure 1.1).





**Figure 1.1. Proposed structural model**

Source: Researcher's Conceptualisation

### 1.5.1 Operationalisation of model constructs

The constructs in the structural model for this study (Figure 1.1) are operationalised as follows in this study;

#### **SME size**

SME size refers to the size of the family-owned SME in based on the number of employees in the firm (Nolan & Garavan, 2015).

#### **SME age**

SME age refers to the number of years the SME firm has been in operation (Ramachandran, 2017).

### **Performance expectancy**

Performance expectancy refers to the owner-manager's expectation that adopting formal HR practices will lead to better firm performance (Venkatesh et al., 2003).

### **Effort expectancy**

In this study, effort expectancy refers to how much the SME owner-manager believes that the use of formal HR practices will be effortless, both physically and mentally (Venkatesh et al., 2003).

### **Facilitating Conditions**

Facilitating conditions in this study represent the presence of a professional HR person in the firm to facilitate the decision to formalise HR practices (Venkatesh et al., 2003).

### **Location**

Location in this study refers to either the rural or urban physical position from where the SME firm is operating (Moos & Botha, 2016).

### **Institutional support**

Institutional support refers the support given to SMEs by the government and other institutions in the form of finance, credit guarantee schemes, tax breaks and market intelligence to incentivise them to formalise their HR operations (Doh & Kim, 2014).

Therefore, the meanings assigned to the constructs in the study's structural model suggest that the model reflects that the decision to formalise HR practices in family-owned accommodation SMEs in South Africa could be explained by the interaction of personal and environmental factors with the *Availability of Institutional Support* for HR formalisation, the owner-manager's *Performance Expectancy* of using formal HR practices, the owner-manager's *Effort Expectancy* of using formal HR practices, and the *Availability of Facilitating Conditions* for the formalisation of HR practices. The proposed interactions informed the hypotheses in this study, which are outlined in the next section.

## 1.6 RESEARCH HYPOTHESES

H<sub>1</sub>: There is a positive and significant relationship between the owner-managers' age and *Effort Expectancy*.

H<sub>2</sub>: There is a positive and significant relationship between the owner-managers' level of education and *Performance Expectancy*.

H<sub>3</sub>: There is a positive and significant relationship between the owner-managers' *Level of Education* and *Effort Expectancy*.

H<sub>4</sub>: There is a positive and significant relationship between the size of the SME and the owner-manager's *Performance Expectancy*.

H<sub>5</sub>: There is a positive and significant relationship between the size of the SME and the presence of facilitating conditions to establish a stand-alone HR department.

H<sub>6</sub>: There is a positive and significant relationship between the age of the SME and the presence of facilitating conditions to establish a stand-alone HR department.

H<sub>7</sub>: There is a positive and significant relationship between the SME's location and the presence of facilitating conditions to establish a stand-alone HR department.

H<sub>8</sub>: There is a positive and significant relationship between the presence of facilitating conditions to establish a stand-alone HR department in the SME and the owner-managers' *Effort Expectancy*.

H<sub>9</sub>: There is a positive and significant relationship between the availability of institutional support for SME development and the owner-managers' decision to formalise HR practices in the SME.

H<sub>10</sub>: There is a positive and significant relationship between the owner-managers' *Performance Expectancy* and the decision to formalise HR practices in the SME.

H<sub>11</sub>: There is a positive and significant relationship between the owner-manager's *Effort Expectancy* and the decision to formalise HR practices in the SME.

## 1.7 RESEARCH METHODOLOGY EMPLOYED

This section outlines in brief the methodology applied in this study in order to investigate the personal and environmental factors that influence family-owned SMEs in the Free State Province, South Africa to formalise their HR practices.

### **1.7.1 Research paradigm**

In this study, a paradigm refers to a set of beliefs and prescriptions that influence what should be studied, how the research should be conducted and how results stemming from the research should be interpreted by researchers in a given discipline (Saunders, Lewis & Thornhill, 2019). This study is guided by the positivist paradigm. This paradigm is most suitable given that the researcher tests various personal and environmental variables that affect HR formalisation in family-owned SMEs in South Africa.

### **1.7.2 Research approach**

Consistent with the positivism paradigm, a quantitative approach was also adopted in this study. The choice of a quantitative approach is informed by the fact that it is deductive and therefore most appropriate in this study, which attempts to test, using quantifiable set of statistics, the variables identified in the proposed structural model.

### **1.7.3 Research design**

A research design is a plan adopted by the researcher to answer the study's research questions (Saunders et al., 2019). Thus, this study adopted, in sync with the positivist paradigm and the quantitative research approach, the ex-post facto research design.

### **1.7.4 Geographical scope, population and sampling**

The study focused on family-owned SMEs in the Free State Province of South Africa and the primary unit of analysis were the SME owner-managers. The study population was 431 firms and the study used convenience sampling to gather data from 270 respondents in the research setting.

### **1.7.5 Data analysis**

The Structural Equation Modelling (SEM) technique was adopted to conduct data analysis due to the nature of this study, which is attempting to explore the factors affecting the decision to formalise HR practices in family-owned accommodation SMEs. The choice of SEM analysis was motivated by its ability to test proposed research models with multiple dependent and independent variables as the proposed structural model in this study.

## **1.8 ETHICAL CONSIDERATIONS**

According to Saunders et al., (2019), the strict observance of ethical codes and guidelines in business research is essential if the research is to get a seal of approval in the academic community. As such, this study sought to uphold proper research ethics by seeking prior ethical clearance from the sponsoring university, Central University of Technology in the Free State. The study was given the greenlight through the issuance of an ethical clearance letter with clearance number FMS2014/07 (Appendix 3). In line with the conditions set for this ethical clearance, the study sought to uphold research integrity, privacy and confidentiality as well as informed consent.

### **1.8.1 Research integrity**

The integrity of the present study was ensured by involving the academic supervisor throughout the research process. In addition, the analysis of data was followed by a presentation of the results without any element of manipulation. All sources cited in the study were acknowledged and plagiarism tested before the final thesis draft was presented for examination.

### **1.8.2 Privacy and confidentiality**

To protect the privacy and confidentiality of the research respondents, the study used a self-completed questionnaire that did not require respondents to write their names and in that assured respondents of their anonymity. The questionnaire also contained a statement that assured respondents that the information and responses to the survey would be kept and aggregated for confidentiality.

### **1.8.3 Informed consent**

The right to informed consent was held in great esteem during the study. All potential respondents were informed of the nature and purpose of study as well as that participation was voluntary and that they were free to decline to participate or withdraw at any time.

## **1.9 LIMITATIONS OF THE STUDY**

A major limitation in this study relates to the time and financial constraints faced by the researcher. The researcher, who is a full-time employee residing outside South Africa,

faced severe time and financial constraints in trying to balance the study and cross-border work commitments.

Another limitation to this study is associated with the confinement of the respondents to the Free State in South Africa. This may affect the generalisation of the findings to the rest of South Africa or worse still to all emerging economies in general. However, the researcher is convinced that the depth of this study produced credible results that can be applied and retested in other emerging countries and will produce similar results.

## **1.10 DELIMITATIONS OF THE STUDY**

The purpose of demarcating research in a study is to make it more manageable and focused from a researcher's point of view. This is done to ensure that the extent and coverage of the study remains manageable given time and resource limitations.

### **1.10.1 Size of the organisations**

Drawing from these definitions of family-owned firms and the definition of SMEs drawn from the National Small Business Act (1996), a family-owned SME in this study is taken to refer to a firm employing not more than 100 employees and whose practices and policies are controlled by members of the same family.

### **1.10.2 Type of organisation**

The study was limited to family-owned SMEs as captured by the Small Businesses Act's definition of SMEs.

### **1.10.3 Geographical location of the empirical data collection**

This study is limited to the family-owned SMEs in the Free State Province, South Africa.

### **1.10.4 Units of analysis**

The individual SME owner-managers constitute the unit of analysis in this study. The nature of the information required, such as HR formalisation and its drivers, necessitated that data be gathered from respondents who are knowledgeable about the entire operations of the firm. As such, information was solicited only from the SME

owners-managers who were presumed knowledgeable about the firms they own or/and manage.

## **1.11 ORGANISATION OF THE INVESTIGATION**

The study is organised as follows: The first chapter introduces the study and thus, outlines the research problem and objectives. This introductory chapter provides a preliminary literature review, which included a brief outline of the major theory supporting the study, the Unified Theory of Acceptance and Use of Technology (UTAUT) model. The chapter also presents the proposed structural model, related hypotheses, as well a synopsis of the research methodology, justification of the study and the limitations of the study.

Chapter 2 reviews various theories that explain factors behind technology adoption in organisations. As such, the major tenets of the Innovation Diffusion Theory (IDT), Theory of Reasoned Action (TRA), Technology Acceptance Model (TAM) and the Unified Technology Acceptance and Use model (UTAUT) are reviewed.

Chapter 3 reviews focusing on the nature and structure of the family-owned SMEs. The chapter also reviews the influence of the family on the operations of SMEs.

Chapter 4 reviews literature that explains how to manage Human Resources (HR) in family-owned accommodation SMEs. It also analyses the idiosyncrasies of managing employees in family-owned SMEs.

Chapter 5 examines literature that outlines the different factors affecting HR formalisation in family-owned SMEs.

Chapter 6 delineates the research methodology employed to empirically test the structural model and achieve the study's objectives.

Chapter 7 presents and discusses the statistical data obtained from the survey.

Chapter 8 concludes the study. It presents a summary of the key findings of the study, draws conclusions based on these findings, outlines the practical and theoretical contributions of the study, and makes recommendations for future studies.

## **1.12 CHAPTER SUMMARY**

This chapter introduced the study. It outlined, in brief, the contextual background to the study, the research problem and the research objectives. This introductory chapter also presented a preliminary review of literature in order to underline the major issues including a brief outline of the major theory supporting the study, the Unified Theory of Acceptance and Use of Technology (UTAUT). The chapter also presented the proposed structural model, related hypotheses, as well as the synopsis of the research methodology, limitations and the delimitations of the study.

The next chapter will discuss the theoretical framework informing the study.



## CHAPTER 2

### THEORETICAL FRAMEWORK

#### 2.1 INTRODUCTION

Various theories have been proposed to help explain user behaviour in reaction to the introduction of a new technology. The most prominent of these “adoption theories” (Tan, 2013:3) are the Innovation Diffusion Theory (IDT), Theory of Reasoned Action (TRA), Theory of Planned Behaviour (TPB), the Technology Acceptance Model (TAM) and the Unified Theory of Acceptance and Use of Technology (UTAUT). This chapter examines these theories to reveal areas of commonality that are of interest in this study. The chapter then attempts to stitch together these common elements so that they can assist in explaining personal and environmental factors that influence the SME owner-manager’s decision to formalise HR practices.

#### 2.2 INNOVATION DIFFUSION THEORY (IDT)

According to Rogers (2010), an innovation is a new idea, product, programme, or technology at the disposal of a potential user. It is a novel idea that has been presented to a potential user for possible adoption. This innovation must, with the passage of time, spread (diffuse) and gain acceptance in the user community. Yousafzai, Foxall and Pallister (2010) also explain that the IDT describes how a new idea or product gains acceptance over time through its diffusion in a given social system. This diffusion process according to is driven by a number of factors within the innovation itself (Wani & Ali, 2015). These characteristics of an innovation that influences the adoption process are; *Relative Advantage*, *Compatibility*, *Complexity*, *Trialability* and *Observability*.

The relative advantage of an innovation is described by Emani, Peters, Desai and Karson (2018) as the degree to which an innovation is perceived as more advantageous by potential users than the idea it supersedes in terms of its economic advantage, prestige associated with its use or the general satisfaction that is derived from its use. Therefore, *Relative Advantage* refers to the advantages that innovation users are likely to derive from using an innovation relative to systems they currently

have in place (Wani & Ali, 2015). This means that a user will only adopt an innovation if the innovation is perceived to be relatively better than the one currently in use. A further implication is that the rate of adoption of a novel technology is positively correlated with the potential user's perceived relative advantage of using the innovation.

The second attribute describing an innovation, *Compatibility*, refers to the extent to which the new technology is compatible with potential user's experience and interest in the use of similar technologies (Ajzen, 2015). Thus, the innovation must be compatible with the current systems and practices in the adopting organisation if it is to stand better chances of being adopted (Khanh, Trong & Gim, 2014). Therefore, unlike *Relative Advantage*, *Compatibility* represents an environmental adoption factor as it is beyond the personality and control of the potential user (Ajzen, 2015). This dovetails with the direction pursued in this study where the factors within the operating environment are assumed to be a key in the decision to formalise HR practices.

The third construct in IDT *Complexity* is defined by Al-Jabri and Sohail (2012) as the extent to which a new technology is perceived as relatively easy to comprehend and use. It therefore means that any new innovation that is easy to use has a greater chance of adoption by potential users (Wani & Ali, 2015). In this study, one would conceive *Complexity* as yet another personal attribute affecting adoption decision as the owner-manager's personality also becomes the driving factor influencing the decision to formalise HR practices in family-owned SMEs.

Whilst *Complexity* refers to the ease of using a novel technology, *Trialability* refers to how much a potential user can test and use the new technology before its full adoption (Tolba & Mourad, 2011). In this study, the *Trialability* of new formal HR practices is an environmental factor as it is beyond the control of the potential user.

The fifth construct that describes an innovation, *Observability*, is also a personal factor as it refers to how much the new technology can be observed in us. This allows potential users an opportunity to evaluate the effects of the innovation before they can make the decision to adopt it (Moghavvemi, Hakimian & Teng-Feissal, 2012). In the

context of this study, if any HR formalisation is to be accepted, it is imperative that SME owner-managers are able to personally observe where formal HR practices are being applied before they can make the conscious decision to adopt them.

The present study focuses on the personal factors driving adoption and yet an analysis of the concept of innovation in this section revealed a set personal and environmental factors that may drive an SME owner-manager's decision to formalise HR practices in the firm. These factors constitute blocks for the building of a structural model that explains the personal and environmental factors that influence the decision to formalise HR practices in family-owned accommodation SMEs in South Africa.

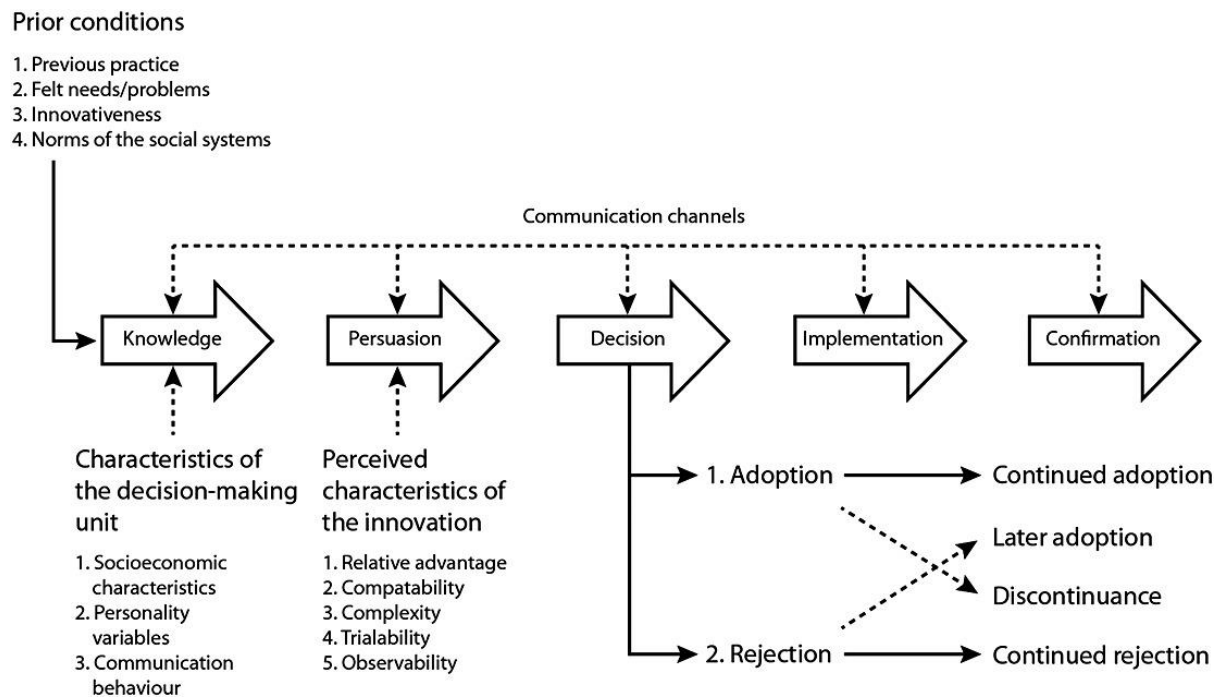
The above description of what innovation stands for in IDT leads to an examination of the concept of diffusion that is the second major element in IDT. Daft (2009:415) aptly defines innovation diffusion as, "the adoption of an idea or behaviour that is new to the organisation's industry, market or general environment".

This shows that diffusion is an environmental factor as it represents the process through which an innovation permeates into the society of potential adopters. This permeation process is driven by social norms and the support of opinion leaders within the society of potential users (Rogers, 2010). This identification of the environment as a driver of innovation adoption is significant in that it validates the approach adopted in this study, which evaluates the effect of environmental factors on the decision to formalise HR practices.

The third element in the IDT refers to the establishment and maintenance of a communication channel that can be used to spread information about the innovation. As such, Rogers (2010:17) defines communication in IDT as the "process by which participants create and share information with one another in order to reach a mutual understanding". The above-noted definition underscores the significance of communication in spreading the merits of an innovation as inadequate communication will undermine the adoption of a good innovation (Pfeffermann, 2017). In addition, communication also represents an environmental factor that affects the adoption of innovations.

The final element in the innovation diffusion process is time. Time is an element in the operational environment that has an impact on the final adoption decision. Rogers (2010) explains that a combination of communication and time shapes the potential user's mind-set as it progresses from initially knowing about the innovation, getting persuaded to accept it, adopting, implementing and eventual usage of the innovation.

Taken together innovation and diffusion refers to the choices and actions potential users of innovations undertake to evaluate the uncertainty surrounding the innovation and to come up with a decision whether or not the innovation should be adopted and implemented into their current operational practices (Santacreu, 2015). Innovations that users adopt are those that they perceive as having superior Relative Advantage, Compatibility, Trialability, Observability and less Complexity (Rogers, 2010). Therefore, organisations are more likely and able to adopt innovations that offer clear advantages, do not radically interfere with existing practices, and are easier to understand (Pfeffermann, 2017).



**Figure 2.1. Innovation Diffusion Theory (IDT)**

**Source: Rogers (2003)**

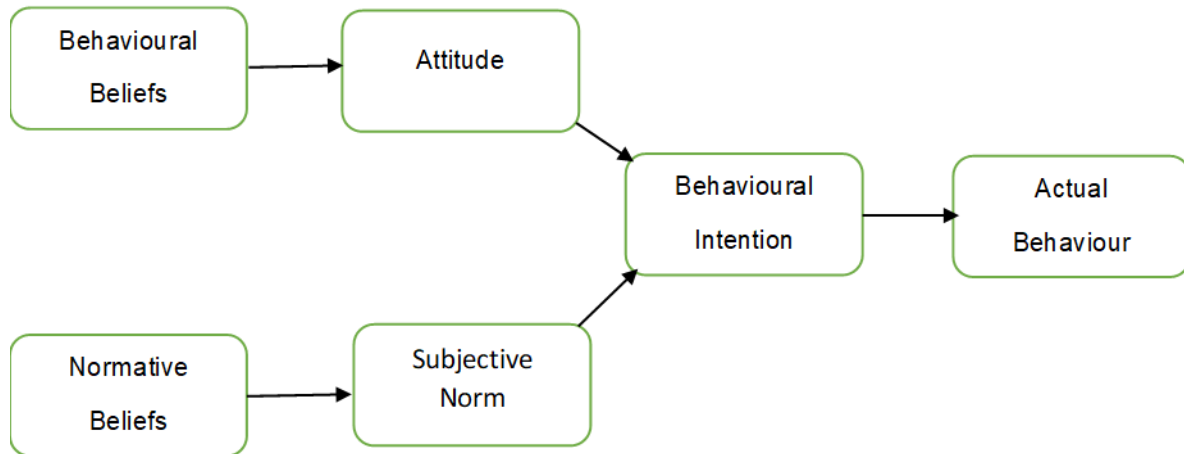
Figure 2.1 depicts how personal variables (experience, need for the innovation, personality) mediate with factors within the operating environment (social norms, socio economic environment, communication channels) to shape the final decision on whether to adopt or reject an innovation. This resonates with the major premise in this study, which states that, the decision to formalise HR practices (innovation) is influenced by a set of selected personal and environmental factors.

Although there is a massive use of the IDT in the assessment of the drivers of adoption and diffusion of innovations across various studies, the theory still has weaknesses. Wani and Ali (2015) highlight the limitations of this theory with one weakness related to the reality that IDT was initially based on the behaviour patterns of US farmers and therefore too agrarian in approach and not always applicable in explaining innovations in other industries or sectors such as the focus of this study. However, for the purposes of this study, and since the theory acts as the original anchor upon which the main theoretical model of the study is based upon, ITD lays the groundwork for the identification of personal and environmental factors that influence the **decision to formalise HR practices in family-owned SMEs**.

### **2.3 THEORY OF REASONED ACTION (TRA)**

The Theory of Reasoned Action (TRA), postulated by Ajzen and Fishbein (1980), explains the interplay of factors that explain computer usage behaviour in organisations. TRA claims that potential technology users behave rationally and make logical use of information available to them in formulating their decisions on whether to adopt or reject the use of new technology (Akbar, Salman, Mughal, Mehmood & Makarevic, 2016). This shows that TRA is based on the assumption that user behaviour is based on rationale decision-making as it postulates that the intention to act in a certain way is determined by the belief that the specific behaviour will give rise to a certain desired outcome and will get the approval of key people in the society (Ajzen, 2015; Astridde, Pierre, Ajzen, & Schmidt, 2015). In other words, the theory suggests that a person's decision to use an innovation depends on their attitude towards the technology and approval of opinion leaders in his community of practice (*Subjective Norms*).

The above-noted relationship is depicted in Figure 2.2 where the user’s final decision is a factor of his/her *Behavioural Intention*. The behavioural intention is thus shaped by two personal factors, *Attitudes* and *Subjective Norm*.



**Figure 2.2: Theory of Reasoned Action**

**Source: Ajzen & Fishbein (1980)**

*Behavioural Intention* in TRA may be defined as the decision made by the potential user to accept and use the innovation or reject it altogether (Ajzen, 2015). Behavioural intention is the outcome of the user’s psychological assesment towards the innovation as it is mediated by the operating environment. In this study, this would refer to the decision made by the SME owner-manager to adopt formal HR practices after considering his/her personality and factors in the operating environment.

Ajzen (2015) defines *Attitude* as the potential user’s perceptions about performing a certain behaviour and that attitude is determined by evaluating one’s assessment of the consequences emanating from the behaviour and the effect or desirability of these consequences. The attitude itself is a factor of the user’s *Behavioural beliefs*. As in IDT, *Behavioural Beliefs* refer to the external variables (norms, opinion leaders) that shape the attitude towards the innovation by a potential user. As such, they represent an element within the operating environment thus acknowledging the effect of environmental influences on the adoption of a decision as is premised in the current study.

The same can be observed about *Normative Beliefs* and *Subjective Norms* which represent the norms and values of the significant others in the operational environment. Astridde et al., (2015) explain the likelihood that key people or groups (opinion leaders) would approve or disapprove of the use of a new technology is a significant factor in influencing the adoption decision. This represents environmentally based factors that are beyond the potential user's control but have a bearing on the user's decision to adopt the new technology. Therefore, what emerges is that, like IDT, TRA also postulates that the decision to adopt an innovation (*Behavioural Intention*) is a factor of both the environmental and the personal considerations of the potential user, which is the same viewpoint pursued in this study.

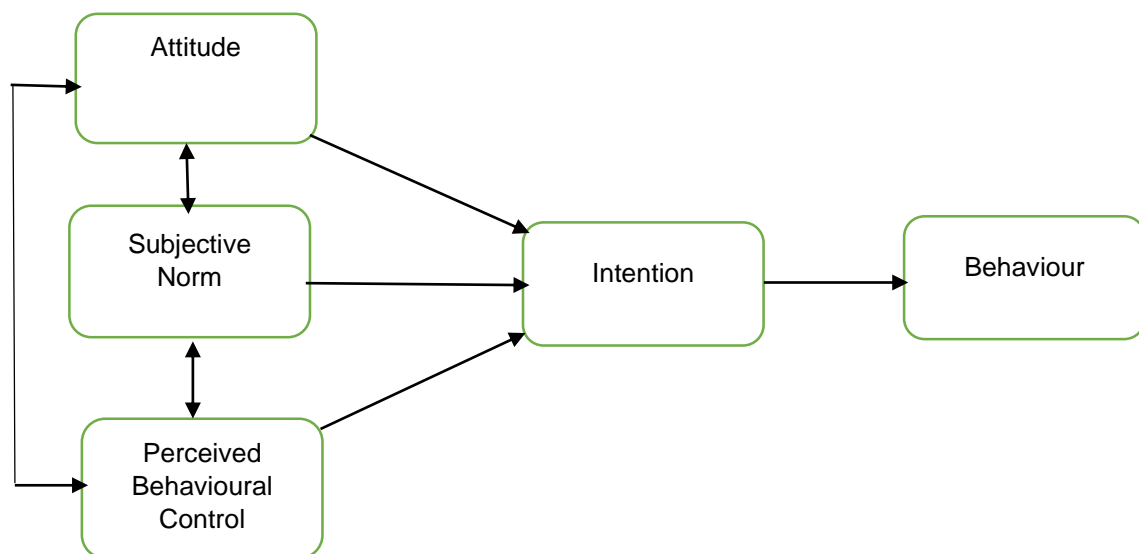
TRA has been applied in various contexts proving the validity of the theory in explaining user behaviour in technology adoption. For example, Mishra, Akman and Mishra (2014) tested the TRA in their investigation of the acceptance of Green Information Technology (GIT) by Information Technology (IT) professionals in Turkey. The findings confirmed the existence of a positive relationship between a user's attitude and Behavioural Intention as postulated in TRA by Ajzen and Fishbein (1980). In addition, Doane, Pearson and Kelley (2014) applied TRA in their study on cyberbullying among college students and managed to validate TRA by proving the relationship between attitude towards cyberbullying and student's behavioural Intention towards cyberbullying. Finally, Sulehri and Ahmed (2017) successfully proved the ability of TRA to explain the influence of subjective norms and attitude on shaping consumer buyer behaviour in the retail context. An application of TRA in the present study would suggest that the actual adoption behaviour exhibited by SME owner-managers towards formal HR practices is the result of two sets of factors, which are personal factors, as determined by the attitude towards using formal HR practices, and environmental factors that constitute the subjective norms driving the decision to formalise.

## **2.4 THEORY OF PLANNED BEHAVIOUR (TPB)**

The Theory of Planned Behaviour (TPB) was formulated by Ajzen in 1991 after adding an additional personal driver to adoption, (*Perceived Behavioural Control*) to the Theory of Reasoned Action (TRA). Maichum, Parichatnon and Peng (2016) observe

that *Perceived Behavioural Control* is not an end in itself as is the case in TRA and that it is instead a mediating factor in the adoption process as it involves an analysis processes that precedes the final adoption decision (*Intention*). Therefore, with TPB, just like in TRA, the decision to adopt an innovation is moderated by three factors and these are Attitude, Subjective Norm, and *Perceived Behavioural Control (PBC)*.

PBC is described as a potential user’s self-motivated drive to adopt and use innovations (McEachan, Conner, Taylor & Lawton, 2015). In the context of this study, PBC may be used as the decision to formalise HR practices. In addition, the reality that PBC is driven by factors beyond the user’s control such as information, opportunities and resources indicates that, it also represents the effect of the external operational environment in driving the decision to adopt new technologies. This again dovetails with the focus of this study, which is to reveal environmental factors that influence the decision to formalise HR in family owned SMEs in South Africa.



**Figure 2.3: Theory of Planned Behaviour**

**Source: Ajzen (1991)**

As displayed in Figure 2.3. a user’s technology usage behaviour is influenced by both personal (attitude) and environmental factors (perceived behavioural control) in the form of the user’s attitude and the perceived behavioural control (Steinmetz, Knappstein, Ajzen & Kabst, 2016).



Furthermore, TBP’s ability to explain the link between personal and environmental factors in technology use decision-making is undermined by the major weakness that it does not include demographic variables unique to each user and. As a result, TBP assumes that users are homogeneous and more likely to behave in a predictable manner within the same set of influencing factors (Akbar et al., 2016). The present study, which considers this criticism, departs from such a flaw as it considers the role of both personal and environmental factors in influencing the formalisation of HR practices in family-owned SMEs in South Africa.

## 2.5 THE TECHNOLOGY ACCEPTANCE MODEL (TAM)

Drawing from the Theory of Reasoned Action (TRA), Davis (1989) formulated the Technology Acceptance Model (TAM) and added the environment (*External variables*) as a key determinate in innovation adoption decision (Lee & Lehto, 2013). In other words, TAM echoes the TRA in that they both agree that the use of any new technology is determined by the potential user’s *Attitude* and *Behavioural Intention*, which f are indirectly influenced by salient factors in the operating environment. This would also dovetail with one key assumption in this study that the operating environment surrounding an SME is equally important in influencing the decision by the SME owner-manager to adopt formal HR practices.

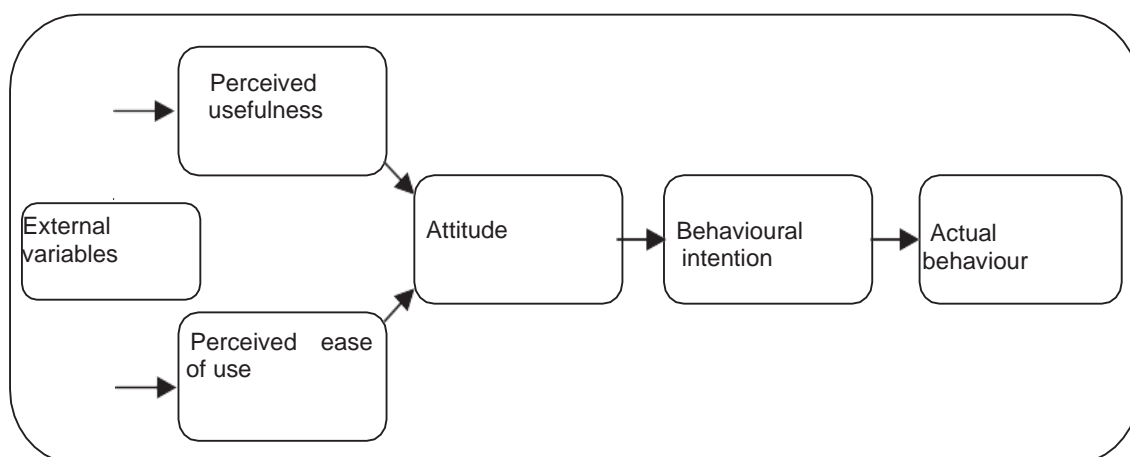


Figure 2.4: Technology Acceptance Model

Source: Davis (1989)

In other words, TAM (Figure 2.4) hypothesises that a user's acceptance and use of technology is determined by his *Behavioural Intention* to use that technology. This Behavioural Intention is also influenced by the user's attitude toward the use of that technology. This attitude is shaped by two beliefs inherent in the mind of the potential user, *Perceived Usefulness* (PU) and *Perceived Ease of Use* (PEU). Therefore, TAM like other theories reviewed in this chapter recognises the importance of the environment in shaping the decision to adopt novel ideas in line with the current study.

The first belief, *Perceived Usefulness* (PU), is defined by Muk and Chung (2015) as the degree to which a user believes that using new technology enhances job performance. In this study, *Perceived Usefulness* (PU) refers to the owner-manager's perception that adopting formal HR practices will enhance his or her job performance.

The second point of view, *Perceived Ease of Use* (PEU), refers to the degree to which a user believes that the new system will be easy to use (Lee & Lehto, 2013). As Muk and Chung (2015) explain, this indicates that a system that is easier to use impacts on the potential user's personal sense of self-efficacy and ultimately results in a more positive attitude toward the use of the system. Thus, a new system personally perceived as easy to use by a potential user it impacts on the user's performance as the new system enables the potential user to accomplish work-related tasks easier and to save time for other tasks (Folkinshteyna & Lennon, 2016). By extension, the application of TAM in the present study reveals the effect of personal factors inherent in the SME owner-manager in shaping the decision to formalise HR practices in their SMEs. Furthermore, if the use of formal HR practices is overly complex or difficult to use, it is most likely that the SMEs will not use them particularly if an easier alternative system exists.

TAM has been criticised mainly because it is difficult to generalise its findings across different cultural settings. Tarhini, Hone, Liu and Tarhini (2017) note that, specific cultural differences affect the strength of some relationships within TAM as they tend to vary from one cultural setting to another. The TAM model has, despite the seemingly above noted weaknesses, been proven in many empirical studies that it is miles ahead of TRA and TPB in explaining intention and attitude towards using IT

services in organisations (George & Kumar, 2013). For example, TAM has been used to analyse technology acceptance in a variety of mediums, such in healthcare, e-learning and education, consumer behaviour theory and many other study settings (Holden & Karsh, 2010). In fact, the use of TAM in the analysis of e-technology is so prevalent to the extent that, TAM has been extended to encompass issues unique to the IT sector such as trust, privacy, risk, and social awareness (Lee, Xiong & Hu, 2012).

TAM has also been successfully applied in the field of HRM with equal success. Al-Khowaiter, Dwivedi and Williams (2014) successfully validated TAM in a study that examined factors affecting the decision to adopt HRIS in Saudi Arabia. Similarly, Persico, Manca and Pozzi (2014) take a deeper view by testing the effects of environmental factors in TAM and successfully use TAM to test the effect of environmental factors on online training at an Italian University. The findings of study again validate the ability of TAM to explain human behaviour in decision-making as is the focus of this study. In the SME sector, Awa, Ojiabo and Emecheta (2015) successfully used TAM to explain factors influencing the decision to adopt e-commerce in Nigerian SMEs.

As reflected in Table 2.1, the adoption theories reviewed so far have revealed a number of personal and environmental factors that affect technology adoption in organisations. This is line with the focus of this study, which examines personal and environmental factors that influence the decision to formalise HR practices in family-owned SMEs.

**Table 2.1: Comparison of technology adoption theories**

<b>Theory</b>	<b>Personal factors</b>	<b>Environmental factors</b>
<b>Innovation Diffusion Theory</b>	Relative advantage Complexity Observability	Prior conditions Compatibility Triability Complexity Communication Time
<b>Theory of Reasoned Action</b>	Attitudes Behavioural beliefs	Subjective norms Normative beliefs
<b>Theory of Planned Behaviour</b>	Attitude Perceived Behavioural Control Subjective norm	Perceived Behavioural Control
<b>Technology Acceptance Model</b>	Perceived Ease of use Perceived Usefulness of Use	External variables

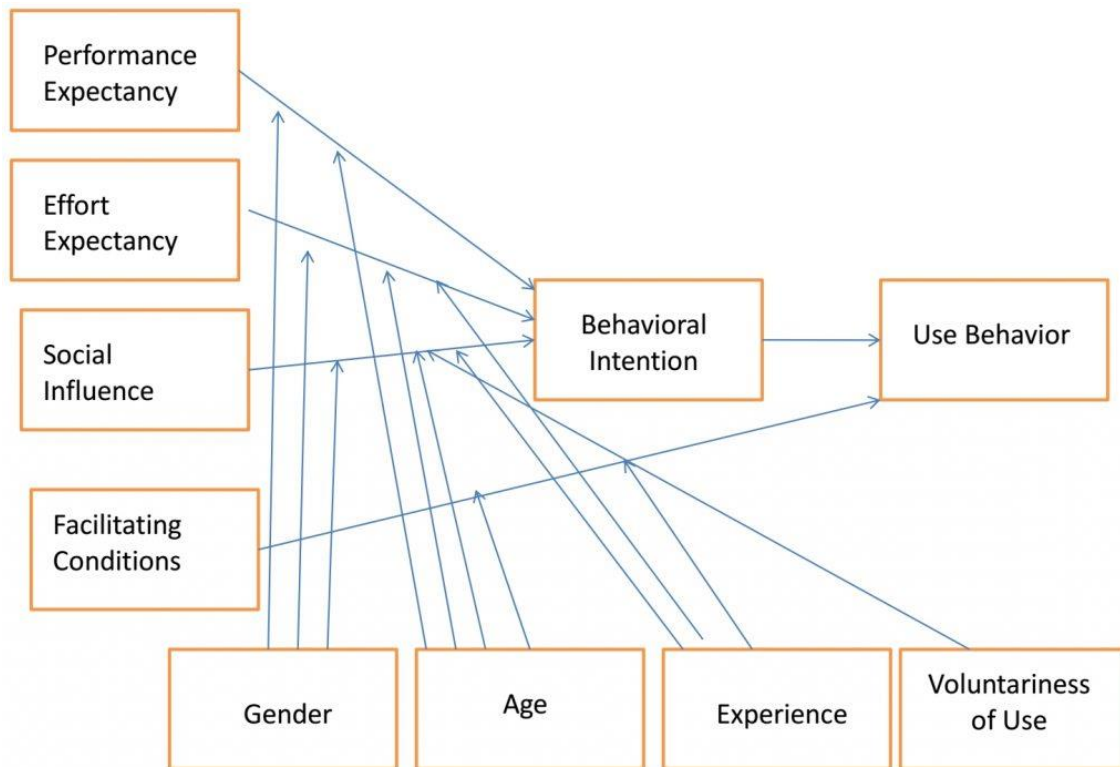
Source: Researcher’s Conceptualisation

## 2.6 THE UNIFIED THEORY OF ACCEPTANCE AND USE OF TECHNOLOGY (UTAUT)

The Unified Theory of Acceptance and Use of Technology (UTAUT) model was formulated by Venkatesh, et al., (2003) from an amalgamation of various models that explain an individual’s acceptance of new information technology. The theory is considered as one of the most comprehensive technology adoption theories as it explains the interplay of personal and environmental factors in influencing technology adoption behaviour (Abu et al., 2015). As a result, the modified version of the theory is used to formulate the study’s structural model.

This follows the fact that UTAUT attributes a potential user’s decision to use an innovation as a factor of four core determinants derived from the personal experience of the user and the operational environment; *Performance Expectancy*, *Effort Expectancy*, *Social Influence* and *Facilitating Conditions*. The influence of these core

determinates on the adoption decision is in turn moderated by four personal factors; *Gender, Age, Experience* and *Voluntariness of Use*. This mix of personal and environmental factors in UTAUT makes it the most appropriate model to support this study because the main objective of this study is to investigate personal and environmental factors that influence the decision to formalise HR practices in family-owned accommodation SMEs in the Free State, South Africa.



**Figure 2.5: Unified Theory of Acceptance and Use of Technology**

**Source: Venkatesh et al., (2003)**

As reflected in Figure 2.5, the first core determinant that influences a user’s decision to adopt or reject an innovation (*Behavioural Intention*) during process about the adoption of new technology is *Performance Expectancy*. Venkatesh, James, Thong and Xing (2012) define *Performance expectancy*, which is derived from TAM’s Perceived Usefulness and Perceived Behavioural Control (PBC) in TPB, as the extent to which a potential user expects that using the new technology will help him/her attain tangible benefits in his firm. This means that potential users are more likely to adopt new technology if they believe that the technology will enhance their job performance. Therefore, in the context of this study, *Performance expectancy* may be viewed as

the SME owner-manager's perception that adopting formal HR practices will lead to better firm performance.

The second core attribute influencing adoption behaviour in UTAUT, *Effort expectancy*, which traces its origins to TAM's *Perceived Ease of Use*, and *Complexity* in IDT, is defined by Venkatesh et al., (2012) as the extent to which the new technology is easy to use. In this study, *Effort Expectancy* refers to the extent that the SME owner-managers believes that the use of formal HR practices will be effortless physically and mentally (Venkatesh et al., 2003). Given this explanation, we may conclude that, in the current study, *Performance Expectancy* and *Effort Expectancy* both represent personality-based factors that influence the decision to formalise HR practices by the SME owner-managers

The UTAUT states that third determinant influencing technology adoption in organisations according is *Social Influence*. This determinant, which can be traced to *Subjective Norm* in TRA, refers to the degree to which a new system user expects other key people in the society to approve the use of the new system (Magsamen-Conrad, Upadhyaya, Joa & Dowd, 2015). Therefore, *Social Influence* in this study would refer to the influence of the external environmental factors on the owner-manager's decision to formalise HR practices.

Finally, the fourth construct, *Facilitating Conditions*, is defined as the extent to which a new user believes that adequate infrastructure is in place in the firm to support use of the new technology (Thomas, Singh, & Gaffar, 2013). This shows that *Facilitating Conditions* refer to the availability in the firm of the necessary support infrastructure and facilities to smoothly adopt a new innovation. In this study, *Facilitating Conditions* represent the presence of a professional HR person in the firm who will facilitate the decision to formalise HR practices.

UTAUT also adds a set of four moderating personal variables, (*Gender, Age, Experience* and *Voluntariness of Use*) to build a web of factors that shape a user's driving force in adopting any new systems in organisations. These personal factors, as identified in UTAUT, are significant in this study as they identify key personal

attributes in the owner-manager that may have an impact on formalising HR practices in SMEs as is the focus of this study.

The first personal attribute, *Gender* is assumed in UTAUT to be a driver of technology adoption in the workplace. This is based on the assumption that female users are averse to new technology adoption as compared to their male counterparts (Kropf, 2018).

*Experience* refers to a person's number of years in using similar technology. This implies that potential technology users are more likely to use new technologies if they have prior experience in using similar or comparable technologies (Khechine et al., 2014).

Venkatesh et al., (2003), consider age as a significant moderator for technology adoption given the fact that young males are more interested in the use of new technology as compared to older males and less experienced females. Khechine et al., (2014) confirms this and posits that in UTAUT, younger males are more knowledgeable of technologies than their older male counterparts and are therefore more open to the adoption of new technologies.

*Voluntariness of Use* is defined by Khechine et al., (2014) as the degree to which the adoption of the innovation is a voluntary effort by the user and not compelled by any external force. This means that potential users are more likely to try new technologies on a voluntary basis as compared to when the new technology is forced upon them (Abu et al., 2015).

*Behavioural Intention* refers to the decision made by the user after assessing all the psychological and environmental factors surrounding technology adoption. Behavioural intention in this study refers to the decision made by the SME owner-manager to adopt the use of formal HR practices in the firm.

### **2.6.1 Rationale for adopting UTAUT in this study**

UTAUT emerges, after an analysis of the various technology adoption models, as the best model to be adopted in this study in order to explain the interplay between a range

of personal and environmental factors that affect the formalisation of HR practices in family-owned SMEs. This ability by the UTAUT model to combine environmental factors (*Social Influence* and *Facilitating Conditions*) and personal factors (*Gender*, *Experience*, *Age* and *Voluntariness of Use*) fits well into the major thesis of this study. Here, the thesis is attempting to describe how selected personal and environmental factors interact with *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to explain the decision formalise HR practices by owner-managers of family-owned accommodation SMEs in South Africa. This makes UTAUT the most appropriate model to explain the proposed nature of relationships in the present study.

UTAUT is further regarded as an appropriate theoretical model for the present study because the model has proven to be valid and reliable after being tested for years and over a number of contexts. For instance, Khechine et al., (2014) verified the validity of the *Gender* and *Age* constructs in predicting technology adoption in a study on the use of webinars in the USA. Abu et al., (2015) also validate the applicability of UTAUT in their explanation that of adoption behaviour in the food industry in Malaysia. In addition, Al Mursalin (2012) empirically validates UTAUT in a study on information systems adoption and usage in Bangladeshi SMEs. This evidence showing the UTAUT's ability to probe extensively the internal and external variables associated with one's propensity to use a new system makes is significant. This makes it appropriate to adopt as a theoretical model and to examine the personal and environmental factors affecting the decision to formalise HR practices in family-owned accommodation SMEs.

Therefore, a structural model (Figure 1.1) depicting the personal and environmental factors that affects the decision by owner-managers in SMEs to adopt formal HR practices was proposed based on the assumptions of the technology adoption theories reviewed in this section. This structural model forms the basis of the Structural Equation Modelling (SEM) analysis used to verify the veracity of the relationships. In addition, this study adopts the UTAUT model to describe how selected personal and environmental factors interact with *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to explain the decision to formalise HR practices by owner-managers of family-owned accommodation SMEs in South Africa.



## 2.7 CHAPTER SUMMARY

This chapter examined literature that explores a series of theories that explain factors behind technology adoption in organisations. It reviewed the Innovation Diffusion Theory, the Theory of Reasoned Action, the Theory of Planned Behaviour, the Technology Acceptance Model and the Unified Theory of Acceptance and Use of Technology in order to determine the personal and environmental factors that influence the decision to formalise HR practices in family-owned SMEs. A common theme running through these theories is that the decision to adopt and utilise new technological innovations is influenced by both factors in the external business environment and by the personal attributes of the potential users. Though the adoption models examined in this chapter have all proven to be valid in explaining factors affecting technology adoption, UTAUT emerged as the most appropriate theory to explain the proposed relationships in this study.

The next chapter presents a systematic review of the role of the family in shaping operations in SMEs.

## CHAPTER 3

### THE FAMILY-OWNED SME

#### 3.1 INTRODUCTION

The small accommodation sector, which traditionally has been owned and managed as husband and wife partnerships, can be traced to the old tradition of extending hospitality to traveling strangers. Cooper (2008) traces early small accommodation ventures as offshoots of the religious and business travel that boomed in the 1700s in Europe and the United States Of America (USA). family-run stagecoach inns became a common feature in England and the Eastern USA and these offered offering stable facilities for horses and modest lodging for their owners. Over the years, the industry has evolved and spread across the world due to the emergence of the internet, which has made bookings easy.

This chapter begins by defining SMEs from a number of theoretical perspectives so as to reveal the multifaceted nature of SMEs. The chapter will proceed with examining the significance and challenges faced by SMEs globally before defining describing the concept of the family-owned SME. A number of theoretical approaches which examines the management process and decision-making drivers in family-owned SMEs. Under this section, the Stewardship theory, the Agency theory and the Resource based View approach to management will be examined to reveal their impact on the decision-making process in family-owned SMEs. The chapter will proceed with review the nature and factors affecting the family-owned SMEs.

#### 3.2 DEFINITION OF SMALL AND MEDIUM SIZED FIRMS

There is no globally accepted definition of what constitutes a small firm. Ardic, Mylenko and Saltane (2011) note that what may be regarded in one country as a small firm by definition, would often be regarded as a medium sized or even a large firm elsewhere in the world. This means that, definitions of SMEs vary from country to country in accordance to the respective countries' legal and socio-economic conditions. Therefore, in an effort to come up with a standard definition of what

constitutes an SME, Hatten (2011) recommends categorising SMEs on the basis of some standard quantitative measurable indicator. The most common of these quantitative measures is the number of employees employed in the firm. However, as Stokes, Wilson and Wilson (2010) note, even though the number of employees constitutes an objective criterion to define SME size across different countries, the measure still has limitations as the number of people employed in a firm is dependent on the industry in which the firm operates, thus making generalised comparisons across industries meaningless.

There are attempts to counteract the above-noted limitation. Some countries have added at least one financial measure of performance to the quantitative measure in an effort to standardise the definitions across different industries (Hatten, 2011). The World Bank goes a step further and adopts three quantitative criteria in their definition of SMEs. As such, the World Bank defines SMEs from the perspective of, (1) the number of employees, (2) total assets in U.S. dollars, and (3) annual sales in U.S. dollars (Berisha & Pula, 2015). Despite all this effort at standardising SME definitions, there is no global consensus on what constitutes an SME and, therefore, each country or sub-region has its own unique set of socio-economic factors shaping their definition of SMEs.

Nonetheless, Yon and Evans (2011) take an alternative view and argue that, defining SMEs solely on the basis of some measurable quantitative criteria does not create a clear picture of what really constitutes an SME. As such, Makanyeza and Dzvuke (2015) advocate for the use of qualitative measures alongside the quantitative measures in describing SMEs. In Table 3.2 below, Yon and Evans (2011) contrasts SME qualitative indicators with the same indicators in large firms to reflect that SMEs can be described with the same yardstick used for large firms.

**Table 3.1: SME qualitative indicators**

Category	SMEs	Large Companies
<b>Management</b>	Proprietor-entrepreneurship Functions linked to personalities	Manager-entrepreneurship Division of labour by subject matters
<b>Human Resources</b>	Few college graduates All round knowledge	Dominance of university graduates Specialisation
<b>Organisation</b>	Highly personalised contacts	Highly formalised communication
<b>Customer's Relationships</b>	Unstable	Based on long-term contracts
<b>Production</b>	Labour intensive	Capital intensive
<b>Research &amp; Development</b>	Follows market's needs – intuitive	Institutionalised
<b>Finance</b>	Family funds Self-financing	Diversified ownership structure Access to wide sources of finance

Source: Yon and Evans (2011)

The USA's Small Business Act (1958) combined both qualitative and quantitative factors in their definition of SMEs. This definition has since gained global prominence with many countries using it as a yardstick in crafting their SME laws (Berisha & Pula, 2015). Thus, the South African National Small Business Act (1996) also describes SMEs from both quantitative and qualitative perspectives in line with global standards. Quantitatively, the Act categories South African SMEs into het micro, very small, small and medium firms with these rank sizes based on the financial performance and number of employees in each firm. The Act also demarcates SMES into five categories based on; industrial sector classification, size of class, equivalent number of paid employees, turnover, and asset value as shown in Table 3.

**Table 3.2: Summary of SME quantitative indicators in South Africa**

Industrial sector or subsector	Size or class	Total full time equivalent of paid employees <i>Less than</i>	Total annual turnover <i>Less than ZAR (M)</i>	Total Gross Asset Value <i>Less than ZAR (M)</i>
Agriculture	Medium	100	4.00	4.00
	Small	50	2.00	2.00
	Very small	10	0.40	0.40
	Micro	5	0.15	0.10
Mining and Quarrying	Medium	200	30.00	18.0
	Small	50	7.50	4.50
	Very small	20	3.00	1.80
	Micro	5	0.15	0.10
Manufacturing	Medium	200	40.00	15.00
	Small	50	10.00	3.75
	Very small	20	4.00	1.50
	Micro	5	0.15	0.10
Construction	Medium	200	20.00	4.00
	Small	50	5.00	1.00
	Very small	20	2.00	0.40
	Micro	5	0.15	0.10
Catering, accommodation, and other trades	Medium	100	10.00	2.00
	Small	50	5.00	1.00
	Very small	20	1.00	0.20
	Micro	5	0.15	0.10
Transport, storage, and Communications	Medium	100	20.00	5.00
	Small	50	10.00	2.50
	Very small	20	2.00	0.50
	Micro	5	0.15	0.10

Source: National Small Business Act (1996)

The different categories of SMEs described by the National Small Business Act (1996) in South Africa are described as follows:

*Survivalist firms*, which are categorised as firms generating income that is less than the national minimum income standard or the poverty datum line. Major players in this category include subsistence farmers, hawkers and vendors.

*Micro firms* as, which have a turnover that is less than the value-added tax (VAT) registration limit (R150, 000 per year) and are usually not formally registered. Examples of firms in this category include spaza shops and minibus taxis.

*Very small firms* that employ less than 10 paid employees, except for the electricity, mining, construction and manufacturing sectors where the minimum number of employees is 20. Most firms in this category operate in the formal market and have access to some form of technology.

*Small firms*, which employ more than 50 employees. Such firms follow formal operational procedures and are generally more established than the preceding categories of SMEs.

*Medium firms* constitute the final category and these employ not more than 100 employees for any other sector and not more than 200 employees in the electricity, mining, construction and manufacturing sectors.

Due to the significant similarities in the challenges faced by survivalist, micro, and very small Africa, they are often categorised under one broad term as ‘small businesses’. This study follows a similar approach and considers survivalist, micro and small businesses as ‘small enterprises’ (Maduku, 2015). Therefore, this study, takes guidance from National Small Business Act (1996) on the definition of SMEs in the accommodation sector (Table 3.3) and considers an SME as an enterprise employing not more than 100 employees with an annual turnover not exceeding R10 million and total assets not exceeding R2 million.

### **3.3 ECONOMIC SIGNIFICANCE OF SMES**

There is a general consensus across the globe that the SME is a major contributor to the global economy. Zafar and Mustafa (2017) note that the existence of a large SME sector in a country generally signifies a rapidly growing economy. In addition, Abor and Quartey (2010) report that the state of a healthy economy is reflected by the number of SMEs in the economy and the way they act as spawning grounds for innovation and entrepreneurship. For example, in the United States, SMEs contribute

50% to the GDP and produce 29% of all exports (Frimpong, 2013). Finally, in Europe, SMEs account for 99.8% of the total number of firms, 66.6% of total European Union (EU) employment and generate €4,030 billion in 2016, which amounts to 56.8% of the total income added to the EU in that year (PWC, 2018).

In contrast, SMEs in emerging economies account for 28% of the GDP, which translates into approximately 60% of private sector employment (Ayyagari, Demirguc-Kunt & Maksimovic, 2011). In South Africa, SMEs contribute 57 % to the GDP and employ 61% of the total labour force (Statistics South Africa, 2018). South African SMEs are also viewed by policy makers as agents of transformation playing an increasingly significant role in stimulating economic growth and employment creation (Dzansi & Tassin-Njike, 2014).

The OECD (2017) acknowledges the impact of SMEs in the world economy and reports that SMEs are the major driving force of economic growth, and thus have a significant effect on the economic activities of many countries in the world. Maduku (2015) also reports that SMEs act as economic stimulants in various countries because of their ability to generate income from a limited capital investment. Therefore, as Williams and Ramdani (2018) suggest, global economic prosperity depends on the world economy's ability to harness and build upon SMEs' growth and innovation potential.

The following sub-sections highlight the contributions of SMEs to the global economy.

### **3.3.1 SMEs and employment creation and poverty alleviation**

The labour-intensive nature of SMEs enables them to account for the large number of new jobs created annually world-wide when compared to large firms (Edinburgh Group, 2014). The figures released by the ILO (2015) confirm that the global SME sector generate between 60% and 90% of all jobs annually owing to the labour-intensive nature of their operations. The contribution of the SME sector in developed economies where these enterprises are more robust is even more substantial. For instance, the USA's SME the sector employs 80% of the total work force, 55% in Canada, 67% in the EU and 75% in China (Fanta, 2015; OECD, 2017). These statistics

reflect that the SME sector generates more jobs than larger firms and as such governments depend on the sector to mop up their unemployed population.

Though the SME sector is less developed in emerging economies, Ogunyomi and Bruning (2016) report that the role of sector in employment creation is particularly significant in these economies, which often have to bear the plague of unemployment. In Zimbabwe, for instance, the contraction of formal economic activity and the accompanying deindustrialisation since the turn of the century, has given room to the proliferation of SMEs across all sectors of the economy and thus generating 90% of total employment in the manufacturing sector (Makanyeza & Dzvuke, 2015). The same scenario is observed in Bangladesh where it is reported that SMEs are responsible for 78% of the nation's total employment (Edinburgh Group, 2014).

The sector's contribution to employment creation is also noted in South Africa, which is the focus of this study. Abor and Quartey (2010) report that 61% of jobs created annually can be credited to the SME sector. In addition, Amra, Hlatshwayo and McMillan (2013) state that South Africa's policy makers consider SMEs as one of the most potent poverty eradication tools that the huge unskilled Black section of the population can seek refuge in when poverty beckons.

In addition to employment generation, SMEs act as the basic source of livelihood for people living on the verge of poverty. Berisha and Pula (2015) observe that the SME sector can thrive even in conditions where there is no noticeable economic activity in the country and thus act as the final barrier against absolute poverty (Berisha & Pula, 2015). As such, SMEs in emerging economies afford those with basic entrepreneurial skills and little capital an opportunity to upgrade their living standards by affording them a chance to exercise their entrepreneurial skills using minimal resources (Fanta, 2015). The example provided by Gunhidzirai and Tanga (2017) of how SMEs have kept Zimbabwe's economy grinding along for close to two decades and keeping a sizeable portion of the population afloat in the poverty ravaged economy is evident of this critical role of the SMEs in emerging economies. A similar study by Aremu and Adeyemi (2011) also endorses the role of SMEs in addressing the poverty trap in Kwara State, Nigera. The study reports that SME have nursed generations in a Nigerian state



popular for its historic lack of industrial and employment opportunities (Aremu & Adeyemi, 2011).

### **3.3.2 SMEs foster new innovations and create market competition**

According to Fanta (2015) SMEs act as both innovation incubators and the source of many new products annually. This role of SMEs in entrepreneurship is emphasised to the extent that, in some contexts, the word SME has become synonymous with entrepreneurship (ILO, 2016b). Rosenbusch, Brinckmann and Bausch (2011) explain this role of SMEs better in their report that SMEs outdo larger firms on innovativeness as evidenced by reports indicating that SMEs produce twice as many innovations per employee than larger firms. In any case, the fact that SMEs can be set up with a small capital outlay allows many people to achieve their entrepreneurial ambitions and create room for new innovations that may make significant contributions to economic growth (Edinburgh Group, 2014).

A further key characteristic of SMEs is their ability to respond faster to customer preferences and adapt to the ever-changing market needs (Berisha and Pula 2015). Kruger and Rootman (2010) associate this feature of SMEs with the small size and simplicity of SME operations that permit SME players to operate flexibly and adapt more quickly to the ever-changing business environment. This ability of SMEs to respond faster to customer needs fills the customer needs gaps, which is often left yawning by the slow to respond larger firms (Yoshino & Taghizadeh-Hesary, 2018). This is particularly significant in emerging economies, such as South Africa, where various large firm operations tend to be monopolistic and oligopolistic in nature and therefore relatively rigid to market demands (Felzensztein; Ciravegna; Robson and Amoró, 2015). As such, Smith (2017) cites the example of how in South African SMEs in the tourism sector have responded to the market demand for township tourism by offering a service that big players were lethargic to respond to and in the process offer a timely and appropriate response to customer needs.

### **3.3.3 SMEs contribute to the GDP and narrow the income gap**

The measurement of the contribution of the SME sector to the GDP is problematic in various emerging economies due to the fact that GDP figures emanate from formal

economic activities yet and yet most SME players operate in the informal sector (Maduku, 2015). However, the OECD (2017) reports that SMEs contribute at least 33% of the GDP in emerging economies and where policy interventions are applied to tap into the sector, the contribution is even significantly higher. For example, Abor and Quartey (2010) report that the sector contributes 70% of Ghana's GDP owing to the government's efforts to formalise and tap into the sector for revenue. In the more developed economies where the SME sector is more formalised, the sector's contribution to the GDP is easy to quantify and therefore more significant (Maduku, 2015). For instance, in Australia, the sector contributes 60% of the GDP and in Germany they contribute 57% to the GDP (OECD, 2017).

In addition to the contribution SMEs make to the GDP, the specialist nature of many SME operators often necessitate the need to open export channels to sell their produce (EU, 2010). The WTO (2016) states that SMEs contribute up to 50% of the global export trade and in that way making a significant contribution to global economic growth. In the European Union (EU), 25% of SMEs export their goods or services earning over € 1 billion in 2016 (PWC, 2018). In emerging economies, South Africa has the highest percentage of SMEs that export followed by India, Brazil, Russia and China (Yoshino and Taghizadeh-Hesary, 2018). This is echoed by Statistics South Africa (2018) which reports that 36% of SMEs in South Africa exported their products in 2018 and thus made a significant contributions to the GDP.

The SME sector also plays a major role in narrowing the income gap particularly in emerging economies like South Africa where concerns about income gaps between the rich and majority poor attracts political attention (Ackah & Vuvor, 2011). The SME sector acts as an source of employment secondary labour market, which absorbs the semi-skilled and unskilled labour that characterise the population in the emerging economies (Fanta, 2015). The income from SME operations helps various governments to weather the potential effects of the social inequalities that characterise the socio-economic environment in most emerging economies (Berisha & Pula, 2015). For example, a study carried out in the Chinese SME sector shows that the sector contributes to the narrowing of the income gap by creating employment opportunities and market access to the poor Chinese rural majority, which saves the

government millions in potential welfare grants (OECD, 2017). Similarly, South African SMEs have been lauded for playing a significant role in addressing one legacy of apartheid, the yawning race-based income gap, by providing economic opportunities to the majority of the Black population (Booyens & Visser, 2010).

### **3.4 CHALLENGES FACED BY SMES**

Despite the widely acknowledged contribution of SMEs to economic development and growth, reviewed literature shows that they face various challenges. These challenges include limited capital base, shortage of managerial skills, and lack of marketing skills. Ultimately, there is need to limit these challenges to ensure that SMEs continue to uphold their crucial roles.

According to the World Bank (2013) the survival and growth of SMEs depends on an organised financial system that is able to provide the firms with credit finance to facilitate their business plans. However, as Haselip, Desgain and Mackenzie (2014) note that most SMEs are under-capitalised as owner-managers tend to rely on their own savings to start their businesses. Even when they approach financial institutions for funding, SMEs face stiff challenges in accessing loans due to the high-risk premium associated with their nature of business operations in SMEs (Iriyanti & Azis, 2012). The problem is more widespread in Africa where most African financial institutions demonstrate significant inertia with regards to offering credit finance to SMEs due to their relatively high propensity to default on repayments, insufficient collateral security and lack of credit guarantees (Mwoombia, 2013). The situation is further complicated by the poor record keeping by owner-managers, which in itself is a major precondition for loans by many financial institutions (Mboniyane & Ladzane, 2011). As a result, only 20% of SMEs in Africa have access to bank finance and this compels them to seek finance from informal sources (Edinburgh Group, 2014). This reliance on informal sources of finance is viewed by Haselip et al., (2014) as a barrier to the growth of the SME sector as informal credit facilities are at most times insecure, unpredictable and offer a limited scope to share risks.

Despite Olawale and Garwe (2010) lauding the importance of institutional support in the SME sector, the ILO (2016b) reports that the sector often lacks institutional support

services from the government and other policy-makers. The SME sector in most instances lacks marketing and technical support services as well as registration and compliance services (Loh, 2011). The problem is prevalent in emerging economies where the sector often has to rely on government support services, which in most cases hampered by various inefficiencies (Trianni & Cagno, 2012).

The nature of SME HR management is also pertinent here. Adisa, Abdulraheem and Mordi (2014) argue that, unlike their larger counterparts, SMEs do not always have a wide breath of employees with diverse skills and experience to face the various challenges associated with managing businesses. This may be due to the firms' inability to offer the same benefits, security and promotional opportunities offered by more resourced and larger firms (Ackah & Vuvor, 2011). This failure to hire employees with the necessary skills and expertise may result in SMEs facing challenges such as low productivity, low morale and other labour-related problems. For example, many White SME owner-managers in South Africa express concerns at their failure to implement the requirements of the Broad-Based Black Economic Empowerment (BBBEE) owing to a general shortage of black empowerment partners with the requisite skills and experience (Visser and Chiloane-Tsoka, 2014).

Finally, most owner-managers in SMEs often lack formal training and experience in managing their firms. This poses challenges in the effective management of the firms as poor management decisions are often made to the detriment of firm success (Mboniyane & Ladzani, 2011; Irjayanti & Azis, 2012). As Cant (2012) reports, 90% of SME owner-managers in South Africa hold the view that SME growth is hampered by their lack of business management skills. This is also confirmed by a study conducted by Finscope (2010) that identified managerial incompetency as the third largest obstacle to the growth of SMEs in South Africa. In fact, the situation is so dire in South Africa as revealed by Ngwenya (2012) who reports that many SME owner-managers in South Africa lack basic managerial skills such as finding the right location, conducting market research, and sales promotions, which leaves the firms susceptible to the competitive pressure of large firms.

### 3.5 THE FAMILY-OWNED SME

Harms (2014) defines a family as a unit made up of individuals with a mutual interest in each other due to their mutual dependence, obligation, duty, love, caring and cooperation. Families may be viewed as a system made up of individual members that are interdependent on each other on a permanent basis. In addition, Schulze and Gedajlovic (2010) views the family unit, from a business perspective, as the original economic unit from which all other economic organisations in the world are derived from. In fact, Harms (2014) states at the beginning of the twentieth century, almost all major firms in the world were family-owned and, as such, the presence of the family in the firm was taken for granted such that there was no need to label a firm as a family entity (Schulze & Gedajlovic, 2010). Although the world of business has since changed dramatically since then, family firms are still of great importance to the world economy today and the majority of them are SMEs (Schulze & Gedajlovic, 2010; Kraus, Kauranen & Reschke, 2011).

Furthermore, a family-owned firm is defined by Harms (2014) as any firm that is closely associated with at least two generations of a certain family and where that family has a strong influence on the firm's practices and operations. Poza and Daugherty (2013) also define family-owned firms as entities in which ownership and control is in the hands of two or more members of a family who intend to let the family continuously pursue its influence in the operations of the firm across future generations.

In South Africa, FABASA (2018) defines a family firm as under the control of the person who established or acquired the firm or by his or her family members. In a situation where the firm is listed on the stock exchange, the person who established or acquired the firm or his or her family must possess at least 25% of the voting rights and at least one family member must seat on the board of directors.

Thus, family-owned businesses are the most pervasive form of business organisation in the world today. They are found in almost every economic sector and these include very small informally-run and one-man enterprises, huge professionally managed

entities and multidivisional enterprises such as Michelin, Armani, Wal Mart, Home Depot, and IKEA (Miller & Le Breton-Miller, 2006).

Given the pervasiveness of the family-owned firm, it follows that the sector is an important segment to the global economy. As some scholars report, family-owned firms contribute more than 75% of the GDP in most countries across the world and employ more than 85% of the global working population (Harms 2014; Poza & Daugherty, 2013). In the US, family firms contribute half of the job opportunities and in Europe; they create 66% of the GDP and account for 75% of the labour force (PWC, 2018).

Finally, estimates in South Africa indicate that family-owned firms are the most common form of business and these constitute 80% of all firms and account for 60% of the companies listed on the Johannesburg Stock Exchange (Statistics South Africa, 2018). At the same time and according to Gomba and Kele (2016), most of the family firms in South Africa are classified as SMEs and as has already been noted in this study, they play a vital role in the economy as a source of employment creation and economic growth.

### **3.5.1 Structure of the family-owned SME**

The family-owned SME represents a unique form of business. It represents a dual system made up of two parties, which is the business and family system, each with its own norms, goals, rules and value systems that inevitably affect the practices and operations of each other (Jennings, Breikreuz & James, 2014). In addition, the family system is based on strong emotional family ties that bind together members of the family based on a common ancestry. On the other hand, is the business system which may be made up non-family member employees and whose goal is make profits and ensure that the business survives in perpetuity (Poza & Daugherty, 2013). The situation is even more complicated in family-owned SMEs where the role of the family takes centre stage because of the small size of the firm, which compels family interests to interfere with business interests on a daily basis (Cano-Rubio, Fuentes-Lombardo & Carlos Vallejo-Martos, 2017).

The above-noted interference is a result of the incompatibility of the family system and the business systems. Barret (2014) notes that it is difficult to bridge incompatibilities because the family system tends to be inward looking and places high value on family loyalty and care while the business system is more money-orientated and places high value on profitability without due consideration of family interests. However, research indicates that the growth and sustenance of family-owned SMEs is enough evidence that both seemingly incompatible systems are dependent on each other and can survive in a symbiotic mutually-beneficial relationship (Jennings, Breitzkreuz & James, 2014). This indicates that, family power relationships and emotional bonds are always directly linked to the general conduct of business and should seek to achieve the same goals of ensuring that family interests are covered and in the same vein firm interests are achieved (Cano-Rubio et al., 2017). Therefore, family-owned SMEs are radically different from other forms of business enterprises in the sense that their growth and survival is dependent on their ability to allow for the parallel coexistence of both the family and the business in a permanent symbiotic relationship.

However, according to Harms (2014) this interface between the business interests and family interests brings with it a certain level of informality in the management of the firm. Any attempt to strike a balance between family and firm interests often results in a breach of the generally held confines of normal formal management practices. In fact, as Miller and Le Breton-Miller (2006) state that the effect of the family extends to the performance of the firm as incompetent employees who happen to be family members are often left in the employ of the firm at the expense of the firm's business interests.

### **3.6 DECISION MAKING IN THE FAMILY-OWNED SME**

Decision-making is a key aspect of both the day-to-day operations and long-term strategic positioning of all firms (Kase, 2010). Decision-making can be considered alongside other managerial tasks such as planning, communicating, organising and budgeting in any given day in the lives of managers across all forms of businesses. However, research has identified poor decision-making skills as the primary reason why many family-owned SMEs eventually fail (Yukl, 2010; Bhaumik & Dimova, 2015).

This may be explained by the fact that the decision-making process in family-owned SMEs is controlled by the family patriarch, whose interest may be at variance with the business interests (Minichilli & MacMillan, 2010; Gnan et al., 2013;). The following section will examine a number of theoretical perspectives that inform the decision-making matrix in family-owned SMEs and thereby identify the differences in management practices evident in family-owned and non-family owned firms.

### **3.6.1 The Stewardship approach and decision-making in family-owned SMEs**

According to Charbel, Elie and Georges (2013), stewards are committed and engaged employees who always strive to work towards the best interest of the company at the expense of their own interests. The stewards view the prosperity of the company as possessing a positive effect on their own well-being in the future. In the world of business, only managerial employees assume the role of a steward who is intrinsically motivated to put the interests of the principal ahead of their self-serving interests (Kellermanns, Eddleston, Sarathy & Murphy, 2011). The rest of the employees are naturally expected to serve in their own interests and force the firms to incur agency costs. In addition, decision-making is a managerial prerogative and thus, the decision-making process is slow as it has to surmount bureaucratic structures (ILO, 2016b).

However, an application of the stewardship theory to family firms suggests that the small size of the firm and alignment of family and business values compels individual employees to follow collaborative and altruistic behaviours aimed at pursuing the firm's goals rather than the interest of individual employees (Rand & Torm, 2012). Such employees, as Ramachandran (2017) explains, make certain decisions in the firm if called upon to and most likely to make decisions that have the best interest of the firm in mind. This indicates that every employee in family-owned SMEs assumes the role of a steward and thus decentralising the decision-making to all employees regardless of family membership. In addition, this alignment of family and business values compels even non-family employees to follow altruistic behaviours aimed at pursuing the firm's goals at the expense of their own personal goals, which is a move that aids in agency savings (Rand & Torm 2012; Charbel et al., 2013). This approach to management cements the unitary relations between the firm and its employees and at



the same time ensures that decisions made by family-member employees or non-family-member employees will ultimately be in the best interest of the firm (Blackburn et al., 2013). Therefore, as Charbel et al., (2013) report, the stewardship approach to decision-making in family-owned SMEs is one of the key factors that draw a difference between family-owned and non-family-owned firms.

### **3.6.2 Agency theory and decision making in the family-owned SMEs**

Minichilli and MacMillan (2010) have questioned the e stewardship role of SME employees. Both scholars argue that, whilst family-member employees may share a common culture drawn from their common heritage and are emotionally attached to the firm, the same cannot be said of non-family member employees who share similar outside professional experiences and a common feeling of isolation from the controlling family. In addition, Ramachandran (2017) states that these schisms may cause behavioural and emotional disagreements, blackmail and tensions between family and non-family employees thus diluting the stewardship roles of employees in family-owned firms and in the process affecting the firm's decision-making processes.

Instead, as Crawshaw, Budhwar and Davis (2019) report, the nature of the relationships in family-owned SMEs ensures that there are no significant agency costs involved in the management of family-owned SMEs. In any case, the owner and manager's roles are often exercised by senior family members in family-owned SMEs, which naturally aligns their interests with those of the firm and making the principal-agent hierarchy much less defined and more efficient (Ramachandran, 2017). Therefore, any decision-making processes in family-owned SMEs are likely to be fast and in the best interest of the owner-manager and the firm at large, which is a feature that is at variance with those of non-family-owned firms.

However, Speckbacher and Wentges (2012) note that family-owned SMEs enjoy agency savings as compared to non-family ones through the firm's ownership structure, which permits an extended period of contact time between the firm and family members. According to Miller and Le Breton-Miller (2006), this allows family members to possess significant in-depth knowledge about the intricacies of running the firm, which reduces potential information asymmetries between the family

members and other non-family employees and at the same time reduce agency costs. Therefore, the high interest alignment and less information asymmetries between owner-managers in family-owned SMEs ensures that all decisions carried out in the firm will ultimately benefit the firm as they are well explained and timely.

Despite this literature pointing to the effect of agency costs on decision-making in family-owned SMEs, Jaskiewicz and Combs (2016) argue that there is a flaw in the claim that family-owned SMEs enjoy low agency costs is flawed particularly in older firms as various old family-owned firms SME are not fully family-managed and/or owned. Consequently, the gradual introduction of non-family employees into managerial positions dilutes the family's influence and leads to a partial breakup of the principal-agent bond in the firm. In addition, Minichilli and MacMillan (2010) argue that this scenario may give rise to family-specific agency problems that may affect the decision-making process in the SMEs. In support of this assertion, Speckbacher and Wentges (2012) claim that the close family relationships in family-owned SMEs gives rise to altruism, conflicts of interest, nepotism, adverse selection, managerial entrenchment and other vices that dilute agency savings and affect proper decision-making processes.

It is clear, from the above that, the familial bonds that characterise family-owned SMEs create concrete incentives for family-member employees to make opportunistic decisions that may be at variance with the best interest of the firm (Minichilli & MacMillan, 2010). In any case, the boundary theory predicts that, employees who keep their work and family roles separate perform better, have less stress and a greater job satisfaction than those that try to balance family and work interests daily (Hiebl, 2013). Likewise, in the context of this study, Kamunge, Njeru and Tirimba (2014) cite family-firm conflict as the most pervasive challenge facing family-owned SMEs leading to skewed decisions that contribute to the early mortality of these firms.

### **3.6.3 The Resource Based view and the family-owned SMEs**

As has been already noted, one significant factor that describes family-owned SMEs is the nature of the relationships between the firm and its employees. Brahma and Chakraborty (2011) note that family-owned SMEs view employees as an important

resource that the firm needs to achieve sustainable growth and success. This is in line with the Resource Based View (RBV), which views employees in a firm as a strategic asset that the firm can use to gain a competitive advantage (Crawshaw et al., 2019).

The uniqueness of employees as a resource is largely a result of the idiosyncratic relationships generated as the family system and the business system interact and co-exist (Nordqvist and Melin, 2010). This argument is further explained by Cano-Rubio et al., (2017) who reports that, out of all the resources that a firm can lay its hands on, it is the human resource that is most capable of driving the firm objectives and act as a leverage against competitors. Therefore, as Merino, Monreal-Perez and Sanchez-Marin (2015) explain, the combination of the small size of the family-owned SMEs and the influence of family interests in the management of the firm creates a unique set of resources that are distinctive and unique to the firm. This scenario places the family and its interests in the focal position of all decisions that are made in the firm and presents the difference between family-owned and non-family-owned firms (Minichilli & MacMillan, 2010). In addition, the decisions they make are likely to be fast and driven by the need to maintain relations between the valuable resources, the employees, and the rest of the family management team.

Furthermore, Bhaumik and Dimova (2015) admit that this unique set of resources creates economic value and unique capabilities (familiness) that are hard to duplicate, but from which the firm can leverage on to create a competitive advantage, which is a feature that is absent in non-family firms. Monroy, Solís and Rodríguez-Aceves (2015) describe this "familiness" as a peculiar set of personal attributes, including the emotional involvement of families, private language of family members, unitary industrial relations, commitment, motivation and continuity in leadership, which are unique to family-owned SMEs and can foster firm success in family-owned SMEs. In other words, as Merino et al., (2015) explains, business decisions in family-owned SMEs are driven by the unitary relations that bind the family and the rest of the employees in the firm. Therefore, familiness is one of the intangible factors that make the family-owned SMEs different from their non-family counterparts and in this way reflecting the 'bright side' of family ownership and management driven by unitary

mutually beneficial relationships between the family and the firm's interest at large (Minichilli & MacMillan, 2010; Monroy, et al., (2015).

The different theoretical approaches to decision making in SME firms helps in explaining the difference between family-owned and non-family-owned SMEs. The analysis shows that the distinction between family and non-family owned SME affects the decision-making process and ultimately the general business management practices in the respective firms. In family-owned firms, Finally, decisions in family-owned firms are easy and cheap to make and driven by altruistic motives with a view of maintaining unitary relations between the family and the firm's interests,

### **3.7 CHAPTER SUMMARY**

This chapter highlighted that the family-owned SMEs is a complex institution where a number of dynamics are at play at the same time. The chapter analysed the international standard definition of SMEs, which is based on both qualitative and quantitative descriptors. This was then compared with the definition of SMEs in South Africa and it was determined that this measures well with the international standard definition of SMEs. The chapter also described the concept of the family-owned SME and drew comparisons between family owned and non-family owned firms on the basis of the Stewardship, Agency and the Resource-Based View theories.

The next chapter examines the nature and role of HRM in family-owned SMEs.

## CHAPTER 4

### HUMAN RESOURCE MANAGEMENT IN FAMILY-OWNED SMES

#### 4.1 INTRODUCTION

There are a number of contesting ideas on the origins of the concept of HRM. For example, Price (2011) traces people management to the pre-historic era where the division of labour between man and woman marks the beginning of managing the human resource. Some scholars (Itika, 2011; Stredwick, 2014) view HR management as a late discovery associated with the post Scientific and Industrial Revolution surge in demand for labour. In addition, Daft (1989) argues that HR was spawned by the need for managers to provide welfare services for their employees. Torrington and Hall (2008) instead trace the emergence of HRM to trade union pressures following the empowerment of the labour force in the wake of Karl Marx's writings. Finally, Mello (2014) views HRM as a more recent phenomena emerging form the drive towards strategic management in the 1980's. Despite this diversity of opinions sorrounding the history of HRM, the only constant view is that people need to be managed systematically if they are to make any significant contribution to the organisation.

This chapter reviews literature that explains the HR function with particular reference to family-owned SMEs. It defines HRM in the context of family-owned SMEs and analyses how HR is practiced in family-owned SMEs by conducting a comparative review of the broad HR practice areas of employee hiring, training, rewards management, performance evaluation and employee relations. The chapter then draws conclusions on the nature, context and role of HR practices in family-owned SMEs in comparison to that practiced in large firms.

## 4.2 DEFINITION OF HRM

Itika (2011) notes that HRM refers to the managerial policies and practices designed to achieve organisational objectives through the proper management of workplace relations. In concurrence, Collings, Wood and Szamosi (2018) define HRM as management's efforts centred on making a contribution to the organisation's performance by putting in place people management policies and practices that support the achievement of organisational objectives. Both definitions of HRM are significant in that they identify two important aspects inherent in the HR function, which are that it is a managerial function and serves to achieve organisational objectives.

Other scholars underscore and add further definitions on HRM. For instance, Kavanagh, Thite and Johnson (2013;220) define HRM as, "performance driven managerial activities involving planning, recruitment, selection, training, appraisal, rewarding, and managing employee health and safety needs". The same set of practices that make up the HR function are also captured in a more recent definition by Klikauer (2018;12) that HRM is a "managerial process of acquiring, developing, rewarding and taking care of the health and safety needs of employees with a view of supporting the organisation's strategic objectives". Therefore, taking a cue from these definitions this study defines HRM as the management driven function concerned with recruiting, selecting, training, rewarding and managing employee performance. This definition is considered as appropriate as it dovetails with the framework of HR practices that are the focus of this study, which are, recruitment, training, performance appraisals, rewards management and employee relations as suggested by Price (2012).

The definitions of HRM reviewed in this section concur that proper HR management is associated with business performance. Zairi (2012) associates business performance with a firm's ability to produce results in line with its set objectives. Daft (2009) considers it as an indicator of the effectiveness of a business entity's deployment of its raw materials. Regrettably, mainstream literature associates business performance measurement with large firms (Alharbi, Yahya & Ahmed, 2018), yet, as reported by Charbel et al., (2013), more attention should be focused on SMEs given their famed high mortality rate.

### 4.3 HRM AND FIRM PERFORMANCE

The preceding section noted that SMEs suffer from a high infant mortality rate in spite of their significance in economic development. As Dzansi and Tasssin-Njike (2014) report, only 5% of SMEs will thrive and grow beyond 5 years in South Africa. Ogunyomi and Bruning (2016) attribute the failure rate in the SME sector to financial challenges while Ackah and Vuvor (2011) argue that an effective management of employees is also a key variable in the performance of SMEs. As a result, Oladipo and Abdulkadir (2011) campaign for the alignment between HRM practices and organisational objectives as a way of tying proper HR management to performance in SMEs. In light of these findings, this section reviews the relationship between HR management and firm performance in SMEs.

Early researchers on the relationship between HRM and performance (Osterman, 1994; Pfeiffer, 1994) agree that the adoption of best HR practices is a universal measurement standard that can be used to assess the contribution of HRM to the performance of an organisation. As such Pfeiffer (1994) proposed the Best Practices Approach (BPA) to HR as a means to explain how the HR and firm performance relationship can be assessed on a standardised platform. The BPA to HRM is therefore, based on the assumption that there exists a set of HR practices, whose implementation in any organisation regardless of the contextual environment, will lead to higher organisational performance (Armstrong, 2013). The seven best HR practices, whose implementation in a firm leads to high firm performance are;

- i. Employment security
- ii. Selective hiring
- iii. Self-managed teams
- iv. High compensation contingent on performance
- v. Training
- vi. Reduction of status differentials
- vii. Information sharing

Whilst these best practices in HR as proposed by Pfeiffer are inspired by the management of large firms, Ogunyomi and Bruning, (2016) considers them as a

necessary foundation in the analysis of the relationship between HR practices and organisational performance. This is because the Best Practice Approach to HR management prescribes one best way of managing human resources in organisations, which implies that any deviation would affect the performance of the organisation (Wiesner & Innes, 2010). Therefore, the BPA views the proper management of HRM as the only significant factor that can contribute to the firm's performance.

Although, the Best Practices Approach to HR management considers the practices used in management of the human resource as the source of firm performance, the Resource-Based View (RBV) of the firm (Barney, 1990) considers the nature of the human resource and not how it is managed as the source of performance (Ogunyomi & Bruning, 2016). The theory proposes that the human resource has a set of qualities (rarity, inimitable, uniqueness and value) that make it the only source of competitive advantage that a firm can use against its competitors (Mello, 2014). This indicates that the performance of the firm is a direct result of the HR practices that guide the deployment of the human resources in the firm. The theory postulates that, the type of resource in the firm and not how it is managed is the only distinctive resource that can give an organisation a competitive advantage that it can use to drive its performance (Wright, Boudreau, Pace, Sartain, McKinnon & Antoine, 2011). Finally, even though it may appear as if the RBV contradicts the BPA, Lawler, Wu, Bae and Bai (2011) argue that a merging of both approaches represents a balanced HR management ecology where a set of best practices can be applied to manage a distinctive resource towards superior organisational performance.

Meanwhile, despite the ability of the RBV to provide a theoretical explanation of the relationship between performance and HR management, it fails to zero in on the specific HR practices that drive firm performance. The Ability-Motivation-Opportunity (AMO) model as postulated by Appelbaum and Kamal (2000) fills this gap by explicitly suggesting the specific HR practices that drive firm performance. As Ogunyomi and Bruning (2016) explain, the AMO framework identifies the HR practices that drive firm performance by suggesting that that a firm needs to recruit and select quality personnel, motivate them to use their discretionary efforts and provide them with the



opportunity to contribute to the decision-making process. In this instance, just like in the Best Practices Approach, specific HR practices that support firm performance are clearly isolated and thus drawing the link between HR practices and firm performance (Lawler et al., 2011).

Later studies show that the nexus between HR practices and firm performance can be examined using the lenses embedded in the Social Exchange Theory (SET). Gould-Williams and Davies (2005) expound that the Social exchange theory is based on norms of reciprocity within social relationships whose application at the workplace demonstrates that employees are motivated to exhibit positive attitudes and behaviours when they perceive that their employer values them and their contribution at the workplace. Therefore, HR practices viewed as signalling an appreciation of employee value are met with reciprocal discretionary behaviour in the form of higher employee performance, which ultimately translates to higher firm performance. The onus lies in the firm's management to exercise HR practices that keep employees motivated and committed enough to reciprocate by working harder towards achieving the firm's goals (Kamdar & Van Dyne, 2007). This also underscores that just as the BPA, the Social Exchange Theory (SET) places firm performance in the hands of the HR function, which is expected to achieve superior performance through the proper management of the human resources.

Another later approach to the examination of the fit between HR practices and firm performance is based on the Sustainable HRM School. As Gould-Williams and Davies (2005) report, the concept of sustainable HRM is based on the notion that the contribution of the HR function to firm performance can only be fruitfully proven if it goes beyond standard measures of profitability and extends to the sustenance of the firm in the long term. This indicates that the HR function in the organisation is assigned an onerous responsibility that goes beyond the one-time measures of productivity, profits or market share to the custodians of the firm's sustainable performance (Forth & Bryson, 2018). In addition, the HR function is viewed as the glue that binds together all other managerial functions in the firm and ensure that the firm renews itself continuously in sync with the ever-changing business environment (Wang, Long, Zhang, & He, 2019). Therefore, as Gould-Williams and Davies (2005) conclude, the

Sustainable HR school places the HR function on the driving seat in the achievement of performance targets in organisations.

Ultimately, the final picture emerging here indicates that proper management of the human resource allows firms to enhance their performance by attracting, and retaining employees with the requisite knowledge, skills and abilities that support the achievement of the firm's objectives. Meanwhile, according to Zwane, Du Plessis and Slabbert (2017), the tourism industry in South Africa, which is the focus of this study, is dominated by labour intensive small businesses. It follows that this sector should consider a proper management of HR in its matrix of management tools, hence justifying this study, which is attempting to develop an HR formalisation tool.

#### **4.4 HRM IN FAMILY-OWNED SMEs**

Despite the significance of the HR function in driving firm performance, the practice of HR in SMEs has received little attention in academic literature. This is mainly due to the widely-held view that the HR theory, which is based on large firms, can be applied with equal success in SMEs (Psychogios, et al., 2015; Dundon & Wilkinson, 2018). The implication is that the same set of HR practices prescribed for large firms can be used in family-owned SMEs. The only difference, according to Harney and Nolan (2014), is in the implementation. The implementation formula of HR practices in large firms is structured and standardised as guided by strict policies (Kraus et al., 2011). However, in family-owned SME firms, the unstructured relationships in the firm and a combination of family influence and resource limitations leaves the firm operating informally. As a result, the implementation of HR practices will also be informal and render the textbook prescription of HR implementation in family-owned SMEs inapplicable (Harney & Nolan, 2014).

Another possible shortcoming in the study of HRM is the tendency by researchers to view the management of HR through the lenses of large firms where the professionally managed HR department is the focal point of HR activities (Cunningham & Rowley, 2010; At Razouk, 2011). Instead, the small size of the SME firms often necessitates that the owner-manager doubles as the HR manager and leading to a scenario where the HR function is delivered informally (Wiesner & Innes, 2010). Therefore, the

management of HRM in family-owned SMEs is shaped by the dual influence of a domineering owner-manager and that of the family (Jennings et al., 2014). This also means that all HR practices in the firm are driven by the desire to balance family and business interests, a factor that makes informality an inherent feature of HR in family-owned SMEs (Hann, 2012).

As a result, there has emerged a divergence of views among scholars on the effect of the family on the practice of HR in family-owned SMEs. Wiesner and Innes (2010) state that these divergent views fall under two broad approaches to HRM in family-owned SMEs, which are the “small is beautiful” approach and the “bleak house” approach.

The “small is beautiful” approach is premised on the notion that the small size characterising family-owned SMEs lays fertile ground for harmonious unitary relations between the employees, the family and the owner-manager (Psychogios et al., (2016). As Lai, Morrison-Saunders and Grimstad (2017) stress, the small size of the firm creates a family-like environment where every member of the firm adopts a unitarist approach and goes out of their way to further the interest of the firm, the family and the general employees. Furthermore, the SME owner-managers practising the “small is beautiful” approach to HRM strive to create a healthy working relationship in the firm where the mutual interests of employees and the family interact in shaping the mutually agreed direction of the firm (Wiesner & Innes, 2010). The most potent tools deployed by such owner managers are, regular two-way communication, competitive rewards, a harmonious working environment, and a democratic leadership style that appeals to all members of the firm regardless of their family affiliation. This is akin to the creation of the soft version of HRM as postulated by Armstrong (2013) where the owner-manager assumes a paternalistic role with the support of every member of the firm. This paternalistic approach of managing HR is reinforced by the fact that most owner managers in family-owned firms are usually senior members in the controlling family and this earns them respect by all employees in the firm (Wiesner & Innes, 2010). Therefore, the paternalism and age maturity of the owner-managers enables the dispensing of HR management practices that appeal to the interest of every member in the firm (Psychogios et al., 2016).

Some scholars refute the notion that HR practices in SMEs typify a happy family scenario. Innes and Wiesner (2012) argue that the working conditions in family-owned SMEs are instead representative of a “bleak-house”. Dundon and Wilkinson (2018) reiterate that the small size of the firms automatically translates into resource limitations (liability of smallness), which impacts negatively on the delivery of all management and the practice of HR. In other words, the small size of the family-owned SMEs leaves them unable to muster enough resources needed to employ professional HR managers and as a result, the owner-manager, who in most cases is not an HR professional, assumes all HR duties (Psychogios et al., 2016). The end result, as Dundon and Wilkinson (2018) note, is that the owner-managers adopt an ad-hoc informal approach to HR management leading to HR practices that are characterised by poor working conditions, higher levels conflict, higher turnover and high absenteeism rates, which are conditions akin to a bleak house. What this implies, according to Psychogios et al., (2016) is that whilst the “small is beautiful” approach to HRM in family-owned SMEs mirrors “soft HRM”, it follows that the “bleak-house” approach to HRM in family-owned SMEs is associated with the “hard HRM” as proposed by Armstrong (2013).

Nonetheless, Wiesner and Innes (2010) state their concern with the simplicity associated with viewing HR practices in family-owned SMEs as representing the two polar positions reflected by the “small is beautiful” and the “bleak house” approaches. Both scholars (ibid) argue that though there is a possibility of some truth to each extreme polar position, HRM in family-owned SMEs is in reality best characterised by a complex matrix of social and familial norms that cannot be simplified into both approaches. Marchington and Suter (2013) agree and state further that, the close relationship between the owner-manager and the rest of the employees cannot be the only factor that shapes the practice of HR as is assumed in the two polar positions reviewed above. Instead, as Steijvers et al., (2017) observe, there is common thread, which is the concept of informality that runs through the two approaches to HR management in family-owned SMEs. This informality is instead the common characteristic in the practice of HR in all family owned firms. This situation may be explained by the fact that SMEs rarely consider formalising their HR practices and

tend to rely on an informal approach to people management (Marchington & Suter, 2013). This may also be a result of the resource limitations that characterise these family-owned firms and that many owner-managers in family-owned SMEs perceive formalised HR management practices as burdensome and expensive (Collings et al., 2018).

All the same, the use of informal management practices sometimes proves advantageous to the family-owned SME as it results in faster decision-making, clarity of instruction and opportunities for employees/family members to voice their ideas and concerns (Marchington & Suter, 2013). In support of the above, Erdem and Atsan (2015) argue that family-owned SMEs are better placed to remain informal in their approach to HR management, which results in agency savings based on the altruistic relations in the firm (Collings et al., 2018).

However, Hann (2012) observes that informality in HR management may prove untenable in the long-run because once an SME grows above a certain size, it becomes imperative for management to adopt a more professional and structured approach to its management. The above observation resonates with Marchington and Suter's (2013) conclusion that family-owned SMEs are less likely to have a formalised approach to HR than larger organisations but will be forced to consider their approaches as the firm grows in size and responsibilities get complex. Therefore, it seems probable that many family-owned SME owner-managers will recognise the need for a formal policy to manage employees, which they can use in tandem with some informal approaches.

#### **4.5 HR PRACTICES IN FAMILY-OWNED SMEs**

The above considerations on big firms suggest that the practice of HR in SMEs is the same as in large firms. The HR practices discussed in this section are borrowed from large firms and form the set of HR best practices as suggested by Price (2011), which are hiring, training, rewards, succession planning, performance evaluation and employee relations practices common in family-owned SMEs.

#### 4.5.1 Recruitment practices in the family-owned SMEs

It is an established fact in HR that the amount of resources a firm invests in hiring employees is a factor for the resources within the firm and the cost effectiveness of the hiring tool. Chandrakumara and Rao (2014) note further that large firms with a huge capita are likely to invest more resources per employee than to the labour intensive SMEs (Kaufman & Miller, 2011). This makes the recruitment of employees in family-owned SMEs a challenging task than in bigger firms because of the lack of resources and absence of HR specialists in such firms (Hann, 2012). In addition, Dundon and Wilkinson (2018) agree and explains that the hiring challenges faced by family-owned SMEs emanate from the fact that the firms employ fewer employees as compared to large firms and as a result, fail to create, maintain or develop an internal labour market that they can tap into as a source of future employees. Instead, they are forced to rely on the external labour market every time they want to hire, a process that is expensive, slow and cumbersome for most family-owned SMEs.

Furthermore, family-owned SMEs are always duty bound to balance family and business interests in their hiring efforts with the family's considerations usually given priority over firm interests (Boxall, 2013). In any case, as Dundon and Wilkinson (2018) points out, the tacit hiring policy in family-owned SMEs dictates that priority d be given to family members and other relatives in need of a job even over better qualified outsiders. In extreme cases, as Leach (2011) claims, positions of authority are reserved for family members who, in most instances, often feel they deserve the jobs regardless of their ability or expertise. As Steijvers et al., (2017) explain, the firms end up using informal hiring criteria such as kinship ties and thus deflating the firm's ability to assemble a competent stock of employees that it needs to meet its business objectives.

This informal hiring amongst the kinship community often lends itself to charges of discrimination, especially when workers are recruited from the same familial and social milieu (Rand & Torm, 2012). In addition, family-owned SMEs have also been accused of hiring on a gendered basis with women occupying work positions of subordination in line with family and cultural considerations (Songini et al., 2015; Ramachandran, 2017). For example, Mwoombia (2013) reports that managerial positions in family-

owned SMEs in Kenya are always a preserve of male family members regardless of age or family position.

Another challenge faced by family owned SMEs when hiring employees is that the firms make use of less appealing internal hiring channels such as word of mouth and walk-ins unlike the more robust external recruitment methods used by larger firms (Young-Thelin & Boluk, 2012). To this effect, Rand and Torm (2012) explain that SMEs shy away from external hiring and tend to rely on references from current employees and family members for sources of employees on the belief that, current employees are unlikely to recommend unsuitable people. Though this may seem as if it guarantees high quality employees, Ramachandran (2017) observes that it actually limits the breath of potential candidates at the disposal of the firm which ultimately leads to poor hiring decisions.

Despite these negative tags attached to the informal hiring practices in family-owned SMEs, Wiesner and Innes (2010) suggest that informal hiring and the informal family loyalties often generate mutual obligations and interests between the owner-manager and the employees hired from kinship circles. These mutual interests augur well for such firms especially in instances where the owner-manager has multiple responsibilities as it relieves him/her the burden of monitoring employee behaviour (Songini et al., 2015). In fact, hiring from amongst kinship circles deploys less sophisticated and cheap hiring and selection practices as opposed to hiring in large firms where the firm is forced to use expensive open market hiring tools such as newspaper adverts (Collings et al., 2018). In addition, the fluid nature of the labour market makes hiring amongst kinship more reliable since hiring 'known entities' is an established method of reducing uncertainty in recruitment decisions (Wiesner & Innes, 2010).

The conclusion from the foregoing analysis is that family-owned SMEs face a number of challenges during the recruitment of capable employees. This is because SMEs apply what may appear to be less appealing hiring channels such as social networks and walk-ins in contrast to the more robust recruitment methods used by large enterprises. However, as literature has revealed, recruitment practices used by SMEs

augur well with these firms owing to the fact that such recruitment practices are cheap and therefore best suited to the SMEs that at most, face resource limitations.

#### **4.5.2 Training in family-owned SMEs**

Training and development refer to processes that relate to learning, education and other professional initiatives directed at increasing the levels of knowledge, skills, and abilities of an employee (Armstrong, 2013; Ogunyomi & Bruning, 2016). In addition, Young-Thelin and Boluk (2012) state that the resource limitations in family-owned SMEs mean that employee training is rarely considered a worthwhile venture. This results from the way most family-owned SMEs prefer to use in-house, informal and short-term training methods that are cheap and tailor-made to the interests of the firm and controlling family (Psychogios, et al., 2016).

Therefore, whilst Lepak and Snell, (2002) suggest that successful business enterprises should invest in training to develop employee value and a sustainable competitive advantage, Wiesner and Innes (2010) report that training in many family-owned SMEs is never on the agenda and where it appears, it is often to express the personal interests of the owner-manager. As a result, Leach (2012) reports that, where training is provided in family-owned SMEs, family member employees are often given priority over non-family employees and usually these family members are trained according to what suits their personal needs, which may be at variance with firm's needs. This situation may arise from the close proximity between the family and the firm, and the way various owner-managers perceive training as an unnecessary cost and an anathema to the conduct of business as it may upset family-business balance (Laforet, 2013).

Perceiving training costs as the financial investments made by the SME firm in training activities is too myopic. Rand and Torm (2012) notes that the small set of employees in family-owned SMEs means that, the cost of training may also be viewed from the lenses of the opportunity costs of the trainees being unable to conduct their normal duties during training exercise. Whilst this argument refers both large and small firms, Young-Thelin and Boluk (2012) argue that SMEs bear the brunt of the opportunity cost of sending employees for training as they, unlike large firms, may not afford to replace



employees undergoing training given their resource constraints. The reality is that the opportunity costs of training in family owned SMEs are so high that Dundon and Wilkinson (2018) report that such SMEs sometimes opt to make fresh recruitments if there is a skills gap in the firm instead of training any current employees just to avoid the costs and inconveniences associated with training.

These resource constraints also shape the attitude towards training in family-owned SMEs as compared to large firms. As reported by Songini et al., (2015), employees in family-owned SMEs treat the benefits of training with scepticism owing to the dominating role of the controlling family, which reserves any post-training promotion opportunities for family-member employees. This leaves non-family employees with little motivation to pursue expensive and time-consuming training ventures as they know that managerial positions are reserved for family members (Young-Thelin & Boluk, 2012; Gnan, 2013). Furthermore, the owner-managers often exhibit negative attitude towards employee training as most training tends to produce highly specialised employees who are considered inappropriate in SMEs due to the need for multiskilled employees who can easily cope with the highly flexible nature of work in the firm (Young-Thelin & Boluk, 2012).

There exists alternative views to the above-mentioned fault lines associated with training in family-owned SMEs. Ackah and Vuvor (2011) argue that such training is most appropriate in SMEs as it is geared towards their business needs given the eclectic nature of their business operations. As a result, one may conclude that this indicates that, even though training in family-owned SMEs is informal and ad hoc, this is in sync with basic training needs of such firms. In addition, this shows that HR practices in SME firms should not carry stereotypes of depravity derived from the Best Practices Approach and instead, should be viewed as a different and unique approach-to-strategy that is useful in SME firms.

#### **4.5.3 Managing rewards in family-owned SMEs**

According to Michiels (2017), family-owned SMEs are less likely to be perceived as the first-choice employers by potential employees on the labour market as these firms are often associated with poor and discriminatory remuneration packages. Songini et

al., (2015) report that remuneration systems in large firms are standardised, fair and equitable and yet remuneration systems in family-owned SMEs are mostly informal, opaque, unfair. The SME salary system is sometimes discriminatory with the firms basing salary determination on the whims and personal interests of the owner-manager (Visser & Chiloane-Tsoka, 2014; Michiels, 2017). Songini and Gnan (2013) acknowledge this arrangement and attributes it to the complexity involved in crafting reward policies that strikes a balance between firm interests, legal requirements, union demands and managing family-wealth. In any case family considerations often compel the owner-managers to do away with merit-based rewards in order to accommodate family pressures to distribute the bulk of the rewards to family members (Dundon & Wilkinson, 2018). Thus, senior members of the family occupying a junior position in the firm expect to receive a wage that commensurate with his/her seniority in the family even though he may be occupying a junior position in the firm owing to a lack of skill or competence (Songini et al., 2015).

Remuneration issues in family-owned SMEs are a complex matrix that involves balancing decisions that relate to pay levels, pay mix between salaries, benefits and incentives, pay structure, and pay raises (Songini & Gnan (2013). Like most HR issues in family-owned SMEs, remuneration policies are mostly informal with the firms rarely using formal salary surveys to assure that their pay levels are competitive (Dundon & Wilkinson, 2018). In addition, the firms do not use formal job evaluation systems to ensure that their pay structures are internally fair, which creates flat organisational structures that have few hierarchical managerial levels. These reward policies are often characterised by lack of transparency, which in turn results in perceptions of unfair reward distribution (Price, 2011).

Formalising reward practices in family-owned SMEs can have advantages and disadvantages. On the one hand, employees can consider formality as a positive thing because it increases feelings of fairness and consistency, which is central to gaining their commitment to the firm (Özge & Çalişkan, 2014). On the other hand, as noted by Michiels (2017), introducing formalised reward practices can also have disadvantages for the family businesses as the high cost associated with these practices might be a burden for smaller family firms with limited resources. In addition,

formalising the rewards function might also limit the flexibility that allows employees to individually negotiate their salary and benefits, which may in turn decrease their motivation in addition to undermining the informal culture that characterise rise relationships in family-owned SME firms (Speckbacher & Wentges, 2012; Michiels, 2017).

Whilst reward formalisation may prove burdensome for family-owned SMEs, Uhlaner and Dekker (2012) views this set up as cost cutting given the agency savings that arise from the alignment of the owner-manager's interests with the interests of the rest of the employees. Michiels et al., (2012) explains that the family-like environment in SME firms engenders a feeling of kinship, altruism and loyalty between the owner-manager and the rest of the employees. This familial environment aligns the interest of the owner-manager with that of the rest of the employees thus eradicating any need for agency payments. This implies that any agency cost that a normal firm would encounter to align managerial interests to those of the rest of the employees will be done away with, given that any possible acts of self-interest will be tempered by the lure of kinship, altruism and loyalty (Michiels et al., 2012). These minimal agency costs imply that performance-based pay is not needed in family SME firms, as the main goal of pay-for performance is to reduce a firm's agency costs (Speckbacher & Wentges, 2012; Michiels, 2017). This line of thinking leaves the author to conclude that, unlike the widely held BPA prescriptions, the reward management systems in family-owned SME firms are most appropriate given their size, resource constraints and environmental influence.

#### **4.5.4 Succession planning in family-owned SMEs**

According to Mokhber, Gi Gi, Abdul-Rasid, Vakilbashi, Mohd-Zamil and Woon-Seng (2017), succession planning is important in the sustainability of family-owned SMEs as it ensures the firm's survival beyond the departure of the founding owner-manager. Ghee, Ibrahim and Abdul-Halim (2015) note that the success of a family-owned firm is based on the succession process and planned for and implemented in the firm. In any case, as Foltz and Marshall (2012) claims, succession planning signifies the last rites in family firms because the realisation that only a very small fraction of such firms survive beyond the life of the founder owner-manager. For example, Gomba and Kele (2016) cite the example of South Africa where 66% of family-owned SMEs die with

their founders because the firms neglect to plan for succession fearing its negative effects on family stability.

As Foltz and Marshall (2012) explain that a clash family emotions and personal interests usually taints any possible succession decisions. As a result, many firms opt to avoid conducting the exercise in order to preserve family cohesion while leaving family members to make their own decisions in the wake of the owner's death, which is a process that may accelerate the firm's mortality (De Massis, Frattini, Majocchi & Piscitello, 2018). In addition, some families opt to choose different characteristics when choosing a successor in order to avoid the emotional tension associated with process (Foltz & Marshall, 2012). The most popular route is to follow the traditional expectation that the oldest child (usually the son) will take over the firm notwithstanding the fact that they may lack the skills or experience to achieve success on the job, a factor that may accelerate the firm's mortality (Nordqvist & Melin, 2010; Songini et al., 2015).

The overall picture emerging from the analysis above is that the succession process in family-owned SMEs is often a source of conflict rather than a continuity process as it symbolises redistributing family wealth amongst family members (Buang, Ganefri & Sidek, 2013; Vassiliadis & Vassiliadis, 2014). As such, many founding owner-managers forego the exercise to try and protect family harmony. What this indicates is that, the close synergies in family-owned SMEs between the family and firm interests may work against succession planning efforts if the process is not handled properly. Often, this is a very complex exercise as it not only upsets family hierarchy and pecking order but it may also affect other firm activities such as rewards, career development and performance evaluation (Vassiliadis & Vassiliadis, 2014).

Therefore, the findings from the above-reviewed literature indicate that the heat generated by succession planning in family-owned SMEs account for most firms' avoidance of the process in an effort to preserve family and firm unity. This can be an extremely complicated exercise granted that the personal feelings of family members can influence the decision-making process and thus undermine the whole process.

#### **4.5.5 Performance evaluation in family-owned SMEs**

According to Forth and Bryson (2018), performance management is a continuous process of aligning the goals of employees with those of their employer organisation. This implies that performance management entails regular evaluation of employee performance to ensure a consistent employee contribution to the organisation's objectives (Ogunyomi & Bruning, 2016). Thus, performance management is the process of designing and executing HR interventions that can aid in the enhancement of employee performance (Yusoff, Razak, Zainol & Hassan, 2018). The observed close relationship between HR management and firm performance means that, SMEs, like any other form of business enterprise, also need to constantly manage employee performance in order to realign employee performance with the interests of the firm (Cunningham & Rowley, 2010).

Furthermore, Dundon and Wilkinson (2018) note that performance measurement systems in family-owned SMEs sometimes closely mirror those used in large formally run firms. Peetz, Muurlink, Townsend, Wilkinson and Brabant (2017) report that family-owned SMEs are more informal in their other HR practices but also show remarkable similarity to larger more formalised firms across a range of employee performance management techniques that they use to monitor and measure employee performance. This signals the ability of SMEs to flexibly adopt and replicate HR practices borrowed from larger firms (Dundon & Wilkinson, 2018). However, as Yusoff et al., (2018) observes, the small size of family-owned SMEs does not call for the complex performance management practices associated with large firms. Instead, as Steijvers et al., (2017) proposes, the family-like environment in family-owned SMEs suggest that there are close working arrangements where monitoring and performance assessments are a day to day activity. As some scholars (Cunningham & Rowley, 2010; Ahmad & Alaskari, 2014) observe, SME owner–managers' can directly observe employee activities and take corrective measures almost immediately through daily interactions with employees. This allows the firms to avoid the expensive formal performance management processes associated with large firms and concentrate on performance appraisals as the major tool in managing employee performance (Ogunyomi & Bruning, 2016).

These performance appraisals are the sole responsibility of the owner–manager. This is problematic as he/she may not possess the necessary expertise and end up viewing these performance appraisal processes as time consuming and complex (Steijvers et al., 2017). To overcome these impediments, the family-owned SMEs opt for the easy to use appraisal methods such as rating scales and narrative descriptions of employee performance (Ahmad & Alaskari, 2014). This is unlike the scenario prevalent in large firms where the whole exercise involves a complex matrix of tools applied simultaneously to manage employee performance.

The dominance of the founder family may impact the performance appraisal process and use it to create an unfair advantage for family-member employees. González-Cruz and Cruz-Ros (2016) note that performance appraisal in family-owned SMEs may also be used to deter non-family employees to ascend to top leadership positions within the firm in order to align ownership and management and preserve family socio-emotional wealth. This unfairly discriminates against non-family employees and exposes the firm to agency problems that may arise as a result of the “honest incompetence syndrome” creeping into the firm (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011).

Furthermore, performance evaluation in family-owned SMEs is often coloured by familial altruism, which treats employees according to their current relations with the controlling family rather than what they actually contribute to the firm (Steijvers et al., 2017). Such altruistic behaviours can result create experiences of distributive injustice within non-family employees as they might not receive the same privileges, promotional opportunities, and financial rewards as family member employees. The solution to this, according to Dundon and Wilkinson (2018), lies in implementing formalised performance management practices, which offer more transparency and objectivity in the evaluation of employee performance.

Therefore, performance measurement in family-owned SMEs is a complex exercise as it involves a delicate balancing of the needs of the family and the firm. Collings et al., (2018) suggest that the solution lies in formulating policies that separate family (ownership) from business management principles. This separation entails subjecting

family members working in the firm to evaluations just as with all other employees. Fairness and justice in the delivery of performance management in family-owned SMEs may also be achieved by using the 360<sup>0</sup> feedback method that entails soliciting views of other employees (peers, superiors and subordinates) and hence reduce the potential for family bias and promote objectivity (Kroon, Voorde & Timmers, 2013).

#### **4.5.6 Employee relations in family-owned SMEs**

The nature of employee relations is also of significance in the evaluation of HR practices in family-owned SMEs. Mallett and Wapshott (2017) note that employment relations in SMEs are generally poor in the areas of salaries, fringe benefits, training opportunities and working hours and labour turnover in comparison to those in larger firms. In addition, employees in SMEs are also more likely to be exposed to other physical hazards than their counterparts in large firms (Fang, Randolph, Memili, & Chrisman, 2016). This is a direct result of the informality of operations in family-owned SMEs, which often call for the use of unconventional methods of getting things done. Thus, one would expect the employee relations to make up for these workplace deficiencies. However, Guercini and Milanese (2016) note that the employee relations in family-owned SME are reminiscent of a poisoned chalice owing to the often-biased involvement of the family in employee relations. González-Cruz and Cruz-Ros (2016) report that the family-like environment in family-owned SMEs is so fragile whenever a workplace conflict emerges as the family tend to use its control muscle to gain up against non-family employees to the detriment of everything else. Therefore, as Psychogios et al., (2016) echo, an inclusion of the family in conflict resolution fractures employee harmony and sometimes shield family members from disciplinary censure. Unlike large firms where unionism is part of the management framework, trade unionism in family-owned SMEs is an anathema given the size-driven paternalistic relationship between the owner-manager and the rest of the employees (González-Cruz & Cruz-Ros, 2016). As Psychogios et al., (2016) report, the small size and close working relationships in such firms closes all union doors leaving the dominant owner-manager to exercise their right to manage without any interference. In agreement, Ogunyomi and Bruning (2016) cites the example of a Nigerian SMEs where most of the employees are closely related to the owner-manager thus rendering trade union activity redundant. Under such a scenario it is assumed that the relationship between the employees and the owner-manager are mutually beneficial as they share the same

values, aspirations and interests and therefore union activities are not necessary (Psychogios et al., 2016). It is therefore not surprising that, union membership among SMEs is much lower than in larger organisations. In the UK for example, only 7% of workers in SMEs are union members (Dundon & Wilkinson, 2018). As might be expected under such a scenario, SME owner-managers might be less likely to recognise a union for bargaining purposes than is the situation for larger companies. Thus, given the absence of collective representation for workers employed in SMEs, most owner-managers resort to directly communicate with their employees (Wiesner & Innes, 2010).

**Table 4.1: Comparison of HR practices in SMEs and in large firms**

HR Practices	Family-owned SMEs	Large firms
<b>Who handles the HR function</b>	The owner-manager	HR professional
<b>Employee hiring</b>	No written criteria or rules. Firm recruits on a case by case basis. Vacancies are quickly filled.	Firm has written policies and procedures for recruitment and selection. Takes time to fill vacancies.
<b>Source of new employees</b>	Employees sourced from kinship circles.	Employees sourced from open labour market.
<b>HR plans</b>	No HR plans	Has written plans.
<b>Training</b>	Mostly an individual's responsibility. Prefers short term on the job training, Training skills should be tailor-made for the firm.	Firm has programs and budgets for training. Employees may attend long term off the job training. Employees may acquire skills that do not apply in the firm.
<b>Remuneration</b>	Favours family members.	Fair and based on established standard.
<b>Performance Appraisal</b>	No written policy.	Has policy for performance for at least 10% of the jobs.
<b>What is the Nature of employee relations</b>	Unitary No unions Collective bargaining is minimal	Pluralist Highly unionised High collective bargaining

Source: Researcher's Conceptualisation



In conclusion, the existence of glaring differences on the practice of HR in family-owned SMEs and in large firms does not necessarily mean that there is anything wrong with the smaller firms' HR practices (Nyamubarwa & Chipunza, 2019). To the contrary, Table 4.1 indicates that the practice of HR in SME firms is unique as compared to what prevails in big enterprises. This uniqueness stems from the SME firm's dependence on the owner-manager's management styles, the small size of the firm and its flexibility in the face of the uncertainty of the operating environment. This uncertainty often leads to informality in the practice of HR, as the owner-manager would not be an HR expert and not in a position to manage the effect of such uncertainties in the management of human resources stemming from the operating environment.

#### **4.6 CHAPTER SUMMARY**

This chapter analysed HR practices in the family-owned SMEs and thus revealed that there is a divergence of views among researchers on the nature of the HR practices in such organisations. One set of researchers views the HR environment in family-owned SMEs as harmonious and unitarist in the relationship between management and employees. An alternative perspective views family-owned SMEs firms as 'bleak houses' in the sense that they suffer from the liability of smallness and hence end up practising informal HRM and reap its attendant drawbacks. However, as Gomez-Mejia et al., (2011) explain, the firms prefer the independence and flexibility associated with operating informally, which forces them to disregard the prescriptions suggested by larger firms. Therefore, an argument is made that an informal approach to people management is more suited to family-owned SMEs because it is associated with flexibility, which assists them in coping with the operational uncertainty that characterises their operating environment. Finally, the chapter concludes that family-owned SMEs may have an upper hand on the management of people over big firms because their lack of formality enables flexibility within the labour process, and an individual approach to the employment relationship.

The next chapter reviews literature on the factors that affect the formalisation of HR practices in family-owned SMEs.

## CHAPTER 5

### FACTORS AFFECTING HR FORMALISATION IN FAMILY-OWNED SMES

#### 5.1 INTRODUCTION

The term ‘informal sector’ was coined by Keith Hart, a British economist, who, after conducting a research on economic activities in Ghana concluded that many of the so-called “unemployed” people were actually self-employed in “informal activities”. As La Porta and Shleifer (2014) explains, Hart viewed the informal sector as a temporary state of underdevelopment that would fade as economies grow and formalise. It was not until 2009 that the OECD made a bold claim that, rather than being a temporary stage of underdevelopment, the informal sector was a permanent feature of all modern economies (Chen, 2012). As such, nowadays, the term “informal sector” refers to the different methods of earning a living on the margin of the formal wage economy, as an alternative to formal employment or as a means of supplementing income earned from within the formal sector (Stuart, Samman, & Hunt, 2018).

This chapter defines the concept “informal sector” and juxtaposes it to operations in the SME sector. The chapter also examines the personal and environmental factors that influence HR formalisation in family-owned SMEs and explains how the study’s hypotheses were deduced.

#### 5.2 THE INFORMAL SECTOR AND FIRM FORMALISATION

The ILO (2016a:3) defines the informal sector as “*all economic activities, by economic units as well as by individual workers, that are – in law or in practice – not covered or insufficiently covered by formal arrangements*”. This shows that the informal sector stands out as a special parallel economy running alongside the formal economic activities with the sector sometimes referred to as “the informal economy” (La Porta & Shleifer, 2014). This sector is often associated with subsistence entrepreneurship with a primary objective centred on generating employment and income to the entrepreneurs, without a motivation to strive for growth or creation of larger enterprises (Reeg, 2015; ILO, 2016a). In addition, players in the informal sector are usually not registered with many employing less than five employees at time. The

small size of informal sector players results in the sector being conflated with the SME sector (La Porta & Shleifer, 2014; Reeg, 2015). Therefore, the identification of informal enterprises is often based on a combination of the firm size and registration status in line with the recommendations made by the World Bank (2013).

The informal sector has been viewed in bad light and as such, it is associated with a negative tag characterised by low skill levels, poor technology, low productivity, low incomes and a total inability to comply with the set standards of the normal modern economy (ILO, 2016a). This perception of the informal sector is attributed to the short-term casual employment arrangements in the sector that lay a fertile basis for poor working conditions (Dzansi & Tasssin-Njike, 2014). The ILO (2016b) reports that, as long as employment conditions in the informal sector are characterised by undefined workplaces, unsafe and unhealthy working conditions, short-term contracts, low skills, low and irregular incomes, long working hours and low unionisation, the sector will always be associated with depravity in working conditions. The negative perceptions also manifest themselves in the form of vices such as tax evasion, under-declaration of salaries and other illegal activities (Rand & Torm, 2012). As a result, the negative views used to paint the informal sector has left in its wake terms such as the 'black economy', the 'shadow economy', or the 'underground economy' to describe the otherwise productive parallel economy (Reeg, 2015).

The South African informal sector has emerged, as the World Bank (2018) reports, as the greatest promoter of innovations with the majority of the country's innovation being traced to the informal sector. The significance of the informal sector to economic development led the ILO (2016a) to recommend that authorities institute policies that recognise the importance of the informal sector and regularise its operations. One such policy is the formalisation of business operations in line with the International Labour Conference's (2015) recommendation 204, known as the "Recommendation Concerning the Transition from the Informal to the Formal Economy". The recommendation calls for the formalisation of the informal sector through measures that include the implementation of formal management systems in order to promote efficiency in the sector (Dekker, Lybaert, Steijvers & Depaire, 2014). It is also envisaged that such formalisation initiatives will ultimately create better

working conditions, reduce poverty and protect the marginalised working in the sector (Krause, Ackerman, Gayoso, Hirtbach, Koppa, and Siciliano Bretas, 2010).

### **5.3 SIGNIFICANCE OF FORMALISING SMEs**

Formalisation has been touted as the foundation stone upon which SMEs can rely on to grow and maximise their profits (Umer, 2012). The OECD (2017) contends that formalisation is a prerequisite for SME growth because it opens funding opportunities because financial institutions tend to finance formally operated firms rather than informal ones due to the lower risks of default. In fact, SME formalisation is considered as a way to unlock value that leads to better working conditions and increased efficiency and profitability (Rand & Torm, 2012). The same view is underscored by the ILO (2016a) whose research confirmed a positive relationship between SME formalisation and profitability, as formally operating firms open new avenues for finance and reduce exposure to government regulations and monitoring. In the case of family-owned SMEs, Hall and Nordqvist (2014) claim that the formalisation of managerial operations helps in resolving the endemic nepotism and familial conflicts that plague such firms as it brings non-family managers into the management team who dilute the kinship relations.

In addition, a study by La Porta and Shleifer (2014) concludes that formal enterprises tend to perform better than informal enterprises, in terms of survival rate, size and growth. Since informal enterprises tend to operate from locations with less developed physical infrastructure using labour-intensive production methods, an increase in the number of formal enterprises translates into higher GDP contributions. The World Bank (2013) supports the argument in their report that a relatively large formal economy yields higher levels of GDP per capita as firm formality opens avenues for governments to collect more statutory revenues, which reflect on the GDP.

In addition, the formalisation of SMEs has been associated with a proper management of the human resources, which, as Gould-Williams and Davies (2005) confirm, translates into positive work behaviours by the employees and inevitably boosts firm performance. The same point is reiterated by Sheehan (2014) who reports that formalising HR practices in family-owned SMEs makes the firms more attractive to

better qualified non-family employees who are attracted by the job security and fairness associated with formally run enterprises. These widen the firm's recruitment pool and bring fresh insights in business management in the firm .

Despite the significance of firm formalisation in SMEs, another stream of research views HR formalisation in family-owned SMEs as an unnecessary expenditure with nebulous outcomes (Steijvers et al., 2017). For example, Fang et al., (2016) state that the high regulatory cost associated with operating formally often prove burdensome for family-owned SMEs due to their resource paucity. The firms are better placed operating informally in line with the resource limitations the firms are accustomed to. The same would apply to the formalisation of HR practices, which despite the huge cost outlay are perceived by Steijvers et al., (2017) as directly related to the undermining of the familial environment in the firm.

#### **5.4 FORMALISATION OF HR PRACTICES IN FAMILY-OWNED SMES**

Lai, Saridakis, Blackburn and Johnstone (2016) define HR formality as the presence of an HR professional in the firm, the documentation and standardisation of HR policies and procedures, their regular application in the firm, and conformance to legal requirements. It follows that a firm based on formal HR practices should have an HR professional executing the firm's functions through documentation and a consistent application of policies within a prescribed legal framework.

Furthermore, the reality that HR practices in SME are drawn from large firms has an impact on how the SME sector should be evaluated. The link with large firm practices means that HR formality in family-owned SMEs can be measured by how much the HR policies, practices and procedures measure up to the standards or benchmarks established by large formally run firms (Sheehan, 2014). It therefore follows that in this study, the standard used to measure formality of HR practices is based on the standards set in large firms.

The first element identified in the reviewed literature that points to HR formalisation in SMEs is the engagement of a professional HR person in the firm. As Wright et al., (2011) argue, the presence of a professional HR person in a family-owned SME is an

indicator of the formalisation of the HR function as this enables the firm to handle the human resources in a formal and professional manner. This appointment of a professional HR person in family-owned SMEs relieves the owner-manager of the burden associated with exercising HR duties without the relevant skills set and guarantees the proper practice of HR by the HR professional (Lai et al., 2017).

This HR professional is then expected to assemble a set of documents that assist in the proper dissemination of the HR function. The documentation of the HR function in family-owned SMEs is another indicator of a high-level HR formality in the firm (Erdem & Atsan, 2015). Even in the event that there is no HR professional in the firm, the use of a written set of policies simplifies the owner-manager's work by providing answers to difficult situations and providing a framework and background for decision making under similar circumstances in the future. (Visser & Chiloane-Tsoka, 2014). Therefore, written HR policies ensure a standardised approach to HR issues that contribute to the feeling of fairness, especially amongst non-family employees, which in itself is an indicator of formal operations (Hashim, Ismail & Hassan, 2016).

The regular and consistent application of HR practices in large firms is held as one of the hallmarks of formal operations (Kotey & Slade, 2005). The same measure can also be applied in family-owned SMEs to gauge the formality of their HR practices (Lai et al., 2017). This suggests that the regular and consistent application of HR practices across all employees reflects a high level of standardisation, which is one of the major indicators of firm formalisation (Wright et al., (2011). Therefore, it follows that SMEs that adopt this approach to HR management wean themselves from relying on the family driven personal whims of the owner manager.

In addition, all large organisations operate within a certain legal framework in which they abide by the rules and regulations in the framework. Sheehan (2014) explains that abidance with rules and regulations is an indicator of firm formalisation as evidenced by registering one's entity and operating within the rules and regulations that commensurate with the registration requirements. Therefore, family-owned SMEs are expected to be registered as an indicator of formalisation and this formalisation will cascade down to HR activities.

A discussion on HR formalisation in family-owned SMEs would not be complete without examining the role of the owner-manager. Steijvers et al., (2017) in the report that entrepreneurs' establishment of SME businesses brings to the firm some human capital in the form of skills, experience and personality, which are critical in shaping the management practices in the firm. As a result, an SME reflects the owner-manager's personality and as such, the owner-manager's skills, experience, and other personal characteristics are usually reflected in the management practices in the firm including the practice of HR (Kotey & Slade, 2005). Therefore, it is possible, in the context of this study, to argue that family-owned SMEs are likely to be grounded in the value systems of the owner-manager thus justifying an examination of the effect of personal characteristics such as age and education on the owner manager's decision to formalise HR practices in family-owned SMEs in South Africa.

Furthermore, Kaufman and Miller (2011) believes that HR formalisation in family-owned firms may also be affected by factors that are inherent in the structure, policies and operations of the firm itself. These factors include the firm size, age of the firm, location of the firm and the influence of the family itself. In any case, the operating environment is worth considering in the current study owing to the fact that family-owned SMEs have limited human, material and financial resources unlike their larger counterparts and are therefore more amenable to the dictates of the operating environment. Therefore, as Kim and Gao (2010) explains, such firm's operations tend to be sensitive to environmental pressures, which in turn affects their management practices such as HR formalisation.

Therefore, this study explores the effect of both personal and environmental factors on the decision by the owner-manager in family-owned accommodation SMEs in South Africa to formalise HR practices. It also considers the effect of two environmental factors (firm location and availability of institutional support) on the owner-managers' decisions to formalise HR practices in South Africa.

## **5.5 PERSONAL FACTORS AFFECTING HR FORMALISATION**

Granted that the major objective of this study is to investigate the personal and environmental factors influencing the decision to formalise HR practices, it is imperative at this stage to examine literature that explores the owner-manager's personality in relation to factors that affect HR formalisation in family-owned SMEs. This approach is driven by Steijvers et al., (2017) who assigns owner-managers in family-owned SMEs the role of a key policy driver who sets the pace for the use and implementation of management practices and **decision to formalise HR practices**. This means that the owner-manager is the sole reference person in the firm whose charisma and intuition to make proper HR decisions determines whether the firm will adopt formal HR practices (Kotey & Slade, 2005). Harney and Nolan (2014) note that major HR decisions in family-owned SMEs are the sole preserve of owner-managers who will make the final decision to formalise HR practices. In other words, any possible use of formal HR practices in family-owned SMEs depends on whether the owner-manager personally appreciates and endorses the need for HR formalisation in the firm.

Drawing from these arguments, this study presumes that, SME owner-managers tend to structure their firm's HR systems in relation to their own personal attributes such as age, experience and level of education.

### **5.5.1 The owner-manager's age and HR formalisation**

According to Alharbi et al., (2018) there is a strong correlation between the SME owner-manager's age and his managerial competence as younger owner-managers are more likely to adopt formal management practices than their older counterparts owing to their inherent desire to pursue more long term goals. In the context of HR management, Filser, De Massis, Gast, Kraus and Niemand (2017) report that the SME owner-manager's age is an important factor in shaping his approach towards HR activities in the firm with younger owner-managers associated with novel HR activities like HR formalisation. This implies that younger owner-managers in family-owned SMEs possess a stronger risk-taking propensity than their older counterparts and are therefore more likely to plunge into the risk associated with formalising HR practices than their older counterparts.



Filser et al., (2017) also observes that the SME owner-manager's age is an important factor in shaping his approach towards HR activities in the firm with younger owner-managers positively inclined towards the use of novel HR activities like HR formalisation as compared to their older counterparts. Blackburn et al., (2013) also observe that younger owner-managers are more likely to have a positive attitude towards adopting formal management. The same view is expressed by Chipunza (2014) who found, in a study on innovation adoption in family-owned accommodation SMEs in South Africa, a congruence between the owner-manager's age and their attitude towards adopting innovative ideas in firms.

Dabic, Ortiz-de-Urbina-Criado and Romero-Martínez (2011) postulate an alternative view in their observation that HR management competence in family-owned SMEs is accumulated over time and as a result, older owner-managers, are better prepared to deal with complex HR issues such as formalisation than their younger counterparts. Alharbi et al., (2018) argue in concurrence that older owner-managers are better placed to use their experience to make strong and confident decisions to deal with complex issues such as firm formalisation. Similarly, Steijvers et al., (2017) report that, in family-owned firms, older owner-managers often perceive a greater need to implement formal HR practices due to their long tenure in managing business-family complexity which would have opened their eyes to the virtues of formalising HR.

In other words, as Chilya and Roberts-Lombard (2012) theorises, work competence is accumulated over time and as a result, older owner-managers, will have had more time to develop and perfect HR management skills. This additional social competence will better prepare older owner-managers to deal with formal HR issues in SMEs. In this case older family-owned SME owner-managers have more decision-making power in the firm and this makes it easy for them to chart the business course and possibly implement formal HR practices without consulting other family members or other employees. Therefore, driven by the literature reviewed in this section, (Dabic et al., 2011; Filser et al., 2017, Steijvers et al., 2017), this study proposes the following hypothesis;

*H<sub>1</sub>: There is a positive and significant relationship between the owner-managers' age and Effort Expectancy.*

### **5.5.2 The owner-manager's level of education and HR formalisation**

According to Levent and Wang (2011), a higher level of education enhances the SME owner-manager's capacity for creativity and innovative behaviour within the firm. This innovative behaviour can lead to firm formalisation. Unger, Rauch, Frese and Rosenbusch (2011) also explain that more educated SME owner-managers can manage their firms formally as compared to those that are less educated. Therefore, the SME owner-manager's level of education is a basic need for effective managerial formalisation.

The same state of affairs is evident in family owned SMEs. Lobonțiu and Lobonțiu (2014) report that owner -managers with a higher level of education are more aware of the possible negative repercussions of operating informally and likely to formalise operations. Jiménez, Palmero-Cámara and González-Santos (2015) also share the same sentiments and note that the higher the level of education the family-owned SME owner-manager possess, the greater the possibility the firm will adopt formal business plans, which often leads to entrepreneurial success and firm growth. Similarly, Steijvers et al., (2017) adopts the same viewpoint and identify tertiary education as the most critical tool an owner-manager SMEs needs as it provides him/her with the basic expertise needed to run the firm formally.

Pertaining to HR in particular, Blackburn et al., (2013) assert that the more educated the owner-manager is, the more likely the firm is to adopt formal business plans and people management practices. Filser et al., (2017), also traces a relationship between higher educational achievements and formal business practices and reports that the owner-manager's ability to run the HR function professionally is directly tied to his level of education. Thus, this brief literature review reveals that the family-owned SME owner-manager's ability to implement formal HR practices is tied to their level of education with more educated owner-managers associated with higher level of HR formalisation. Therefore, following this literature evidence, the second hypothesis in this study is proposed as;

*H<sub>2</sub>: There is a positive and significant relationship between the owner-managers' level of education and Performance Expectancy.*

In addition, Jiménez et al., (2015) note that prior education possessed by an owner-manager lays the proper groundwork for him/her to conduct business formally and with ease. This point is further reinforced by Ogubazgh and Muturi (2014) in their claim that the ease of using new technology depends on the quality of human capital in the form of a set of educational skills possessed by the potential user. In this study, this would imply that, the SME owner-manager's level of education is positively related to the expectation that formal HR practices will be easy to use in the management of employees and hence the following hypothesis was proposed;

*H<sub>3</sub>: There is a positive and significant relationship between the owner-managers' level of education and Effort Expectancy.*

## **5.6 ENVIRONMENTAL FACTORS AFFECTING HR FORMALISATION**

The literature reviewed so far indicates that the owner-manager's personal characteristics, such as age and level of education, are critical elements in shaping their perception towards adopting formal HR practices. Kaufman and Miller (2011) are of the view that HR formalisation in family-owned firms may also be affected by factors that are inherent in the structure, policies and operations of the SME itself. Genc (2014) attributes the overbearing influence of the operational environment on the material and financial resources constraints in SMEs as compared to their larger counterparts. Likewise, the *Social Influence* construct in UTAUT also suggests that external environmental factors also influence a potential new technology user's attitude towards accepting and using new technology (Venkatesh et al., 2003). As such, this study intends to explore the effect of environmental factors on the owner-managers decision to formalise HR practices in family-owned accommodation SMEs in South Africa. The study proposes to examine the effect of three environmental factors, firm size age and presence of an HR department on the decision to formalise HR practices.

### 5.6.1 SME size and the formalisation of HR practices

According to Nolan and Garavan (2015) the use of the number of employees in the firm as a means to measure the size of an SME is a strong determinant of how HRM is practised in the firm. Kaufman and Miller (2011) also note that the growth in size of SMEs leads to the employment of more people, which compels the firms to adopt sophisticated HR systems in order to cope with the resultant organisational complexity. This means that, as an SME grows, the number of employees increases, and so does the complexity of managing HR in the firm, which makes HR formalisation inevitable. Psychogios et al., (2016) acknowledges that an increase in the number of employees in an SME creates the need to decentralise HR activities beyond the owner-manager by recruiting HR specialists and inevitably opening up avenues for HR formalisation. These findings can be inferred to family-owned SMEs thus prompting this study to explore the relationship between SME size and the owner-manager's decision to formalise HR practices in family-owned accommodation SMEs in South Africa.

In addition, Steijvers et al., (2017) observe that SMEs growth and demand for more employees may result in the exhaustion of informal staffing contacts such as family members, referrals and walk-ins, and the enterprises end up looking outside the family circle for new hires. Therefore, the firms will be forced to adopt formal methods of recruitment and in so doing formalise their HR systems. Dekker et al., (2014) confirms these formal methods and notes that in family-owned SMEs, firm size is a key determinant of the type of recruitment methods in use with SMEs using informal channels like personal contacts while larger firms use more formal tools like recruitment agents.

Other scholars echo the same view. Patel and Cardon (2010) argues that the small size characterising most family-owned SMEs firms implies that they suffer from budgetary limitations. These resource limitations' impact is that any possible knee-jerk decision to formalise HR practices is side-lined until the firm grows to a certain size to afford such expenditures (Kim & Gao, 2010).

Furthermore, Songini et al., (2015) note that, SMEs follow a defined lifecycle and pass through the stages birth, growth, maturity to decline. In the birth stage of the SME life cycle, informal management practices are the norm as all decision-making processes are centralised by the owner-manager. Thus, during this stage, most firms maintain simple structures and the owner-manager is expected to manage all activities including HR, a feat that leaves them running the HR function informally. However, as the firm grows and takes more employees during the growth and maturity stages, the owner-manager fades from the picture as the firm employs other specialist managers to assist in managing the firm. Consequently, this lays the groundwork for firm formalisation. Hence, this study makes inferences that division of labour in family-owned SMEs becomes inevitable as the firm grows and employs more employees. As Psychogios et al., (2016) elucidates, the family-owned firm is then compelled to hire HR specialists to assist the owner-manager handle HR responsibilities and this marks the foundation of HR formalisation in the firm. Resultantly, the following hypothesis is proposed for further testing in this study;

*H<sub>4</sub>: There is a positive and significant relationship between the size of the SME and the owner-manager's Performance Expectancy.*

In addition, as the family-owned SME grows in size and employ more people, they are compelled to employ HR specialists to help manage the people management function (Lobonțiu & Lobonțiu, 2014). In the context of this study, this engagement of HR professionals in the firm signals the establishment of an HR department. This proves that the size of the family-owned SME is significantly related to the presence of facilitating condition for HR formalisation in the firm. The condition arises from the reality that, as SMEs becomes larger and employ more people, the need to decentralise and communicate between employees and departments increases and this in turn, requires a certain level of specialisation and formalisation (Psychogios et al., 2016). Hence, the growth of an SME grows goes hand in hand with an increase of employees as well as that of the complexity of managing HR in the firm, thus compelling the forms to establish HR departments to facilitate people management in the firm (Kaufman & Miller, 2011). This reflects the positive relationship between SME

size and the presence of facilitating conditions in the firm as hypothesised in this study.

In simple terms, literature reviewed in this section paints the picture that growth in SME size that is measured in terms of the number of employees leads to more complex HR duties, which at times overstretches the capabilities of the owner-manager to handle the HR management function. This resultant complexity compels the owner-manager to delegate HR activities to specialist HR managers. This means that the existence of a separate HR department in the firm is dependent on the size of the firm and as such, the following hypothesis is proposed;

*H<sub>5</sub>: There is a positive and significant relationship between the size of the SME and the presence of Facilitating Conditions to establish a stand-alone HR department.*

### **5.6.2 SME age and HR formalisation**

According to Ramachandran (2017), an SME's age as determined by how long the entity has been in operation, has also been proven to be related to people management practices in the firm. The growth of a family-owned SMEs witnesses likely encounters of HR problems and these beg for the establishment of an HR department and by implication, the immediate adoption of formal HR practices (Kaufman & Miller, 2011).

In other words, this means that younger family owned SMEs tend to have little or no techno-structure, few employees, a loose division of labour, and a small middle line hierarchy that make the firm less likely to formalise its HR practices (Cano-Rubio et al., 2017). However, as the firm ages and expands, it will inevitably adopt formalised procedures to ease HR management practices and thus draw a close relationship between SME age and HR formalisation. This confirms the direct relationship between SME age and the presence of facilitating conditions (HR department) in the firm and as such the sixth hypothesis in this study is proposed as follows;

*H<sub>6</sub>: There is a positive and significant relationship between the age of the SME and the presence of facilitating conditions to establish a stand-alone HR department.*

### **5.6.3 SME location and HR formalisation**

As originally postulated by Weber's Industrial Site theory, one of the most important business considerations in SME entrepreneurship is the location of the firm in relation to other resources (Kala & Guanghua, 2010). Firm location is defined by Moos and Botha (2016) as the physical position within a given geographical area from where a firm is operating. This definition is in line with the one proposed by Fernández, Iglesias-Antelo, López-López, Rodríguez-Rey and Fernandez-Jardon (2019) who define firm location as the choice of locating a firm from where it will maximise returns. Thus, the choice of firm location has strong implications on access to markets and other resources that fosters firm success (Moos & Botha, 2016).

In addition, Fernández et al., (2019) focus on the significance of firm location in family-owned SMEs and observe that an estimated 71% of all family-owned SMEs operate on a single site and as such, location specific attributes become strong determinants of firm success. The afore-noted observation underscores that, in family-owned SMEs, the attractiveness or otherwise of the location in which the firm would be operating affects the managerial decisions and activities undertaken by the owner-manager (Sefiani, Davies & Bown, 2016). Existing research confirms this significance of location in defining the nature of success as noted in Freeman and Lawley's (2012), observation SMEs located in underdeveloped areas, unlike those in metropolitan areas, often face challenges and hence the need for eclectic and informal management practices as opposed to those located in metropolitan areas. The inference, here, in the context of this study, is that the location of a family-owned SME has a significant impact on the owner-manager's perception on the usefulness of having an HR department in the firm and the resultant use of formal HR practices.

Kala and Guanghua (2010) introduce a new stream perspective in the mapping of the relationship between the family-owned SME's location and the decision to formalise HR practices. Both scholars propose that sometimes family-owned SMEs are

compelled to formalise their firm operations in order to survive competition in certain locations. Leach (2011) concurs and reports that SMEs facing fierce competition in certain locations tend to be more formalised, aggressive and perform better than those that are not exposed to competition. This indicates that a location specific operating environment is an important consideration for the management strategies pursued by respective SMEs (Moos & Botha, 2016).

In addition, the implication of the link between management strategies and location environment is that, if a firm location is characterised by resource abundance, it is more likely that owner-managers in that location pursue management strategies that aim beyond basic survival. In the context of this study, this would imply that family-owned SMEs located in areas with high competition, such as accommodation SMEs in resort towns, are more dynamic, innovative and ultimately more formalised and likely to have the appropriate conditions to establish a stand-alone HR department. Likewise, similar firms located in isolated locations are likely to face less local competition, tend to be informal in their management practices and therefore less likely to have adequate facilitating conditions to support an in-house HR function. Therefore, in light of the literature findings discussed in this section, the following hypothesis is proposed for this study;

*H<sub>7</sub>: There is a positive and significant relationship between the SME's location and the presence of facilitating conditions to establish a stand-alone HR department.*

#### **5.6.4 Role of the HR Department in HR formalisation**

As already noted in this study, the presence of a properly manned HR department in the SMEs implies that HRM in the firm will be practiced in a way that ensures that the SMEs draws maximum utility from the HR department (Itika, 2011). In UTAUT, *Facilitating Conditions* refer to the availability in the firm of the necessary support infrastructure and facilities to smoothly adopt a new innovation (Venkatesh et al., 2003). In addition, *Facilitating Conditions* are in this study represented by the presence of a professional HR person in the firm who facilitates the owner-manager's decision to formalise HR practices. This would allow owner-managers in family-



owned SMEs to use formal HR practices with relative ease if there is a stand-alone HR department to assist them (Michiels, 2017). Steijvers et al., (2017) also argue that the presence of an HRM department in SMEs is associated with a higher level of relevant knowledge and expertise in the formal management of HR practices and in most instances decreases the costs of running the HR department. Such costs may include fixed costs of business or the time and efficiency costs associated with doing the right thing correctly at the optimum time.

Similarly, the presence of an HR professional or department in the firm allows fast and closer compatibility between the new formal HR practices and the current systems in the firm. As Psychogios et al., (2016) note, an HR professional's provision of expert HR management advice in the firm ensures smooth transition and compatibility between the old systems and the new formal HR practices and in turn leads to positive adoption behaviour. This is in sync with the tenets of the Innovation Diffusion Theory that draws a direct relationship between the compatibility of an innovation and positive adoption behaviour.

Nevertheless, the small size of many family-owned SMEs means that the owner-managers naturally assume responsibility for managing HR without the necessary expertise. This lack of HR management know-how sometimes leaves the owner-managers struggling with balancing the intricacies of HR management and forcing them to consider establishing a stand-alone HR department. Thus, Kaufman and Miller (2011) state that having an operational HR department in the family-owned firm will simplify the practice of HR as it falls in the hands of specialists. These specialists can then assist the owner-manager in the execution of HR and thus simplifying the HR management function in the firm.

Therefore, drawing from the arguments above, this study infers that the family-owned SME owner-manager will expect to use formal HR practices in the firm with ease if there is a fully-fledged stand-alone HR department in the firm. As a result, such the following hypothesis is proposed for further testing;

*H<sub>8</sub>: There is a positive and significant relationship between the presence of facilitating conditions to establish a stand-alone HR department in the SME and the owner-managers' Effort Expectancy.*

### **5.6.5 Institutional support and HR formalisation**

According to the Intervention Model for Firm Formalisation, access to institutional support is one best method of instigating formalisation in SMEs (ILO, 2016b). A common theme running across all countries in the world is that there is a relationship between SME formalisation and the availability of institutional support for SME development (Doh & Kim, 2014). The ILO (2016b) actually recommends the provision of institutional support in the form of finance, credit guarantee schemes, tax breaks and market intelligence to SMEs in emerging economies as a means to incentivise SMEs to formalise their operations. For example, Visser and Chiloane-Tsoka (2014) note that the South African government has successfully used institutional support to develop and partially formalise the SME sector. As such, organisations such as the Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA) were formed to facilitate the provision of institutional support to facilitate SME development and to incentivise their formalisation (Abor & Quartey, 2010).

Furthermore, the ILO (2016a) reports that various funding institutions demand that SMEs formalise their operations in order to qualify for institutional support grants and this compels such firms to formalise their operations in line with these requests. Psychogios et al., (2016) notes further that family-owned SMEs angling for institutional support are compelled to formalise their operations in order to qualify for the grants. Thus, the availability of institutional support becomes a significant factor in driving the need to formalise HR practices in family-owned SMEs.

In addition, despite this supposed availability of institutional support, SMEs are always facing huge challenges in raising finance to support their activities. To ameliorate this problem, many family-owned SME owner-managers rely on financial institutions and the government for financial and institutional support in the form of financial assistance and managerial capacity building (Ode, Wombo, Theresa, & Bridget, 2014). SMEs in

their attempts to qualify for loans are often compelled to formalise their operations by at least registering with respective authorities, which is the first step towards formalisation (Hashim et al., 2016). Pansiri and Temtime (2010) also add the argument that since many lending institutions prescribe stringent borrowing requirements for SMEs, which include the need to formally register and have proper books of accounts, these requirements often put SMEs under extreme pressure to formalise in order to access this funding.

Finally, O'Dwyer and Gilmore (2018) report that SME growth and survival is dependent on a combination of collaboration and alliances with other SMEs in the same industry. These collaborations are another form of institutional support that enables SMEs to compete more effectively with their larger counterparts. However, as Awa et al., (2015) demonstrate, membership of these alliances is usually on the basis that one is registered or operating formally and thus compelling SMEs to formalise their operations in order to qualify. Therefore, basing on these literature claims, the following hypothesis is proposed;

*H<sub>9</sub>: There is a positive and significant relationship between the availability of institutional support for SME development and the owner-managers' decision to formalise HR practices in the SME.*

### **5.6.6 Performance expectancy and HR formalisation**

This study draws on the Theory of Reasoned Action (TRA), which postulates that a new user's behaviour is based on rationale decision-making with the intention to act in a certain way being a function of the belief that the specific behaviour leads to a given desired outcome (Ajzen, 2015). This means that a user who perceives that the outcome of performing a certain behaviour is positive will assume a positive attitude towards performing that behaviour and may end up performing that behaviour with the opposite also true if the behaviour is thought to be negative (Maichum et al., 2016). Therefore, it is premised in this study that the decision to formalise HR practices by family-owned SME owner-managers is dependent upon the owner-manger's expectation that using formal HR practices will bring measurable returns such as decreased costs, increased profits and a wider market share.

The relationship between costs and adoption behaviour can be understood further from the perspective of the Transaction Cost Theory. According to Verbeke and Kan (2012), a transaction cost is the cost incurred by a firm during the process of participating in any sort of economic exchange. Any competent manager is expected to rationalise the costs of any business transactions they would have engaged in with costly adventures avoided if the tangible benefits are minimal (Charbel, et al., 2013). As a result, y, the introduction of formal HR practices, as in this study, maybe perceived as a transactional cost that must bring measurable returns if they are to be adopted by the owner-manager. In addition, the family-owned SME owner-manager is expected to weigh the costs of formalising against the potential benefits that will accrue to the firm before making the rationale decision to adopt or reject them.

This is the same approach in UTAUT where Venkatesh et al., (2003) posit a significant relationship between a new system user's *Performance Expectancy* and the final decision to adopt or reject a novel system in organisations. This implies, in terms of this study that, the decision to adopt formal HR practices is strongly influenced by the owner-manager's expectation that the formal HR practices will bring measurable and positive returns to their SMEs. In fact, as Ajzen (2015) reports, the potential user's attitude towards adopting a novel practice is based on an assessment of views on both the consequences arising from adopting the new practice and expected contribution of the new practices to the needs of the SME (*Performance Expectancy*).

*H<sub>10</sub>: There is a positive and significant relationship between the owner-managers' performance expectancy and the decision to formalise HR practices in the SME.*

### **5.6.7 Effort expectancy and HR formalisation**

According to Steijvers et al., (2017) even though firm formality is often perceived in negative light by many SME owner-managers as it dilutes his/her control over HR issues, many owner-managers are forced to consider hiring non-family HR professionals as HR issues get complex with firm formalisation. The situation becomes more complicated as the firms grows and acquires more employees and thus bringing complexity to HR management, which can only be cured by the employment of a

professional (Alharbi et al., 2018). Basly (2015) admits to this analysis and reports that though the family may try to keep the HR function under the control of the owner-manager to safeguard family interests, HR complexity will force the hiring of a non-family HR expert.

As a result, most family-owned SMEs avoid formalisation of some firm operations, such as HR, based on the perception that such formalisation leads to complex managerial practices that may compel the firm to employ foreign non-family managers and thus diluting family-managerial control in HR management (Herrero, 2017). Instead, as Filser et al., (2017) report, various family SME owner-managers prefer a scenario where decision-making SMEs are under the firm control of a family patriarch, who in most instances avoids complex managerial practices like HR formalisation that may be at variance with the need to protect family interests. This approach to management cements the unitary relations between the firm, family members and the rest of the employees and thus ensuring that all decisions made in the day to day management of the firm must not be overly complex and will ultimately be in the best interest of the firm (Basly, 2015; Blackburn et al., 2013). Nonetheless, these unitary relations and the desire to preserve family managerial independence cloud the decision-making process in the firm leading to a scenario where any novel business operations are viewed as complex and an attempt to upset the family-business balance and therefore should be avoided (Herrero, 2017).

The relationship between technology complexity and its potential adoption can also be traced to the Innovation Diffusion Theory (IDT), where Rogers (2010) concludes that the simpler it is to use an innovation, the greater the rate of its adoption by potential users. The same view can also be traced to TAM (*Perceived Ease of Use*) and UTAUT (*Effort Expectancy*), where both theories trace a strong relationship between the ease of using an innovation and the decision to adopt the innovation.

In light of these literature views, the last hypothesis proposed in this study reads;

*H<sub>11</sub>: There is a positive and significant relationship between the owner-manager's Effort Expectancy and the decision to formalise HR practices in the SME.*

The literature reviewed in the preceding chapters revealed a number of personal and environmental factors that influence the decision by the SME owner-manager to adopt the use of formal HR practices. Therefore, in line with one of the study's objectives, this literature was used to formulate a structural model that describes how selected personal and environmental factors interact with *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to explain the decision to formalise HR practices by owner-managers of family-owned accommodation SMEs in South Africa (Figure: 1.1). The nature of the relationships in the structural model is tested as the study's hypotheses which are recapped on Table 5.1.

**Table 5.1: Proposed hypotheses and respective literature**

Hypotheses	Literature Source
H <sub>1</sub> : There is a positive and significant relationship between the owner-managers' age and <i>Effort Expectancy</i> .	Dabic et al., (2011); Blackburn et al., (2013); Filser et al., (2017); Steijvers et al., (2017); Alharbi et al., (2018).
H <sub>2</sub> : There is a positive and significant relationship between the owner-managers' level of education and <i>Performance Expectancy</i> .	Frese and Rosenbusch, (2011); Levent and Wan (2011); Chiliya and Lombard-Robert, (2012; Lobotiu and Lobontiu (2014); Jimenez et al., (2015).
H <sub>3</sub> : There is a positive and significant relationship between the owner-managers' level of education and <i>Effort Expectancy</i> .	Jimenez et al., (2015); Ogubazgh and Muturi (2014).
H <sub>4</sub> : There is a positive and significant relationship between the size of the SME and the owner-manager's <i>Performance Expectancy</i> .	Kim and Gao (2010); Patel and Cardon (2010); Kaufman and Miller (2011); Dekkerr et al., (2014); Nolan and Garavan (2015); Psychogios et al., (2016).
H <sub>5</sub> : There is a positive and significant relationship between the size of the SME and the presence of facilitating conditions to establish a stand-alone HR department.	Kaufman and Miller (2011); Lobotiu and Lobontiu (2014); Psychogios et al., (2016).
H <sub>6</sub> : There is a positive and significant relationship between the age of the SME and the presence of facilitating conditions to establish a stand-alone HR department.	Kaufman and Miller (2011); Cano-Rubio et al., (2017); Ramachandran (2017).
H <sub>7</sub> : There is a positive and significant relationship between the SME's location and the presence of facilitating conditions to establish a stand-alone HR department.	Kala and Guanghua (2010); Leach (2011); Freeman and Lawley (2012); Moos and Botha (2016); Fernandez et al (2019).
H <sub>8</sub> : There is a positive and significant relationship between the presence of facilitating conditions to establish a stand-alone HR department in the SME and the owner-managers' <i>Effort Expectancy</i> .	Itika (2011); Kaufman and Miller (2011); Steijvers et al., (2017).
H <sub>9</sub> : There is a positive and significant relationship between the owner-managers' <i>Performance Expectancy</i> and the decision to formalise HR practices in the SME.	Abor and Quartey (2010); Doh and Kim (2014); Visser and Chilone-Tsoka (2014); ILO (2016b).
H <sub>10</sub> : There is a positive and significant relationship between the availability of institutional support for SME development and the owner-managers' decision to formalise HR practices in the SME.	Pansiri and Temtime (2010); Ode et al., (2014); Awa et al., (2015); O'Dwyer and Gilmore (2018).
H <sub>11</sub> : There is a positive and significant relationship between the owner-manager's <i>Effort Expectancy</i> and the decision to formalise HR practices in the SME.	Blackburn et al (2013); Basly (2015); Filse et al., (2017); Herrero (2017); Steijvers et al., (2017); Alharbi et al., (2018).

(Source: Reviewed literature)

## 5.7 CHAPTER SUMMARY

This chapter reviewed the different factors that affect HR formalisation in family-owned SMEs. The chapter first explored literature focusing on the concept of the informal sector and revealed the significance of the informal sector in emerging economies like South Africa. The chapter later reviewed literature that explores factors that affect HR formalisation in family-owned SMEs. The points noted here include that indication that there are three categories of factors that affect the formalisation of HR practices in family-owned SMEs. The first category of factors is derived from the owner-manager's personal characteristics such as the owner-manager's age and level of education. The second set of factors stems from the SME's characteristics such as the size, age, role of the HR department and the influence of the family itself. The third set refers to factors in the operating environment such as firm location and the availability of institutional support. The literature confirmed that all these factors affect HR formalisation in family-owned SMEs.

The next chapter outlines the study methodology used in this study.



## CHAPTER 6

### RESEARCH METHODOLOGY

#### 6.1 INTRODUCTION

This chapter describes the research methodology used to investigate the factors influencing the decision by the owner managers in family-owned SMEs to adopt formal HR practices. The chapter starts by presenting the research paradigm, the research approach and the research design informing this study. This is followed by an analysis of the sampling and data collection procedure. Other pertinent issues covered in this chapter include the analysis measurement model design, tools used to ensure validity and reliability, data screening and analysis procedures, as well as the design and testing of the study's structural model. The chapter also reintroduces the research hypotheses to be tested by the collected data and discusses the ethical measures taken into account in undertaking this study.

#### 6.2 RESEARCH PARADIGM

According to Kumar (2014) a research paradigm, also known as a research philosophy, refers to a set of beliefs and assumptions commonly held by a community of researchers on what constitutes research. It refers to a pattern or framework of scientific and academic ideas, values and assumptions that a school of researchers hold in common (Bryman & Bell, 2015). In addition, a paradigm in research prescribes for scientists in a particular discipline what should be studied, how research should be conducted and how results should be interpreted (Saunders et al., 2019). This view is also expressed by Mora, Gelman, Steenkamp and Raisinghani (2012) in their statement that, a paradigm in research encompasses theories, traditions, approaches, models, frames of reference, a body of research and methodologies that are commonly held by a research community as well as essential.

Furthermore, Bryman and Bell (2015) state that research paradigm is a product of two branches of philosophy, which are ontology and epistemology. Thus, Beins and McCarthy (2016:98) consider ontology as,

*“claims and assumptions that are made about the nature of social reality, claims about what exists, what it looks like, what units make it up and how these units interact with each other.”*

This shows that ontology involves examining what we mean when we say something exists and the implication is that ontology attempts to answer that question, ‘*What is real?*’ (Babbie, 2011). Therefore, an investigation of ontological distinctions is a critical facet of the research process because it clarifies the researcher’s worldview of the phenomenon under review and influences how the researcher eventually interprets the research findings (Damon, Pedersen & McEvoy 2011).

In addition, epistemology is defined by Saunders et al., (2019;133), as

*“assumptions about knowledge, what constitutes acceptable, valid and legitimate knowledge, and how we can communicate knowledge to others”*

Thus, epistemology refers to the nature of knowledge itself, its scope and the way it is structured (Beins & McCarthy, 2012). Therefore, if ontology refers to what we mean when we say something exists then it follows that an epistemology refers to what we mean when we say we know something (Kumar, 2014). Taken together, ontological and epistemological assumptions make up a research paradigm that guides a researcher’s conduct. Nonetheless, the most popular research paradigms that have emerged in business research meanwhile are the positivist and interpretivist paradigms (Beins & McCarthy, 2012).

### **6.2.1 Positivism**

According to Chilisa (2011) positivism is based upon the view that science is the only valid foundation for accurate generation of knowledge. The positivists assume, at the ontological level that, the reality is objectively presented and can be measured using tools measurement instruments that are independent of the researcher (Antwi & Kasim, 2015). This means that, under positivism, knowledge is objective and quantifiable with quantitative methods used as research tools to produce results that are easily generalisable and replicable beyond the research setting (Saunders et al.,

2019). Therefore, as Kumar (2014) intimates, positivism may be used to generate hypotheses, which can be tested with the ultimate aim of finding any correlations within the phenomena under review. Wagner, Kawulich and Garner (2012) concur with the above summation in their view that the function of research under positivism is to predict phenomena, test theories and establish relationships between variables. This often involves a manipulation of reality with variations in one or more independent variables to identify any relationships between the constituent elements in the research phenomena (Bhattacharjee, 2012).

### **6.2.2 Interpretivism**

Interpretivists hold the view that reality consists of the researcher's subjective experiences of the external world (Hennink, Hutter & Bailey, 2011). They argue that reality emerges from subjective meanings formed through the researcher's life experiences and characterised by the epistemological position that the researcher cannot be completely separated from the research process, as reality is perceived by social actors in the research process (Kumar, 2011; Bryman & Bell, 2015). This means that interpretivists adopt the ontological position that reality is a socially constructed phenomena derived from the researcher's subjective perception of the world. Saunders et al., (2019) note that interpretivists use methodologies that depend on the subjective relationship between the researcher and subjects under review, such as interviews or participant observations. Therefore, methodologically, the interpretivist paradigm is primarily associated with qualitative research methods as much as the positivist paradigm is associated with the quantitative research methods (Damon et al., 2011; Bryman & Bell, 2015).

This study adopted a positivist paradigm in order to take advantage of the positivist's methodological guidelines, which permit an easy comparison of large amounts of data as is the case in this study. The paradigm is consistent with the main objective of this study, which is to develop a model that describes the relationships among selected personal and the environmental factors that influence family-owned accommodation SMEs in South Africa to formalise their HR practices. In addition, positivism allows a deductive approach to the subject matter, which allows the researcher to test the relationships amongst the variables under review in this research. This is also relevant

in that the researcher is attempting in this study to test a number of personal and environmental variables that affect HR formalisation in family-owned SMEs in South Africa.

### **6.3 RESEARCH APPROACH**

According to Cooper and Schindler (2014) there are two major approaches in research, the qualitative approach and the quantitative approach where qualitative research allows for a more in-depth and detailed study of selected phenomena while quantitative research is more generalised. This implies that, the quantitative approach is generally associated with the positivist paradigm and involves the collection and conversion of data into numerical form that is amenable to statistical calculations. The qualitative approach on the other hand is an offshoot of interpretivism as it focuses on examining social phenomena in-situ (Antwi & Kasim, 2015).

Furthermore, Bryman and Bell (2015) note that data analysis in quantitative research is conducted objectively using statistical tools unlike in qualitative research where the subjective judgement of the researcher is sometimes allowed to influence research outcomes. This shows that quantitative research is meant to produce objective research findings. These findings can be empirically proven and would therefore be generalised to other contexts with confidence.

In addition, the quantitative approach is deductive in nature (Kumar, 2014). As a result, the approach is used when one seeks to test the veracity of theories basing on empirical research. This proved particularly significant in this study where the Unified Theory of Acceptance and Use of Technology (UTAUT) is used as the benchmark theory in exploring personal and environmental factors affecting the decision by family-owned SME managers in South Africa to adopt formal HR practices.

Finally, as Saunders et al., (2019) explain, the positivist approach enables a researcher to empirically test the relationship between the different variables under review. Kumar (2014) also reports that positivism is the most appropriate approach to consider when a researcher is attempting to determine the nature of the

relationships between the different variables in the research context. Table 4.1 summaries the key points in the quantitative and qualitative research approaches.

**Table 6.1: Quantitative Vs Qualitative research**

Quantitative research	Qualitative research
The researcher uses standardised tools, such as questionnaires, to collect numerical data.	Sometimes the researcher is the data gathering instrument.
Data is in the form of numbers and statistics.	Data is in the form of words, pictures or objects.
It is objective as it uses precise measurement and analysis of target concepts while using methods such as surveys and questionnaires.	Subjective as it uses methods such as participant observation and in-depth interviews and is based one's interpretation of events.
Collects quantitative data that can be used to test hypotheses, but may miss contextual detail.	Collects qualitative data, which is takes time to collect yet it has a limited capacity to be generalised.
The researcher is separated from the subject matter.	The researcher tends to become subjectively immersed in the subject matter.

**Source: Researcher's Conceptualisation**

A detailed structural model was proposed in this study in line with the positivist approach in order to explain the nature of the factors affecting the decision to formalise HR practices in family-owned SMEs in South Africa. Various hypotheses were also proposed and the study took advantage of the deductive ability of the positivist approach to test the veracity of the hypotheses in developing and testing a model that describes how selected personal and environmental factors interact with *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to explain the decision formalise HR practices by owner-managers of family-owned accommodation SMEs in South Africa.

## 6.4 RESEARCH DESIGN

Hennink et al., (2011) define a research design as a researcher's plan for answering the study's research questions. It outlines the procedures used to collect, measure and analyse research data. Meanwhile, Kumar (2014) notes that the choice of a research design at the disposal of the researcher is determined by one of the four motives why researchers undertake research. These four motives determine whether a study can be categorised as descriptive, exploratory, correlational or an explanatory research.

Descriptive research attempts to explore a situation, problem, phenomenon and scenario on the ground (Antwi & Kasim, 2015). The researcher assumes a hands-off approach in describing the scenario uses and thus does not attempt to influence the scenario under study. Exploratory research on the other hand seeks to explore an area where little is already known (Bryman & Bell, 2015). Thus, exploratory research is employed when one is attempting to explore the possibilities of undertaking a particular research. Finally, the difference between exploratory research and descriptive research is that, while exploratory research aims at providing an understanding of the subject under review, descriptive research attempts to describe the subject under review by outlining its functions and characteristics (Antwi & Kasim, 2015).

In addition, there is a correlational research. It examines whether there is a relationship between two or more variables in the research scenario, hence the name, correlational research. Bryman and Bell (2015) point out that the main emphasis in correlational research is to establish the existence of a relationship between two or more variables in a research scenario.

The fourth type of research as identified by Kumar (2014) is explanatory research. It is conducted to identify the extent and nature of cause-and-effect relationships amongst the variables under review. As the term explanatory implies, this form of research aims to explain, rather than simply to describe, the nature of the phenomena under review (Bryman & Bell, 2015). Thus, Cohen, Manion and Morrison (2011) state that explanatory research is conducted to resolve a problem not well researched

before or to come up with a better-researched explanation of the situation on the ground. Babbie (2011) also elucidates, that the researcher in an explanatory research emerges with a hazy idea and uses research as a tool to probe for more information to explain why and how there is a relationship between the variables under review. In addition, Antwi and Kasim (2015) note that experiments are the most popular primary data collection methods in studies within the explanatory research design. This is because with experiments, one may control and manipulate the research context to prove any correlations that may exist (De Vos, Strydom, Schulze, & Patel, 2011).

However, in a research such as the current one, which involves human subjects, it may not be possible to fully manipulate the research context without violating research ethics. This then calls for a unique form of research design, the *ex post facto* research design. According to Saunders et al., (2019) *ex post facto* research acts as a substitute for experimental research and can be used to test correlational relationships in a research context where it is not practical or ethical to apply a true experimental or even a quasi-experimental design. *Ex post facto* literally means from what is done afterwards and can therefore be viewed as an experimental research in reverse because of its ability to reveal possible relationships by observing an existing condition and searching back in time (Antwi & Kasim, 2015). This idea is also expressed by Mora et al., (2012) in their observation that *ex-post facto* research seeks to explain a research outcome based on precedent conditions and by implication does not allow any manipulation of the variables by the researcher as their manifestations would have already occurred. Despite studying facts that have already occurred, an *ex post facto* study shares with experimental research design some of its basic logic of research; the ability to explain a consequence; determine the influence of a variable on another variable, and test a claim using statistical hypothesis testing techniques (Bhattacharjee, 2012; Antwi & Kasim, 2015).

This study, where the researcher proposes that the decision to formalise HR practices in family owned SMEs is based on certain factors that either have or are already playing themselves out in the operating environment, adopts the same direction as outlined above. The researcher is attempting to glean at personal and environmental

factors that determine the decision to formalise HR practices without manipulating them in any way as one would do with an experimental design. Therefore, the current study took this ability of the ex post facto research design to formulate several hypotheses that reveal the nature of the relationship between factors that affect HR formalisation in family-owned SMEs in South Africa.

## **6.5 POPULATION AND SAMPLING PROCEDURE**

Beins and McCarthy (2012:212) define a research population as “*all conceivable elements, subjects or observations relating to a particular phenomenon of interest to the researcher*”. This indicates that population in research refers to a group of potential respondents that is of interest to a researcher and for which the researcher would like the results of the research to be generalised. The target population for this study comprised all family-owned accommodation SMEs in the Free State Province, South Africa. Therefore, basing on a database provided by Free State Tourism (2016), at the time of the research, there were 431 registered and tax paying family-owned accommodation SMEs in the Province and these constituted the target population in this study.

### **6.5.1 Sample size**

The sample size is an important consideration in any research that aims to make inferences about the population from a sample (Saunders et al., 2019). Sample size determination is the technique of selecting the number of observations to include in a sample and depends on both non-statistical and statistical considerations (Cooper & Schindler, 2014). First, the non-statistical considerations may include availability of resources, manpower, budget considerations, ethical considerations and the size of the sampling frame (Cooper & Schindler, 2014; Wagner et al., 2012). Second, the statistical considerations include statistical measures used to ensure that the desired precision from the selected sample with larger sample sizes generally leading to increased precision (Kumar, 2014). Therefore, an appropriate determination of a research sample size is significant in research.

This study's sample size was determined in line with the requirements of the data analysis technique and applied the Structural Equation Modelling (SEM), which



requires large samples as the parameter estimates and chi-square test of fit used in SEM analysis are very sensitive to sample size (Sideridis, Simos, Papanicolaou & Fletcher, 2014). In concurrence, Civelek (2018) reports that a small sample size results in unstable parameter estimates and the analysis will lack adequate statistical power. Therefore, SEM analysis can only produce accurate results if the sample size is big enough to muster enough statistical power that will reveal the significant difference between the means or proportions observed in the different sub-groups under review (Cohen et al., 2011; Bhattacharjee, 2012).

It should be noted that there is no consensus in extant literature regarding what would be the appropriate sample size in SEM analysis (Wolf, Harrington, Clark, & Miller, 2013). Of all multivariate methods of data analysis, SEM is the most sensitive to sample size because some of its statistical algorithms tend to produce faulty results from small samples (Sideridis et al., 2014). In addition, Little (2013) reports that simple SEM models can be successfully tested even if a sample size is quite small. Sideridis et al., (2014) suggest,  $N = 100 - 150$  as the minimum sample size for conducting SEM successfully. However, the reality that larger samples are usually more time consuming and expensive to collect leads to the critical question posed by researchers on the sample size that is needed to produce trustworthy results in SEM (Wolf, et al., 2013). Hair, Black, Babin and Anderson (2014) note that the answer lies in prescribing a range of sample sizes depending on model complexity. Table 6.2 shows minimum sample size suggestions based on model complexity and basic measurement characteristics as proposed by Hair et al., (2014).

**Table 6.2: SEM sample size requirements**

Minimum Sample size required	Conditions (Model complexity and basic measurement model characteristics)
Minimum sample size 100	Models containing five or fewer constructs, each with more than three items and with high item communalities (.6 or higher).
Minimum sample size 150	Models with seven constructs or less and modest communalities (.5).
Minimum sample size 300	Models with seven or fewer constructs, lower communalities (below .45), and fewer than three items.
Minimum sample size 5000	Models with large numbers of constructs, some with lower communalities, and having fewer than three measured items.

**Source:** Hair et al., (2014)

Therefore, guided by Hair et al., (2014) this study targeted a sample of 270 respondents. This figure was deemed adequate to produce statistically valid and reliable results.

### 6.5.2 Sampling procedure

Sampling refers to the process of selecting elements to be observed in a research (Babbie, 2011). A carefully chosen sample is necessary if one is to draw accurate inferences about the population that the sample represents (Bryman & Bell, 2015). Sampling can be grouped into two broad categories: probability sampling, and non-probability sampling (Kumar, 2014). According to Saunders et al., (2019) probability sampling follows the principle that all the elements in a population have a pre-specified and equal chance to be part of the sample. Therefore, probability sampling is based on the principles of probability and this reduces the possibility of bias in the establishment of the sample (Kumar, 2014).

Furthermore, non-probability sampling is considered when the elements in the population do not stand an equal chance of becoming a part of the sample (Saunders et al., 2019). This implies that there is no known probability attached to the probability of each element being included in the sample (Wolf et al., 2013). Here, the chances of any population element being included in the sample rely on the subjective

judgment of the researcher. Researchers often use non-probability sampling because it is relatively easier, quicker and cheaper when compared to probability sampling (Bhattacharjee, 2012; Mora et al., 2012).

### **6.5.3 Sampling method**

Convenience sampling is a non-probability sampling method where samples are selected from the population because they are conveniently available to the researcher at the point of collection. Bryman and Bell (2015) note that convenience sampling relies on collecting data from population members who are conveniently available to participate in a research. In this study convenience sampling was used to select the study's participants. The sampling method was chosen because the study needed to collect huge amounts of data to meet the Structural Equation Modelling (SEM) threshold within a short time-frame. In addition, the distribution of the family-owned accommodation SMEs in the Free State Province meant convenience sampling was the most cost-effective tool to gather data in this study.

## **6.6 MEASUREMENT MODEL DESIGN**

The measurement model in SEM based studies must be carefully designed to ensure that it accurately measures the variables under review. Chumney (2016) notes that the design of the measurement model must at the basic minimum, ensure that the latent variables under review are related to their indicators. As such, this study drew on this recommendation and carefully designed a self-administered structured questionnaire as the measurement model.

According to Kumar (2014), structured questions are best suited for descriptive research designs, such as this study, where respondents express their attitudes towards certain phenomena. Therefore, this study, which follows the ex-post-facto research design and choice of SEM as a data analysis method identified a self-administered structured questionnaire as the appropriate data gathering tool. Self-administered structured questionnaires offer two primary advantages that proved significant in this study. Firstly, the questionnaires can be distributed to a large number of respondents in a short time. This proved handy in reaching out to a large number

of respondents scattered across the Free State Province. Secondly, self-administered questionnaires allow for anonymity, which was necessary in ensuring that elicited responses were honest.

Other data gathering tools such as interviews or focus groups are appropriate for gathering unstructured qualitative data (Cohen, Manion & Morrison, 2011). These would not be useful in this study where the study, which examines the relationships between the proposed hypotheses. In addition, any other research instrument, other than the structured questionnaire, would not be able to reach the number of respondents high enough to muster a statistical power that satisfies the demands of Structural Equation Modelling within a reasonable time-frame.

### **6.6.1 Operationalisation of constructs**

According to Hair et al., (2014), a theoretical construction consists of a set of identifiable characteristics that combine to form a unique representation of a specific construct. Operationalisation of constructs refers to the process of reducing the abstract concepts to render them measurable in a tangible way (Sekaran & Bougie, 2013). Construct operationalisation therefore specifies the empirical measurements used on a construct that is used in research (Sideridis et al., 2014). Researchers such as, Hair et al. (2014), recommend that constructs can be defined and operationalised by taking guidance from previous studies. Consistent with this recommendation, the operational definitions of the constructs used in this study were drawn from literature that demonstrates sound properties indicating that they are valid and reliable measures of the latent variable proposed in this study. As such, the constructs in this study were operationalised by:

- coming up with a definition of the constructs that are being measured;
- selecting items or questions that measured the construct; and
- selecting the response-format (e.g., five-point Likert Scale was used in this study).

Table 6.3 presents the constructs measured in this study and the relevant literature sources that guided the choice items on the measurement model.

**Table 6.3: Summary of the measurement model**

Sections	Construct measured	Source of items in the questionnaire
<b>Section A.</b>	Biographical information: Gender, Age, Education, Location, Ownership, Experience and Size.	Harney and Nolan (2014); Kotey & Slade, (2005); Levent and Wang, (2011); Psychogios et al'. (2015); Sheehan (2014); Songini et a.,l (2015); Steijvers et al., (2017).
<b>Section B1.</b>	<i>Effort expectancy</i> of using formal HR practices.	Davis (1989); Venkatesh et al., (2003); Venkatesh, et al., (2012); Songini et al., (2015); Sanny, (2017).
<b>Section C1.</b>	<i>Performance expectancy</i> of using formal HR practices.	Davis (1989); Venkatesh et al., (2003); Venkatesh, et al., (2012); Songini et al., (2015); Svendsen, et al., (2013); Kaufman & Miller, (2011); Al Mursalin, (2012).
<b>Section D1.</b>	Effect of <i>facilitating conditions</i> on the decision to formalise HR practices.	Rouditser and McKeown, (2015); Doh and Kim (2014).
<b>Section E1.</b>	Effect of institutional support on the decision to formalise HR practices.	Doh and Kim (2014); Zindiye et al., (2012); Umer (2012).
<b>Section F1.</b>	Decision to formalise HR practices.	Charbel et al., (2013); Gnan et al., (2013); Minichilli & MacMillan (2010); Ramachandran (2017) .

Source: Researcher's Conceptualisation

The constructs shown in Table 6.3 represent the independent variables used in this study to develop the study's measurement model. More details of the different sections of the questionnaire are provided below.

**Section A** of the questionnaire solicited the biographical data that include the owner-manager's age, experience, level of education, and gender of the respondents. It also sought to establish the age of the SMEs, the number of employees in the firms and the location of the SMEs.

**Section B** solicited data on the *Effort expectancy* of using formal HR practices in family-owned SMEs. The section also collected data that measures the SME owner-manager's perception on the ease of using formal HR practices. Using the five-point Likert Scale as alluded to above, respondents responded to items such as:

*We expect that employee performance management will become easier if we formalise our HR practices.*

*We expect that rewarding employees will become easier if we formalise our HR practices.*

**Section C** had items that solicited the SME owner-managers *Performance expectancy* of using formal HR practices in family-owned SMEs. Thus, the same Likert scale was used in this section to solicit responses to items such as:

*By formalising HR in our firm, we expect to set up mutually beneficial linkages with other firms.*

**Section D** explored the effect of *Facilitating Conditions* on the decision to formalise HR practices in family-owned SMEs. In this section, respondents were asked to show their agreement or otherwise to items such as:

*If we get institutional support from the government, we will use formal HR practices in the firm.*

*We will consider establishing an HR department if it brings new technology into our firm.*

**Section E** examined the effect of *Institutional Support* on the decision to formalise HR practices. A five-point Likert scale was used to measure respondents' agreement or otherwise to items such as:

*Tax rebates by the government will incentivise us to formalise our HR practices.*

**Section F** explored factors that directly influence the decision to formalise HR practices in family-owned SMEs. Respondents were asked to show their agreement or otherwise to items such as:

*The interests of family members are considered first in making the decision to use formal HR practices in the firm.*

### **6.6.2 Measurement model fit**

The study's measurement model must fit the collected data in line with SEM requirements. Hair et al., (2014) recommend subjecting the measurement model to a Confirmatory Factor Analysis (CFA) to determine fit. According to Bryman and Bell (2015), CFA measures the content validity of a measurement model by testing the extent to which items making up the constructs on the measurement model are consistent with a researcher's understanding of the nature of the constructs in the field based on extant literature. As such, the objective of CFA is to test whether the data to be collected from the field fits into the proposed measurement model (Antwi & Kasim, 2015). This study subjected the measurement model to a CFA using the common fit indices as recommended by Hair et al., (2014) and reflected in Table 6.4.

**Table 6.4: Common fit indices**

Measure	Name	Description	Cut-off
$\chi^2$	Model Chi- Square	Assess the overall model fit using the discrepancy between the sample and the fitted covariance matrices.	P-value > 0.05
(A)GFI	(Adjusted) Goodness of Fit	GFI calculates the proportion of variance that is accounted for by the estimated population covariance and shows how close the model comes to replicate the observed covariance matrix. The GFI and AGFI should be between zero (indicative of poor fit) and 1 (indicative of perfect fit).	AGFI $\geq 0.90$
NFI TLI	Normed- Fit Index Tucker Lewis Index	The Normed Fit Index (NFI) assess the model by comparing the $\chi^2$ value of the model with the $\chi^2$ value of the null/independence model. The Non-Normed Fit Index (NNFI) adjusts the NFI for the number of degrees of freedom in the model. The independence model specifies that all measured variables are uncorrelated. Values of the statistic range from 0 and 1 and the cut off value recommended has been values greater than .90 that indicate good fit. The NFI is the most preferable method for smaller samples.	NFI $\geq 0.95$
CFI	Comparative Fit Index	Compares the sample covariance matrix with the null/independent model with the independent model assuming that all latent variables are uncorrelated. Values of CFI statistic range from 0 and 1.0 with values closer to 1.0 indicating good fit. A cut-off criterion of CFI that is .90 or above has largely been recommended as indicative of good fit.	CFI $\geq 0.90$
RMSEA	Root Mean Square Error of Approximation	A parsimony-adjusted index. Researchers have stipulated cut off values of less than .05 as indicative of a good fit with those between .05 and under .08 as indicative of a reasonable fit and values between .08 and .10 to be indicative of a mediocre fit. Finally, values greater than .10 are indicative of poor fit.	RMSEA < 0.08

Source: Hair et al., (2014)



### **6.6.3 Pilot study**

The conducting of a pilot test that pre-determines research instruments before collecting data is recommended in research. The pre-testing is especially significant when data is gathered through a self-completed questionnaire as is the case in this study (Bryman, 2012). Further recommendations, as noted by Zikmund and Babin (2010), are for checking the following issues during the pilot testing of self-completed questionnaires;

- The instrument should flow naturally,
- The questions must be clear and easy to understand,
- Respondents must be able to answer questions without seeking assistance.

Thus, a pilot study was conducted using a conveniently selected sample drawn from family-owned accommodation SMEs located in Bloemfontein. A total of 20 questionnaires were distributed and after three days of data collection, 16 questionnaires were completed and returned. An analysis of the returned questionnaires did not raise any issues with language and clarity of the instrument and as such the questionnaire was adopted as the study's measurement model.

## **6.7 VALIDITY AND RELIABILITY OF THE MEASUREMENT MODEL**

Every study must be credible. Cohen et al., (2011) note that research credibility refers to the degree to which the study findings and by implication the study methods used to generate the study findings can be trusted. Credibility is of paramount importance in the case of SEM based studies, such as this one, and as such, the measurement model should be able to demonstrate that the measures used to gather the data are valid and reliable (Hayes, 2017). Furthermore, Tabachnick and Fidell (2013) underscore if the confidence of the measures on a measurement model is not established by demonstrating their validity and reliability that in SEM based studies, the assessment of substantive relationships in the structural model becomes problematic. Therefore, the credibility of the current study is dependent on the credibility of the measurement model used to gather the study data.

After operationally defining the study constructs in this study, it became imperative to ensure that the measurement model used to gather data in this study would be valid and reliable.

### **6.7.1 Validity of the measurement model**

Validity refers to the degree to which the study accurately answers the question it is intended to answer (Kumar, 2014). Studies, such as Antwi and Kasim (2015) note that the validity of a measurement instrument depends on whether a measurement model measures what it is supposed to measure. This indicates that a valid measurement model tests what it is intended to measure as defined by the designer (Cooper & Schindler, 2011).

In addition, Bryman and Bell (2015) state that there are three broad forms of study validity that are of interest in this study and these are content validity, criterion validity and construct validity. Content validity refers to the extent to which the items on a measurement model are representative of the entire domain of variables that the measurement model seeks to measure (Bryman & Bell, 2015). A researcher uses content validity to determine whether all areas of research interest are adequately covered within the measurement model (Kumar, 2014; Saunders et al., 2019). Therefore, a measurement model is considered as having content validity if the number of measuring constructs on the model sufficiently cover all the variables that the study sought to address. prior, A thorough literature review was conducted in this study to get familiarisation with the whole spectrum of factors that can possibly influence the decision to formalise HR practices in family-owned SMEs in South Africa and the findings were used to design the measurement model. This exercise guaranteed that all aspects surrounding the study theme were covered in designing the measurement model and thus ensure content validity of the measurement model used in this study.

It was also imperative to ensure that the study's measurement model conforms to the demands of construct validity. According to Saunders et al., (2019), construct validity refers to the extent to which a measurement model measures what it is supposed to

measure. Each item on the measurement model must reflect their respective construct and show a significant correlation with other items within the scale (Tabachnick & Fidell, 2013). In addition, Cohen et al., (2011) note that the main purpose of construct validity is to determine whether the inferences drawn from the study findings are meaningful and serve the purpose of the study.

There are categories of validity that a researcher must consider. Hayes (2017) noted that there are two types of construct validity that are of significance in this study and these are convergent validity and discriminant validity. Convergent validity measures the degree to which the items making up a construct share a high proportion of variance (Hair et al., 2014). Convergent validity therefore validates the internal consistency of the measurement items because highly reliable measurement scales indicate a high level of convergent validity (Tabachnick & Fidell, 2013). In addition, discriminant validity reflects the extent to which a measurement scale fails to correlate with other scales that it is supposed to differ with (Kumar, 2014). Thus, discriminant validity reflects how unique and distinctive a measurement scale is as compared to other scales on the measurement model (Sideridis, et al., 2014). This study measured convergent and discriminant validity as per the indicators shown in Table 6.5.

Table 6.5: Validity testing tools

Validity testing tool	Acceptable Threshold
Factor loadings (standardised estimates)	>0.5
Average Variance Extracted (AVE)	> 0.5

Source: Hair et al., (2014)

### 6.7.2 Reliability of measurement model

A study instrument is considered reliable if it produces consistent results (Cooper & Schindler, 2011). This shows that reliability in research is the degree to which a measurement tool is free from measurement errors, since the more measurement errors on the tool, the less reliable the data gathered using the measurement tool (Cooper & Schindler, 2011; Gravetter & Forzano, 2012;). This study used two tools to test the validity of the collected data, which are the Cronbach's coefficient alpha and the Composite Reliability (CR) method in order to achieve quality. Cronbach's alpha

measures the internal consistency of the constructs on a measurement instrument at the cut-off value of 0.7 although 0.6 is sometimes permissible (Field, 2014). Finally, , a minimum value of 0.7 is acceptable, although in rare cases .06 may also be acceptable, with the second and Composite Reliability (C.R) method.

## **6.8 DATA COLLECTION PROCEDURE**

The study used the Free State Tourism Council (2016) database of small accommodation entities in the Free State as the sampling frame for collecting data. The database showed that there were 431 family-owned accommodation SMEs in the Free State Province at the time of the study. The researcher used four trained research assistants to hand-deliver 270 questionnaires to owners or managers of family-owned accommodation SMEs in the Free State Province.

Respondent confidence was solicited with the use of a covering letter attached to the questionnaire that introduced the researcher to the respondents, stated the purpose of the study and assured respondents that their responses would be held with the strict confidentiality. Rubin and Babbie (2010) note that a covering letter is important when physically collecting data as it enables prospective respondents to gain confidence and avoid any resistance to the data collectors' engagements. As such, the cover letter should be constructed in such a way that it motivates respondents and alleviate any resistance they might have about participating in the study. Finally, this study's entire data collection period took approximately 90 days and by then, 206 out of the 270 questionnaires distributed had been completed and returned.

## 6.9 DATA ANALYSIS PROCEDURE

This study used a descriptive statistics analysis method. The method describes the basic characteristics of a data set in order to identify the basic patterns in the data (Babbie, 2011). Thus, descriptive statistics were applied in this study to arrange data into meaningful basic forms of descriptive data measures, which are central tendency, averages, medians, modes, variance, range distribution and variability. These descriptive data measures, which are integrated in the AMOS.24 software were then applied in the Structural Equation Modelling (SEM) analysis to explore the personal and environmental factors affecting the decision to formalise HR practices in family-owned SMEs in South Africa.

Structural Equation Modelling (SEM) is a multivariate statistical framework that is used to analyse structural relationships between directly and indirectly observed (latent) variables (Sideridis et al., 2014). It is defined by Civelek (2018) as a procedure for estimating the relationships among a set of constructs represented by a number of variables that make up an integrated testable model. SEM presents a sequence of structural equations and relations that can be modelled graphically to provide a more robust conceptualisation of the theory being investigated (Schumacker & Lomax, 2010). As such, SEM provides a convenient framework for statistical analysis that allows research findings to overcome single relationship limitations by simultaneously interpreting the relationships among multiple variables. Therefore, SEM lends itself well for testing models with multiple dependent and independent variables as it is amenable to the analysis of complex and simultaneous tests of all the relationships (Hayes, 2017). Similarly, the proposed structural model was designed to test structural relationships among the unobserved variables postulated on the basis of UTAUT and other technology adoption theories. The model design was supported by previous empirical study results and as such, SEM was considered the most appropriate data analysis approach.

SEM is also suitable when testing models based on well-developed and sound theoretical models (Schumacker & Lomax, 2010; Little, 2013). The theories used in crafting the study's structural model are well-established and have been applied in previous empirical technology adoption studies that also applied SEM analysis. In

addition, the fact that the major theory underpinning this study, UTAUT, is characterised by multiple estimation paths made SEM is the most appropriate tool to use. The use of SEM is based on the reality that it allows for a simultaneous estimation of the paths, a process that would be tedious with the use of regression techniques given that separate estimation would have to be conducted for each path of the model (Little, 2013).

Therefore, the SEM data analysis technique that used AMOS.24 was considered appropriate for testing the theoretical model that hypothesises factors affecting the decision to formalise HR practices in family-owned accommodation SMEs.

## **6.10 DATA SCREENING PROCEDURE**

data screening is important in an SEM based study such as the current study as it provides the basis of the accuracy of the collected data and any subsequent analysis and interpretations that will be drawn from the data (Sideridis et al., 2014). The screening of data becomes important here because the assumptions that give meaning in SEM data analysis are stricter than for the standard t-test (Tabachnick & Fidell, 2013). As a result, this study's data was screened by computing missing data, noting unengaged responses and screening for outliers.

### **6.10.1 Missing data**

The first SEM analysis stage focuses on managing missing data. According to Babbie (2011), a major weakness of self-administered questionnaires is the level of missing data they solicit. Missing data arises when respondents either refuse, omit or are unable to answer a specific question.

### **6.10.2 Outliers and normality**

Prior to conducting SEM analysis, the data must also be screened for outliers and normality to meet the assumptions of the general linear model. The Mahalanobis Distance (MD) will be used to detect the outliers in this study. According to Varmuza and Filzmoser (2016) the Mahalanobis Distance detects outliers in a data set by measuring the distance from one-point relative to the centroid. The centroid is a point in multivariate space where all means from all variables intersect and is therefore considered as an overall mean for multivariate data (Sideridis, et al., 2014). Therefore,

the larger the Mahalanobis Distance, the further away from the centroid the data point is and the more likely it is to be an outlier.

## **6.11 STRUCTURAL MODEL FIT**

Hayes (2017) states that the structural model consists of a set of linear structural equations that specify the causal relationships among latent variables. In this case, the main objective of evaluating the structural model is to establish whether the theoretical relationships developed during the conceptualisation stage are corroborated by the data collected from fieldwork (Wolf et al., 2013). Thus, the evaluation of the structural model entails establishing the validity of the nomological relationships in the proposed structural model. In this study, the Maximum Likelihood Estimation (MLE) method tests the extent to which the structural model fits the collected data against the common model fit indices recommended by Hair et al., (2014) as shown on Table 6.4. According to Varmuza and Filzmoser (2016), Maximum Likelihood Estimation (MLE) is a statistical tool used to come up with an estimate of the distribution parameters of a data distribution by maximising a likelihood function to create a fit between the assumed statistical model and observed data.

## **6.12 HYPOTHESIS TESTING**

Having established a fit between the proposed structural model and the data collected from the field, the next stage in SEM analysis focuses on testing the study's proposed hypotheses. Beins and McCarthy (2012) define a hypothesis as a tentative explanation, which accounts for a set of facts that can be tested by further investigation. Cohen et al., (2011) describe a hypothesis as a presumptive testable statement on what is intended for investigation. This underscores that a study hypothesis is an assertion or conjecture about a population parameter that could be true or not. Hypothesis testing is one of the most commonly used inferential procedure that uses study data to evaluate the credibility of the hypotheses proposed about a population (Bryman & Bell, 2015). In addition, Kumar (2014) states that study hypotheses may be presented either as null ( $H_0$ ) or alternative hypotheses ( $H_1$ ). The null hypothesis is a statement about the population that always state that there is no

relationship amongst the variables under review and the alternative hypothesis is the one assumed to be true once the null hypothesis is considered untrue (Hayes, 2017).

Drawing upon a review of empirical literature and the UTAUT model, the researcher proposed a testable structural model (Figure. 1.1) that describes how selected personal and environmental factors interact with *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to influence y owner-managers' decisions to formalise HR practices of family-owned accommodation SMEs in South Africa. Table 6.6 shows the hypotheses drawn from the interaction between the personal and environmental factors and the respective techniques used to test the veracity of the proposed hypotheses. It is envisaged that the examination of these factors will produce data that can be used to develop and test a structural model for the formalisation of HR practices in family-owned SME accommodation firms in South Africa.



**Table 6. 6: Summary of hypotheses and relevant tests**

Hypotheses	Techniques Used to Analyse Data
H <sub>1</sub> : There is a positive and significant relationship between the owner-managers' age and effort expectancy.	Descriptive, Multiple regression and the Structural Equation Model (SEM).
H <sub>2</sub> : There is a positive and significant relationship between the owner-managers' level of education and performance expectancy.	Descriptive, Multiple regression and the Structural Equation Model (SEM.)
H <sub>3</sub> : There is a positive and significant relationship between the owner-managers' level of education and effort expectancy.	Descriptive, Multiple regression and the Structural Equation Model (SEM).
H <sub>4</sub> : There is a positive and significant relationship between the size of the SME and the owner-manager's performance expectancy.	Descriptive, Multiple regression and the Structural Equation Model (SEM).
H <sub>5</sub> : There is a positive and significant relationship between the size of the SME and the presence of facilitating conditions to establish a stand-alone HR department.	Descriptive, Multiple regression and the Structural Equation Model (SEM).
H <sub>6</sub> : There is a positive and significant relationship between the age of the SME and the presence of facilitating conditions to establish a stand-alone HR department.	Descriptive, Multiple regression and the Structural Equation Model (SEM).
H <sub>7</sub> : There is a positive and significant relationship between the SME's location and the presence of facilitating conditions to establish a stand-alone HR department.	Descriptive, Multiple regression and the Structural Equation Model (SEM).
H <sub>8</sub> : There is a positive and significant relationship between the presence of facilitating conditions to establish a stand-alone HR department in the SME and the owner-managers' effort expectancy.	Descriptive, Multiple regression and the Structural Equation Model (SEM.)
H <sub>9</sub> : There is a positive and significant relationship between the availability of institutional support for SME development and the owner-managers' decision to formalise HR practices in the SME.	Descriptive, Multiple regression and the Structural Equation Model (SEM).
H <sub>10</sub> : There is a positive and significant relationship between the owner-managers' performance expectancy and the decision to formalise HR practices in the SME.	Descriptive, Multiple regression and the Structural Equation Model (SEM).
H <sub>11</sub> : There is a positive and significant relationship between the owner-manager's effort expectancy and the decision to formalise HR practices in the SME.	Descriptive, Multiple regression and the Structural Equation Model (SEM)

Source: Compiled from reviewed literature

## **6.13 ETHICAL CONSIDERATIONS**

According to Cohen et al., (2011), ethics refer to the field of inquiry that ascertains behaviours considered appropriate under certain circumstances as recommended by codes of ethical behaviour prescribed by society. Saunders et al., (2019) also noted that a strict observance of ethical codes and guidelines in business research is essential if the research is to get a seal of approval in the academic community. As such, this study also sought to uphold proper research ethics by seeking prior ethical clearance from the sponsoring university, Central University of Technology, Free State. The study was given the greenlight through the issuance of ethical clearance letter with clearance number FMS2014/07 (Appendix 3). The study sought to uphold research integrity, privacy and confidentiality as well as informed consent in line with the conditions set for this ethical clearance,.

### **6.13.1 Research integrity**

This study's integrity was ensured by involving the academic supervisor throughout the research process. In addition, the results from an analysis of the data were presented without any element of manipulation. All sources cited were acknowledged and the whole research subjected to a plagiarism test before final submission for examination.

### **6.13.2 Privacy and confidentiality**

The study also sought to protect the privacy and confidentiality of the research respondents. The self-completed questionnaire, which was used did not ask for respondents names and in that way assured respondents of their anonymity.. The questionnaire also contained a statement that assured respondents that the information and responses to the survey would be kept and aggregated for confidentially.

### **6.13.3 Informed consent**

The right to informed consent was held in great esteem during the study. All potential respondents were informed of the nature and purpose of study. The respondents were also informed that their participation was voluntary, and that they were free to withdraw from the study at any time.

## 6.14 CHAPTER SUMMARY

The chapter presented the methodology used to conduct this study. It outlined the positivist research paradigm and the quantitative research approach and the rationale behind the researcher's decision to use them. The chapter also explained the data collection method using convenience sampling to maximise the number of respondents and decision to use a questionnaire as the sole research instrument. The chapter also considered the testing of the validity and reliability of the measurement instrument and presented a Confirmatory Factor Analysis (CFA) using Cronbach alpha, the Composite Reliability (C.R) and the Average Variance Extracted (AVE) methods the ones used in the study.

The next chapter presents data collected from the field survey.

## CHAPTER 7

### DATA ANALYSIS AND INTERPRETATION

#### 7.1 INTRODUCTION

This chapter begins with a presentation of the descriptive statistics. Thereafter the chapter presents the extent to which all the relationships illustrated in the measurement model fit the data collected in this study. This is done by testing the validity and reliability of the measurement model. The measurement model's validity was analysed using the Confirmatory factor Analysis (CFA), Factor Loading test and the Average Variance Extracted (AVE) test. The reliability of the measurement model was tested using the Cronbach alpha coefficient and the Composite Reliability (CR) test. After determining measurement model-data fit, the integrity of the structural model proposed in this study was tested using a number of model-fit indices. The chapter concludes with a presentation of the results from the regression analysis carried out to test the hypotheses drawn from the study's structural model.

#### 7.2 DATA SCREENING

The data collected from the field was screened for missing data and the identification of outliers as recommended before it was analysed (Sideridis et al., 2014).

##### 7.2.1 Missing data

No cases of missing data were recorded. All the measuring instruments were completed in full. This indeed complied the first stage in SEM analysis where data analysing data involves managing missing data.

##### 7.2.2 Assessment of data normality

The fieldwork data was screened for normality by identifying outliers to meet the requirements of the general linear model. Observations that were furthest from the centroid were spotted using the Mahalanobis Distance (MD) in order to detect the outliers. Mahalanobis Distance measures the relative distance between two variables with respect to the centroid. Therefore, the further the variable is from the centroid, the larger the MD (Sideridis et al., 2014). All questionnaires in this study confidently converged with the centroid indicating that there were no outliers in the data set.

The validity and reliability of the study’s findings was strengthened through an analysis of data normality by examining the skewness and kurtosis of each item on the measurement instrument in line with recommendations by Hair et al., (2014).

**Table 7.1: Assessment of normality**

Questionnaire item	Skewness	Kurtosis
aval6	-1,202	1.144
aval9	-0,229	-1.112
aval20	-0,392	-0.998
aval21	-0,670	0.04
aval22	-0,616	-0.053
eff5	-0,860	-0.225
eff6	-0,856	-0.29
sup3	-0,997	1.088
sup4	-1,024	1.467
sup5	-0,753	0.587
sup6	-1,172	2.302
expe9	-1,525	2.432
expe5	-1,495	1.992
use8	-0,850	-0.084
use5	-0,510	-0.786
use9	-0,626	-0.718
use10	-0,610	-0.629
use11	-0,830	-0.296

**Source: Compiled from fieldwork data**

As reflected on Table 7.1, all the items in the measurement instrument fell within -0.2 to -1,202 for skewness and within 0.04 and 2.302 for kurtosis. This is in line with recommendations by George and Mallery (2010) that skewness and kurtosis values between -2 and +2 are acceptable to prove normal univariate distribution. Therefore, the results displayed on Table 7.1 indicate that the assumption of normality was met in this study as the items on the measuring instrument were within the acceptable range of normality to produce valid and reliable findings.

### 7.3 DESCRIPTIVE STATISTICS

The descriptive statistics in the data set were analysed after r successfully screening the data for missing data and outliers. This section presents the descriptive statistics pertaining to the response rate and demographic information for the study.

#### 7.3.1 Response rate

As reflected on Table 7.2, 206 out of the 270 questionnaires distributed during the data collection were completed and returned, which represents a 76.2% response. This response rate was adequate for statistical analysis in this study as recommended by Hair et al., (2014) who reports that any response rate above 50% is acceptable for data analysis. Nonetheless, this significantly high response rate can be attributed to the use of research assistants who conveniently administer the questionnaires in family-owned SME owner-managers in the Free State Province of South Africa. In addition, Beins and McCarthy (2012) note that the use of convenience sampling is associated with high response rates.

**Table 7.2: Percentage distribution of respondents**

Response Rate	Questionnaires Distributed	Questionnaires collected	Response Rate
	270	206	76.2

Source: Compiled from fieldwork data

#### 7.3.2 Demographic profile of respondents

This study also sought information on selected demographic characteristics of the respondents. These characteristics were gender, age, level of education and work experience in the accommodation sector. This section presents the results of the demographic profile of the study’s respondents as shown below.

### 7.3.2.1 Respondent's Gender

Table 7.3 shows that most of the respondents were females at (59.2%).

**Table 7.3: Percentage distribution by gender**

		Frequency	Valid Percent
<b>Gender</b>	Male	74	36.9
	Female	124	59.2
	Transgender	8	3.9
	<b>Total</b>	<b>206</b>	<b>100.0</b>

Source: Compiled from fieldwork data

This finding is reflective of observations made by Baum (2013) who reports that traditionally, the accommodation industry has always been dominated by female owner-managers given the fact that maternal instinct naturally draws women to accommodation firms.

### 7.3.2.2 Respondent's age group distribution

Table 7.4 reflects that all age groups were represented by the study's respondents.

**Table 7.4: Owner-manager's age-group distribution**

<b>Age Group</b>		Frequency	Valid Percent
	Below 21	9	4.36
	21-30	51	24.75
	31-40	72	34.95
	41-50	57	27.66
	Above 50	17	8.25
	<b>Total</b>	<b>206</b>	<b>100.0</b>

Source: Compiled from fieldwork data

The 31 – 40 age group contributed the greatest number of respondents (34.9%). This finding dovetails with observations made by Blackburn et al., (2013) that most SME owner-managers are mostly middle-aged or in the post-retirement age group. This finding also coheres with Kalane (2015) findings in a study on SME development in South Africa and the conclusion that most SME owner-managers are between 20 and 44 years old.

### 7.3.2.3 Respondents' level of education

Table 7.5 provides information on the study respondents' level of education.

**Table 7.5: Level of education distribution**

Level of Education	Frequency	Valid Percent
Primary	2	0.9
Matric	45	21.8
Tertiary Diploma	68	33
Degree	71	34.4
Postgraduate	16	7.7
Other	4	1.9
<b>Total</b>	<b>206</b>	<b>100</b>

**Source: Compiled from fieldwork data**

As reflected on Table 7.5, the findings indicate that a cumulative (30.8%) of the respondents had gone through basic education, which confirms the high literacy rate in South Africa (94.37%) as reported by (Statistas, 2019). This finding was key and implied that the respondents were able to understand the contents of the questionnaire and, could provide valid responses to the questions on the questionnaire.

In addition, the majority of the respondents held high levels of education with diplomas (33%), degree (34.4%), and post-graduate qualifications (7.7%). Mokgosi (2017), in a survey on technology adoption in South African SMEs reports similar findings and attributes this to the fact that self-employment through the opening of SME ventures is increasingly becoming a popular venture in the country and is attracting educated people who cannot access jobs on the formal labour market. The same findings are reported by Alharbi, et al., (2018) who argue that highly educated entrepreneurs are likely to show interest in innovation processes than those entrepreneurs who are less educated. Zhang and Bruning (2011) endorses this argument and stress that SME owner-managers with higher levels of education are more predisposed to exert creativity, flexibility, self-direction and adequate coping mechanisms necessary to adopt innovation in their firms as is the thrust in the current study.



### 7.3.2.4 Location of the SMEs

Table 7.6 indicates the location distribution of the respondents. The table indicates that 80.1 % of the respondents resided in urban areas as compared to the rural areas (19. 9%).

**Table 7.6: SME location distribution**

SME Location		Frequency	Valid Percent
SME Location	Rural	41	19.9
	Urban	165	80.1
	<b>Total</b>	<b>206</b>	<b>100</b>

Source: Compiled from fieldwork data

The findings reflected in Table 7.6 resonate with claims made by Lai et al., (2017) that most family-owned accommodation SMEs are based in urban areas where the market for their services is readily available. The same view is echoed by Brauckmann (2017) who reports that family-owned accommodation SMEs are more concentrated in urban areas where they tap into the existing huge market and easy availability of resources such as skilled labour force, financial services and good infrastructure.

### 7.3.2.5 SME Age

As Table 7.7 indicates, the average age of family-owned accommodation SMEs in the study context was nine years..

**Table 7.7: SME age**

SME Age	Mean	8.927
	Median	6
	Std. Deviation	8.8105

Source: Compiled from fieldwork data

The fact that all the family-owned accommodation SMEs sampled in this study were on average years old (mean =8.27; std dev =8.8105) confirms the high mortality that characterise the small and medium sized sector in South Africa as highlighted in extant literature (Abor & Quartey, 2010; Olawale & Garwe, 2010; Masutha & Rogerson, 2014). This finding is also confirmed by Williams, Zorn, Crook, and Combs (2013) in

their report that almost 66% of family firms in South Africa fail during the transfer to the second generation, with only 15% surviving the third-generation transfer.

### 7.3.2.5 SME Size

Table 7.8. reflects that family-owned accommodation firms sampled in this study employed 9 employees on average (mean =9.10; std dev =7.895).

**Table 7.8: SME size (Number of employees)**

<b>SME Size</b>	Mean	9.10
	Median	8.00
	Std. Deviation	7.895

**Source: Compiled from fieldwork data**

This study’s finding confirms the definition of an SME as prescribed in the South African National Small Business Act of 1996, which defines SMEs as firms employing between 1 and 100 employees. This finding is also confirmed by Chingwaru (2014) who acknowledges that SMEs in South Africa employ between 1 and 25 employees in concurrence with the parameters of the National Small Business Act (1996).

## 7.4 INFERENCE STATISTICS AND STRUCTURAL EQUATION MODELLING

This section discusses the inferential statistical analysis and the SEM analysis used to test the relationships in the study’s structural model.

### 7.4.1 The measurement model

According to Civelek (2018), the Structural Equation Modelling (SEM) comprises two types of models that must fit the data, measurement model and the structural model. The measurement model helps to provide an empirical representation of the underlying hypothetical constructs in the research context (Kelloway, 2015). Thus, it is imperative to ascertain the way the observed indicators from collected data accurately serve as measurement indicators for the latent variables (model fit). Negating to assess the integrity of the measures (constructs) on the measurement model would make any relationships between two or more latent variables ambiguous and invalid for the purposes of the research (Little, 2013). Therefore, the successful operationalisation of the measurement model was a precondition that had to be met

in this study and in line with SEM requirements before considering fitting the structural model as recommended by Hayes (2017).

To facilitate this operationalisation, Confirmatory Factor Analysis (CFA) was used to assess the extent to which the model fitted into the collected data. This was done using common model fit indices prescribed by Hair et al., (2014) as presented in Table 7.9.

Table 7.9: Common model fit indices

Measure	Threshold
Chi-square/degree of freedom (CMIN/df)	< 3 good; < 5 sometimes acceptable
CFI (Comparative Fit Index)	>.80 sometime acceptable; >.90 good
GFI(Goodness-Of-Fit-Index)	>.80 sometime acceptable; >.90 good
AGFI (Adjusted Goodness-Of-Fit-Index)	>.80 good
TLI (Tucker Lewis Index)	>.80 sometime acceptable; >.90 good
NFI (Normed Fit Index)	>.80 sometime acceptable; >.90 good
RMSEA (Root Mean Square Error of Approximation)	<.05 good; .05 to .1 moderate; >.1 bad

Source: Hair et al., (2014)

The Confirmatory Factor Analysis (CFA) results initially displayed unsatisfactory fit indices. However, further diagnosis of the modification indices and the standardised residual covariance matrix retrieved from AMOS.24 necessitated deleting some items from the measurement instrument to improve the instrument’s model fit. The modification indices option on AMOS.24 were also used to detect and delete the inter-item correlations affecting the measurement model’s fit.

The observation in Table 7.10, which draws on the recommendation by Hair et al., (2014) of factor loadings of >.5 (significance level at, 0.01), some items in the measurement model had to be deleted to improve the measurement model’s fit. As such, for the construct, *Facilitating Conditions*, which had 22 items, had five items kept in the model because of validity concerns. In addition, *Decision to Formalise* retained two out of the original six items. In the construct, *Availability of Institutional Support*, four out of the original seven items were retained. With the *Performance Expectancy* construct, two out of 12 constructs remained after inter-item deletion and with the *Effort Expectancy* construct five out of a possible 11 items were retained.

**Table 7.10: Measurement model modification**

Construct	Final Items	Factor loadings	P-value	Final numbers of items
Availability of Facilitating Conditions	Aval16	.821	0.01	5 (22)
	Aval19	.901	0.01	
	Aval20	.947	0.01	
	Aval21	.793	0.01	
	Aval22	.791	0.01	
Decision to Formalise	Eff5	8.73	0.01	2(6)
	Eff6	.838	0.01	
Availability of Institutional Support	Sup3	.741	0.01	4(7)
	Sup4	.835	0.01	
	Sup5	.725	0.01	
	Sup6	.769	0.01	
Performance Expectancy	Expe9	.777	0.01	2(12)
	Expe5	.785	0.01	
Effort Expectancy	Use8	.790	0.01	5(11)
	Use5	.760	0.01	
	Use9	.873	0.01	
	Use10	.868	0.01	
	Use11	.839	0.01	

Source: Compiled from fieldwork data

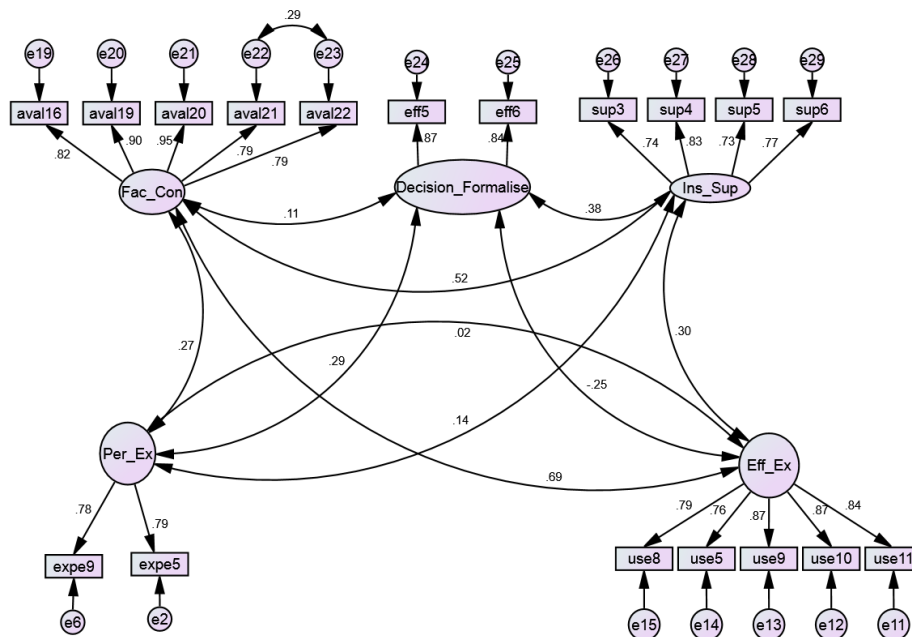
The retained items converged significantly on their respective constructs as they all recoded factor loadings above  $>.5$  at significant level 0.01 as recommended by Hair et al., (2014). Therefore, the final model indicated satisfactory fit indices after refinement of the measurement model ( $\chi^2 = 283.395$ ; P value= 000; DF=124) as shown in Table 7.11.

**Table 7.11: Measurement model fit indices**

Fit index measure	Measurement model fit
Chi-square/degree of freedom (CMIN/df)	2.285
Comparative Fit Index (CFI)	.936
Adjusted Goodness-Of-Fit-Index (AGFI)	.814
Tucker Lewis Index (TLI)	.921
Normed Fit Index (NFI)	.893
Root Mean Square Error of Approximation (RMSEA)	.079

Source: Compiled from fieldwork data

The refined measurement model h was used to gather data in this study is shown in Figure 7.1.



**Figure 7.1: Final measurement model**

Source: Researcher’s own compilation

### 7.4.2 Interpreting the measurement model

The bigger circles represent the latent variables, which are also called “constructs” such that in the measurement model above we have five constructs. These are: **Fac\_Con**=Facilitated conditions; **Use**=Effort Expectancy, **Expe**= Performance

*Expectancy*; **Ins\_Sup**= *Availability of Institutional Support*, and **Decision\_Formalise**= *Decision to Formalise*. The contribution of each item in the construct is indicated by its factor loading. Here, any factor loading above .5 is acceptable while anything below .5 indicates a poor measure. For example, the factor loading of the item **Per\_Ex9** is .78, meaning, item Per\_Ex9 measures **Effort Expectancy** at 78% ( $0.78 \times 100$ ). Since there is always a margin of error when measuring abstract constructs, an error term is associated with each item. For example, the case of *Performance expectancy* shows that e6 is the error term of the item **Per\_Ex9**. The coefficient values of double-headed arrows indicate the bivariate correlation coefficients between constructs. For example, the correlation coefficient between **Fac\_Con** and **Per\_Ex** is .27, which means that when one of these two variables has increases of 1 standard deviation, the other variable also achieve increases of 27% of its own standard deviation. This indicates that all the items represented in the measurement model were presumed to be valid in the context of this study. This validity was further confirmed through the reliability and validity tests.

#### **7.4.3 Validity and reliability assessment**

Convergent validity was assessed using three tools in accordance with Field's (2014) recommendation as shown in Table 7.12. These tools assessed the model's convergent validity by testing the extent to which the items on the measurement model converge to measure the variables they were designed to measure as prescribed by Field (2014). In this study, the items on the measurement model ought to converge in measuring factors/constructs that influence the owner-manager's decisions to adopt formal HR practices.

**Table 7.12: Validity testing tools**

Validity testing tool	Acceptable Threshold
Factor loadings (standardised estimates)	>0.5
Average Variance Extracted (AVE)	> 0.5

Source: Field (2014)

### 7.4.3.1 Factor loadings convergent validity test

The results of the measurement model’s convergent validity test carried out using factor loadings (standardised estimates) are shown in Table 7.13. As the table indicates, the factor loadings of all constructs are all above the recommended threshold of 0.5 (Field, 2014). On average, each item on the measurement model recorded a factor load of .818, which shows that all the items on the measurement model were valid to gather data in this study.

**Table 7.13: Convergent validity test - Factor loading**

Construct	Items	Factor loadings	P-value
FacilitatingConditions	Aval16	.821	***
	Aval19	.901	***
	Aval20	.947	***
	Aval21	.793	***
	Aval22	.791	***
Decision to Formalise	Eff5	.873	***
	Eff6	.838	***
Availability of Institutional Support	Sup3	.741	***
	Sup4	.835	***
	Sup5	.725	***
	Sup6	.769	***
Performance Expectancy	Expe9	.777	***
	Expe5	.785	***
Effort Expectancy	Use8	.790	***
	Use5	.760	***
	Use9	.873	***
	Use10	.868	***
	Use11	.839	***
Notes: ***: significance at 0.01 level.			

Source: Compiled from fieldwork data

### 7.4.3.2 Convergent validity test - Average Variance Extracted (AVE)

The measurement model's convergent validity was also tested using the Average Variance Extracted (AVE) method. As indicated in Table 7.14, all the items in the measurement model converged significantly towards their respective constructs. This significant convergence is indicated by the AVE values that breached the .05 threshold as recommended by Field (2014).

**Table 7.14: Convergent validity test - AVE**

Construct	Items	P-value	Average Variance Extracted (AVE)
Facilitating Conditions	Aval16	***	0.727
	Aval19	***	
	Aval20	***	
	Aval21	***	
	Aval22	***	
Decision to Formalise	Eff5	***	0.732
	Eff6	***	
Availability of Institutional Support	Sup3	***	0.591
	Sup4	***	
	Sup5	***	
	Sup6	***	
Performance Expectancy	Expe9	***	0.610
	Expe5	***	
Effort Expectancy	Use8	***	0.684
	Use5	***	
	Use9	***	
	Use10	***	
	Use11	***	
Notes: ***: significance at 0.01 level.			

**Source: Compiled from fieldwork data**

As reflected in Tables 7.13 and 7.14, the Factor Loadings and the AVEs of all constructs on the measurement instrument were above the recommended threshold of 0.5 as suggested by Field (2014). This indicates that all the items on the



measurement instrument converged significantly towards their respective constructs and thus confirming the convergent validity of the measurement instrument.

#### 7.4.3.3 Discriminant validity test - Average Variance Extracted (AVE)

The study assessed the discriminant validity by comparing the Square Root of the Average Variance Extracted (AVE) with the respective correlation coefficients of the measurement instrument's constructs as shown in Table 7.15.

**Table 7.15: Discriminant validity test - AVE matrix**

Constructs	Facilitating conditions	Performance Expectancy	Effort expectancy	Decision to Formalise	Availability of institutional support
Facilitating conditions	0.853				
Performance expectancy	0.27	0.781			
Effort expectancy	0.686	0.022	0.827		
Decision to formalise	0.106	0.285	-0.252	0.856	
Availability of institutional support	0.521	0.138	0.302	0.384	0.769

Source: Compiled from fieldwork data

Table 7.15 indicates that there was no discriminant validity concern in the measurement instrument as all correlation coefficients were lower than the square root of AVEs of their respective constructs. For example, the correlation between **Fac\_Con** and **Decision to formalise** (.106) is lower than the Square root of the AVE of **Fac\_Con** (.853) and the Square root of the AVE of **Decision to formalise** (.856). The same concept applies to the other constructs in the measurement instrument, which confirms the measurement instrument's discriminant validity. This confirmation of the measurement instrument's validity indicates that the relationships illustrated in the measurement model fit the data satisfactorily and, on that basis, the measurement instrument was deemed valid in the context of this study.

The study also sought to establish the reliability of the measurement model. A triangulation approach was used to assess the reliability of the measurement model, Cronbach alpha coefficient and the Composite Reliability (CR) test.

### 7.4.3.4 Reliability test – Cronbach alpha

The results from the Cronbach alpha test of the measurement model's reliability are shown in Table 7.16. The table indicates that all the constructs on the measurement model achieved a satisfactory level of reliability as their values were above 0.5 as recommended by Hair et al., (2014).

**Table 7.16: Reliability test - Cronbach alpha**

Construct	Items	P-value	Cronbach alpha
Facilitating Conditions	Aval16	***	.932
	Aval19	***	
	Aval20	***	
	Aval21	***	
	Aval22	***	
Decision to Formalise	Eff5	***	.844
	Eff6	***	
Availability of Institutional Support	Sup3	***	.850
	Sup4	***	
	Sup5	***	
	Sup6	***	
Performance Expectancy	Expe9	***	.758
	Expe5	***	
Effort Expectancy	Use8	***	.914
	Use5	***	
	Use9	***	
	Use10	***	
	Use11	***	
Notes: ***: significance at 0.01 level.			

Source: Compiled from fieldwork data

The reliability test results in Table 7.16 show significantly high levels of reliability as the lowest coefficient value stood at .758 for the construct *Performance Expectancy*. At the same time some constructs such as *Facilitating Conditions* exhibited extremely high alpha coefficients (.932) that reflected significant reliability of all the constructs

on the measurement model. This confirmed that the measurement instrument was reliable enough to gather data in this study.

#### 7.4.3.5 Reliability test - Composite Reliability (CR)

The measurement model was also tested for reliability using the Composite Reliability (CR) method. The results from Composite Reliability (CR) test are shown in Table 7.17. These indicate that this study’s measurement model passed the reliability test given that all CR values displayed are above 0.6 as recommended by Field (2014). In fact, a collation of the CR values across all constructs revealed a significantly high-level composite reliability (.859), which points to the significant reliability of the measurement instrument in gathering data in this study.

**Table 7.17: Reliability test - Composite Reliability (CR)**

Construct	Items	P-value	Composite Reliability (CR)
Facilitating Conditions	Aval16	***	0.930
	Aval19	***	
	Aval20	***	
	Aval21	***	
	Aval22	***	
Decision to Formalise	Eff5	***	0.845
	Eff6	***	
Availability of Institutional Support	Sup3	***	0.852
	Sup4	***	
	Sup5	***	
	Sup6	***	
Performance Expectancy	Expe9	***	0.758
	Expe5	***	
Effort Expectancy	Use8	***	0.915
	Use5	***	
	Use9	***	
	Use10	***	
	Use11	***	
Notes:***: significance at 0.01 level.			

Source: Compiled from fieldwork data

Basing on the results of both the validity and reliability tests carried out on the measurement model, it is evident that all the relationships illustrated in the measurement model fit the collected data satisfactorily. Therefore, all the items on the measurement model were valid and reliable in the context of this study.

## 7.5 STRUCTURAL MODEL FIT

The measurement model (instrument) was fitted with the data satisfactorily and this led to the next stage in SEM analysis, which involved an analysis of the structural model's fit. The proposed structural model (Fig. 1.1) was tested using the Maximum Likelihood Estimation (MLE) method against the common fit indices prescribed by Hair et al., (2014) as shown on Table 7.11. The final structural model ( $\chi^2 = 1036.350$ ; **P Value=000**; **DF=543**) displayed satisfactory fit indices as reflected in Table 7.18.

**Table 7.18: Final structural model fit indices**

Fit index measure	Structural model fit
Chi-square/degree of freedom (CMIN/df)	1.909
$\chi^2$	1036.350
Goodness of Fit Index (GFI)	.812
Comparative Fit Index (CFI)	.896
PClose	.849
Tucker Lewis Index (TLI)	.879
Normed Fit Index (NFI)	.807
Root Mean Square Error of Approximation (RMSEA)	.047

**Source: Compiled from fieldwork data**

The findings reflected in Table 7.18 indicate that the study's structural model (Figure 7.2) closely fits the data based on the different measures of model fit recommended by Hair et al., (2014).

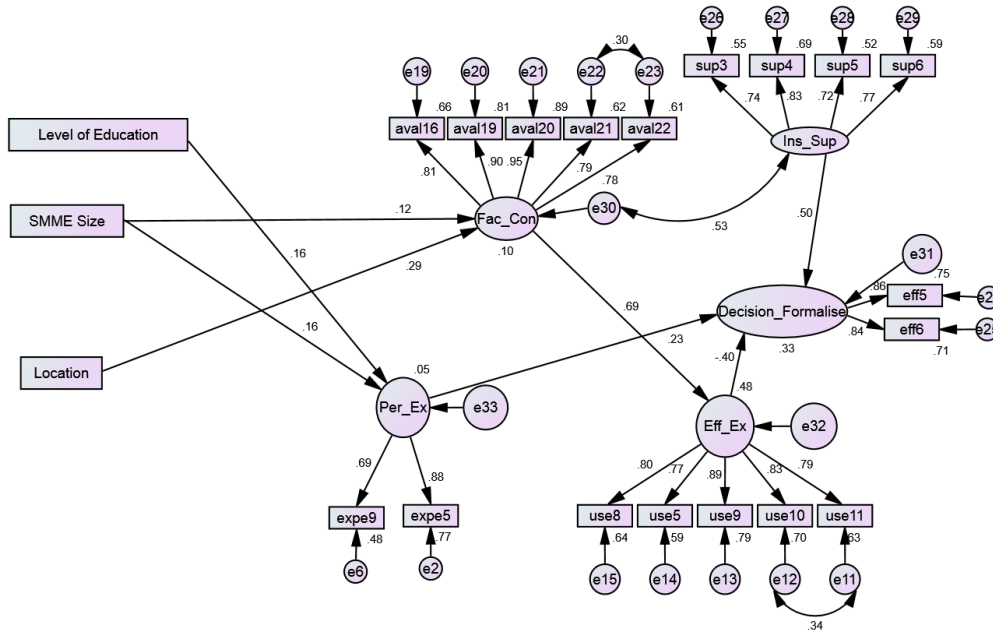


Figure 7.2: Final structural model

Source: Researcher's Conceptualisation

The close fit between the structural model and the data collected from the field indicates that the null hypotheses ( $H_0$ ) in this study was not rejected and that all the path coefficients of the hypothesised relationships were statistically significant. This is a clear indication that the study's structural model (Figure 7.2) fits the data satisfactorily and could be used with confidence to test the hypotheses proposed in this study.

## 7.6 HYPOTHESIS TESTING

Having established a fit between both the measurement model and the structural model to the data, the next stage in SEM analysis involved testing the hypotheses proposed in this study. Table 7.19 shows the outcome of the regression analysis carried out to test the proposed hypotheses.

**Table 7.19: Regression weights and hypotheses testing results**

Dependent variable		Independent variable	Estimate	P value	Hypothesis conclusion
Effort Expectancy	<-	Owner Manager Age	-0.034	0.44	Rejected
Performance Expectancy	<-	Level of Education	0.157	0.01	Accepted
Effort Expectancy	<-	Level of Education	-0.022	0.531	Rejected
Performance Expectancy	<-	SME size	0.164	0.032	Accepted
Facilitating Conditions	<-	SME size	-0,03	0.61	Rejected
Facilitating Conditions	<-	SME Age	-0.007	0.852	Rejected
Facilitating Conditions	<-	Location	0.29	0.01	Accepted
Effort Expectancy	<-	Facilitating conditions	0.691	0.01	Accepted
Decision to Formalise	<-	Availability of institutional support	0.502	0.008	Accepted
Decision to Formalise	<-	Performance Expectancy	0.234	0.01	Accepted
Decision to Formalise	<-	Effort expectancy	-0.399	0.01	Accepted.

**Source: Compiled from fieldwork data**

As Table 7.19 indicates, four of the 11 proposed hypotheses proposed in this study were rejected while the rest were accepted. These findings will be discussed in more detail in the subsequent sections.

### 7.6.1 Owner-manager’s age and effort expectancy

The relationship between owner-manager’s age and the effort expectancy of using formal HR practices was captured in the following hypothesis:

*H<sub>1</sub>: There is a positive and significant relationship between the owner-managers’ age and effort expectancy.*

This hypothesis was derived basing on extant literature (Filser et al, 2017; Chiliya & Roberts-Lombard, 2012; Alharbi et al., 2018) which indicates that there is a strong relationship between the SME owner-manager’s age and the expectation that formal HR practices will be easy to use (*Effort Expectancy*). However, empirical findings in this study (estimate, -0.034; p-value, 0.44) indicate that there is no relationship between the family-owned SME owner-manager’s age and *Effort Expectancy* of using formal HR practices. The no-relationship observation renders the hypothesised relationship rejected.

### 7.6.2 Owner-manager’s level of education and performance expectancy

In testing the relationship between the family-owned SME owner-manager’s level of education and the *Performance Expectancy* of using formal HR practices, the following hypothesis was proposed:

*H<sub>2</sub>: There is a positive and significant relationship between the owner-managers’ level of education and Performance Expectancy.*

As Table 7.20 indicates, the owner-manager’s level of education had a positive and significant effect on their performance expectancy of using formal HR practices as its P value (0.01) is lower than .05. This means that there was a strong and significant relationship between the SME owner-manager’s level of education and his or her expectation that formal HR practices will lead to enhanced firm performance (*Performance Expectancy*).

**Table 7.20: Level of education and performance expectancy**

Dependent variable		Independent variable	Estimate	P value
Performance Expectancy	<---	Level of Education	.157	0.01

**Source: Compiled from fieldwork data**

This finding is significant granted d that this study is based on the Unified Theory of Acceptance and Use of Technology model (UTAUT). The finding dovetails with the claim made by Venkatesh et al., (2003) who originally proposed the positive

relationship between education level and *Performance Expectancy* as captured in the UTAUT model. Thus, the current finding validates the relationship proposed in the main theory, UTAUT, anchoring this study. This finding is also in congruence with a study by Al-Khowaiter et al., (2014) based on UTAUT that also found a relationship between the family-owned SME owner-manager's level of education and their attitude towards adopting Human Resource Information Systems (HRIS) in Saudi Arabia. Hove and Tarisai (2013) also report that the SME owner-manager's level of education is closely associated with the use of formal methods of conducting operations including the practice of HR. This confirms that, the more educated the SME owner-manager is, the more he or she is inclined to find formal HR practices useful in the SMEs.

This strong relationship between the owner-manager's level of education and his/her *Performance Expectancy* of using formal HR practices is also consistent with Filser et al., (2017) who claim that in family-owned SMEs, the owner-manager's level of education is closely tied to his/her expectation that they will be able to run the SME professionally and fruitfully (*Performance Expectancy*). Alharbi et al., (2018) also argues that the higher the level of education the family-owned SME owner-manager possess, the greater the possibility of their appreciation and adoption of formal management practices in the hope of gaining entrepreneurial success and firm growth.

In South Africa, Radipere and Dhliwayo (2014) conclude that educational achievement has a major impact on SME growth as more educated SME owner-managers have the necessary confidence (*Performance Expectancy*), knowledge and skills needed to foster firm success. Furthermore, Steenkamp and Borat (2016) argue the owner-manager's educational level plays a key role in South Africa as it arms the owner-manager with greater capacity to learn novel operating practices, such as the use of formal HR practices and the ability to adjust firm practices to the ever changing operating environment that characterise developing emerging economies like South Africa. These South African examples resonate with a study conducted by Brijlal, Naicker and Peters (2013) who concluded that a combination of formal education and experience are a key foundation for success in SMEs. This implies that the more educated the SME owner-manager is, the greater the possibility of him or her being expected to adopt innovative ideas such as HR formalisation.



Lastly, the results concur with those from a study by Ogubazghi and Muturi (2014) that found out that SME owner-managers with a higher level of education are more aware of the negative repercussions associated with running their firms informally. Ogubazghi and Muturi (2014) note further that highly educated owner-managers tend to hold formal firm operations they expect will bring fruitful returns to the SEM firm in high regards. Finally, Hammami, Chikhi and Fekir (2016) also confirm in their study on e-government adoption in Oman that performance expectancy is significantly related to the respondent's level of education.

### **7.6.3 Owner-manager's level of education and effort expectancy**

Regarding the relationship between the owner-manager's level of education and his/her *Effort Expectancy* of using formal HR practices, this study formulated the following hypotheses:

*H<sub>3</sub>: There is a positive and significant relationship between the owner-managers' level of education and Effort Expectancy.*

This hypothesis is based on extant literature (Ogubazgh & Muturi, 2014; Riddell & Song, 2017) that indicates that there is a relationship between the owner-manager's level of education and their ability to use new products with ease (*Effort Expectancy*). However, findings from the current study (estimate, -0.022; p-value, 0.531) refute that this and therefore, the hypotheses was rejected.

### **7.6.4 SME size and Performance Expectancy**

To test the relationship between SME size and the owner-manager's performance expectancy, the following hypothesis was formulated:

*H<sub>4</sub>: There is a positive and significant relationship between the size of the SME and the owner-manager's Performance Expectancy.*

Table 7.21 shows the results from the regression analysis testing the relationship between SME size and the owner-manager's performance expectancy of using formal HR practices. As reflected in the Table, *SME size* had a positive and significant

influence on *Performance Expectancy* as its P value (.032) is lower than .05. This indicates that, as *SME Size* goes up by 1 standard deviation, *Performance Expectancy* also goes up by .164 of its own standard deviation. Ultimately, this indicates a positive relationship between *SME size* and *Performance Expectancy* of using formal HR practices in family-owned SMEs in the context of this study.

**Table 7.21: SME size and Performance Expectancy**

Dependent variable		Independent variable	Estimate	P value
Performance Expectancy	<-	SME size	.164	.032

**Source: Compiled from fieldwork data**

These findings reaffirm a research by Patel and Cardon (2010), which observed that the small size characterising most family-owned SMEs firms implies that they suffer from the “liability of smallness” and therefore operate on lean budgets. Kim and Gao (2010) state that these resource limitations compel SME owner-managers to avoid any unplanned adoption of formal HR practices until the firm grows to a certain size that affords the expenditure associated with HR formalisation. Similarly, Cunningham and Rowley (2010) note that this association could partly be because the owner-managers in family-owned SMEs enjoy savings associated with economies of scale and are, therefore, more likely to appreciate the use of formal HR practices in the SMEs.

These findings also corroborate a research in South Africa by Urban and Naidoo (2012) who reported that the size of the family-owned SME is a strong determinant of how HRM is perceived in the firm by the owner-manager, with owner-managers in bigger firms showing a positive attitude towards the use of formal HR practices than those in smaller firms. The same scenario is reflected in this study where empirical results confirm the positive relationship between the size of the SME and the owner-manager’s *Performance Expectancy* of using formal HR practices in the firm. Kaufman and Miller (2011) attribute this scenario to the fact that the growth of family-owned SMEs and subsequent employment of more people influences the owner-

manager's attitude on formal people management changes and to favour the adoption of sophisticated and formal HR systems.

The same is expressed by Steijvers et al., (2017) who reports that, in family-owned SMEs, owner-managers set the pace for the use and implementation of formal HR practices due to the centrality of their position in the family and in the firm's operations. However, as Kraiczy (2013) explains, a firm's growth and employment of more employees creates the pressure that compels the owner-manager to seek refuge in HR formalisation and bring in non-family employees into the family to manage the HR function formally. This empirical evidence confirms the strong and positive relationship between the size of the SME and the performance expectancy of using formal HR practices (in this case employment of non-family members) in family-owned SMEs, as is confirmed in the current study.

The study findings also resonate with the findings reported by Songini et al., (2015) who report that family-owned SMEs follow a defined lifecycle and pass through the stages conception, growth, maturity and decline. During the conception stage, informal operating practices are the norm and all decision-making processes are centralised by the owner-manager who, as a family member, does not hold formal HR practices with high as he/she strives to protect family interest by solely managing HR issues (Abdulsaleh & Worthington, 2013; Songini et al., 2015). However, as the firm grows and takes more employees at both the growth and maturity stages, the owner-manager fades from the picture as the firm formalises its HR practices by bringing in specialist non-family HR professionals to handle the greater quantities of responsibilities (Alharbi, et al., 2018). This implies a close relationship between the size of the family-owned SME and the owner-manager's *Performance Expectancy* of using formal HR practices in line with the findings of this study.

#### **7.6.5 SME size and the presence of Facilitating Conditions**

To test the relationship between SME size and the presence of Facilitating Conditions to establish a stand-alone HR department in SMEs, the following hypothesis was proposed:

*H<sub>5</sub>: There is a positive and significant relationship between the size of the SME and the presence of facilitating conditions to establish a stand-alone HR department.*

This hypothesis was based on literature (Kaufman & Miller, 2011; Özge & Çalışkan, 2014; Nolan & Garavan, 2015; Songini et al., 2015; Steijvers et al., 2017) intimating that there is a positive relationship between facilitating conditions and SME size. However, a statistical analysis in this study (estimate, -0,03; p-value, 0.61) showed that there is no relationship between SME size and the presence of facilitating conditions for HR formalisation in the firm, at least among some family-owned accommodation SMEs firms, which led to the rejection of the proposed hypothesis.

#### **7.6.6 SME age and the presence of facilitating conditions**

The following hypothesis was proposed to test the relationship between the age of the SME and presence of facilitating conditions to establish a stand-alone HR department in the firm:

*H<sub>6</sub>: There is a positive and significant relationship between the age of the SME and the presence of facilitating conditions to establish a stand-alone HR department.*

This hypothesis was premised on extant literature (Songini et al, 2015; Psychogios et al., 2016; Alharbi et al., 2018) which proves that there is a positive and significant relationship between the age of the family-owned SME and the presence of facilitating conditions in the firm. Despite this glut of extant literature, empirical findings in this study (estimate, -0.007; P-value, 0.852) showed that there is no such relationship and, therefore, the hypothesis was rejected.

#### **7.6.7 SME location and the presence of facilitating conditions**

To test the relationship between firm location and the presence of facilitating conditions for HR formalisation, the following hypothesis was proposed:

*H<sub>7</sub>: There is a significant and positive and significant relationship between the SME's location and the presence of facilitating conditions to establish a stand-alone HR department.*

The results from a regression analysis in relation to this hypothesis are displayed in Table 7.22.

**Table 7.22: SME location and the presence of Facilitating Conditions**

Dependent variable		Independent variable	Estimate	P value
Facilitating conditions	<-	Location	.290	0.01

**Source: Compiled from fieldwork data**

The findings reflected in Table 7.22 show that the location of an SMEs has a positive and significant effect on *Facilitating Conditions* given that its P value (0.01) is lower than .05. This suggest that, as one moves from rural to urban areas *Facilitating Conditions* are more likely to be available in family-owned SMEs and this points to HR formalisation in the firms as corroborated by Freeman and Lawley (2012). Basing on this principle, Minai and Lucky (2011) claims that, in SMEs, firm location is closely associated with the presence of expensive ventures like stand-alone HR departments with firms located in areas with abundant resources affording the luxury of establishing HR departments.

This finding also fits well into the [research findings reported by Fernández et al., \(2019\)](#) based on a research in Chinese family firms, which showed that the SMEs exhibit varying degrees of formality in their HRM practices as one moved from regional areas to urban areas. On that basis, one can conclude that the location of an SME family firm influences the presence of HR department in the firm and its associated HR practices. Psychogios et al., (2016) as stemming from the fact that urban-based firms tend to enjoy better infrastructural facilities, firm support services and have access to more skilled labour, factors critical in considering setting up an HR department in the firm.

This finding is also corroborated by Minai and Lucky (2011) in their claim that firm location is more significant for SMEs than large firms as an estimated 71% of all SMEs operate on a single location. This underscores that location specific attributes inherent on a chosen site have a strong bearing in the operating practices adopted by the firm. Moos and Botha (2016) also underscore that location specific environment is an important consideration for the operating strategies pursued by SMEs and that firms located in resource abundant sites are more likely to be liberal in the pursuit of strategies that aim beyond basic survival. Therefore, a firm's location that is characterised by resource abundance will witness that firm pursuing strategies targeted beyond mere survival with the firm being compelled to limit its ambitions when resources become limited and competition intensifies.

The findings of the current study also resonate with claims by Kala and Guanghua (2010) that an SME's location is related to the formalisation of its operating practices. As Moos and Botha (2016) explains, this stems from the fact that the likelihood of a family-owned SME surviving in a selected location is linked to the intensity and strength of competition within that given location. The import of this analysis is that, competitive rivalry in locations with a high concentration of SMEs in one industry, such as family-owned accommodation firms in resort towns, forces the firms to become more formalised, dynamic, innovative and ultimately set up stand-alone HR departments as this study's finding confirmed. In contrast, Awa et al., (2015) found that similar SMEs located in isolated locations are likely to be disadvantaged due to a relative lack of intense local competition and thus tend to be informal in most of their operations.

#### **7.6.8 Facilitating conditions and Effort Expectancy**

With regards to the relationship between the presence of facilitating conditions for HR formalisation and the owner-manager's *Effort Expectancy* of using formal HR practices, the following hypothesis was proposed in this study:

*H<sub>8</sub>: There is a positive and significant relationship between the presence of facilitating conditions to establish a stand-alone HR department in the SME and the owner-managers' effort expectancy.*

The results of SEM analysis test of this hypothesis are reflected in Table 7.23.

**Table 7.23: Facilitating conditions and effort expectancy**

Dependent variable		Independent variable	Estimate	P value
Effort Expectancy	<-	Facilitating Conditions	.691	0.01

Source: Compiled from fieldwork data

As reflected on Table 7.23 *Facilitating Conditions* had a positive and significant effect on *Effort Expectancy* as its P value (0.01) is lower than .05. This implies that when *Facilitating Conditions* variable goes up by 1 standard deviation, *Effort Expectancy* also goes up by .691 of its own standard deviation. The finding is in sync with the assumption of the major theory, UTAUT, informing this study. In UTAUT, Venkatesh et al., (2003) claim that the presence of *Facilitating Conditions* in a firm considering technology adoption ensure that the adoption process is free of effort, which will positively impact on the decision to accept and use the new technology.

This finding is also in line with the major premise of one of the adoption theories supporting this study, the Innovation Diffusion Theory (IDT). Rogers (2003) asserts that new technology diffuses and gets adopted with ease by potential users if there is an enabling socio-economic environment compatible with the potential user's experience, values and immediate needs. Thus, the more compatible the innovation, the better chances it will be adopted. Ajzen (2015) argues further that new technology is likely to be adopted easily if there are policies in place that create the enabling socio-economic environment for their adoption. In the same vein, Chiliya and Roberts-Lombard (2012) state that the South African government has managed to build an enabling socio-economic environment for SME operations by providing the necessary, political goodwill, policies and legislation amenable to SME development. This government support intervention acts as the greatest influence on SME owner-manager's decision to adopt and enhances the confidence of potential users (*Effort Expectancy*) in the use of the new technologies (Awiagah, Kang & Lim, 2016). In light of this, one may argue that the existence in South Africa, of this enabling operating environment for SME development is compatible with the possible ease of using

formal HR practices in family-owned accommodation SMEs. This gives credence to the strong positive correlation established in this study between *Facilitating Conditions* and *Effort Expectancy*.

The findings of this study are also in sync with claims by Al-Azizi, Al-Badi, and Al-Zraf (2018) that the provision of *Facilitating Conditions* is critical in helping new technology users overcome any barriers associated with the new technology especially during the early technology adoption stage. This shows that a clearing of such barriers impacts positively on the psyche of a potential user and that way shape their perception on the ease of using the technology (Awiagah et al., 2016). The same argument is proffered by Yang and Forney (2013) in their statement that user anxiety on the use of new technology may be a result of lack of facilitating conditions. However, any perceived complexity associated with the use of the new technology dissipates in situations where adequate facilitating conditions exist. Relating this to the current study this would confirm that the presence of facilitating conditions for HR formalisation in South Africa, in the form of political goodwill and supportive policies, has a bearing on the owner-manager's perception that formal HR practices will be easy to use in their SMEs.

According to Psychogios et al., (2016), the presence of an HR professional or department in a firm allows fast and closer compatibility between the new formal HR practices and the current systems in the firm. This arises from the provision of professional HR management advice in the firm by the HR professional, which ensures a smooth transition and compatibility between the old systems and the new formal HR practices and in turn lead to positive adoption behaviour. This is also in sync with the tenets of the Innovation Diffusion Theory, which draws a direct relationship between the compatibility of an innovation and positive adoption behaviour. Therefore, the tracing of a positive relationship between the presence of facilitating condition in family-owned SMEs and [decision to formalise HR](#) in this study resonates with one major theory informing this study, the Innovation Diffusion Theory (2010).

The present finding is also in line with view by Songini et al., (2015) that the presence of a professional HR manager in family-owned SMEs makes the practice of HR easy



to apply should they be available in the firm. In addition, the presence of an HR department in the family-owned SME increases the effort of expectancy of using formal HR practices as the department will simplify the use of formal HR practices should they be adopted (Wiesner & Innes, 2010). It is not unexpected that family-owned SMEs that have a dedicated HR department are more likely to find it easy to implement policies and procedures associated with the practice of HR formally (Steijvers et al., 2017). This renders credence to this study's empirical finding that there is a significant relationship between the presence of an HR department (*Facilitating Conditions*) for HR formalisation and the owner-manager's *Effort Expectancy* of using formal HR practices in family-owned accommodation SMEs in South Africa.

#### **7.6.9 Institutional support and the decision to formalise**

Regarding the relationship between *Availability of Institutional Support* for HR formalisation and the decision by the owner to formalise HR practices in family-owned SMEs, the following hypothesis was formulated:

*H<sub>10</sub>: There is a positive and significant relationship between the availability of institutional support for SME development and the owner-managers' decision to formalise HR practices in the SME.*

The results of the regression analysis that explore this hypothesis are presented in Table 7.24.

**Table 7.24: Availability of institutional support and the decision to formalise**

Dependent variable		Independent variable	Estimate	P value
Decision to Formalise	<-	Availability of Institutional Support	.502	0.01

Source: Compiled from fieldwork data

Table 7.24 indicates that the *Availability of Institutional Support* for SME development has a positive and significant effect on the *decision to formalise* HR activities in family-owned SMEs. The P value (0.01) is lower than .05, which implies that as *Availability of Institutional Support* goes up by 1 standard deviation, the decision to formalise also goes up by .502 of its own standard deviation. This finding concurs with claims by Venkatesh et al., (2012) that a favourable operating environment evident in the presence of effective facilitating conditions, such as the firm’s policies, management support and encouragement, support and encourage the usage of new ideas at the workplace. In this study, the availability of an HR department, policies and management support in the SMEs could be construed as the appropriate facilitating conditions for the formalisation of HR practices. This is more visible in SMEs operating in emerging economies like South Africa, where market institutions and infrastructure are weak.

In fact, South Africa has, since the advent of democracy in 1994, prioritised the provision of institutional support for the development of SMEs. For example, the Small Enterprise Development Agency (SEDA) was established in 2004 with a mandate to provide institutional support in the implementation of government’s small firm’s agenda. Later, in 2012 the Small Enterprise Finance Agency (SEFA) was formed after amalgamating a number of agencies providing financial support to SMEs in South Africa. However, the ILO (2016b) notes that such funding institutions like the South African government, request that SMEs formalise their operations in order to qualify for institutional support grants. This is in sync with the findings in this study where institutional support is confirmed as positively related to the decision to formalise HR practices by owner-managers in family-owned accommodation SMEs.

Finally, there also exists close similarities between this finding and extant literature (Umer, 2012; Psychogios et al., 2016). This literature shows that SMEs that receive institutional support tend to formalise their operations (including HR practices) in order to qualify for institutional support grants. Thus, the availability of institutional support could be a significant factor in driving the need to formalise HR practices in SMEs by the owner-manager.

### 7.6.10 Performance expectancy and the decision to formalise

*Performance Expectancy*, which refers (in this study) to the owner-manager’s expectation that formal HR practices will be useful in the firm is assumed to be related to the owner-manager’s decision to formalise HR practices in family owned SMEs. In light of this, the following hypothesis was proposed:

*H<sub>9</sub>: There is a positive and significant relationship between the owner-managers’ Performance Expectancy and the decision to formalise HR practices in the SME.*

As shown in Table 7.25, the results reveal that *Performance Expectancy* has a positive and significant effect on the owner-manager’s *decision to formalise* HR practices since its P value (.008) is lower than .05. This signifies that when *Performance Expectancy* goes up by 1 standard deviation, the *Decision to Formalise* also goes up by .234 of its own standard deviation.

**Table 7.25: Performance Expectancy and decision to formalise**

Dependent variable		Independent variable	Estimate	P value
Decision to Formalise	<-	Performance Expectancy	.234	.008

Source: Compiled from fieldwork data

The findings presented on Table 7.25 are significant. They tally with the assumptions in the main UTAUT theory guiding this study. As Venkatesh et al., (2003) claim in

UTAUT, a new system user's *Performance Expectancy* is a strong predictor of the user's final decision to adopt or reject a novel system in organisations. Therefore, the adoption of formal HR practices is strongly influenced by the owner-manager's perceptions that the formal HR practices will lead to measurable positive returns for the SMEs.

This finding is also in sync with the principles of the Theory of Reasoned Action (TRA). The theory is based in the premise that a new user's behaviour is based on rational decision-making and that the intention to act in a certain way is a function of the belief that the specific behaviour will lead to a given desired outcome (Ajzen, 2015). This means that a user who perceives the outcome of performing a certain behaviour as positive would have a positive attitude towards performing that behaviour and may end up performing that behaviour while the opposite can also be said if the behaviour is thought to be negative (Maichum et al., 2016). Therefore, in line with the findings in this study, the decision to formalise HR practices by family-owned SME owner-managers is dependent upon the performance expectancy of using formal HR practices in the firms.

This finding also tallies with a research by Svendsen, Johnsen, Almås-Sørensen, and Vittersø (2013) where the scholars also trace direct relationship between a new technology user's expectation that the novel technology will bring fruitful returns and their decision to adopt the new technology. This confirms the findings of this study where there is a positive relationship between *Performance Expectancy* and the owner-manager's decision to formalise HR practices in South Africa. The same relationship is also reported by Hadi, Yin and Williams (2012) in their research exploring factors affecting acceptance of innovation in SMEs, which concludes that the decision-making process in SMEs is likely to be influenced by the perceptions of individual owner-manager's attitude towards the new innovation.

Furthermore, Ajzen (2015) reports that the user's attitude towards adopting a novel practice like HR formalisation in family-owned SMEs is determined by an assessment of one's beliefs regarding the consequences arising from adopting the new practice and thoughts on the expected contribution of the new practices to the needs of the

SME (*Performance expectancy*). Ramayah, Ling, Taghizadeh and Rahman (2016) also argue, based on their research on website usage that, trust and expectation of high returns in a new venture spurs the rate at which new websites are adopted by new potential users. This indicates the key role of performance expectancy in influencing the decision to adopt new technology or HR formalisation as found in this study.

### 7.6.11 Effort expectancy and the decision to formalise

In pursuit of the relationship between the SME owner-manager’s *Effort Expectancy* and the decision to formalise HR practices in family-owned SMEs, the following hypothesis was proposed:

*H<sub>11</sub>: There is a positive and significant relationship between the owner-manager’s Effort expectancy and the decision formalise HR practices in the SME.*

The results from the regression analysis of this hypothesis are displayed in Table 7.26.

**Table 7.26: Effort Expectancy and decision to formalise**

Dependent variable		Independent variable	Estimate	P value
Decision to Formalise	<-	Effort Expectancy	-.399	0.01

**Source: Compiled from fieldwork data**

Table 7.26 indicates that there is a negative relationship between *Effort Expectancy* of using formal HR practices and the *Decision to Formalise* HR practices in family-owned SMEs in South Africa. The P value (0.01) is lower than .05. This means that, as *Effort Expectancy* goes up by 1 standard deviation, the owner-manager’s *Decision to Formalise* goes down by .399 of its own standard deviation.

The above-noted findings are at variance with one of the adoption theories, the Technology Acceptance Model (TAM) and UTAUT supporting this study, which trace a positive relationship between *Effort Expectancy* of using novel technologies and the user’s decision to adopt them (Venkatesh et al., 2012). The variance with the findings

of this study shows that TAM suggests that people who feel at ease with the complexity of a new invention end up using the invention to a larger extent than those who feel intimidated by the complexity of the invention (Svendson et al., 2013). Therefore, the TAM posits a link between attitude and the decision to adopt this causal chain implies that a more positive attitude toward the system creates a stronger behavioural intention toward using the system, which ultimately influences the decision to adopt innovations (Svendson et al., 2013; Kashi & Zheng, 2013). This is a complete opposite to what the current result entails.

However, this current finding's indication that there is a negative relationship between effort expectancy and the decision to adopt novel practices suggests that these findings are questioning the validity of the long-held relationships in TAM and UTAUT. This could be justified as the positive relationship between *Effort Expectancy* and the decision to adopt novel practices was found positive in the United States of America (Venkatesh, et al., 2012; Davis, 1989), Europe (Svendson, et al., 2013; Folkinshteyna & Lennon, 2016) and in Asia (Al Mursalin, 2012; Kashi & Zheng, 2013). In addition, this is the first study to explore such a relationship in South Africa (developing economy) especially among family-owned accommodation firms, thus suggesting that the results could be regarded as unique. As Chen (2011) cautions, this may be influenced by certain factors in the operating environment in South Africa that are not evident in the USA, Europe and Asia.

## 7.7 CHAPTER SUMMARY

This chapter has presented the empirical results obtained from the analysis of the collected primary data. The chapter presented the results of the demographic profile of the participants, the profile of the family-owned SMEs that participated in the study. It also outlined the tests carried out on the measurement model and the structural model. The results of the analysis of the SEM that tested the hypotheses proposed for the study were also presented in this chapter. In summary, the chapter outlined that hypothesis 2, 4, 7, 8, 9, and 10 were confirmed while 1, 3, 5 and 6 were not supported by the findings of the study.

The following chapter discusses conclusions based on the results presented in this chapter.

## CHAPTER 8

### CONCLUSION AND RECOMMENDATIONS

#### 8.1 INTRODUCTION

This chapter presents the key findings and conclusions drawn from this empirical data. It starts with a reviewing of the study in before discussing the conclusions drawn from the empirical research. The chapter also presents conclusions drawn from an analysis of the proposed hypotheses. The chapter then highlights the theoretical and practical contributions derived from this study and proffer suggestions for future studies.

#### 8.2 OVERVIEW OF THE STUDY

The drive to conduct this study was derived from lamentations by human resource practitioners and management experts over the need to drive HR formalisation in SMEs as a way of promoting their growth and survival (Umer, 2012; O'Sullivan, 2012; ILO, 2015). In response to these lamentations, a number of studies have been carried out over the years to explore factors affecting HR formalisation in SMEs (Yordanova, 2011; Doherty & Norton, 2013; Songini et al, 2015; Franco & Lucas, 2016; Psychogios et al, 2016; Steijvers et al., 2017). However, the major flaw with these studies has been the piece-meal approach to the examination of the factors that affect HR formalisation. For example, Franco and Lucas (2016) examined the effect of culture while Steijvers et al., (2017) concentrated on the effect of the family on management and Yordanova (2011) focused on the effect of the operating environment on HR formalisation in single studies located in developed contexts. This study, which sought to cover for these limitations, took a holistic approach in the exploration of both the personal and environmental factors that influence the formalisation of HR practices in family-owned accommodation SMEs in South Africa.

Basing on extant literature and the UTAUT model, a structural model that describes how selected personal and environmental factors interact with *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to explain the decision formalise HR practices in family-owned SMEs in South Africa was proposed (Figure 1.1). The relationships in the model was tested using structural Equation Modelling. The results



of this hypotheses test revealed that out of the 11 hypothesised relationships, four were rejected and seven confirmed.

### **8.3 SUMMARY OF THE CHAPTERS**

The first chapter introduced the study. It outlined the research problem and the study's objectives. The chapter also presented a preliminary literature review and briefly outlined the major theory and model supporting the study, the Unified Theory of Acceptance and Use of Technology (UTAUT) model, respectively. The chapter then presented the proposed structural model depicting the proposed relationships, and finally a synopsis of the research methodology was presented.

Chapter 2 reviewed a number of adoption theories that explain the adoption of change in organisations. As such, the chapter reviewed the major tenets of the Innovation Diffusion Theory (IDT), the Theory of Reasoned Action (TRA), the Technology Acceptance Model (TAM) and the Unified Technology Acceptance and Use model (UTAUT). The chapter also acknowledged the multifaceted relationships in UTAUT and linked this to the decision why it was regarded as the best theory to explain the nature of the proposed relationships for the study.

Chapter 3 reviewed literature focusing on the nature and structure of the family-owned SMEs from several theoretical perspectives so as to reveal their multifaceted nature. The chapter also reviewed the influence of the family on the operations of small firms. Finally, the chapter considered the challenges common to family-owned SMEs drawing considerable examples from South Africa.

Chapter 4 reviewed literature focusing on the unique nature of people management in family-owned SMEs. The chapter also reviewed literature that explains how the core HR functions of Recruitment, Training, Rewards Management and Performance Evaluation manifest themselves in family-owned SMEs.

Chapter 5 reviewed literature that outlines the different factors affecting HR formalisation in family-owned SMEs.

Chapter 6 delineated the research methodology employed to test the proposed structural model and the hypotheses derived from the structural model. The chapter also outlined the study's target population, sampling and data collection techniques, the data analysis employed in this study and the ethical considerations related to the study.

Chapter 7 focused on presenting and discussing the statistical data obtained from the survey. The chapter also discussed the procedures followed in analysing the data to test the validity of the proposed structural model and the proposed relationships between the constructs in the proposed structural model.

As alluded to above, this final chapter draws conclusions from the results of the study and offers recommendations for policy and managerial purposes.

#### **8.4 CONCLUSIONS BASED ON THE EMPIRICAL RESEARCH**

The main objective of this study was to develop and evaluate a model on how selected personal and environmental factors interact with aspects of the UTAUT model, such as *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions*, to influence the decision to formalise HR practices by owner-managers in family-owned accommodation SMEs in South Africa.

To achieve the primary objective, the following secondary objectives were considered:

1. To use literature in order to propose a theoretical model that describes how selected personal and environmental factors interact with aspects of the UTAUT model, such as *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to explain the decision to formalise HR practices by owner-managers in family-owned accommodation SMEs in South Africa.
2. To use data collected from owner-managers in family-owned accommodation SMEs in South Africa to validate the theoretical model proposed for fit, and,

3. To provide practical guidelines which could be used to formalise HR practices among the family-owned accommodation SMEs in South Africa.

#### **8.4.1 Measurement model**

A Confirmatory Factor Analysis (CFA) that used the Factor loadings, Cronbach alpha, the Composite Reliability (C.R) method, and the Average Variance Extracted (AVE) method tested the validity and reliability of the measurement model. The results indicated that the model had acceptable close fit parameter estimates. Therefore, the results indicated that all the items and constructs used in the measurement model were valid and reliable in the context of this study.

#### **8.4.2 The Structural Model**

The structural model also displayed satisfactory fit indices indicating an acceptance of that the null hypotheses ( $H^0$ ). This indicated that all the path coefficients of the hypothesised relationships were statistically significant and, on that basis, confirmed that the structural model fitted well into the collected data and could be used with confidence to test the hypotheses proposed in this study.

### **8.5 CONCLUSIONS BASED ON THE PROPOSED HYPOTHESES**

This section presents the conclusions drawn from results obtained after testing the proposed relationships in this study.

#### **8.5.1 Owner-manager's age and effort expectancy**

The first hypothesis tested the relationship between the owner-manager's age and the *Effort Expectancy* of using formal HR practices. To test the veracity of this relationship, the following hypothesis was proposed;

*H<sub>1</sub>: There is a positive and significant relationship between the owner-managers' age and Effort Expectancy.*

A regression analysis of this hypothesis indicated that the purported relationship does not exist. As a result, the null hypothesis was accepted, and the following conclusion was made;

**The owner-manager's age does not influence expectations that formal HR practices will be easy to use in the family-owned SMEs.**

### **8.5.2 Owner-manager's level of education and Performance Expectancy**

The second hypothesis tested the relationship between the owner-manager's level of education and his/her *Performance Expectancy* of using formal HR practices. To test this relationship, the following hypothesis was proposed;

*H<sub>2</sub>: There is a positive and significant relationship between the owner-managers' level of education and Performance Expectancy.*

The study's findings showed that there is a significant and positive relationship between the SME owner-manager's level of education and the *Performance Expectancy* of using formal HR practices. This indicates that the null hypothesis was not supported and consequently, the alternative hypothesis was accepted. Therefore, it concluded that:

**The owner-manager's level of education influences expectations that formal HR practices will be useful if adopted in family-owned SMEs.**

### **8.5.3 Owner-manager's level of education and Effort Expectancy**

The third hypothesis proposed in this study read as follows:

*H<sub>3</sub>: There is a positive and significant relationship between the owner-managers' level of education and Effort Expectancy.*

The results from a regression analysis results did not show any relationship between the owner-manager's level of education and the *Effort Expectancy* of using formal HR

practices in the examined SMEs. Therefore, the null hypothesis was confirmed and the alternative hypothesis rejected. On that basis, the following conclusion was made;

**The owner-manager's educational level is not a predictor of the ease of using formal HR practices in family-owned SMEs.**

#### **8.5.4 SME size and Performance Expectancy**

In testing the relationship between SME size and *performance expectancy*, the following hypothesis was proposed;

*H<sub>4</sub>: There is a positive and significant relationship between the size of the SME and the owner-manager's Performance Expectancy.*

The results showed that there is a positive correlation between the size of the family-owned accommodation SME and the owner-manager's *Performance Expectancy* of using formal HR practices. Thus, this finding thus confirmed the proposed hypothesis and as such, the null hypothesis was rejected. The following conclusion was made;

**The size of the family-owned SMEs influences the owner-manager's expectation that formal HR practices will be useful in the firm.**

#### **8.5.5 SME size and the presence of Facilitating Conditions**

The fifth hypothesis drawn from the proposed structural model was;

*H<sub>5</sub>: There is a positive and significant relationship between the size of the SMEs and the presence of Facilitating Conditions to establish a stand-alone HR department.*

Despite a glut of literature showing otherwise, the results showed that there is no relationship between SME size and the presence of an HR department in the firm. Therefore, the alternative hypothesis was rejected in favour of the null hypothesis leading to the following conclusion;

**The size of the family-owned SME does not influence the decision to establish a stand-alone HR department in the firm.**

### **8.5.6 SME age and the presence of Facilitating Conditions**

The relationship between the age of the SME and the presence of *Facilitating Conditions* for HR formalisation was tested. The following hypothesis was proposed;

*H<sub>6</sub>: There is a positive and significant relationship between the age of the SME and the presence of Facilitating Conditions to establish a stand-alone HR department.*

The regression analysis results indicated that there is no correlation between SME age and the presence of *Facilitating Conditions* for HR formalisation. As a result, the null hypothesis was accepted, and the following conclusion was reached;

**The age of the family-owned SME does not influence the decision to establish a stand-alone HR department in the firm.**

### **8.5.7 SME location and the presence of Facilitating Conditions**

The relationship between the location of the family-owned SME and the presence of *Facilitating Conditions* for HR formalisation was tested using the following hypothesis;

*H<sub>7</sub>: There is a positive and significant relationship between the SME's location and the presence of Facilitating Conditions to establish a stand-alone HR department.*

The findings indicated that there is a significant and positive relationship between the location of an SME and the presence of *Facilitating Conditions* for HR formalisation. As a result, the alternative hypothesis was accepted, and the following conclusion reached;

**The location of the family-owned SME influences the decision to establish a stand-alone HR department to facilitate HR formalisation in the firm.**

### **8.5.8 Facilitating conditions and Effort Expectancy**

The following hypothesis was proposed to test the relationship between the presence of *Facilitating Conditions* for HR formalisation and the owner-manager's expectation that formal HR practices will be easy to use;

*H<sub>8</sub>: There is a positive and significant relationship between the presence of Facilitating Conditions to establish a stand-alone HR department in the SME and the owner-managers' Effort Expectancy.*

The results showed that *Facilitating Conditions* have a positive and significant effect on the owner-manager's *Effort Expectancy* of using formal HR practices in family-owned SMEs. This finding led to the rejection of the null hypothesis and the following conclusion;

**The presence of *Facilitating Conditions* to establish a stand-alone HR department in family-owned SME influences the owner-manager's expectation that formal HR practices will be easy to use.**

### **8.5.9 Institutional support and the decision to formalise**

The ninth hypothesis proposed in the structural model tested the relationship between *Availability of institutional support* for SME development and the decision to formalise HR practices in the family-owned firm. This was captured in the following hypothesis:

*H<sub>9</sub>: There is a positive and significant relationship between the Availability of Institutional Support for SME development and the owner-managers' decision to formalise HR practices in the SME.*

The results confirmed the positive correlation between the *Availability of Institutional Support* for SME development and the owner-managers' decision to formalise HR practices. In light of this finding the conclusion arrived at is that:

**The availability of institutional support for HR formalisation in family-owned SMEs influences the owner-manager's decision to formalise HR practices.**

#### **8.5.10 Performance Expectancy and the decision to formalise**

The study also sought to test the relationship between the owner-manager's expectation that formal HR practices will be useful in the firm and his/her decision to formalise HR practices. To reveal the nature of this relationship, the following hypothesis was proposed;

*H<sub>10</sub>: There is a positive and significant relationship between the owner-managers' Performance Expectancy and the decision to formalise HR practices in the SME.*

The findings revealed that *Performance Expectancy* has a positive and significant effect on the owner-manager's decision to formalise HR practices. As a result, the following conclusion was made:

**The owner-manager's expectation that formal HR practices will be useful to adopt in the firm influences the decision to formalise HR practices.**

#### **8.5.11 Effort Expectancy and the decision to formalise**

The last hypothesis proposed in this study tested the relationship between the owner-managers expectation that formal HR practices are easy to use and the decision to formalise HR practices. This was captured in the following hypothesis:

*H<sub>11</sub>: There is a positive and significant relationship between the owner-manager's Effort Expectancy and the decision to formalise HR practices in the SME.*



The findings showed that there is a negative relationship between the *Effort Expectancy* of using formal HR practices and the *decision to formalise* HR practices. As a result, the following conclusion was made:

**The owner-manager's expectation that formal HR practices will be easy to use does not influence the decision to formalise HR practices**

## **8.6 RECOMMENDATIONS OF THE STUDY**

Drawing on the literature and the empirical findings of the study, the following recommendations are proffered:

### **8.6.1 Recommendations for practice**

The findings of this study may also be used to address potential management practices and serve as a guide for SME owner-managers, policy-makers and HR practitioners in South Africa and beyond on the formalisation of HR in SMEs. The study revealed that the decision to formalise HR practices is driven by a number of personal and environmental factors, hence the recommendations outlined below.

#### **8.6.1.1 Impact of personal factors**

The findings of this study reaffirm the pivotal role of the owner-manager's personality in the decision-making processes in family-owned accommodation SMEs. This resonates with the UTAUT model where Venkatesh et al., (2012) find connections between a user's personality and their attitude towards adopting new technology. This finding also confirms the tenets of the IDT (Rogers, 2010) which state that time and adequate information enables a potential technology user to draw on their personality as a basis of making the decision to adopt or reject an innovation. Therefore, it is concluded that the success of any formalisation initiatives in family-owned firms is dependent on the personality of the owner-managers whose decision is dependent on his education and experience. It is also recommended that policy makers in South Africa design information packages that target the owner-managers with a view of softening their attitudes towards HR formalisation before rolling out any HR formalisation initiatives.

### **8.6.1.2 Effort expectancy**

The belief that using formal HR practices will be free from mental or physical effort (*effort expectancy*) did not demonstrate any relationship with the owner-manager's age or level of education. Even though the findings reveal that effort expectancy is directly related to the owner-manager's decision to formalise HR practices, the relationship is insignificant. This study suggests that policy makers and HR practitioners must not dismiss the significance of effort expectancy in HR formalisation as it may be a factor that does not in itself motivates but leads to demotivation if it is absent. The recommendation is that policy-makers and HR practitioners must design a set of HR practices that are easy to understand and use in SMEs as complex HR practices designed for use in large firms can tamper the formalisation of HR practices in family-owned accommodation SMEs.

### **8.6.1.3 Performance Expectancy**

Performance expectancy emerges as a key predictor of the decision to formalise HR practices in family-owned SMEs. This finding reflects the role of proper HR in SME performance as postulated by Oladipo and Abdulkadir (2011). In light of this finding, the study recommends that any HR formalisation initiatives in family-owned accommodation SMEs be linked to tangible outcomes in the firm, such as increased profit, more market share and a reduced wage bill, if owner-managers are to make the decision to formalise HR practices. In addition, HR managers and policy-makers are encouraged to design a manual for HR formalisation in family-owned SMEs that reflects a close alignment of formal HR activities to firm performance.

### **8.6.1.4 Facilitating conditions**

The study draws a close relationship between the presence of an HR professional in the SMEs and the decision to formalise HR practices. This resonates with a study by Steijvers et al., (2017) that notes that the presence of an HR department in an SME is associated with a higher level of HR formalisation. In light of this, the study recommends hiring of HR professionals in family-owned accommodation SMEs as this bolsters the owner-manager's decision to formalise HR practices and boosts the owner-manager's confidence and efficiency in managing the firm.

### **8.6.1.5 Institutional Support**

The availability of institutional support also emerged as a key driver of the decision to formalise HR practices in family-owned SMEs. The significant relationship between institutional support and the decision to formalise HR practices indicates that the adoption decisions is dependent on the availability of institutional support facilities such as funding opportunities, information packages, marketing research and technical advice. A similar finding was made by Doh and Kim (2014) as noted in their conclusion that institutional support for SME development is key in the growth and survival of SMEs, particularly in emerging economies such as South Africa where most firms operate under infrastructural and information deficits. Therefore, in the context of this study, policy-makers in South Africa should provide institutional support to family-owned accommodation SMEs and facilitate the HR formalisation process.

### **8.6.2 Recommendations for further research**

Future researchers could replicate this study in other South African settings beyond. Such researchers may use a larger sample size to improve on the generalisability of the findings.

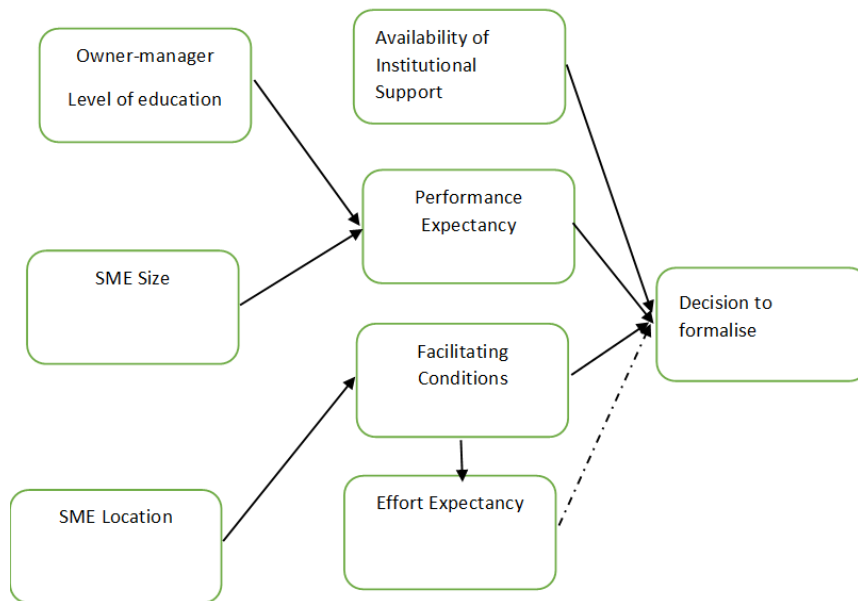
In addition, the data used in this study was gathered from family-owned accommodation SMEs in the Free State Province. Consequently, the findings of this study may not apply to SMEs operating in the rest of the country. It is recommended that future studies cover a wider geographical area in order to increase the generalisability of the results across the rest of the country.

Lastly, the drivers of HR formalisation examined in this study are not exhaustive. Therefore, future researchers are challenged to consider other factors that may have a bearing on HR formalisation in SMEs. Furthermore, this study was quantitative in nature and as such, future researchers may want to pursue a qualitative trajectory and use the subjective experiences of owner-managers to further the current study's findings.

## 8.7 CONTRIBUTION OF THE STUDY

Over the years, researchers have called for more holistic approaches that combine more than one approach in order to understand the adoption of innovations in organisations (Oliveira & Von Hippel, 2011; Van der Boor, Oliveira & Veloso, 2014). This study answered this call by proposing and testing an integrated structural model that describes how selected personal and environmental factors interact with aspects of the UTAUT model, such as *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to explain the decision to formalise HR practices by owner-managers of family-owned accommodation SMEs in the Free State Province of South Africa. The uniqueness of the study is in combining aspects of an existing model and existing empirical evidence to explain the decision to formalise HR practices in family-owned accommodation SMEs in an emerging economy like South Africa. This study further contributes to the body of knowledge pertaining to the formalisation of HR practices in that it empirically tested the proposed integrated structural model. It also came up with a customised model on how selected personal and environmental factors interact with *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions* to influence the decision to formalise HR practices by family-owned accommodation SMEs within the South African context.

The study developed an integrated model and tested its explanatory power amongst family-owned accommodation SMEs in South Africa. This represents an empirical step towards addressing the gap in factors that can account for the decision to formalise HR practices amongst family-owned accommodation SMEs. The study does so by delineating the critical determinants of the decision to formalise HR practices among family-owned SMEs within a specific context in South Africa (Figure 8.1), which can be used on similar economies.



**Figure 8.1: Model for HR formalisation in family-owned accommodation SMEs**

**Source: Fieldwork**

Figure 8.1 depicts the final determinants of HR formalisation among family-owned accommodation SMEs in the Free State Province of South Africa. The figure shows that the decision to formalise HR practices is influenced by 4 factors; *Availability of Institutional Support*, *Performance Expectancy*, *Facilitating Conditions* and *Effort Expectancy*. In turn, *Performance Expectancy* is influenced by the owner-manager's level of education and the size of the SME. The presence of an HR department in the firm (*Facilitating Conditions*) in turn depends on the location of the firm. Finally, *Effort Expectancy* is influenced by the availability of an HR department in the firm.

## 8.7 CONCLUDING REMARK

The main objective of this study was to develop and evaluate a model on how selected personal and environmental factors interact with aspects of the UTAUT model, such as *Effort Expectancy*, *Performance Expectancy* and *Facilitating Conditions*, in order to explain the decision to formalise HR practices by owner-managers in family-owned accommodation SMEs in South Africa. Using a survey that involved 270 owner-managers from family-owned accommodation SMEs, the proposed structural model was validated as the results confirmed that the family-owned accommodation SME owner-manager's decision to formalise HR practices is driven by both personal and environmental factors. Theoretically, the study contributed to literature and debate on the decision to formalise HR practices, specifically among family-owned accommodation SMEs, by reconfiguring the UTAUT model. This study opens up opportunities for further studies to be extended beyond the current findings.

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## APPENDIX 1 - THE QUESTIONNAIRE

My name is **Willard Nyamubarwa**. I am a PhD Human Resources Management student in the Faculty of Management Sciences at Central University of Technology, Free State, South Africa. I am conducting a survey entitled;

**Development and testing of a model for the formalisation of Human Resource (HR) practices in family-owned accommodation SMEs in South Africa.** This research is supervised by Prof C. Chipunza who can be contacted on the following details: *Telephone +27611387325 or email cchipunza@cut.ac.za.*

The information gathered in this survey will help establish the nature of the relationships between personal and environmental factors that influence the decision to formalise HR practices in family-owned accommodation SMEs in South Africa..

Your participation in this survey is voluntary and information obtained will be treated in the strictest confidence. Your identity will remain anonymous and you are allowed to withdraw any time you feel like. The survey will take approximately 30-40 minutes to complete. Space is provided at the end of the survey for you to add any additional comments you may have. I greatly appreciate your assistance.

I will be very grateful if you would answer all sections on this questionnaire as honestly as possible.

Yours Faithfully,



Willard Nyamubarwa



**Instructions to respondents**

Please indicate your responses in **EACH** Section of the questionnaire by ticking ✓ the relevant option.

**SECTION A: DEMOGRAPHICS**

**1. Gender**

1	Male	2	Female
3	Transgender	3	LGBTI

**2. Age Group**

Below 21 years	1
21-30	2
31-40	3
41-50	4
Above 50	5

**3. Highest Educational Qualification**

Primary	1
High school	2
Tertiary certificate/ diploma	3
Degree	4
Postgraduate	5
Other(specify)	6

**4. What is the location of your SMEs?**

1	Rural	2	Urban
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5. How many years has your firm been in operation? .....

6. How many employees are in your company? .....

**SECTION B: EFFORT EXPECTANCY OF USING FORMAL HR PRACTICES**

**This section deals with the owner-manager’s expectation that formal HR practices will be easy to use in family-owned SMEs**

Indicate the extent to which you agree with each of the statements below in relation to your firm.

B1	Expected ease of using formal HR practices	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
7.	We expect that formal HR practices in the firm will bring more flexibility in people management.	1	2	3	4	5
8.	We expect that employee performance management will become easier if we formalise our HR practices	1	2	3	4	5
9.	We expect that rewarding employees will become easier if we formalise our HR practices	1	2	3	4	5
10.	Compliance to labour laws will be easy if we formalise our HR practices	1	2	3	4	5
11.	Formulating HR policies will be easy after formalising HR practices	1	2	3	4	5

**SECTION C: PERFORMANCE EXPECTANCY OF USING FORMAL HR PRACTICES**

**This section deals with the expected usefulness of formal HR practices in family-owned SMEs**

Indicate the extent to which you agree with each of the statements below in relation to your firm.

C1	Effect of expected usefulness of formal HR practices	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
12.	We expect formal recruiting through public channels to bring better returns to our firm.	1	2	3	4	5
13.	By formalising HR in our firm, we expect to set up mutually beneficial linkages with other firms	1	2	3	4	5

**SECTION D: AVAILABILITY OF FACILITATING CONDITIONS AND FORMAL HR PRACTICES**

**This section deals with the perceptions of having facilitating conditions for HR formalisation in the family-owned SMEs**

Indicate the extent to which you agree with each of the statements below in relation to your firm.

D1	Perception of the availability of facilitating conditions	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
14.	If we get institutional support from the government, we will definitely use formal HR practices in the firm	1	2	3	4	5
15.	The socio-economic outlook in South Africa is conducive for the setting up of a stand-alone HR department in this firm	1	2	3	4	5
16.	The socio-economic outlook in South Africa is an important consideration in making the decision to formalise HR practices.	1	2	3	4	5

17.	The socio-economic environment in South Africa is conducive for the formalising of HR practices in our firm	1	2	3	4	5
18.	We will consider establishing an HR department if it brings new technology into our firm					

### SECTION E: AVAILABILITY OF SUPPORT SERVICES AND THE FORMALISATION OF HR PRACTICES

This section deals with the influence of the availability of institutional support on the decision to formalise HR practices

Indicate the extent to which you agree with each of the statements below in relation to your firm

E1	Availability of support services and the formalisation HR practices	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
19.	We will use formal HR practices if we are provided with free training support for the program	1	2	3	4	5
20.	Tax rebates by the government will incentivise us to formalise our HR practices	1	2	3	4	5
21.	We will consider formalising our operations if the expenses associated with the formalisation are paid for us	1	2	3	4	5
22.	If we get getting advisory support, we will definitely use formal HR practices in the firm	1	2	3	4	5

### SECTION F: DECISION TO FORMALISE HR PRACTICES

This section deals with the factors that influence the decision to formalise HR practices

Indicate the extent to which you agree with each of the statements below in relation to your firm

F1	Factors affecting the decision to formalise HR practices	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
17.	The ease of using formal HR practices influences our decision to adopt them	1	2	3	4	5
18.	Our decision to use formal HR practices in the firm depends on the need preserve jobs for family members	1	2	3	4	5

**THANK YOU**

## APPENDIX 2 - PROOF OF LANGUAGE EDITING

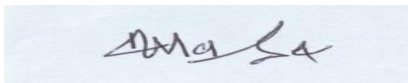
From : I. Manase (PhD UKZN)  
10 Laramie  
Nienaber Street  
Langenhovenpark  
Bloemfontein

Date : 03 December 2019

Confirmation of proofreading and editing of Mr. Willard Nyamubarwa's Doctor of Human Resources Management thesis titled: "Development and testing of a model for the formalisation of Human Resource (HR) Practices in family-owned accommodation SMEs in South Africa"

This serves to confirm that I have proofread and edited Mr. Willard Nyamubarwa's above-noted Doctor of Human Resources Management thesis. The suggested sentence and language construction changes have been attended to, and as such, the thesis can now be submitted for examination.

Sincerely,



Email: [irimanase@gmail.com](mailto:irimanase@gmail.com) / [Manasel@ufs.ac.za](mailto:Manasel@ufs.ac.za)

## APPENDIX 3 - ETHICAL CLEARANCE LETTER



**FACULTY RESEARCH AND INNOVATION COMMITTEE  
FACULTY OF MANAGEMENT SCIENCES  
RESEARCH ETHICS APPROVAL LETTER**

**Date: 21 July 2014**

This is to confirm that:

Applicant's Name	Willard Nyamubarwa
Supervisors' Name[s] for Student Project (where applicable)	Prof C Chipunza
Level of Qualification for Student Project (where applicable)	D-HRM
Title of research project	DEVELOPMENT AND TESTING OF A MODEL FOR THE FORMALISATION OF HUMAN RESOURCE (HR) PRACTICES IN FAMILY-OWNED ACCOMMODATION SMEs IN SOUTH AFRICA

Ethical clearance has been provided by the Faculty Research and Innovation Committee in view of the CUT Research Ethics and Integrity Framework, 2016 with reference number **FMS2014/07**

The following special conditions were set:

None

Specific conditions

The following specific conditions apply:

1. \_\_\_\_\_ NA \_\_\_\_\_
2. \_\_\_\_\_ NA \_\_\_\_\_
3. \_\_\_\_\_ NA \_\_\_\_\_

We wish you success with your research project.



Professor P Rambe  
Deputy FRIC Chairperson)