



## EFFECTS OF INTERNAL RESOURCES AND CAPABILITIES ON THE SURVIVAL OF FAMILY-OWNED MANUFACTURING FIRMS IN DAR ES SALAAM, TANZANIA

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### ABSTRACT

*Around 30% of global family-owned manufacturing firms (FOMFs) survive to the second generation, below 14% survive to the third generation, and not more than 3% survive beyond the third generation. Although Tanzanian FOMFs increased by 50% between the 1960s and early 1970s, only 13% of them survived to 2015. The study investigated the determinants of intangible internal resources and capabilities that are necessary for the survival of FOMFs and how they relate to the survival of those FOMFs. 384 respondents from 37 FOMFs in Dar es Salaam region were randomly selected to fill the questionnaires. Multiple linear regression analysis was utilised for data analysis and testing hypotheses. Successor involvement in business management and training the successor were revealed as the factors necessary for the survival of FOMFs and were empirically tested to investigate on how they relate to the survival of the FOMFs. The results indicate that successor involvement in business management has significant positive effects on the survival of FOMFs. Furthermore, training the successor has insignificant effects on the survival of the FOMFs. The study has advanced the knowledge of RBT in emerging Sub-Saharan economies and particular family-owned manufacturing firms' economy. Therefore, for sustainable FOMFs survival, successors should be systematically stepwise involved in business management to effectively learn and gain experience in leadership.*

**Keywords:** *capabilities, family-owned manufacturing firms (FOMFs), resources, survival.*

### 1.0 INTRODUCTION

The FOMFs are crucial to economic development since they contribute to the growth of Gross Domestic Product (GDP), create many jobs for unemployed, foster creativity and

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innovation among the entrepreneurs and are the sources of government revenues through tax payment (Saan, Enu-Kwesi, & Nyewie, 2018; Scheemaecker, 2017). The FOBs including the FOMFs globally contribute to 67.5 % of GDP, 65% of all private-sector jobs, 82.5% of all business sectors and about 75% of all global net job growth (Adendorf, Emuze, & Ward, 2013; Ghee, Ibrahim, & Abdul-Halim, 2015; Gibb & Bennett, 2013). FOMFs are estimated to represent 65.3% in China and over 80% in United State of America of all manufacturing firms and they create an average of 70% net new jobs (Ward, 1987; Astrachan & Shanker, 2003). The gross value-added manufacturing in China contributes to 27.7% of the national GDP while that of USA contributes to 12.1% of the total national GDP (Morrison, 2018). The German's FOMFs comprises around 99% of all manufacturing firms (Achleitner *et al.* 2009, cited in Mierzal, Ritz, Gómez, & Bergfeld, 2017) of that nation. The African manufacturing sector contributes to 1% of global GDP and only 10% of African GDP (Weiss & Jalilian, 2015). The manufacturing sector including FOMFs contributes to 10.3% of the total GDP in Kenya and around 8% of the total GDP Tanzania (KNBS, 2016, cited in Were, 2016; Wangwe Mmari, Aikaeli, Rutatina, Mboghoina, & Kinyondo, 2014). The percent share contribution to total national GDP at current prices in Tanzania mainland by manufacturing sector was 5.2 % in 2015, 4.9% in 2016 and 5.5% in 2017 (NBS 2017; cited in BOT, 2018). Therefore, the gross value added manufacturing in Tanzania is very low and thus needs extra interventions to raise and sustain it.

Studies report that FOBs including the FOMFs are economically underperforming due to low survival problems including lack of succession planning ((Santarelli & Lotti, 2005; Sharma & Agarwal, 2016). Around 30% of global family-owned manufacturing firms (FOMFs) survive into the second generation, below 14% survive into the third generation, and not more than 3% survive beyond the third generation (Filep, 2012; Maas, Venter, & Boshoff, 2005). Despite the establishment of manufacturing firms including FOMFs increasing by 50% between the 1960s and early 1970s in Tanzania (Wangwe *et al.*, 2014), only 13% of those FOMFs survived to 2015 (Maseyi, 2016) due to poor plans in particular succession planning (Magasi, 2016). Resource-Based Theory (RBT) assumes that intangible internal resources and capabilities can hamper the performance and survival of FOMFs to successive generations if they are not strategically built and efficiently deployed (Alayo, Jainaga, Maseda, & Arzubiaga, 2016; Barney, 1991; Mahoney & Pandian, 1992; Sharma, 2015; Davis & Simpson, 2017; Sirmon & Hitt., 2003). However, there is inadequate information on how intangible internal resources and capabilities related to the survival of the FOMFs across generations.



## **2.0 REVIEW OF SUCCESSION PLAN OF FAMILY-OWNED BUSINESS**

### **2.1 Definitions**

Succession planning means identifying the management talent with the highest potentials and developing it to fill the key organisational positions whenever they occur (Rothwell, 2010). Resources and capabilities are either tangible or intangible inputs and processes such as assets, management skills, organizational processes, information, firm attributes, and knowledge which are controlled by the firm that can be utilised in selecting and implementing the business strategies (Barney, 1991). Internal resources and capabilities mean human resource talents, competencies and culture accumulated through training and experience in the FOMFs (Alayo, Jainaga, Maseda, & Arzubiaga, 2016; Barney, 1991). A family-owned manufacturing firm means a manufacturing firm in which a group of individuals related by blood, marriage, adoption or alliance at least own 51% of the firm's shares and actively manage that firm across generations (Labaki, Michael-Tsabari, & Zachary, 2013; Lorna, 2011; Rettab, Fakhr, & Morada, 2005). FOMF survival means sustaining the FOMF beyond the first generation usually measured by the size of market share, the number of employees, profit, firm plans and their implementation, generations of ownership and levels of conflict (Bouman, & Hessels, 2011; Distelberg & Sorenson, 2009; Esuh, Mohd, & Adebayo, 2011; Saan, Enu-Kwesi, & Nyewie, 2018; Vijfvinkel, Tarí, Molina-Azorín & Heras, 2012).

### **2.2 Theoretical Literature Review**

Intangible internal resources and capabilities can hamper the performance and survive of FOMFs to successive generations if they are not strategically built and efficiently deployed (Barney, 1991; Mahoney & Pandian, 1992; Sirmon & Hitt, 2003; Saan, Enu-Kwesi, & Nyewie, 2018; Sharma, 2015; Davis & Simpson, 2017). However, there is inadequate information on how intangible internal resources and capabilities empirically relate to the survival of FOMFs across generations. Internal resources and capabilities of any business firm is best explained by using a resource-based view approach (Wernerfelt, 1984; Barney, 1991; Sanchez-Medina, Corbett, & Toledo-Lopez, 2011). The resource-based theory (RBT) roots from Penrose (1959), matured by Wernerfelt (1984) and further extended by Barney (1991). The RBT assumes that a firm's internal resources and capabilities can become a direct source of the firm's sustainable competitive advantage and superior performance (Penrose, 1959; Barney, 1991; Wernerfelt, 1984; Davis & Simpson, 2017). Internal resources and capabilities, therefore, decide the strategic choices to be made by firms while competing with other firms.

Barney (1991) emphasises that the firm's internal resources and capabilities can be a source of competitive advantage and superior performance if they are valuable, rare, inimitable, and non-substitutable (VRIN). Based on Barney (1991), a resource or

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capability can be valuable if it is heterogeneously distributed across competing firms; it is imperfectly mobile and maintains a sustainable competitive advantage. The FOMFs can gain sustained competitive advantage and superior performance through investing in human resources (Kamami, 2017). Davis & Simpson (2017) revealed that human resource managers in Sub-Saharan African countries were not aware of RBT although they realised the importance of applying RBT principles and practices for benefiting employees and organisation. The study is however quite on RBT variables and how those variables relate to the survival of FOMFs in Sub-Saharan African countries.

Human resources can, however, be distinctive and improve the firm's efficiency and superior performance if well developed through involvement in business management and training and optimally utilised (Mahoney & Pandian, 1992; Alayo, Jainaga, Maseda, & Arzubiaga, 2016). Involvement of the FOB members in business management leads to distinctive vision, families behaviour, creating strong ties and building synergistic resources and capabilities (Habbershon, Williams, & MacMillan, 2003, 2003; Kabir, 2007). Likewise, building the talents and competences of human resources through training becomes a tool for gaining sustainable competitive advantage and business performance (Fang, Randolph, Memili, & Chrisman, 2015; Kamami, 2017). There is however inadequate information on how the involvement of the successor in business management, and training relates to the survival of the FOMFs. The study, therefore, advanced knowledge of RBT in emerging Sub-Saharan economies and particular FOMFs economy by identifying its variables, namely successor involvement in business management, training the successor and investigating how these variables relate to the survival of the FOMFs.

## **2.3 Succession Planning Constructs**

### **2.3.1 Successor involvement in business management**

The level of involving the family business members in decisions relating to business decides the fate of the successor to make decisions and FOB performance (Ramadani & Hoy, 2015; Woodman, 2017). The longer the time the successor is effectively involved in business management the more the knowledge, skills and experience gained by that successor. Kaye (1996) argues that the outgoing and incoming generation in the FOBs must work as a team as a way of facilitating learning and succession process. Therefore, the involvement of the successor in FOBs management is a vital construct of succession planning (Kaye, 1996; Maas, Venter, & Boshoff, 2005; Ramadani & Hoy, 2015; Alayo, Jainaga, Maseda, & Arzubiaga, 2016; Woodman, 2017). Mokhber, Tan, Rasid, Vakilbashi, Zamil, & Seng (2017) assert that the preparation level of successors and the relationship between the family and business members affect the FOBs performance. However, there is a lack of information on how successor involvement in business

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management (SIBM) relates to the survival of the FOMFs and in particular sub-Saharan countries. Therefore, this study hypothesises that:

*H<sub>01</sub>: Successor involvement in business management has no significant effect on survival of family-owned manufacturing firms in Dar es Salaam region.*

*H<sub>a1</sub>: Successor involvement in business management has a significant effect on the survival of family-owned manufacturing firms in Dar es Salaam region.*

### 2.3.2 Training the successor

Succession planning develops intellectual and knowledge capital and promotes knowledge sharing among FOBs employees through training and experience (Rothwell, 2010; Alayo, Jainaga, Maseda, & Arzubiaga, 2016). The management should invest resources in developing the human capital to ensure that FOBs employees have ample knowledge, skills, and competencies needed for achieving the business goals and improving the firm's performance (Alayo, Jainaga, Maseda, & Arzubiaga, 2016). Likewise, Alayo, Jainaga, Maseda, & Arzubiaga (2016) emphasise that quality succession planning process in the FOBs depends on the level of training and experience. Ghee, Ibrahim & Abdul-Halim (2015) posit that some incumbents resist preparing successors in the FOBs through training. However, there is a lack of information on how training the successor (TS) relates to the survival of FOMFs. Basing on the reviewed literature, this study hypothesises that:

*H<sub>02</sub>: Training the successor has no significant effect on the survival of family-owned manufacturing firms in Dar es Salaam region.*

*H<sub>a2</sub>: Training the successor has a significant effect on the survival of family-owned manufacturing firms in Dar es Salaam region.*

## 2.4 Conceptual Frame Work

The conceptual framework figure 1 was derived from the theoretical and empirical literature review. The constructs successor involvement in business management, and training the successor were generated from RBT. The dependent variable is the survival of the FOMFs. The underlying assumption is that each of the independent variables relates to the dependent variable the survival of FOMFs.

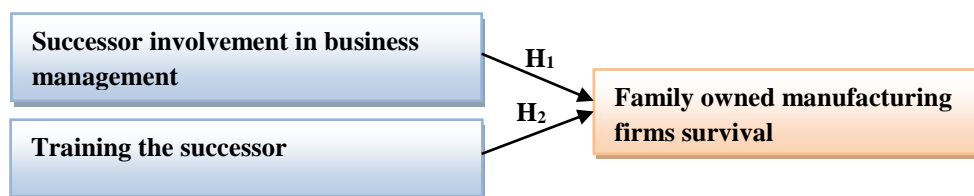


Figure 1: The proposed conceptual framework

Source: Researchers' Compilation (2019)

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### **3.0 RESEARCH METHODOLOGY**

Postpositivism was employed as the research paradigm basing on the fact that it determines the cause and effects and is deductive (Creswell, 2014). The quantitative research design was utilised since data collection instrument comprised of all closed-ended questions which were finally computed to generate numerical data. The survey research strategy was utilised since it represents the whole population of the study. A cross-sectional survey was adopted because data were collected at one point of time of this specific study using structured questionnaires (Kothari, 2009). The area of the study was Dar es Salaam region because FOMFs owners in this region are reluctant in preparing business successors while still energetic (Magasi, 2016).

The respondents were managers, directors and CEOs of the FOMFs in Dar es Salaam region because they normally have ample knowledge on succession planning. The planned sample size was 384 calculated using Cochran (1977) formula represented in equation (1) and the sampling technique was simple random sampling to avoid biases (Kothari, 2009).

$$n = \frac{Z^2}{e^2} * \frac{pq}{\dots\dots\dots} \quad (1)$$

Whereby: n stands for sample size, Z refers to the critical value of suitable confidence level (in this case being 1.96 for a 95%), p stands for the proportion in the population of interest (in this case being 50%), q is 1-p and e is the acceptable margin of error often set at 0.05. However, only 350 (91.1%) questionnaires were effectively completed and collected. During data analysis, the 11 outlier cases were eliminated and remained with 339 observations for data analysis since Tabachnik & Fidell (2007, cited in Taruwinga, 2011) assert that outliers are eliminated to improve the accuracy and precision of MLR models. Data from the filled questionnaires were coded and analysed using Chi-square and multiple linear regressions with the support of IBM software SPSS version 20.0.

### **4.0 RESULTS AND DISCUSSION**

#### **4. 1 Reliability and Validity Testing**

##### **4. 1.1 Reliability of data collection instrument**

Reliability testing was carried out to evaluate if the employed data collection techniques and analysis procedures would produce the consistent findings if the same study was repeated on another occasion or if the same study was replicated by a different researcher (Saunders, Lewis, & Thornhill, 2007). Table 1 indicates that all Cronbach’s alpha values for successor involvement in business management (SIBM) and training the successor (TS) were greater than the minimum Cronbach’s alpha value of 0.7 (Saunders, Lewis, & Thornhill, 2012), as the evidence for good reliability.

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Table 1: Reliability statistics

Variable	Cronbach's Alpha	N of Items
SIBM	0.854	7
TS	0.916	6

Source: Field data (2019)

#### 4.1.2 Testing validity

To ensure content validity, practitioners and experts were approached for critical examination of the questions to carefully commenting on the structure, representativeness and suitability of the set questions and make the necessary improvements before the pilot study (Saunders, Lewis, & Thornhill, 2012). To ensure the construct validity, Principal Component Analysis (PCA) was run as the extraction method with a direct Oblimin Kaiser Normalisation as the rotation method to determine the factor loading for the measures of each research construct since Westhuizen (2014) adopted the same approach. Table 2 shows that the factor analysis of each item loading of successor involvement in business management (SIBM) and training the successor (TS) was above the threshold value of 0.5, an indication that constructs validity existed.

Table 2: Pattern Matrix for factor analysis

Item	Item statement	Component	
		1	2
SIBM 1	Management involves employees in developing the organisation's policies.		.878
SIBM2	Management involves employees in developing the organisation's plans such as a business plan.		.561
SIBM3	Management involves employees in the meetings relating to the business management especially in their sections.		.818
SIBM4	Management involves employees in interacting with business stakeholders such as customers, government, suppliers and banks.		.720
SIBM5	Management involves employees in searching for the expected successor.		.785
SIBM6	Management involves employees in marketing the firm's products.		.803
SIBM7	Management involves employees in managing and protecting the firm's properties.	.848	

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TS1	Management helps the firm’s employees to develop their strengths through on the job training.	.780	
TS 2	Management helps the firm’s employees to develop their strengths through off the job training.	.815	
TS 3	Management trains firm’s employees on how to make the most use of their skills.	.809	
TS 4	Management delegates assignments to the firm’s employees to provide learning chances.	.782	
TS 5	Management trains the firm’s employees to understand the firm’s frontline issues.	.828	
TS 6	Management trains the firm’s employees on how to reach the target for each goal in this firm.	.859	

Source: Field data (2019)

## 4.2 Demographic Profile of the Respondents

### 4.2.1: Gender against industry Sector

Table 3: Gender against industry sector in the FOMFs

		Industrial sectors									Total
		Textiles and apparels	Timber, Wood Products and Furniture	Food, Beverage and Tobacco	Chemicals and fertilisers	Metal and Metal Products	Plastic and Rubber Products	Leather Products and Footwear	Paper, Paper Products and Printing, Publishing and Packaging	Others	
Gender	Male	8 47 %	23 70%	39 43%	10 59%	36 67%	24 63%	19 63%	23 57.5%	7 50 %	189 56%
	Female	9 53 %	13 30%	51 57%	7 41%	18 33%	14 37%	11 37%	17 42.5%	7 50 %	147 44%
Total		17	36	90	17	54	38	30	40	14	336 100 %
		<b>Pearson Chi-square =11.562, df=8, p=.172</b>									

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Table 3 shows that 56% and 44% of males and females respectively are holding the key leadership positions in different sectors of the FOMFs. However, the observed Chi-square value ( $p=0.172$ ) is greater than the critical value (0.05), an indication that there is no a significant difference between males and females who are senior staff in different sectors of the FOMFs. The findings signify that both males and females are capable of holding the key leadership position in the FOMFs regardless of the sector.

### 4.3. Multiple Linear Regression Analysis

Table 4: Model summary for multiple linear regression analysis

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.761 <sup>a</sup>	.579	.575	.82574101	2.487
a. Predictors: (Constant), Successor involvement in business management (SIBM), Training the successor (TS)					
b. Dependent Variable: Family-owned manufacturing firms survival (FOMFs)					

Source: Field data (2019)

R square ( $R^2$ ) value indicates the percentage of the total variation of Y (FOMFs) which is explained by the regression model consisting of the independent variables  $X_1$  and  $X_2$  (SIBM and TS). The results in Table 4 indicate that the total contribution of  $R^2$  in explaining the variation in the survival of FOMFs is 57.5%. The implication is that 42.5% of the survival of FOMFs to subsequent generation is explained by other factors which are neither successor involvement in business management nor training the successors. The standard error of the estimate is approximate to 0.825, which is close to the standard deviation of 1.0 for normal distribution.

Table 5: ANOVA F test assessing the overall model fit

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	59.398	2	29.699	46.538	.000 <sup>b</sup>
	Residual	229.101	336	.682		
	Total	288.499	338			
a. Dependent Variable: Family-owned manufacturing firms survival (FOMFs)						
b. Predictors: (Constant), Successor involvement in business management (SIBM), Training the successor (TS)						

Source: Field data (2019)



ANOVA F test was carried out to evaluate overall model fit to establish if it fits the acceptable levels on statistical criteria. Table 5 indicates that the overall model fit is satisfactory since the p-value for the regression model F test is .000 which is less than the critical p-value (0.05) at the confidence level of 95%. Therefore, the model is highly significant to conclude that the two independent variables SIBM and TS together predict the survival of FOMFs.

Table 6: Coefficients of multiple linear regression analysis

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.143	.047		3.057	.002
Successor involvement in business management (SIBM)	.431	.045	.449	9.522	.000
Training the successor (TS)	-.035	.040	-.042	-.894	.372

Source: Field data (2019)

The results for multiple linear regressions are indicated in equation (1).

$$Y = 0.143 + .431SIBM - .035TS + \epsilon \dots\dots\dots(1)$$

Inadequate successor involvement in business management was ascertained as one of the factors that hamper the survival of FOMFs from one generation to another. Successor involvement in business management was recommended as one of the countermeasures for solving the low survival problem of FOMFs. The research hypotheses had been stated as follows:

*H<sub>01</sub>: Successor involvement in business management has no significant effect on the survival of family-owned manufacturing firms in Dar es Salaam region.*

*H<sub>a1</sub>: Successor involvement in business management has a significant effect on the survival of family-owned manufacturing firms in Dar es Salaam region.*

Table 6 indicates that successor involvement in business management has a highly significant effect on the survival of FOMFs since observed *t* value (p=.000) is less than the critical value (p=.05) at the confidence level of 95%. As a result, the null hypothesis (*H<sub>01</sub>*) was rejected and the alternative hypothesis (*H<sub>a1</sub>*) was accepted. Therefore, successor involvement in business management has a significant effect on the survival of FOMFs. The findings indicate that holding training the successor constant, a unit increase in successor involvement in business management would result in a .431 increase in the

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score of the survival of the FOMFs. The implication is that the more the successor is involved in business management, the higher the possibility of sustaining the survival of the FOMFs to the subsequent generation.

The findings are contrary to Chrisman, Chua and Litz (2004) that too much involvement of the FOB members in business management is adversative to the effectiveness of FOBs since it increases the unnecessary extra costs. The implication is that many resources are spent in coaching and mentoring the successor instead of using those resources in other value-adding activities. Besides, it is more advantageous to hire leaders who already have experience and the required competencies than developing internals by incurring a lot of costs with no future assurance (Sardeshmukh & Corbett, 2011; DeVaro, 2016). The emphasis is that some employees are well developed as future leaders but sometimes they either turnover or opt for other businesses. The findings are however in harmony with Alayo, Jainaga, Maseda, & Arzubiaga (2016) that quality succession planning in the family firms includes involving employees in business management as a way of enriching their experiences. Thus, the owner-manager and management at large have the duty of progressively and properly upbringing the young generation on how to manage the FOMFs through fully sharing and updating it on the daily business challenges and success. Moreover, Morris, Williams, & Allen (1997) and Maas, Venter, & Boshoff (2005) posit that when choosing the business successor it is important to consider the degree of experience possessed by such successor within that family business.

Lack of training was found as one of the factors that hamper the survival of FOMFs from one generation to another. Training the successor was therefore recommended as one of the countermeasures for solving the low survival problem of the FOMFs. The research hypotheses had been stated as follows:

*H<sub>02</sub>: Training the successor has no significant effect on the survival of family-owned manufacturing firms in Dar es Salaam region.*

*H<sub>a2</sub>: Training the successor has a significant effect on the survival of family-owned manufacturing firms in Dar es Salaam region.*

Table 6 indicates that training the successor has no significant effect on the survival of FOMFs since observed *t* value ( $p=.372$ ) is greater than the critical value ( $p=.05$ ) at the confidence level of 95%. As a result, the null hypothesis (*H<sub>02</sub>*) was accepted and the alternative hypothesis (*H<sub>a2</sub>*) was rejected. Therefore, training the successor has an insignificant effect on the survival of FOMFs.

The findings indicate that holding successor involvement in business management constant, a unit increase in training of the successor would result in a  $-.0350$  decrease in the score of the survival of the FOMFs. The simple language is that training the successor

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contributes neither to smooth leadership transition nor the survival of the FOMFs. The results are contrary to Higuchi (2014) findings that training has a significant positive effect on the performance of Vietnam firm. The findings are also contrary to Alayo *et al.* (2016) that among the important determinants of quality succession planning in the family firms, is the level of training possessed by employees.

Nevertheless, the result is in harmony with Gumbo, Ngugi, Gakure, & Ngugi (2012) findings that training has the lowest effect on SMEs survival after retirement/death of the owner-manager. Furthermore, Higuchi (2014) argues that training does not improve employee's performance in Vietnam after two years since the training was done. The implication is that training employees must be frequently done to update them with the necessary interpersonal, technical and managerial business skills.

## **5.0 CONCLUSION AND RECOMMENDATIONS**

Successor involvement in business management has significant positive effects on the survival of the FOMFs. Therefore, for effective succession, planning successors should be stepwise involved in business management to effectively learn and gain experience in leadership. In contrast, training has been revealed to have insignificant effects on the survival of the FOMFs.

The study, therefore, advanced the knowledge of RBT in emerging Sub-Saharan economies and particular FOMFs economy by generating its variables, namely successor involvement in business management, training the successor and investigating how these variables relate to the survival of the FOMFs.

Future studies can investigate why training the successor has no significant effects on the survival of FOMFs. Moreover, since this study involved more than one sectors of the manufacturing firms, future research can base on only one sector such as textile and apparels for uniformity. Also, future research can establish the factors which may either moderate or mediate the effects of internal resources and capabilities on the survival of the FOMFs.

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