

EFFECTIVE EXIT PLANNING IN REGIONAL SMALL BUSINESSES – A BORROW FROM THE ‘SPECIALISED CLUSTERS’ APPROACH

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ABSTRACT: Efficient functioning small businesses and their continuance over time, independent of the owner(s), carry high significance for remote regions’ long-term social and economic sustainability. This empirical investigation of exit planning practices among regional small businesses in the New England region of New South Wales, Australia, provides evidence that the particular environment in which these businesses operate determine and drive owners’ strategic exit planning initiatives. Regional SMEs are prone to peculiar *internal* and *external* variables with inertial forces that continuously impact on the owners’ decision to exit or continue into the business. Resorting to Schatzki’s (2002) ‘site of the social’ theoretical construct, this paper argues that the ‘exit planning’ social practice among regional SMEs can be efficiently developed and institutionalized at a wider level on their peculiar ‘site’ of being regional and small. Thus, a borrow from the ‘specialised clusters’ technique on the part of State government is the best way forward to effectively tackle the phenomenon.

KEY WORDS: Exit planning; regional planning; regional sustainability; ‘site’ of the social

Acknowledgement: The author gratefully acknowledges the financial support jointly provided by the Institute of Public Accountants and the UNE Business School, University of New England, Australia. The author would also like to thank the study participants who kindly allocated their time for the interviews. Finally, the author gratefully acknowledges his colleague, Robyn Mashall’s help with data collection. Finally, input and constructive feedback from the anonymous reviewers and the journal’s editor to help improve the paper is gratefully acknowledged.

1. INTRODUCTION

Small and Medium Enterprises (SMEs) not only create a sizeable chunk of nations' wealth but also account for its preservation if managed and planned prudently and objectively. Their contribution to nations' economic growth and job creation, both at individual country and world level, has been widely recognized (Huggins and Williams, 2011; Schmelter *et al.*, 2010; Gunerergin *et al.*, 2012; Morrison *et al.*, 2003). SMEs' perpetual existence and continuance over time, irrespective of the owners' exit, is crucial for remote regions' long term economic and social sustainability, and hence, an objective allocation of a space on the regional planning agenda on the part of the State government cannot be overemphasized. The opposite is equally true. Neglecting regional SMEs and their exit planning could be tantamount to evading a crucial State responsibility of ensuring remote regions' long-term social and economic sustainability.

As an integral part of SMEs' strategic planning, awareness among SME owners about the significance of exit planning for all stakeholders, including the owners, their heirs and the regions where they operate, could well contribute to the regions' social and economic sustainability, as these SMEs and their perpetual existence and continuation over time, irrespective of the owners exit, contribute to the 'liveability' of these remote regions, which is crucial to their sustainability and prosperity (see Kinnear and Ogden, 2014, p. 48). The firm-exit has attracted widespread attention in the social sciences literature, however, small business owners' exit has remained relatively unexplored (DeTienne and Cardon, 2012). While the literature does shed light on the correlation between an entrepreneur's characteristics and the business's level of success at its instigation (see, e.g., Witt, 2004), a correlation between the owner's characteristics and the business's level of success at the owner's exit time has received little attention so far. Schatzki (2002) argues that social practices get constructed and institutionalized on specific 'sites' with characteristics compatible to their peculiar nature. This study aims to help encapsulate SMEs' exit planning into this framework through the use of 'specialised...regional clusters' (Peck and McGuinness, 2003, p. 49; see also Bagirov, 2008) in the State regional planning initiatives.

The term 'specialised clusters' is used in a 'broader' sense of the term in the context of this paper where the author argues about creating 'specialised clusters' of all interdependent entities and service providers, government or

private (such as government bodies, research and training institutions, financial institutions, business and service providers, etc.), that compete as well as cooperate among themselves and are ‘supportive’ of ensuring small businesses’ efficient and successful functioning and the owners’ successful and timely exit from their small business (see European Commission, 2016), and then developing and implementing ‘informed’ and ‘targeted’ policies for such geographical clusters. The term also aims to differentiate regional small businesses and their peculiar requirements from their larger city counter parts (see Bagirov, 2008).

Different societal elements, each with a peculiar form and circumstance, interact and give rise to social practices, which eventually get accepted as legitimate and institutionalised at a wider societal level; Schatzki’s (2002, p. 59) ‘site of the social’ theoretical conceptualization provides a base for the assertion: “[...] social orders are not self-standing or self-propagating configurations, but that they instead exist and evolve only in some context encompassing them”.

‘Exit planning’ social practice prevalent among businesses, in general, is no different, and as per Schatzki’s (2002) theoretical stance, these need to be specifically nurtured, developed and institutionalised for the small regional businesses with peculiar *external* and *internal* circumstances different to their larger counterparts. A prudent exit strategy for a small business ought to encompass and reflect both good and crisis economic situations the business may confront. During times of financial crises, for instance, when large corporations and giant businesses look for survival strategies, small businesses often overlook such initiatives. While small businesses in some economic sectors, during crises, could prove immune to financial crises, largely, they could easily fall prey to these crises if succession planning is not objectively considered (see Bourletidis, 2013), particularly if they are caught up in a cycle of negative impacts from other small businesses’ bad experiences operating in their close vicinity. Bad economic horizon also encourages owners to delay their exit until situation improves (Stuart, 2013), which may cause an untimely closure of their business when confronted with unexpected regional small business-specific turbulence(s). Keeping in view the significance of the issue, the following research questions were set to drive this study:

- What are the level, efficacy and determinants of exit planning in regional SME owners?
- Will SMEs owners' exit be more efficient if developed, institutionalised and encapsulated under the 'specialised...regional clusters' under the State regional planning initiatives, 'distinct' from their larger counterparts?

The remainder of the paper is structured into five main sections. The following section broadly overviews exit planning in SMEs around the world and in Australia, followed by a section on the theoretical framework for the study. The next section elaborates on the methodology employed to analyse the qualitative data collected for the study followed by a section on the analysis of data and observed themes. The last section presents conclusions and attempts to gear future research in directions pertinent to the paper's dominant themes.

2. EXIT AND REGIONAL PLANNING – A REVIEW OF THE LITERATURE

Researchers are perplexed over the variation in the level and extent of institutionalisation and legitimisation of different social practices. The literature from the interpretive research realm provides the phenomenon of causality as one of possible explanations for such a variation (see, for instance, Lukka, 2014). Thus, effective 'exit planning' social practice, on similar grounds, could get better institutionalized in a regional setting if treated as a distinct social phenomenon with peculiar circumstantial requirements unattainable with generic policies. The concept of 'region' in the context of this study refers to a small geographical location, situated in isolation with a large distance from major cities, a low population and a limited number of business and service providers, both government and private when compared with big cities (see Kinnear and Ogden, 2014). New England region covers the New South Wales northern tablelands and comprise of the small regional towns of Armidale, Inverell, Guyra, Moree, and Tamworth, among others.

Harwood *et al.* (2011, 15) define ‘planning’ as a human activity, which encompasses the “process of managing change within communities...”. Regional focused economic strategy, simply replicating national policies without sufficiently adapting them to suit regional issues, has been criticized in the literature to be lacking in cohesion with other policies and ‘failing to identify truly regional issues’ (Huggins and Williams, 2011). Due to their peculiar circumstances, regional planning needs to be distinctive and clearly stand apart from national planning (Huggins and Williams, 2011; see also Peck and McGuinness, 2003), and regional SMEs’ exit planning should be no different. Adaptation of Rawls’ (1974) conceptualisation of ‘social equity’ appraises us on the extent to which small business planning has been neglected in regional planning, and advocates that it should invariably encompass small business planning. Given their peculiar characteristics and circumstances, exit planning among regional SMEs is relatively of higher significance and harder to address compared to their larger counterparts operating in larger cities (Evans *et al.* 1998).

Lack of prudent and objective planning for the small business entrepreneur’s exit translates into lowered profitability, “...followed by a post-succession period of lowered organizational performance...” in the long-run (Trow, 1961, 232). Longenecker *et al.*, (2013) in their book assert that small business owners ought to be clear about the objective behind their intended exit, and work towards it for their exit to be successful. Buckingham (2010) maintains that the event needs to be adopted and reflected across all business functions right from the start of the business. If exit planning is thought about well before the expected retirement of the small business owner, it is highly likely that the eventual transfer of the business would be a success (Allinson *et al.*, 2007; Martin *et al.*, 2002; Trow, 1961). Sambrook (2005) equates succession planning to an attempt to plan a change in the organizational structure of the small business to cover instances such as owner’s retirement, permanent incapacity to work, death, etc., to ensure continuity of the business. Despite proliferation of small family businesses and their significance for the economic growth of countries, the deteriorating survival rate among these firms has always been an issue of concern (Wang *et al.*, 2004). Exit planning in SMEs, due to their peculiar *internal* and *external* circumstances, often are constrained by various factors, which ought to be embedded into the state regional planning initiatives.

There may be several barriers to getting a ‘good’ price for the business or even to get an interested party on board for ‘successfully’ exiting a small business. Gibb and Blili (2013) found that most these businesses do not incorporate management of intellectual capital into their business strategy, which may eventually confront the business as a huge impediment to the owner’s successful exit. Exit planning encompasses issues such as leadership, legal and financial consideration, psychological factors, and exit strategies (Ip and Jacobs, 2006). Enough resources, commensurate with the activity’s significance, are not usually devoted to exit planning (Sambrook, 2005). Blumentritt *et al.*, (2012, 51) list passing on the firm leadership to the next generation among the “most significant challenges” a family-owned small business could encounter. Effective exit planning covers not only the financial and tangible aspects of the firm but also the intangible psychological ones. Zellweger and Astrachan (2008), shedding light on the emotional side of the owner’s exiting a small business, assert that owners, consciously or otherwise, add a ‘price’ of the owner’s emotional attachment to the business’s market value, which may unnecessarily delay his/her exit (participant 1, for instance). Owners may even prefer a dexterous long-term employee over their legal heirs if the later are not seen by them as ‘capable’ of safeguarding the firm’s interests post-exit over the long-run (see also, Fan *et al.*, 2009; Allinson *et al.*, 2007). In the case of family businesses, Alsos *et al.*, (2014) found a significant relationship between entrepreneurial household dynamics and the businesses’ chances of growth and success.

The literature enumerates several exit options available to a small business owner, and the owner’s peculiar circumstances, in addition to the business’s performance, would determine which exit path she/he will opt for (DeTienne and Cardon, 2012).

The Case of Australia

Regional planning was integrated into Australian Federal government planning by the Australian Labor government during the late 1940s and subsequently undertaken by successive governments with varying levels of significance (Harwood *et al.*, 2011). However, regional small business planning, as part of the regional economic planning, has not been getting due consideration in regional planning initiatives. In Australia, businesses with less than 5 employees are categorized as ‘micro’ businesses, between 5 and

19 employees as ‘small’ businesses, and between 20 and 200 employees as ‘medium’ businesses (Commonwealth of Australia, 2011; Jay, 2003). As of June 2009, around 2 million SMEs, about 96 per cent of all businesses, operate in Australia and contribute to its economic development (Commonwealth of Australia, 2011). Despite the sector’s immense contribution to the Australian economy, facilitation of its development and sustainability on the part of the state government has not been encouraging. In addition, constraining government regulation and communication have also been inhibiting the sector’s growth opportunities (Morrison *et al.*, 2003).

The number of businesses put up for sale is nearly at a record high level and with small business owners’ average age of 58 years about 50 000 of them will be looking at exiting their business every year (Stuart, 2013). The majority of the Australian small business sector constituents has reached maturity; however, business planning is not used by more than half of these businesses (Morrison *et al.*, 2003). This is particularly true in the case of small businesses operating in remote regional areas, and authorities ought to put the issue on their planning agenda. In Australia, States are entrusted with the responsibility of regional planning, and their ‘social ends objectives’, in addition to their economic objectives, drive the activity (Harwood *et al.*, 2011, 17). Small business planning has not been a major component of regional planning in Australia and objective attention has not been paid to it despite the sector’s apparent high share in sustaining remote regions. Due to the lack of ‘acceptable’ exit opportunities these entrepreneurs simply put off retirement and, eventually, the business suffers, as does the region’s economy, when these businesses get abandoned due to the owner’s ill health or death. Small businesses’ closure, as opposed to their long-term sustainability through effective exit planning, is an economic issue of concern for the whole country, not just the business owners. A Federal government parliamentary enquiry on small business in Australia has predicted small business closures in the country in large numbers in the near future (Employee Ownership Australia, 2013).

Ip and Jacobs (2006) identify legal, finance, and tax issues and the relevant prevailing legislative frameworks in a country as the determinants of a successful succession planning. There could be several impediments to successfully transferring a family firm leadership to the next generation (Blumentritt *et al.*, 2012), where entrepreneurial household management

strategies largely determine the business's extent of success (see, Alsos *et al.*, 2014). For instance, SBS (2004, cited in Ip and Jacobs 2006), has identified tax relief in case of a business transfer transaction as a factor that played a role in encouraging succession in small businesses in the UK. Having similar initiatives in Australia would help and encourage those small business owners who may be deterred by taxes on the transfer/sale of their business to their heirs or private buyers. Thus, not having a conducive policy framework may possibly prove detrimental to creating and nurturing an environment where successful small business successions generally happen. Other factors that may impinge on the development of a successful succession plan include cost, extent of the owner's business in firm- and non-firm related issues, lack of heirs, children's young age, children's unwillingness to join in, owner's reluctance to handover an established business to a younger family member, etc. (Employee Ownership Australia, 2013; Westhead, 2003; Ip and Jacobs, 2006). Most of these factors were endorsed by this current study.

3. THEORETICAL FRAMEWORK FOR THE STUDY

The literature supports that using a combination of carefully selected theoretical frameworks contributes to enhancing the internal and external validity of a study's findings (see Khan, 2014). Schatzki (2002) in his renowned book 'Site of the Social' argues that different social practices get constructed and institutionalised over 'peculiar sites' that are conducive to their specific developmental and societal requirements. Thus, the best 'exit planning' social practice among regional small businesses, which could address all social and economic aims, would get constructed and better institutionalised when 'nurtured' and 'developed' as a distinct phenomenon and supported with a tailor-made policy framework, compared to the practice's construction and institutionalisation in their larger counterparts in metropolitan areas. Kilfoyle and Richardson (2011) categorises institutionalisable social practices into two distinct forms – those determined by individuals' or groups' free will and those constructed by their norms and social positions. This categorization gives us a subtle clue to understanding the 'exit planning' social practice and how it can be more efficiently institutionalised at a wider level. Schatzki's (2002) conceptualisation of 'site of the social' then advocates that social practice among regional SMEs be treated as distinct to those in their larger city counterparts, due to the former

group’s peculiar *internal* and *external* circumstances that continuously impinge on how it develops and implements business practices.

A social practice that encompasses involvement of individual beings is substantially influenced by complex human ontologies and encapsulates the diversities of their social and organizational circumstances (Bryer, 2014; Covaleski *et al.*, 2013). The present paper identifies the importance of positioning exit planning, among regional small businesses, as a distinct phenomenon with peculiar requirements (see Bagirov, 2008) in order for it to be effective and therefore argues for it to be tackled through the ‘specialised cluster’ approach under the state regional planning that necessitates deduction and implementation of tailored policies. This study puts forth the following theoretical model (Figure 1) to help provide a guide for policy-makers and practitioners under similar social settings. The figure aims to diagrammatically demonstrate, in the light of the study’s empirical data, the small regional businesses’ peculiar requirements for efficient functioning and successful strategic planning and the role ‘clustering’ technique (Bagirov, 2008) can play in helping to accomplish the same.

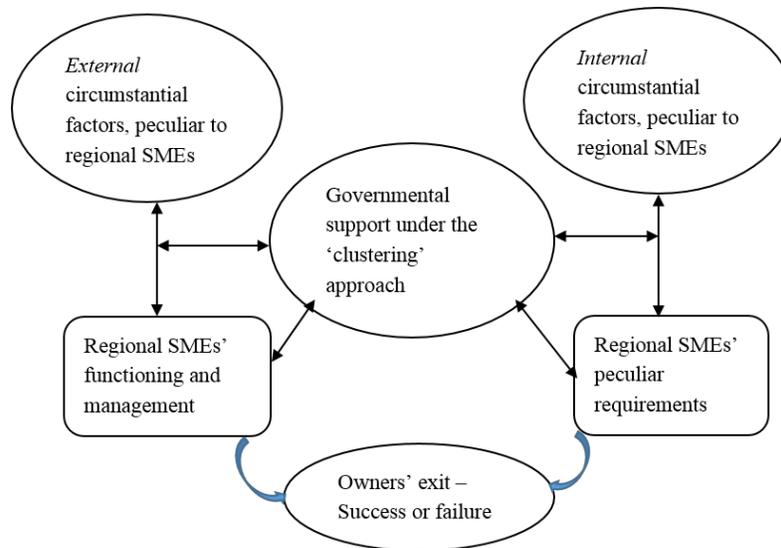


Figure 1. Proposed theoretical model for regional SMEs’ exit planning.

4. METHODOLOGY

Given the diverse nature of our target population and the study's focus that "...involves investigating all aspects of human activity and interactivity" (Black, 2002, 1), this study resorted to the qualitative research paradigm (see Rice and Ezzy, 1999; Yin, 1994). Kuzel (1992) and Fossey *et al.* (2002) posit that there is no minimum or maximum limit on the number of interviews under qualitative research. Interviews should continue until a saturation point is reached, which is the point where recurring themes start to emerge, and the researcher does not get any new information from subsequent interviews (Kuzel, 1992; Fossey *et al.*, 2002). This study gleaned qualitative data from 24 semi-structured interviews (see Yin, 2003) with small business owners from varying business sectors in the New England region of New South Wales, Australia, between March and June 2013. The sample was purposefully selected, and the key criterion employed in finalising our target population was 'diversification' across different industries. Owners' and their respective business's characteristics are presented in Table 1 below to help readers relate these to their peculiar approach to exit planning:

Average time per interview was around 30 minutes. At least one open-ended question was posed to all interviewees to ensure that owners' responses were not limited by the questions asked by the researcher. Interview questions were tailored as deemed fit by the researcher to suit the interviewees' taste, nature of business and the discussion thread, to ensure fluency in the discussion. Construct validity and internal validity were ensured through pilot interviews, feedback from colleagues, tailoring of interview questions based on feedback from earlier interviews and spreading of all interviews over a period of about eight weeks. All interviews were audio-recorded and later transcribed with the help of a professional transcriber. All transcripts were then comprehensively analysed for themes that were in line with what the literature predicted, those contradicting it, and those that were peculiar to small businesses operating in a small regional town. Implications for policy and practice were then drawn.

Table 1. Interview Participants’ Personal and Business Demographics

Business Demographics				Business Owner Demographics		
Sector	Age	Established	% Owned	Management Experience	Age	Male/Female
Retail	30+	Purchased business	0	<1	23-34	Male
Retail / Service	32	Founded	100	20+	55-64	Male
Service	18	Founded	50	15-20	45-54	Male
Retail /Service	10	Founded	51	10-14	45-54	Male
Retail	25	Purchased by share/Purchased business	100	20+	45-54	Male
Service	10	Founded	100	10-14	45-54	Male
Retail	70	Purchased by share	60	20+	45-54	Male
Retail	10	Founded	0	1-4	55-64	Male
Retail / Service	30	Purchased business	100	10-14	45-54	Female
Retail	15	Purchased business	100	20+	35-44	Male
Retail	37	Purchased business	100	5-9	45-54	Female
Retail	19	Founded	100	20+	55-64	Male
Retail	20	Founded/Purchased business	100	10-14	34-44	Female
Retail	21	Purchased business	50/50	20+	65+	Male
Retail	7	Purchased business	50	1-4	35-44	Female
Service	21	Founded	100	20+	45-54	Male
Retail	90	Purchased business	100	1-4	45-54	Female
Retail	101	Purchased business	50	10-14	55-64	Male
Retail	54	Founded	0	20+	34-44	Male
Service	42	Purchased by share	25	20+	65+	Female
Service	32	Purchased business	100	20+	34-44	Male
Retail / Service	3	Founded	100	1-4	35-44	Male
Service	18	Purchased business	100	15-20	45-54	Male
Retail	30	Founded	100	20+	55-64	Male

Source: the Author.

In light of the study’s set objectives and the relevant literature, the ‘explanation building’ (Yin, 1994, 110) technique was employed throughout the data analysis to deduce logical ‘explanations’ from the ‘observed patterns’ in the empirical data. The analysis of the qualitative data apprised the researcher of several themes, some aligning closely with the current literature and others depicting high peculiarity with regional small

businesses. Schatzki's (2002) 'site of the social' theoretical conceptualisation, as briefly elaborated on above, dictates that social practices get constructed and institutionalised on 'sites' that are compatible with their peculiar nature and environment. Regional governance policies ought to understand regional SMEs owners' peculiar *internal* and *external* circumstances and how these shape their exit planning and actual exit, and respond with appropriate policy measures. Thus, encapsulating the regional small businesses' peculiar requirements, creating 'specialised clusters' of business entities, government or private, and service providers that are 'supportive' of ensuring small businesses' efficient and successful functioning and the owners' successful and timely exit from their small business (see Bagirov's (2008, p. 257) discussion on 'clustering' technique), and then aiming to tailor existing policies accordingly to help facilitate the efficient functioning of such geographical clusters is the best way forward.

5. DATA ANALYSIS AND OBSERVED THEMES

Planning, overall, and exit planning, in particular, among small businesses owners seldom get a priority, and several of our participants signaled this was the case. Participant 1 acknowledged not having thought about planning his exit. He had "...taken over the reins from dad" and had no exit planning on plate. Several participants indicated the same lax attitude toward planning, though they did intend to exit their business down the track (participants 1, 3, 16, 21 and 22). We will "*hopefully* sell it" 15 years down the track, participant 3 remarked, while acknowledging that time "creeps on you pretty quick". Such a lack of planning stems from the peculiar characteristics small businesses depict as a product of their unique nature. Several variables – *internal* as well as *external* to the business, continuously interact with and impact upon the business and its owner(s) over the course of its existence. These variables drive small businesses in a unique direction different in a major way to how they affect larger businesses, and hence need to be embedded in regional planning initiatives. Morrison *et al.* (2003) found, in their empirical study, that the majority of the Australian small businesses did not show inclination to seeking external advice in connection with strategic business decisions – a phenomenon endorsed by our empirical findings for this study.

Gunerergin *et al.* (2012) have identified lack of access to financial and human resources and government support, and unfair competition due to lax government regulations, as impediments to the regional SMEs’ long term sustainability. This study endorsed these obstacles for several of the participants (participants no. 2, 4, 5, 9, 11, 20 and 22) signalling towards these inherent small business weaknesses. The study witnessed close connection between the owners’ level of interest in their business and the amount of effort they put into its efficient functioning and successful planning, which, in turn, could be linked to the relative success of the business (participants 2, 5, 15 and 22). Participant 1’s own experience of joining in as a ‘prospective’ owner depicted a similar exit strategy on the part of his father, who let his son work under his supervision for some time and then left on a 12 months “sightseeing” around the country. The participant acknowledged his father’s plan as a “test run for me and if I do all right in the next 12 months...he may stay semi-retired”. Several of our participants implied exit planning as something that needs to be considered close to the owner’s retirement age. Participant 1 replied ‘no’ when asked if he has any exit plans, adding “because I have just started”.

Small business entrepreneurs’ social skills translate into a competitive advantage and a sound business network for the business. As part of the long-term exit planning, prudent business entrepreneurs build an extensive social network (Meutia and Ismail, 2012). Meutia and Ismail’s (2012) study found a significant connection between the business’s social networking, its competitive advantage, and performance, to which this study’s findings aligned in some instances (participants 2 and 5), they revealed some ‘new’ themes that were peculiar to Australian regional small business. Burgelman (1994), advocating the significance of putting in place a well-defined business strategy to a firm’s long-term survival, argues for an effective alignment between the firm’s internal dynamics with those of the industry’s dynamics, for the firm’s exit strategy to be effective. The study further asserts that the small firm’s internal capabilities have implications for its long term survival and therefore their gradual development needs to be inculcated into the firm’s business strategy. Participant 5 demonstrated this in his approach to handling his exit planning. Participant 7 took over from his parents in instalments under their succession plan, in-built in the business’s overall strategy, with time fixed for a complete transfer of ownership.

Participants 14 and 21 indicated a similar exit path for them through sale to an employee. Participant 20, who owned the business with three other partners, two of them from his family – his sister and father, kept options open to either sell the business to employees, to another company through merger or to a partner. With his father already retired, but not exited, remaining partners being in the same age bracket would seek exit around the same time, so the ‘sale to employees’ or the ‘merger’ option would suit them best, the participant asserted.

The empirical data for this study revealed owners’ preference for the ‘male’ child to be the intended successor of the business. Participant 1 signalled his close relationship with his father who preferred him over his female siblings to be part of his exit plan. He also signalled to the comfort and trust his father felt in him to be his potential successor rather than selling the business of to an outsider. Other siblings support is crucial in such situations; “I am sure they [sisters] would like to see me here”, participant 1 remarked. Participant 7 had acquired the business from his parents under a succession plan, which was executed upon his father’s illness. Participant 19 had taken over his parents’ business but the ownership transfer had not taken place yet. As the literature substantiates (Lansberg and Astrachan, 2004; Wang *et al.*, 2004; Matthews *et al.*, 1999), the nature of family members’ relationship to one another heavily impacts on the owner’s succession plan. We noted that participant 7 and his wife were actively involved with the business under the parents’ intended succession plan. “We have been working together for over 25 years so we had a good working relationship”, the participant remarked. Inter-generation transfer works best in such situations as the owner can be a handy access to look after the business in case the new owners want to go on holidays. Participant 7 felt relieved by the facility. The study also found that the ‘selling to employees’ option is not actively pursued in such situations (participants 7 and 17).

The ‘passing on to the next generation’ option had its limitations in the case of relatively weak-performing businesses (participant 9, 11, 19 and 22). For a better performing business (participant 17), successful inter-generational transfer could be hindered by the owners’ lack of organizational skills and their ‘informal’ life-style effects on the businesses’ functioning. A rigorous pursuit of a formal exit strategy right from the business’s early stages coupled with a formal organizational structure put in place could well set the owner for a smooth and timely exit. Reaching a successful exit is not a cinch.

As Nemes (2009) asserts, selling off the business to a company could be a viable alternative to resort to, particularly in the case of small regional businesses that usually find it hard to find an ‘eligible’ buyer. The owner could serve the company as a salaried employee for some time, if the company wishes, and eventually get out of the whole deal. Participants 3 and 6 intended to go down that line. Participant 3 noted that there are big companies that are “creeping into Newcastle and Tamworth (larger cities close to Armidale)...” and he would build his business up over time and sell it to them. “...We wouldn’t sell to a local business, it would be to someone larger...”, participant 6 asserted. Participant 10 wished for an exit where she gets employed in the same business post-exit.

The literature advocates development of a thorough plan over several years before the owner’s intended exit, ranging from 3 to 10 years, for ensuring a successful exit (Martin *et al.*, 2002; Ip and Jacobs, 2006). Several of our interview participants demonstrated this to be the case; however, the majority of them did not formalise and actively pursue their plan. The family and small business literature, in the case of New Zealand, for instance, indicates that benchmarking against industry best practices is undertaken by around 66 per cent of family businesses (Smyrnios and Dana, 2007). The technique requires data and information gleaned from those considered ‘the best’ in succession planning in a particular industry. Out of the 24 small business owners the author interviewed, only a few participants (2, 5, 7, 18 and 20) demonstrated having explicitly incorporated this strategy into their exit plan. The study found this, in turn, closely related to how successful the business is, how formal the planning and control processes are and how much interest the owner demonstrates in his/her business. These participants demonstrated having set out their exit plan, with details spelled out, well in advance of their intended exit, while participant 3, 8, 9, 11 and 12 were found to be scattered across the opposite end of the scale. Participant 12 had “thought about” selling part of his business on a partnership basis before eventually exiting completely. Participant 19 wanted to go this path because he did not have any children, and his siblings had “no interest in the business whatsoever”. Participant 7 mentioned they had an explicit succession plan with all terms and conditions set out beforehand, and the study found that it ensured smooth transfer of ownership and uninterrupted continuity of the business. Participant 17 demonstrated that exit is likely to fail in small businesses if

owners set personal and lifestyle goals that outweigh the business's strategic and growth objectives.

Businesses that perform low are more likely to meet a failed succession. The literature also indicates that if the owner has not transferred critical business skills to potential successors leaving them highly dependent on the owner for the smooth functioning of the business, it would result in a failure when succession issues will start coming forth. Lack of a potential successor within the owner's close relatives is yet another reason for a potential succession failure. So is the case of ignorance and deferment of succession issues by the owner to a point in time that is too late to find a viable exit option (Martin *et al.*, 2002). State policies need to be objectively deduced and aligned with the sector's peculiar requirements for growth and sustainability (Morrison *et al.*, 2003). In particular, policy-makers, researchers, and regulators ought to "...identify...economic and social factor(s) [that would] drive small businesses to become growth oriented... [and] then target and...nurture these factors" (Morrison *et al.*, 2003, 424). Close interaction between the regional SMEs and the local governance is the key to ensure SMEs' continuity and long-term sustainability.

Being faced with peculiar external and internal issues (see Bachkaniwala *et al.*, 2001), small business owners must depict creative skills in order to secure the most ideal closure to their exit planning, and continuously review and adapt their plans to suit changing external and internal circumstances. Gunerergin, *et al.* (2012), shedding light on SME's long term sustainability issues, have listed good Human Resource Management (HRM) practices as one of the major constraining factors to small business owners' successful exit. Schmelter *et al.* (2010) have argued for modern HRM practices and 'corporate entrepreneurship' in SMEs, for ensuring growth, success, and sustainability in the long run. While participant 7's case closely reflected this, most of the participants demonstrated a thorough ignorance. Participants 3, 15 and 18 appreciated the significance of managing operations to suit their intended exit plan. "...say you want to go in 3 years you don't run your vehicles down; it's best to keep your vehicles and other assets in best shape for your planned exit", participant 3 remarked. We have "purposefully diversified the business" to suit our intention to sell the business (participant 18). Participant 10 regretted that the previous owners did not upgrade the premises and she had to do it on her own; this lax attitude reflected in the

kind of exit those original owners went through – sold the business together with the premises, and furniture and fixtures, and left the country.

For a successful exit small business owners ought to develop their exit strategy well in advance of their intended retirement age and actively pursue it by working on and adapting their business’s all operational aspects. In the case of participant 2, along the way to his intended exit, the owner had worked on the human resource and business operations aspects of the business to accomplish a smooth exit and ensure the business’s post-exit continuity and success. He had groomed staff and developed business contacts in a manner to serve as exit facilitating agents, as his son remarked, “I still have all the good staff that he had so that makes life fairly easy”. Small businesses generally have lax internal control systems in place, or need a particular skills set to run, and therefore have to rely on the owner’s or his trustworthy or a capable representative’s presence on the premises (participants 2, 3 and 23). As a control strategy, in the pursuit of ensuring the business’s post-exit success, the owner kept a watchful eye on his son’s (participant 2) activities who acknowledged his financial accountability to his father and awareness of negative repercussions for him making “a big financial mistake” in his assigned 12 months ‘test run’ period.

Lack of access to ‘suitable’ human capital is yet another significant impediment to a successful owner exit in a remote region. Interestingly, selling to an ‘eligible’ employee, with a different set of preferred characteristics for different proprietors, was an enticing option for owners, which could be linked to factors such as better business performance, owner’s active pursuit of exit planning and his/her feelings of comfort in associating themselves with the community. Alsos *et al.*, (2014) endorse close affiliation with the local community in the case of family firms.

Participants 2, 4, and 5, all liked this inter-connection. “Someone working with us would be ideal because then the other staff know that person and the customers know that person”. It would be a “wrong person” who did not fully appreciate the significance of building close ties with customers, participant 2 added. Participant 4 remarked in this connection, “your business is only as good as your staff”. A gradual delegation of authority to the intended person(s) and keeping all staff in the loop was what participant 2 had planned. Interestingly, owners that did not want an employee(s) to take over their business did not want to share their exit plan with staff and also did

not demonstrate a good staff experience; participant 6 was an example. The opposite was true in the case of participants 2, 4 and 5. Participant 7 indicated that having good relations with staff helps cover him in case he has to be away due to any unforeseen events. Challenges to the small business entrepreneur's reaching a 'satisficing' decision continue, as financing issues may pop up once a suitable candidate gets screened (participant 14 and 21). Local governance, if a close interaction with regional SMEs was kept, could help nurture these and relevant aspects to help business owners transit towards a successful exit. The literature advocates selling to an employee was an enticing option (see, for instance, Nemes, 2009; Fan *et al.*, 2009; Allinson *et al.*, 2007; Wang *et al.*, 2004; Smyrnios and Dana, 2007), and our empirical data endorsed this (participants 5, 12, 15 and 21); however, our findings indicate this option usually is the hardest to avail in small regional businesses, particularly when the businesses' performance is not encouraging and the economic horizon is uncertain; employees and/or owners, who witness this, would prefer to be paid a wage (participants 9, 10, 11, 15 and 21). The study's outcomes revealed that owners' desire to be employed in their business post-exit could well be a hurdle in their exit plan, as the new owner, with limited revenues, may first want to establish the business on his/her own.

On the other hand, for the relatively well-off businesses where owners showed confidence in the success of their business and had seriously considered exit planning well beforehand and were actively pursuing it, selling to an employee (participants 2, 5 and 12), or a company (participant 6) or passing on to the next generation (participants 7 and 17) turned out to be among the lucrative options. Objective support from the local university, local council, and the community could make a difference for the region's small businesses (participants 4, 6, 10, 11 and 12). Several participants related their struggle to reach an amicable exit to the weaker performing business for which they blamed the local governance as a major contributing factor. The study noted a strong connection between relatively weaker businesses (participants 6, 11, and 13) and their level of trust and confidence in the local governance; however, relatively better performing businesses also raised concerns regarding the local council's governance capabilities; these included concerns regarding lack of effective consultation with the local business community on policy changes that directly or indirectly impacted on them (participant 15, 18, 20, 21 and 24). This clearly signalled

towards a communication gap between the regional SMEs and the local governance. With the local council’s objective pursuit of policies that would facilitate small businesses’ efficient functioning and better reaching out to potential entrants, small business owners would feel supported and more likely to reach a satisficing exit. Active consultation with local businesses on policy changes that potentially have an impact on them would be highly encouraging for the owners. Table 2 below presents owners’ personal and circumstantial profiles and their relevance to the various themes the empirical data revealed:

Table 2. Qualitative Data Observed Themes.

Case	Exit Strategy	Trigger	Tame Frame	Target Entity	Independent /Franchise	Emotional Attachment	Retirement Strategy
1	N	Age: retire	5 yrs	Sell: Son	Independent	High	New Career
2	Y	Age: Health	5 yrs	Professional	Independent	High	Family Travel
3	N	Age: retire	15 yrs	Sell	Independent	Low	Group Travel
4	N	Age: tired	15 yrs	Sell	Franchise	Low	New Career
5	Y	Business Decision	10 yrs	Sell	Franchise	High	Agent
6	Y	Business Decision	5-10 yrs	Sell	Independent	High	Travel
7	Y	Business Decision	5-10yrs	Sell: Son	Franchise	High	Travel
8	N	Age	5 yrs	N/A	Independent	N/A	N/A
9	Y	Business Decision	5-10 yrs	Employee	Independent	High	Part-time employment
10	Y	Business Decision	5-10 yrs	Sell	Independent	High	New Business
11	Y	Age: Health	ASAP	Close	Independent	Low	New Career
12	Y	Age: retire	5 yrs	Sell/Close	Independent	Medium	New Career
13	Y	business decision (young family)	ASAP	Sell/Close	Independent	Low	Move to Tamworth
14	Y	Age: retire	2 yrs	Sell/Close	Independent /Franchise	Low	Travel
15	Y	Age: Business Decision	2 yrs	Sell	Independent	Low	Family
16	Y	Age: Business Decision	5 yrs	Sell	Independent	Low	New Business
17	Y	Age: Business Decision	20 yrs	Inheritance: Children	Independent	High	Family
18	Y	Business Decision	5-10 yrs	Sell	Independent	Medium	Family
19	Y	Age: retire	10 yrs	Sell	Independent /Franchise	High	Travel

Source: the Author

Contrary to larger businesses, small regional business owners felt extremely concerned about their post-exit/retirement financial security (participant 2, 9, 11, and 12) and wished for an exit that would help them in this respect. In the case of participant 20, his father retired but did not exit and hung on to the business to cover him financially post-retirement. The participant expressed a similar desire and did not rule out the option of putting in a manager and keep the business “as a passive income”. Several of the participants saw the proceeds from the sale of their business going to their superannuation (participants 6, 9 and 21) and some of them even did not see sufficient value in their business to fund their retirement, which, in turn, can be linked to weak performing businesses with poor planning initiatives on the part of the owners (participants 9, 10, 11, 12, and 24). Some of the latter group expressed their intention of starting a job post-exit and/or exit and establish a new business in a larger town (participant 11) or in another suitable area (participant 6); this group included those with relatively weaker businesses and the least trust and confidence in the local governance and their support for small businesses (participant 6, 11, and 13). Proprietors who owned the premises were less concerned in this connection as they had the option of renting the place out and finding a job instead, in case their exit plan did not work (participant 10 and 23).

Overall, it turned out that, consistent with the findings of Smyrnios and Dana (2007) in the case of New Zealand and Australia and Wang *et al.* (2004) in the UK, for the majority of our participants selling their business off to fund their retirement was the overwhelming theme, and passing it on to the next generation was not a concern for them. Also, the owners exit was not formally planned and objectively pursued in the case of majority of the participants. Despite these consistencies, this study revealed that in the case of Australian regional small businesses owners’ exit planning initiatives did not depict the ‘requirements’ of their intended exit. As argued earlier, several internal and external factors hindered the planning, initiation and implementation of ‘objective’ exit planning among these ‘unique’ businesses.

6. CONCLUSIONS, AND DIRECTIONS FOR FUTURE RESEARCH

This study examined the level, efficacy and determinants of exit planning among small business owners in the New England region of New South Wales, Australia. The qualitative data analyses revealed several themes that

align with the current literature and some that are new to the literature and peculiar to small businesses that operate in relatively isolated small regional towns. In line with Schatzki’s (2002) stance on the construction of social practices, the author argues for a borrowing, on the part of the State government, from the ‘clustering’ (Bagirov, 2008, p. 247) technique that would encapsulate regional businesses’ exit planning-specific issues.

Although scholars are divided on the significance of the use of the ‘specialised clusters’ technique, several empirical studies have empirically proven its high value for regional planning (see Peck and McGuinness, 2003; see also Bagirov, 2008). Lack of awareness among small business owners on the significance of having a formal exit plan and actively pursuing it over the course of the business was also among the prominent issues that hindered owners’ successful exit. Longenecker *et al.*, (2013) in their book emphasize the significance of having a clear purpose of exit on the part of the owner to his/her success post-exit. A shipshape business would be relatively easier to exit. Strategies for succession preparation may include, carrying out business planning that explicitly incorporates exit planning, simplifying business processes, decentralising decision-making, assigning ‘unrelated’ job duties to the prospective successor to diversify his/her skills, emphasizing learning and practicing new skills, in addition to relying on managers’ competencies, thereby matching internal capabilities with the firm’s strategy, assessing the nature and strength of the implicit and explicit barriers both inside and outside the firm, implementing strategies to overcome those barriers, and explicitly focusing on career development activities (Burgelman, 1996; Karaevli and Hall, 2002; Ip and Jacobs, 2006). Most of these strategies were endorsed by the analysis of the empirical data through a correlation between having one or more of these strategies and the relative success experienced by the business owners in the running and/or successful exiting of their business or vice versa.

The author asserts that facilitation on the part of the State or local government of ‘specialised clusters’ of an interrelated and connected set of business, service, research and training and financial institutions that would pave a path for efficient functioning regional small businesses with better prospects for a successful and timely owner exit. Running of educational and training workshops through which an awareness is created among small business owners on the significance of keeping a good inter-family

relationship and effective communication (see Gettler, 2010; Allinson *et al.*, 2007; Ibrahim *et al.*, 2003; Lansberg and Astrachan, 2004), having extensive social contacts (see Meutia and Ismail, 2012), deducing and pursuing an effective and viable business strategy (see Burgelman, 1994), timely deduction and pursuit of a thorough exit plan (see Martin *et al.*, 2002; Ip and Jacobs, 2006) and paying specific attention to the business's Human Resource Management and operational issues (see Gunerergin *et al.*, 2012; Schmelter *et al.* 2010) would logically flow out of the 'specialised clusters'. This would ensure the efficient functioning of a small business while the owner is onboard and their successful continuation when he/she decides to exit.

This study's findings also signalled towards the importance of the owner's exiting at the right time. The empirical data evidenced that small business owners try to hold on to their business and not let it go as long as it is performing well, and in economically tougher times it becomes difficult for them to find a buyer. Effective State policies, facilitation of exit processes and close interaction of the region's local governance with small enterprises could help overcome some of the impediments small business owners encounter when exiting their business or planning for it, and thus could ensure the region's economic and social development and sustainability (see Brown and Rosen, 2012). Policies specifically targeted to retain the region's population and encourage population growth, provide training on and facilitating awareness about the significance of timely exit planning to small businesses' entrepreneurs would help improve the situation. Moreover, state government through local governance ought to keep close contact with the regional SMEs to keep their confidence high. In addition they should share information with them and get regular feedback from them on the development and implementation of policies that affect them. Longitudinal studies on exit planning in different Australian regions with varying owner demographics would further this study's findings and regional Australia's sustainability debate.

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