KINGSTON UNIVERSITY

OPENING UP BUSINESS CLOSURES:
A STUDY OF BUSINESSES THAT CLOSE
AND OWNERS' EXIT ROUTES

A RESEARCH REPORT

For HSBC

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EXECUTIVE SUMMARY

- Although there is a wealth of information on business start-ups, very little is known about the 'exit' process. This study aims to investigate what happens to both business and owner in the event of a business closure. It develops a typology of closures, and owner manager exits, and explores the attitudes of the owners towards future entrepreneurial ventures.

- The research used qualitative and quantitative methods of data collection. Interviews were conducted with 20 small business advisors with experience of business closures. Data from those owner managers 'exiting' the enterprise was collected using a postal survey. A total of 388 usable responses were returned. 20 respondents were interviewed by telephone to provide greater insights into their past experiences and future plans.

- Business 'closure' is often associated with business 'failure' but results of the survey suggest a broader typology of businesses that close:

    - *Financial Failures* (20%) insoluble financial problems, often leaving bad debts
    - *Not Meeting Owners Objectives* (35%) neither significant debts nor sold-on
    - *Technical Closures* (15%) closed and re-opened in a different form
    - *Sold-On* (35%) sold for a consideration

- *There is also an assumption that most owners that close down their businesses have been unsuccessful. This research showed the opposite. Most owners still wished to run their own business, as a typology of owners who exit by closing a business indicates:*

    - *Departing* (30%) became employed, unemployed, or out of work through ill health.

- *Retiring* (10%) retired from active involvement having sold or closed their business

- *Returning (60%)* continued as business owner by opening or buying a new or similar business to the one closed or through the existing ownership of another business.

- Even if they had not gained financially, owners had still benefited from their experiences of running a business. They improved skills, particularly in personal development areas, business planning, and building a customer base. Owners cited many problems to avoid especially those involving trust, and financial issues such as cash flow and tax problems.

- The research has considerable implications for business educationalists, policy makers and financiers. Those who have closed a business are strong candidates to become involved in a new venture, and should therefore be a prime target for those seeking to advise or finance new businesses. Owners should be viewed as leaving a business through a 'revolving door' rather than a 'one-way exit'. Many return to start the entrepreneurial process over again, more confident in their abilities as a result of their previous experience.

1. RESEARCH RATIONALE AND AIMS

1.1 Business closures: a substantial but neglected sector

One of the most significant gaps in our knowledge of business ownership relates to the closure of businesses and the exit of owners. Business closures almost match the rate of business start-ups in the UK, but the knowledge we have of these two processes is very uneven. Despite high rates of new business formation, the total stock of 3.7 million businesses has been relatively stable since the mid-1990s because closure rates have been similarly high. Between 350,000 and 400,000 businesses, or approximately 10 percent of the total stock, close each year (Table 1). Most businesses that close are micro or small firms because these constitute the most numerous and the most vulnerable sector (Hall, 1995). Thus, many firms that close are not registered for VAT (Table 1), mainly because they fall below the turnover threshold (as of April 2001, £54,000 p.a.). However, there have been few attempts to investigate this large number of enterprises in order to understand the different types of closures. Similarly, there is little research into the experiences of owner-managers during the closure process, with the result that distinctions between businesses that close, and the people that close them, have been blurred.

The financial consequences of closing a business vary between the extremes of insolvency and bad debts on the one hand, and a payoff for the owner from the sale of the business on the other. We do know that the numbers of businesses at the insolvency end of the spectrum are relatively small; around 10 percent of business closures are the results of compulsory liquidation or bankruptcy (Dun and Bradstreet, 2001; see Table 1 below). However, very little is known about what has happened to the rest of the businesses that close, nor whether the owner perceives the business closing as a mark of ‘success’ or ‘failure.’ In summary, we need to find out more about business closure, and the motivations, attitudes and responses of the owner-managers who experience this process.

Table 1 UK statistics on business closures and liquidations

000's of businesses			*YEAR*	
	1997	**1998**	**1999**	**2000**
TOTAL BUSINESS STOCK *	3708	3658	3677	3723
MAINSTREAM BUSINESS STOCK *	2656	2721	2777	2785
BUSINESS CLOSURES	443	389	382	393
% Closures to total business stock	*11.9*	*10.6*	*10.3*	*10.5*
LIQUIDATIONS & BANKRUPTCIES^	36	39	43	41
% Liquidations to total business stock	*0.5*	*0.5*	*0.5*	*0.5*
% Liquidations to business closures	*2.8*	*3.4*	*3.7*	*3.7*
VAT REGISTRATIONS – TOTAL	1,621	1,651	1,658	1,664
DE-REGISTRATIONS	164	156	172	177
% de-registrations to VAT stock	*10.1*	*9.4*	*10.4*	*10.6*

Source: Small Business Service, 2001; Dun &Bradstreet, 2001.

** The total business stock includes part time operations, which are excluded in the 'mainstream business' data. Mainstream firms are full time sole occupation businesses. ^ Includes limited company liquidations and bankruptcies of sole traders and partnerships*

1.2 A critique of existing literature

A review of the literature reveals an obscure picture of business closure. Comprehensive and consistent information on closure is lacking as studies are based on varying databases, business populations, definitions and research designs (Nucci, 1999). Although there is a growing body of knowledge on new business formation, and the development and growth of enterprises, the research on closures is sparse.

There is a particular tendency to associate business 'closure' with business 'failure'. Previous research into small business exits has tended to focus on reasons for failure, models for predicting failure and turnaround strategies for ailing businesses. This association between business closure and failure also led to the assumption that most owners that close down their businesses have been unsuccessful. Thus, owners of closed businesses have tended to be stigmatised as 'failed entrepreneurs'. However, closure can be a consequence of several other factors including retirement, illness, more attractive alternative opportunities, and sale of the business for profit.

Definitions of business ‘closures’, ‘exits’ and ‘failures’ are confused and often overlap. Closure has been categorised as the inability of the business to survive and thus represents a discontinuance of the business (Hall, 1995; Keasey and Watson, 1993). Failure is generally regarded as the discontinuance of the business due to a lack of adequate financial resources (Healy and Lynas, 1997). Exit is used in several senses; it can refer to the exit of the business from trading in a specific market or from producing a particular product (Siegfried and Evans, 1994). It can also refer to the end of an owner’s participation in the business, as in the search for ‘exit routes’ by entrepreneurs wishing to sell up or exit from the business.

Appendix 1 contains a fuller review of the existing research on business closures. In summary, there are a number of shortcomings in this literature:

i. Most of the relevant studies have focused on the factors associated with the relative ‘success’ or ‘failure’ of small businesses. There has been a tendency to associate business closure with business failure, or to assume that the majority of closures represent unsuccessful business ventures.

ii. A large number of studies have attempted to build or test models for the identification of business failure, prevention and cure. Again, this has been driven by an agenda that seems to imply that business closure is negative, rather than a natural consequence of a dynamic economy in the Schumpeterian sense.

iii. As well as confusion with failure, there are other problems in defining closures. There has been a conflation of the closure of the business and the exit of the owner-manager from business ownership. This has hampered the study of the ex-owner managers, particularly from the perspective of their attitudes to the closure process.

iv. Very little research has been conducted into the range of exit rationales of small business owners. One of the reasons for this is that it is very difficult to identify and contact proprietors whose businesses are likely to, or have already, closed. Thus there are few adequate data sources on which to base a study of business closures.

Overall, our literature review leads us to concur with one of the myths of small business research exposed by Gibb (2000): "Notwithstanding the debates about what constitutes a 'failure' it is clear that the majority of business de-registrations are voluntary: and too little is known about the circumstances involved" (Gibb, 2000: 22).

1.3 Aims of the research

The research reported on here investigated the range of reasons why business owners close their businesses, what happened to both the business itself and the former owner(s), and the lessons they learned from running the business. The attitudes of former business owners towards future entrepreneurial ventures and the lessons they have learned from the one they closed were also explored.

For the purposes of the research, a business *closure* is defined as a situation in which a business entity discontinues in its existing form. An owner's *exit* describes the act of departure from business ownership by the business owner. Thus a distinction was made from the outset between the business that was closed and the owner who exited from it.

In summary the research aims were to:

i. Develop a typology of business closures in terms of what happened to the business

ii. Investigate what happened to the business owners who exited from their business.

iii. Gain a better understanding of the attitudes and future intentions of business owners who close a business. (Is the experience encouraging or discouraging towards new ventures?)

iv. Gain insights into what the owners perceive they learned, or experiences that they regard as lessons for the future, during the completed life cycle of the business.

2. METHODOLOGY OF THE RESEARCH

The research comprised a three stage data collection process:

- interviews with advisors
- a postal survey of owner-managers
- face-to-face interviews with a subset of owner-managers.

In setting out the agenda for the quantitative study, preliminary interviews were conducted with 20 small business advisors with experience of business exits. These included bank managers, accountants, solicitors, and small business advisors and consultants in government and charitable organisations. From these early findings, a theoretical framework for business closures emerged and a postal questionnaire was developed (Appendix 2).

One of the greatest barriers to researching closures is finding ex-owner-managers and businesses that have closed. In this research, we developed our own sampling frame that sought to be as representative as possible of the range of business closures and exit types, rather than for example, relying on official receivers data. This was derived from as wide a source as possible and comprised HSBC customers including business account closures (66% of respondents), Dun and Bradstreet lists of existing businesses (25%), and closures identified during research on other projects by the SBRC, Kingston University (10%). The postal questionnaire was piloted with business owners who had experience of closing a small business and the final version was posted throughout May and June 1999 to 2719 business owners. The overall response rate was 14% with a total of 388 usable responses returned. The low rate overall was primarily caused by the poor response of the Dun and Bradstreet lists (5%) although this was to be expected since it was a general list. The HSBC customers within the sample had a higher response rate (36%). The characteristics of the enterprises from the different sources were crosschecked and showed a high degree of conformity. The final question asked the respondents if they were willing to be interviewed and 20 former owners were interviewed to provide greater insights into their past experiences and future plans.

The quantitative data arising from the questionnaire was analysed using the Statistical Package for the Social Sciences (SPSS). The resulting qualitative data was analysed using general analytical procedures (Miles and Huberman, 1994) whereby common themes are identified and categorised from the face-to-face interviews.

3. REPORT FINDINGS

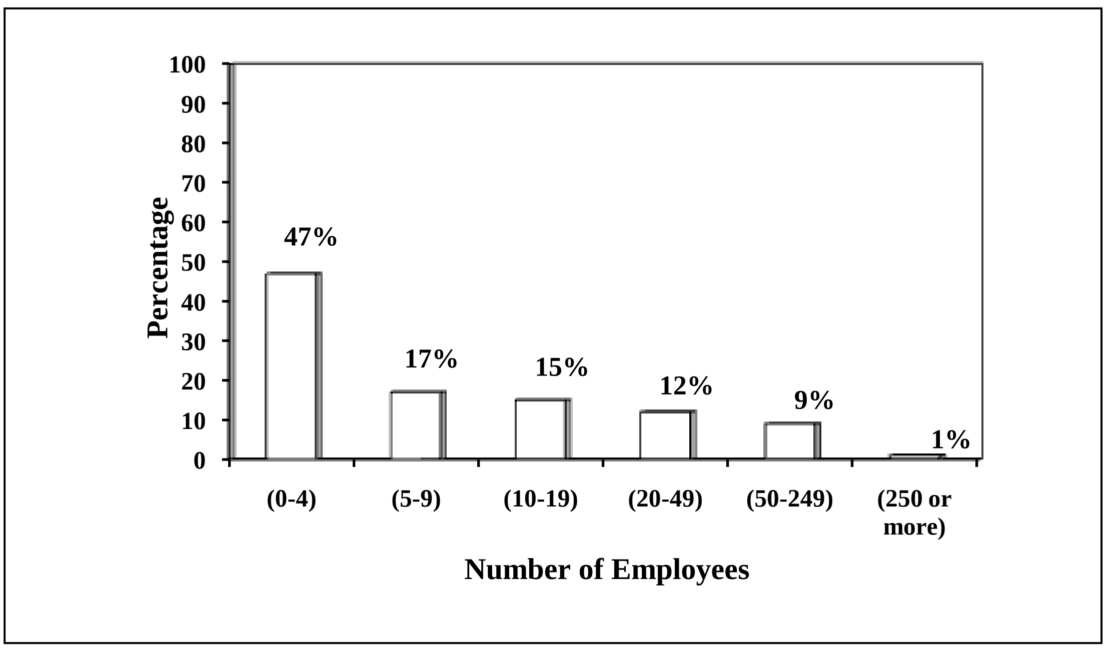
3.1 Profile of the businesses

3.1.1 Size and age of the businesses

Overall, the sample of closed businesses tended to be larger and older than the stock of businesses in the UK. These differences reflect the fact that businesses that have been closed can be expected to be more mature and therefore larger than the average business. However, it is also possible that the weighting of the sample towards respondents who had had business accounts could have exaggerated this difference.

For example, 64 percent of the closed businesses employed less than 10 people, compared to 95 percent of all businesses in the UK, as Figure 1 shows. However these differences to the national profile become less as the firms grow in size; 90 percent of the sample employed less than 50 people, compared with 99 percent of all businesses in the UK.

Figure 1. Size of Business (based on number employed) (n=387)



Sales revenues were also above the average of the UK stock of businesses. 27 percent of the sample had a turnover of less than £50,000, compared to 22 percent of firms nationally, (Appendix 3, Q. 8). This above average size was reflected in the age profile of the businesses. Although the length of ownership of the businesses ranged from 1 year to 53 years, the mean of years of ownership was 10 years, and the median 6 years (Appendix 3 Q. 2 and Q. 3).

3.1.2 Sectors and markets

The businesses were spread across many industrial sectors and product types (Appendix 3, Q.23 and Q. 24). Although the majority were involved in various forms of services, such as distribution (11%) and catering (5%), other sectors were represented including manufacturing (13%) and construction (11%). Conforming to the general pattern of small businesses, the majority (52%) traded in local markets, with only 6 percent claiming sales in international markets.

3.1.3 Legal form of the businesses

Just over half of the companies (54%) traded as limited companies, which is higher than is the national pattern, as illustrated in Table 2 below. Under one third were involved as sole proprietors which is well below the national percentage. However, most sole traders nationally are 'one-man bands'; only 1.1 million of the 3.7 million UK businesses are employers (SBS, 2001). These micro businesses are harder to identify especially in the closing down phase and are, therefore, likely to have been under-represented in the sample.

Table 2. Legal Form of the Business (n=387)

Legal form	UK percent	Sample percent
Limited company	21	54
Sole proprietorship	60	29
Partnership	19	14
Other	-	2

Note: UK percent refers to the stock of UK businesses in 2000

3.2 Profile of the owner-manager

3.2.1 Reasons for starting or joining the business

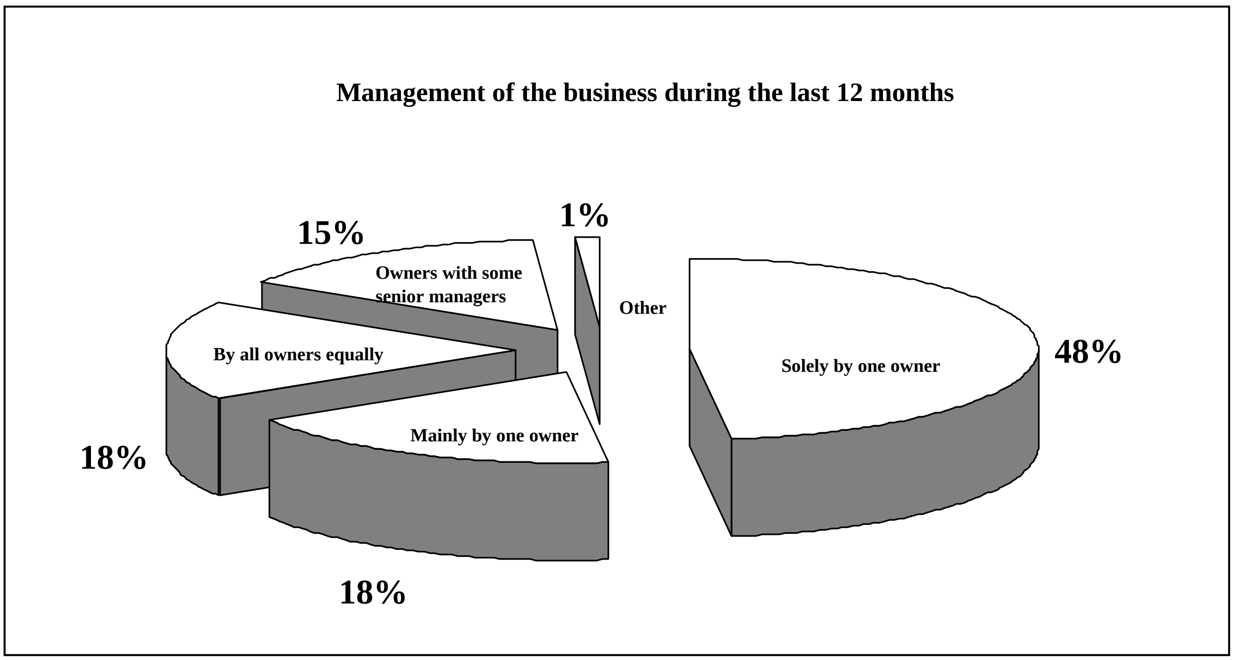
A large majority of the respondents (81%) started the businesses themselves (Appendix 3, Q.4). In line with other well-documented research, the desire for independence was cited by the largest percentage of respondents (78%) as an important reason for starting or joining the business (Appendix 3, Q. 5). Positive, 'pull' factors (e.g. to accumulate wealth, and to pursue an excellent opportunity) were also cited by many respondents as important. However, a significant minority also regarded more negative, 'push' factors as important, including frustration in previous job (35%), redundancy (21%) and fear of unemployment (15%).

3.2.2 Management of the business

Almost all of the respondents had some form of management experience. Two thirds (67%) had management experience from their previous employment. It is particularly interesting in the context of notions of *serial entrepreneurs*, to note that over 40 percent had experience of managing another business (Appendix 3, Q.5). Another indicator of this willingness to become involved in a variety of business ventures is that a significant number of respondents (27%) were owners of more than one business, including 6 percent who claimed ownership of several other businesses (Appendix 3, Q.6)

The literature indicates that jointly-owned or -managed businesses have more chance of survival than enterprises with sole ownership (Storey, 1998). This is partially supported by this research, as two thirds of these businesses that closed were either managed solely (48%) or mainly (18%) by one owner as illustrated in Figure 2.

Figure 2 Number of managers in the business (n=385)



3.2.3 Age, gender and ethnicity

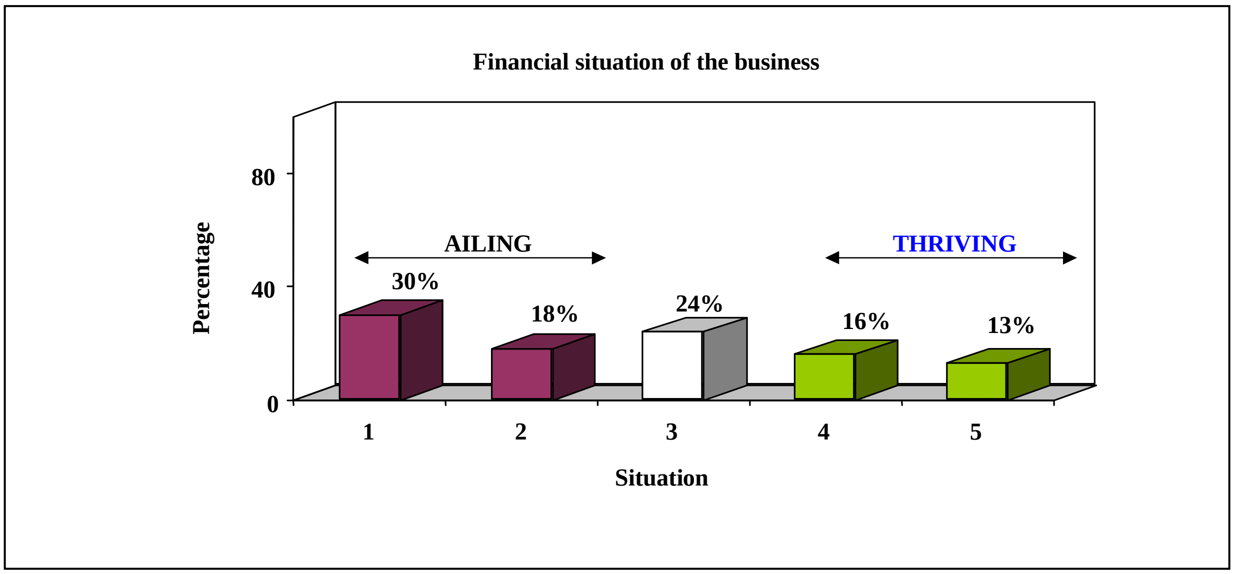
Conforming to national patterns of business ownership, nearly two thirds of the owners were between 35 and 55 years old (Appendix 3, Q.27). However, female owners were under-represented in the sample (14% of respondents compared to 25% nationally), as were non-white owners (only 6% of the sample).

3.3 Financial situation of the business

Owners were asked to appraise the financial situation of the business when it was closed on a five-point scale from ailing (1) to thriving (5). Almost half (48%) of respondents described their business as ailing, whilst 29% said it was thriving (Figure 3). A quarter (24%) said it was neither ailing nor thriving, implying a no-growth, but relatively stable financial situation. Thus, just over half (53%) of respondents closed a business that was not seen to be in financial decline. Clearly, business closure is not merely about reacting to financial difficulties.

Figure 3 Condition of the business at time of closure (N=382)

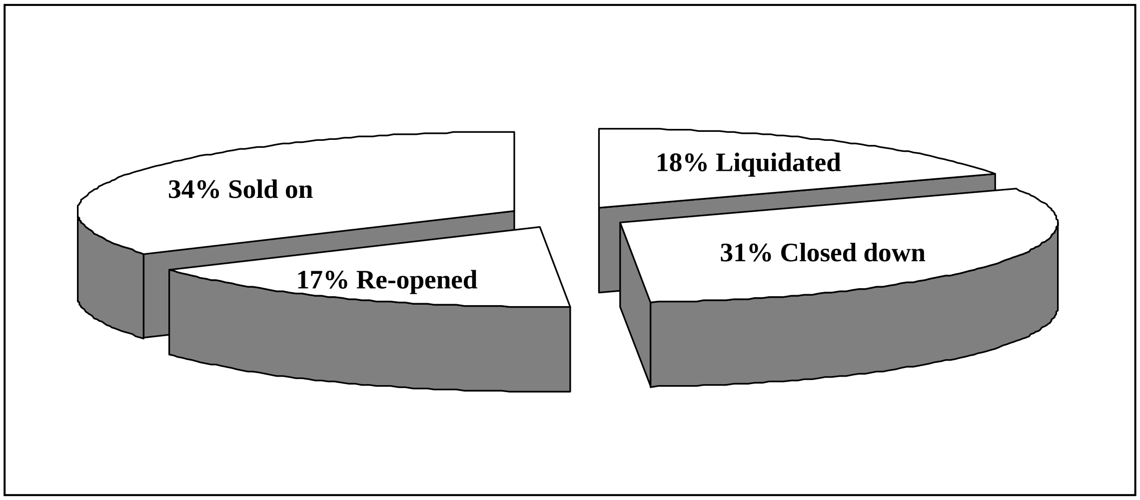
How would you describe the financial situation of the business at the time you left or the business closed?



3.4 What happened to the businesses?

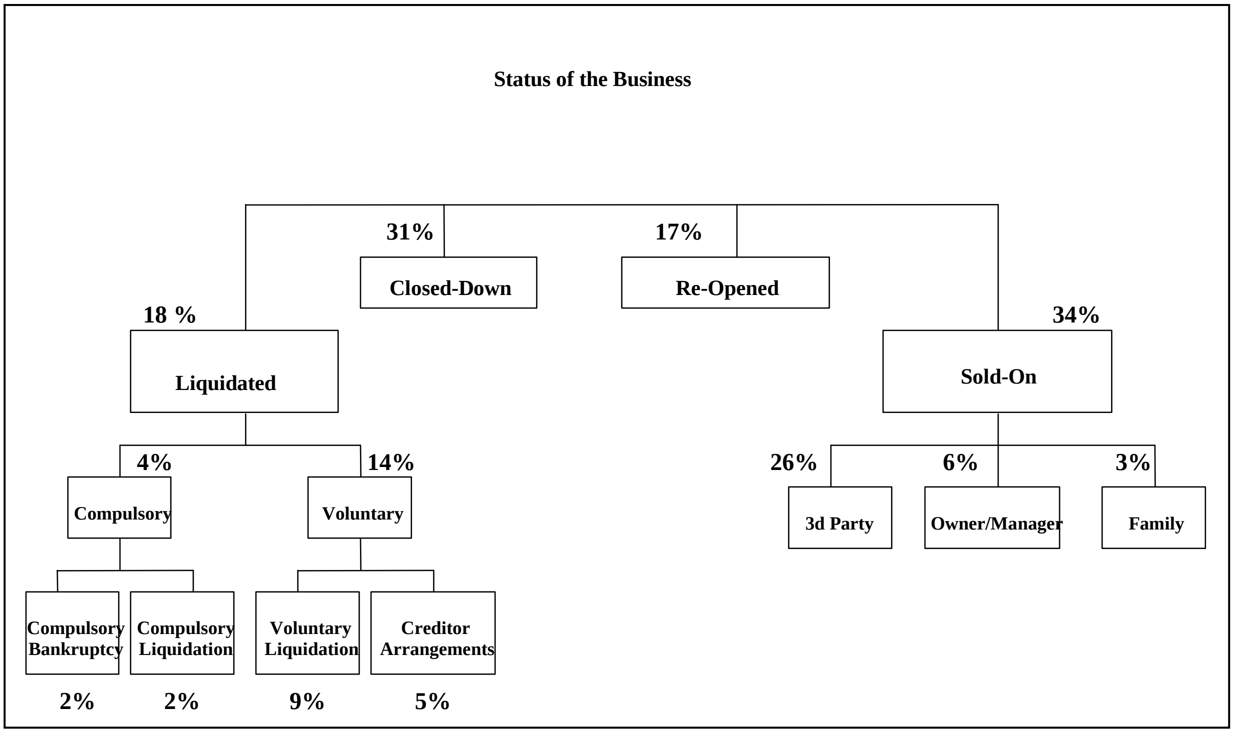
The relatively sound financial condition of a majority of the businesses is also reflected in what happened to the business beyond its current ownership, as shown in Figure 4 below.

Figure 4 What happened to the business (level 1) (n=379)



Approximately a half of the businesses (51%) effectively continued in some form, with 17 percent re-opening under similar ownership and 34 percent being sold-on. Of those that did represent a real discontinuance of the business entity, 18 percent were subject to some form of liquidation, and 31 percent were described as 'closed down'. These businesses approximated to those described as 'ailing' financially, although there was some overlap into other categories. These four main categories can be further sub-divided as indicated in Figure 5.

Figure 5 What happened to the business (level 2) (n=379)



3.4.1 '__Liquidated__'

The total percentage of liquidated businesses (18%) seems high in relation to the published statistics on insolvencies. There are a number of explanations for this:

i. Official statistics on insolvency make a distinction between companies and individuals (DTI, 2001). In practice however, a sole trader may become bankrupt as an individual for business reasons, but not counted as an insolvent business. The official number of insolvent companies is, therefore, likely to understate the number of insolvencies caused by business failure. Although the term normally applies to individuals, bankruptcy (2% of respondents) also describes insolvent businesses in these data.

ii. Secondly, it should be emphasised that a liquidated business does not necessarily represent an insolvent business. Insolvency implies that a business or an individual cannot pay their debts as they fall due. Voluntary liquidation can take place in situations when the business is not insolvent, and therefore not all liquidations are of insolvent businesses. DTI (2001) statistics indicated that 1.1% of active companies became insolvent in 2000/2001. This statistic would correspond most closely to the compulsory liquidations (2%) in Figure 5 above.

3.4.2 'Closed-down'

A large percentage of firms were simply described as 'closed down' (31%). Although most of these also fell into the 'ailing' category of closed businesses, this category does not include those businesses that were closed primarily because of significant financial problems, such as insolvency. These businesses were closed because they no longer met their owner's objectives. In many cases it was because of 'insufficient financial rewards' (Appendix 3, Q15), but a number of non-financial reasons were also given. Some were positive; for instance some businesses closed because the owners had an idea for a different business, or an attractive job offer. Others were more negative, such as a breakdown in relationships between multiple owners, or 'too stressful'. A small number simply cited that the contract had ended, implying the business had been formed for a specific project. In summary this category of businesses were closed because they no longer met their owners financial or non-financial aspirations, but did not close with significant indebtedness.

3.4.3'Re-opened'

A significant minority (17%) of businesses was described as 're-opening in a different form'. The reasons given for the change varied but a common theme was that the organisational form was no longer appropriate for the business. Hence almost half of the changes were from sole traders/partnerships to limited companies, reflecting the growth of the business, or the wish to project the image of a more substantial business. In other cases, partnerships became sole traders because the owners had different objectives. In summary this category refers principally to businesses which closed and re-opened in a different form for technical reasons, such as the exit of a partner, the re-branding of the business or tax considerations.

3.4.4 'Sold-on'

Many of the businesses were sold-on (34%). The majority of these (26%) were sold to third parties, whilst others were sold to existing managers or owners (6%), or family members (3%). This category does not always imply that the business was a financial success (a business may have been bought and sold-on at a loss for example). But businesses that were sold were generally described as 'thriving' financially. This significant percentage of the total of closed business would certainly not have been regarded as failures by their owners.

3.5 What happened to the business owner?

The economic activities of owners once they had closed a business were quantified as illustrated in Figure 6. A key finding of this research is that a majority (62%)` continued as a business owner in some way. Only 29 percent of owners sought non-business ownership employment after closing their business, and some owners retired (9%).

Figure 6 Business owner exits – what they did next (n=367)

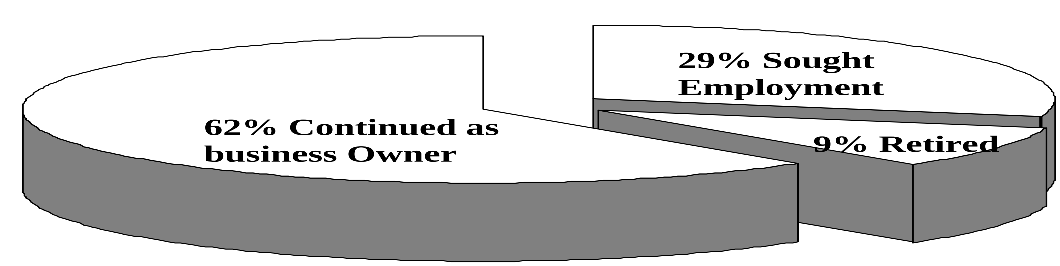
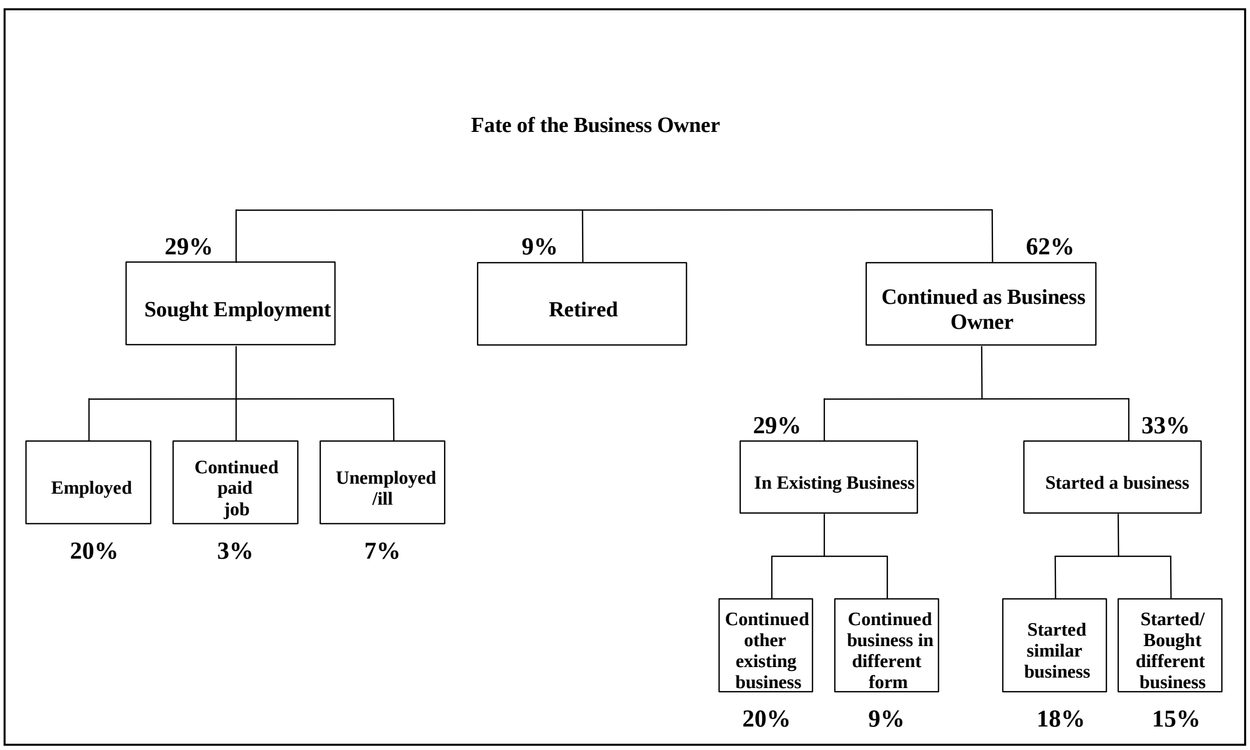


Figure 7 below analyses some of these categories in more detail. Most of those seeking to exit business ownership were successful and became employed; some became unemployed or could not work through illness (7%); others were running their business part-time and so continued with their existing paid job (3%).

However, the findings confirmed the notion of the 'serial entrepreneur' in that the majority of respondents continued as business owners (62%). The preference was to stay with what they already knew. Some already had other business interests and continued with these (20%); others continued the same business in a different form (9%) or started up a similar business (18%). A minority tried something new by starting or buying a different type of business (15%).

Figure 7 Business owner exits – what they did next (level 2) (n=367)

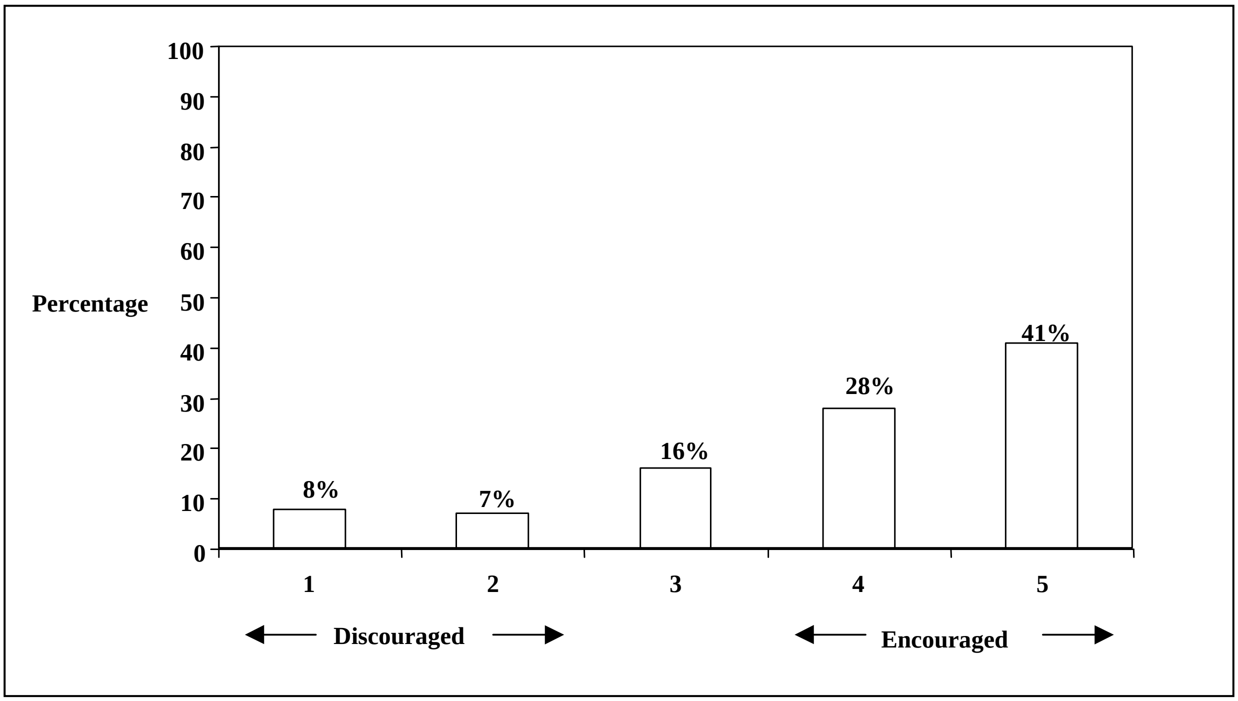


3.6 Attitudes to the experience of closing a business

As might be expected from their preference to continue in business, owners viewed the experience of managing a business that eventually closed, mainly in a positive light. The majority (70%) of respondents claimed that they were encouraged by their experience to continue as a business owner (Figure 8). Only 15% said they were discouraged.

Figure 8 Attitude of owner to business closure (n=379)

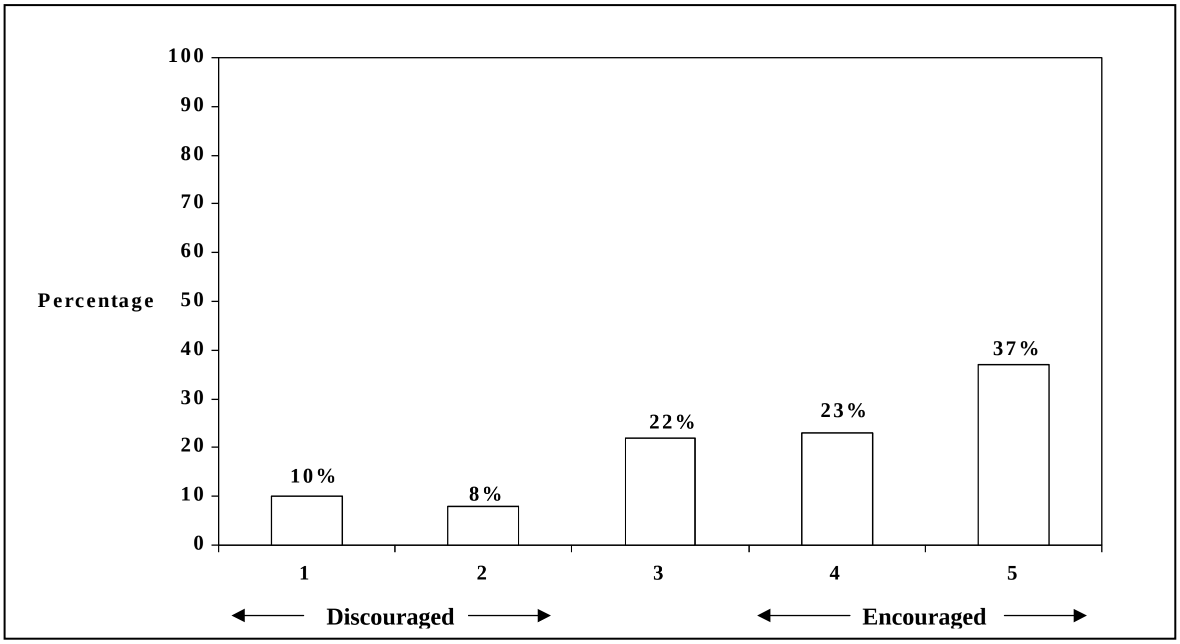
Has your experience of managing a business that closed, encouraged or discouraged you to have your own business in the future?



3.6.1 Attitudes of owners of ailing businesses

This might be expected particularly from those who had described their businesses as thriving when they closed. However, even those who had been in financial difficulties were not put off by their experience. An analysis of those who described their business as ‘ailing’ when closed revealed that 60% still responded that they were encouraged to have their own business in the future, with only 18% stating they were discouraged.

Figure 9 Attitude of owners of ailing businesses to closure (n=114)

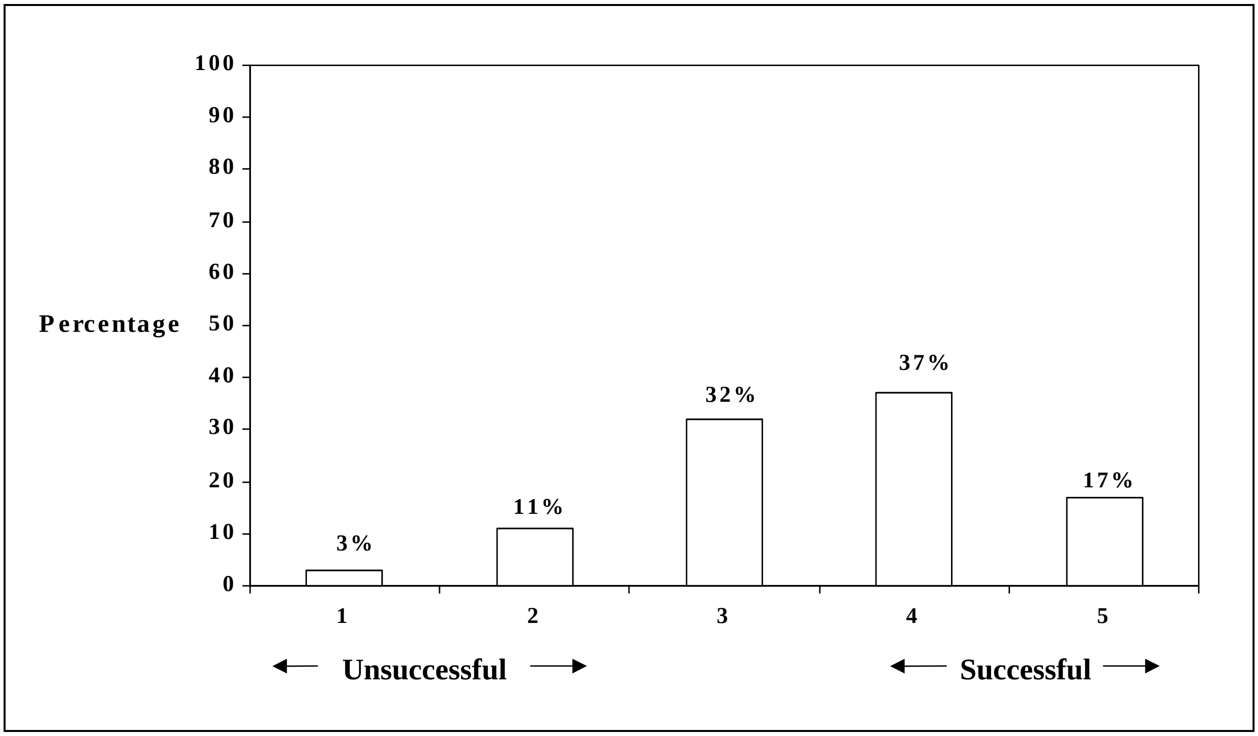


3.6.2 Owners' self-assessment of success

When asked to rate their success as a manager of a business that closed (Figure 10), over half (54%) rated themselves as successful with only 14% describing themselves as unsuccessful.

Figure 10 Ratings of success as a business manager (n=385)

How would you rate your success as a business manager during the time you owned the business?



3.7 Learning from the experience of business closure

From the above analysis, it seems that the majority of respondents viewed their ownership of a business that closed as a positive learning experience. In order to establish in more detail what it was that they felt they had learned, they were asked to rate their skills in various areas compared to when they started the business. From the literature, a number of internal problems have been identified which contribute to business closure (Cromie, 1991; Stokes, 1998). These can be grouped into the key functional categories of managing operations, marketing, personal development, finance, and managing people. These formed the basis of the skills which owners were asked to rate. The results are shown below in Table 3 with the most improved skills first, and the functional categories indicated.

Table 3. Rating of skills learned (n=386)

Compared with when you started the business, how would you rate your skills now in the following areas?

	%Worse	%Better
A Planning the business	2	79
B Building customer base	4	73
C Coping with setbacks	7	71
D Financial record keeping	8	70
C Self-management	5	70
C Adapting to change	6	69
B Identifying new opportunities	7	68
B Targeting customers/clients	6	60
E Team leadership	6	60
B Promoting products/services	8	59
A Monitoring performance	10	58
E Attracting/retaining staff	9	58
A Establishing systems	5	57
E Developing business networks	8	53
B Researching the market	10	52
D Raising finance	13	40

Key to functional categories:

A - operations **B** - marketing **C** – personal development **D** – finance **E** - managing people.

The most improved skill was business planning, with nearly 80 percent of respondents believing that their skills in planning the business were better than when they had started. The well-documented over-reliance of small businesses on a narrow base of customers (e.g. Hall, 1995) is reflected in the second most improved skill of building a customer base. However when the skills acquired are grouped into functional categories, those relating to personal development were seen to have improved the most.

Table 4 Rating of skills categories learned (n=386)

Skills Category	Percent *
Personal Development	70
Operations	65
Marketing	62
Managing people	57
Finance	55

***** Percentage of respondents who rated skills category as improved

As illustrated above in Table 4, approximately 70 percent of respondents said they had improved their skills in personal development areas (coping with setbacks, self-management, and adapting to change), higher than any other category of skills. Thus it was not the traditional functions such as marketing, finance and managing people that improved most overall, but personal development skills relating to how the business owners managed themselves and coped with their business environment.

3.7.1 Lessons for the future

Respondents were asked two open questions in order to investigate particular issues that had constituted a learning experience. One question focused on positive experiences that would be useful in the future (Table 5); the second asked about experiences they would avoid next time round (Table 6).

Some patterns emerged by grouping the responses into themes. In considering useful experiences, the theme of trust and relationships was cited by over a quarter of respondents. Trust was an important issue in a variety of relationships: partners, relatives, friends, banks, accountants, and government were all mentioned in terms of the need to build good, trusting relationships. Some respondents expressed this as a positive factor (e.g. "build a good relationship with your accountant"); others expressed negative feelings (e.g. "never work with relatives and friends"; "beware of loopholes in contracts").

Marketing issues were also often mentioned. The need to understand the market before starting up was one lesson cited, and watching trends thereafter was another. Finding customers was a common issue including the need to acting quickly to replace lost customers. It might be expected that financial management issues would be cited frequently as useful learning experiences, considering that respondents were all owners of businesses that had closed. However, a relatively small number of respondents (16%) cited they had gained from their experience in financial matters such as managing cash flow and understanding how businesses are financed. Financial issues were seen more as experiences to avoid: financial and tax issues were the most common theme in the open question on experiences to avoid in running a business as indicated below in Table 6.

Table 5 Experiences found to be useful (n=306)

'Is there one particular experience you feel you have benefited from whilst owning this business that you consider would be useful if you were to become the owner-manager of another business?'	
Trust/ relationship issues e.g. Finding suitable partners/ directors. Finding trustworthy staff. Good relationships with accountants. Never work with relatives/friends Don't trust banks or government	27%
Marketing issues Watch trends/do research before starting business. Good communications and networking. Promotions and advertising. Dealing with the public. Quality of service and products. Finding new customers. If customers lost, actively seek new ones.	23%
Financial management Financial record keeping. Managing debtors and creditors. Managing cash flow and overheads. Understanding how businesses are financed. Preserve capital for future investments	16%
Self-management and motivation Developed self-discipline/ self-motivation. Hard work/long hours. Doing everything yourself. Time management and planning Leadership. Making decisions – don't postpone difficult decisions. Self discipline. Confidence	14%

Other management and business skills People management skills, Taxation and company law	9%

3.7.2 Experiences to avoid

Trust and relationship issues again featured frequently as experiences to avoid, often mirroring comments on the previous question on positive learning experiences (Table 4). Other research has indicated that owner-managers frequently perceive marketing as representing promotions and selling only, with negative attitudes towards the cost of these activities (Stokes et al.; 1997). This was supported by advice from respondents in this research to avoid or reduce the costs of advertising and promotions.

Table 6 Experiences to be avoided (n=296)

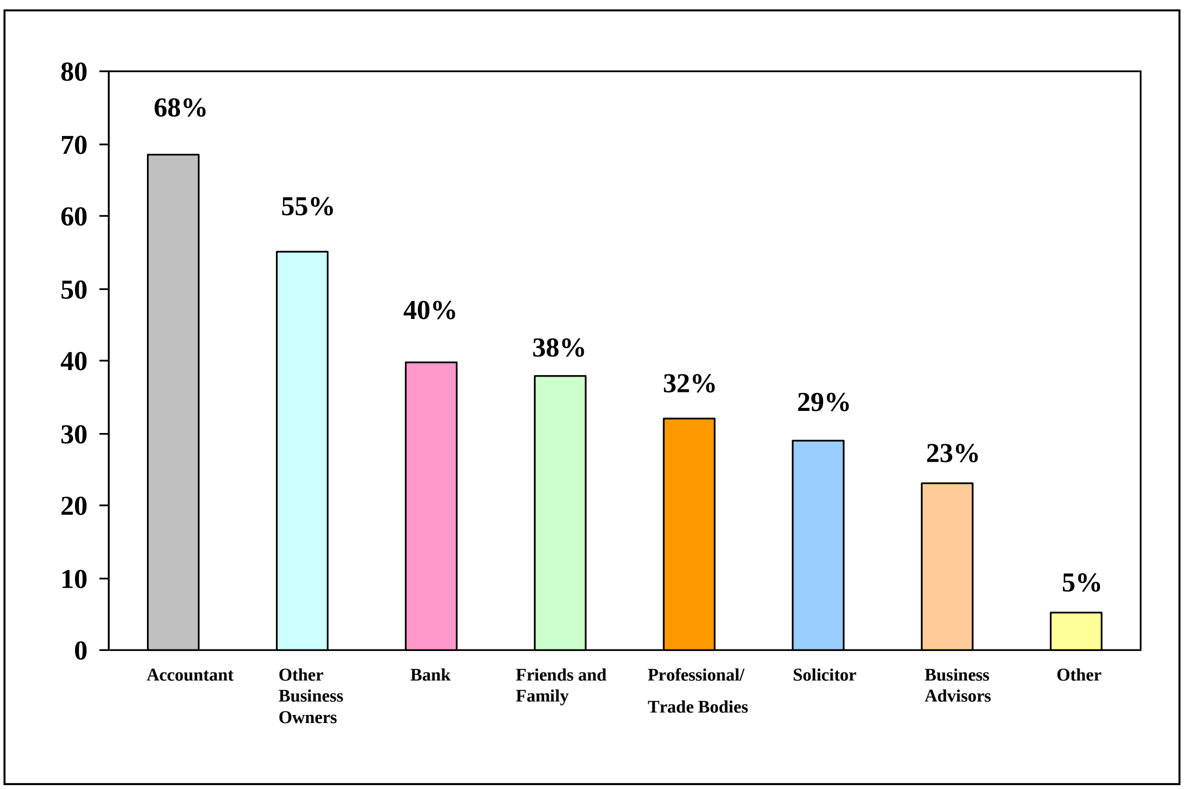
Is there one particular experience you had whilst owning this business that you would like to avoid if you were to become the owner-manager of another business?	
Finance/tax issues Problems with banks and borrowing money, Inland revenue, insufficient capital, insufficient investment in equipment, cash flow problems, failure to control finances, over reliance on overdraft, too much credit to clients/bad credit management	26%
Trust/ relationship issues Equal partnerships/wrong partners/having partners, being a minority shareholder, employing relatives/friends, unsound/unwritten contracts, trusting people too far	22%
Self management Lack of confidence/overconfidence, dealing with all aspects, working long hours, being ill/worrying	11%
Marketing Lack of selection of customers/taking on low margin work, conflicts with customers, competition, problems with distributors, difficulties with trading abroad, cost of advertising and promotions.	9%
Management of people Staff problems, not managing staff, lack of delegation redundancies, long term contracts, insufficient staff.	8%
General Management Lack of experience. lack of contingency plans, problems with suppliers	6%
Other Avoid franchises, renting, bad advice, litigation, and theft.	7%

~~Although issues arising from the management of people were raised by only 8 percent of~~ respondents, many of them did not employ any or many staff (47% of the sample employed from 0 to 4 people)

3.8 Sources of advice

As the respondents had been through the complete life cycle of a business it was interesting to investigate whom, if anyone, they had turned to for advice during their period of business ownership. As illustrated in Figure 11, accountants were the most frequently cited source, followed by other business owners. Banks and friends also scored quite highly. Government sponsored bodies such as Business Link and TECs were less frequently mentioned, as is borne out by other research (Curran and Blackburn, 1994).

Figure 11. Sources of advice (n=373)



4. DISCUSSION AND CONCLUSIONS

4.1 A typology of business closures

The aim of this research has been to investigate what happens when a business is closed and the experiences of the owners in the process. According to official statistics, around 400,000 businesses close in the UK every year. Although many of these are micro businesses with no employees, there are over 150,000 VAT de-registrations each year which are indicative of the closure of many, more substantial businesses. However, our analysis shows that there is a range of outcomes in this broad process.

The financial health of the businesses that closed in the survey varied greatly. Nearly half were described as 'ailing' financially but fewer than 5 percent suffered compulsory liquidation or bankruptcy, suggesting that the majority of struggling firms close without leaving debts behind. At the other extreme, nearly 30 percent were described as 'thriving', with over a quarter being sold on to new owners. Some businesses simply closed because they no longer met the owners' personal objectives; others closed for technical reasons such as a change of legal form (e.g. from sole trader to limited company). The results suggest a broad typology of businesses that close as depicted in Figure 12. Approximately half of closed businesses are discontinued because they have failed financially (20%), or they no longer meet their owners' objectives (30%). However, half are effectively continued as they are either sold-on (35%) or they represent closures for technical reasons which re-open (15%) such as the change of a sole trader to a limited company.

Figure 12 Typology of business closures

Discontinued		Continued	
'Financial Failures'	'Not Meeting Owners Objectives'	'Technical Closures'	'Sold-On'
20%*	30%*	15%*	35%*
Insoluble financial problems often resulting in bad debts	Not meeting owners' current objectives. Closed with neither significant debts nor sold on for consideration	Closed for business objectives and re-opened in a different form. For example upgrade of sole trader to limited company or changes to partnership.	Sold for a consideration to third parties, existing managers, family members or friends.

* Percentages have been rounded to the nearest 5%.

If the failure of a business is linked to financial problems with the possibility of unpaid debts, or the inability to meet owners' objectives, then only around half of the businesses surveyed could be said to have failed, and were thus discontinued. This indicates that the often-implicit link between the term's 'failure' and 'closure' should be carefully guarded against in the literature.

4.2 A typology of owner exits

Nearly 70 percent of owners who had closed a business were encouraged by their experiences and still wished to run their own business. Over 60 percent had acted on this inclination by either starting a similar or new business (45 percent), or continuing with another business of their own (16 percent). As some owners retired (10 percent), fewer than 30 percent returned to employment or unemployment. This suggests a broad typology of owners who exit by closing a business as shown in Figure 13.

Figure 13 Typology of Owner Exits from Business Ownership

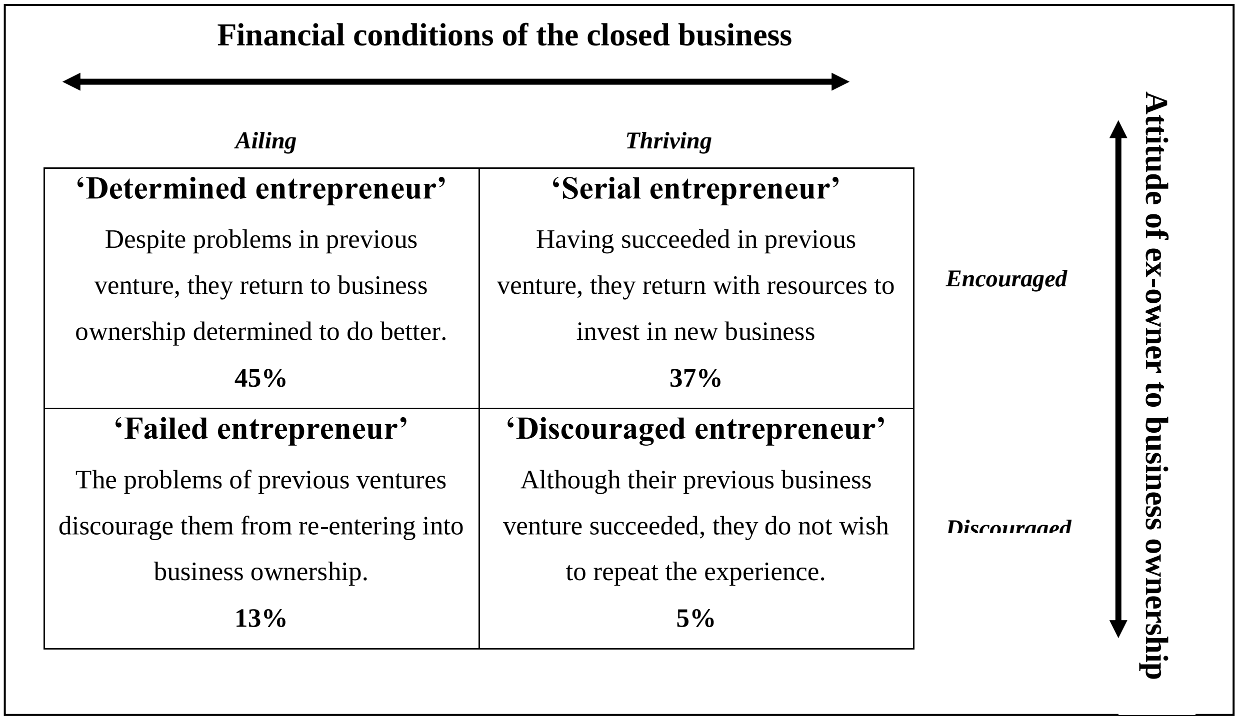
'Departing'	**'Retiring'**	**'Returning'**
30%	10%	60%
Returning to employment, becoming unemployed, or out of work through ill health.	Retiring from active involvement having sold or closed their business	Continued as business owner by opening or buying a new or similar business to the one closed or through the existing ownership of another business

Only a minority can be described as truly 'departing' when they exited, as most in fact are soon 'returning' to business ownership. A third category are 'retiring', having found their exit route from ownership. This has considerable implications for business educationalists, policy makers and financiers. In summary, a person who has closed a business is a very likely candidate to become involved in a new venture, and should therefore be a prime target for those seeking to advise or finance new businesses. Owners, therefore, can be regarded as leaving a business through a 'revolving door', rather than a 'one-way exit'. Many return to start the entrepreneurship process again.

4.3 Owners' responses to business closure

The research suggests that owners who exit from a business can be typified in a number of ways. By considering the financial condition of the business in relation to the owners' attitude to business ownership, a matrix can be used to classify four such types of responses to business closure.

Figure 14 A matrix of owners' responses to business closure



Two categories represent those intending to return to business ownership. Even those who described their closed business as 'ailing' were encouraged by the experience. This group which can thus be described as '*determined entrepreneurs'*, represents the most numerous of the four categories. Others returning to business ownership do so from a position of strength, having already had a thriving enterprise, and so can be classified as successful *'serial entrepreneurs'*. They are the most likely category to have financial and other resources to invest in new ventures, and represent the second most numerous group.

A minority was discouraged by their experience of business ownership. Some closed an ailing business, departing or retiring from business ownership. This is the only category where a business exit can be equated with a *'failed entrepreneur'*, which is the third most numerous group. The fourth category of exit is that of someone who closes a thriving business, but who is a *'discouraged entrepreneur'* because they do not wish to repeat the experience. Owners falling into this group represent the smallest group.

4.4 Lessons from closure

Even if they had not gained financially, owners had still benefited from their experiences of running a business. They reported that their skills had improved particularly in business planning, and building a customer base. However, they improved most in disciplines relating to personal development such as self-management and coping with setbacks rather than the traditional functional areas such as marketing and finance. They felt they had learned particularly about issues of trust and relationships, marketing and financial management, and self- management and motivation. When asked if there was one particular experience they would like not to repeat, owners cited many problems to avoid including financial issues such as cash flow and tax problems, but again the issue of trust was frequently mentioned.

The message from the research for financiers and policy-makers is clear. First, differentiate between businesses that close and those that fail financially. Business owners have been shown to start their firms for a variety of reasons. Yet the range of reasons for them closing their enterprises appears less well known. The results presented show the range of reasons for closure. Second, even owner managers who have had unsuccessful ventures have been shown in our research to be motivated to start another enterprise. In their view they also appear to be better equipped to be more able to make it work next time because of lessons learned. The above implies that there is an untapped market for advice and products for these type of business owners. Much of the start-up advice and products available are based on notions of 'naïve' or 'virgin' owner-managers. Our research suggests otherwise and that those owner-managers wishing to re-start represent a significant segment of the new business market.

Our thinking on the concept of business life cycles also needs to be broadened. In particular, the notion that permanence is positive, whilst short-lived enterprises is a negative phenomenon, needs addressing. The results presented here represent new ways of thinking on the owners' learning processes during the final phase of a business’s life, and the effects of this process. It is suggested that more qualitative research in the form of case studies, would be a way forward to build on these ideas.

References

APPENDIX ONE

Business Closures: LITERATURE REVIEW

Appendix One

BUSINESS CLOSURES: A LITERATURE REVIEW

A review of the contemporary literature relating to the life cycles of business ventures, from their formation to their demise, indicates significant inadequacies in research into the final stage of the closure of the business. These inadequacies relate both to the descriptions of the businesses that close and to the experiences of the owners that closed the business.

Definitions of business closures, exits and failures

Definitions of business 'closures', 'exits' and 'failures' are confused and often overlapping. *Closure* can be categorised as the inability of the business to survive and thus represents a discontinuance of the business (Hall, 1995; Keasey and Watson, 1987). *Exit* is used in several senses; it can refer to the exit of the business from trading in a specific market or from producing a particular product (Siegfried and Evans, 1994). It can also refer to the end of an owners' participation in the business, as in the search for 'exit routes' by entrepreneurs wishing to sell up or exit from the business. Business exits have been described as 'discontinuance of ownership' (Watson and Everett, 1996) in which the business continues but ownership changes.

Failure is generally regarded as the discontinuance of the business due to a lack of adequate financial resources (Healy and Lynas 1997). However, such a definition has been used both in the narrow sense of insolvent firms and in the wider sense of a business that terminates for any reason. This is reflected in the statistics on business closures which tend to focus on either liquidations and insolvencies, or the totality of closures from VAT de-registrations and bank account closures. This polarisation of definitions of failure from the narrow to the general is inadequate. The use of definitions of business insolvency and bankruptcy as proxies for business failure do not include firms that close with severe financial problems whilst remaining technically solvent (Berryman, 1983). At the other extreme, the association of any business closure with failure is also flawed as the business may be sold for profit or because the owner wishes to retire or to move into new ventures (Baldwin and Gorecki 1991; Stewart and Gallagher 1985; Williams, 1993).

The reasons for business closure can be multifaceted. According to Gibb (2000), a significant number of studies (e.g. Fredland and Morris, 1976; Storey, 1994; Watson and Everett, 1996 and Sten, 1998) indicate that only a fraction of business exits are results of bankruptcy and compulsory involuntary liquidation. Apart from financial failure, little is known about other possible reasons why small businesses close down and whether the business owner perceives the business closing as a mark of success or failure.

Watson and Everett (1996) attempted to refine earlier definitions of closed businesses that could be said to have 'failed', by identifying several categories of discontinued firms:

a) Business closures as a result of bankruptcy and losses to creditors (Dun and Bradstreet, 2001)
b) Closure based on firms that were sold or liquidated with losses to prevent further losses. This therefore includes firms that are on the way to bankruptcy, but are sold to prevent the full consequences of this happening (Ulmer and Nielson, 1947).
c) Closure as a result of the owners 'inability to make a go of it', whether losses were personal or included any other form of capital. This includes businesses failing to make an adequate return on investment or not meeting the owners' objectives. (Cochran, 1981)
d) Closure for other reasons. In their own study, Watson and Everett (1996) identified a range of other reasons why the owners of retail outlets in a shopping centre closed their businesses. Thirty percent of disposals were attributed to the retirement, ill

health, and death of the owner-manager; seven percent to realise profits and twenty percent due to the owner pursuing alternative opportunities. In other words, at least half of the closures were not associated with financial failure or difficulties

They concluded that it is difficult to reach a consensus regarding the definition of business failure and therefore measures of failure ought to be clearly stated in any study. As well as attempting to clarify definitions of failure, their work indicates a need to distinguish clearly between the positive and negative aspects of the reasons behind business closures.

Reasons for 'failure'

Studies on business closures tend to report 'failure rates', typically ranging from 3 to 9 percent per annum (Bates 1995; Bates and Nucci, 1989; Birley, 1986; Stanworth, 1995). Research into the longevity of businesses indicates that over half close within three years of start-up (Barclays, 2001). It is perhaps not surprising that considerable research effort has been directed at investigations into the reasons why businesses fail (e.g. Berryman, 1983; Birley and Niktari, 1995; Boyle and Desai, 1991; Cromie, 1991), models for predicting failure (e.g. Blackwood and Mowl, 2000 and Gimeno et al., 1997) and turnaround strategies for ailing businesses (e.g. Carter et al., 1997 and Thompson, 1999). Again there is an implicit assumption that most owners that close down their businesses have been unsuccessful.

Business failure has been categorised by business functions and where they originate (internally or externally), whether they are strategic or operational in nature, and whether they are within, or outside of, the firm's control (Boyle and Desai, 1991). Berryman's (1983) review of the literature on small business failure and bankruptcy suggested six categories for reasons for failure: accounting, marketing, finance problems, other endogenous factors, exogenous factors and the behaviour of the owner manager.

Accounting and finance issues have often been cited as the core reason for business failure (Altman, 1971; Boyle and Desai, 1991; Cromie, 1991; DeNoble and Moliver, 1983 and Peterson et al. 1986). Altman (1971) developed five equations/ratios as determinants of failure for small business in the United States: working capital, retained earnings, profits and sales expressed as ratios to total assets and market value as a ratio to debt. The use of financial ratios was soon questioned for its reliability and several authors sought to identify other ways in which failure could be predicted. Argenti (1976) stated that the use of financial information to define failure posed several problems because ratios were mainly symptoms of business failure and were unable to yield insightful results. He further argued that the use of financial ratios presents an opportunity for managers and other key stakeholders to manipulate the information. Argenti viewed failure as a consequence of a number of inherent defects in the company the main one being the autocratic leadership of the owner manager. Other key factors mentioned included changes in the macro environment and normal business hazards. As such, Argenti devised a business failure model that utilised several non-financial indicators of failure including managerial structure, inadequacies of accounting information systems and audit lags, and the manipulation of financial statements and gearing.

The hypotheses developed by Argenti were tested in an empirical study of 73 failed and 73 surviving independently owned companies in the North of England by Keasey and Watson (1987). This important study sought to examine the possibilities of predicting small company failure from publicly available non-financial information, or in conjunction with financial ratios; in order to compare findings with the results found solely from financial ratios. The authors found that use of the Argenti hypotheses only improved small business failure predictions by a margin as compared with information obtained from financial ratios. However the authors suggested that other non-financial variables could prove to be better predictors for small business failure.

Berryman (1983) also observed that there was a strong bias towards accounting/finance problems because previous studies utilised accounting records as the method of analysis and insufficient research was conducted on exogenous factors that contribute to failure. From her review of the literature, she was able to identify six main failure themes cited by various authors. These included: accounting systems; marketing; finance; other endogenous factors (such as operational problems); exogenous factors (including economic and seasonal conditions); and behavioural aspects linked to the owner-manager.

A review of 30 articles published between 1972 and 1989 led Boyle and Desai (1991) to develop a typology to categorise business failure. Their review identified 24 factors recognised by practitioners and researchers as contributing to the failure of small firms. Four key themes were developed to examine the factors. The themes were constructed based on whether the failure factors originated internally or externally and the nature of response required, either strategic or administrative. Birley and Niktari (1995) developed a similar typology. The authors identified 10 key failure themes in a study conducted on 486 independent owners managed businesses. The definition of 'failure' was based on the opinions of accountants and bankers, two sectors of the economy known for their pivotal roles during the closure of businesses.

More recent research presents a more systematic approach by classifying factors influencing failure as either 'endogenous' or 'exogenous' to the business. Watson and Everett (1998) suggest that small business owners are faced with three main risks when starting their businesses: economic based risks, industry based risks (both exogenous factors); and firm based risks (an endogenous factor). According to the authors, these three types of risks can be further broken down into systematic and non-systematic risk. Systematic or economy based risk is most often rewarded. Unsystematic risks such as firm and industry-based risks are not rewarded due to the presence of diversification strategies that limit the potential sources of risk. To a large extent, risk is determined by the variability in earnings, which directly relates to the failure or success of the business, which in turn is determined by both internal/ and external factors. In larger organisations, investors can limit the effects of unsystematic risks by spreading investments across several firms and industries. Smaller organisations lack the resources available to diversify investments and thus have fewer options to reduce the effects of systematic risk thus their high inclination to failure.

In an attempt to explore the possible impact of macro-economic factors on small business mortality, Watson and Everett (1998) collected data from managed shopping centres, which normally keep an up to date record of current past and business tenants. The results demonstrated the presence of both systematic and non-systematic risks based on variations in time periods and age amongst the businesses studied. The authors further suggest that systematic factors were associated with 30%-50% of small business failures particularly in areas such as retail sales, trading, bank interest rates, employment and unemployment.

The literature on business closure therefore has made great efforts in identifying the causes for closure [mainly those associated with failure] and classifying these reasons. The more sophisticated research of this genre has tended to present a structure-agency model, or endogenous- exogenous model, which then ranks the order of importance of the various factors. Based on these models, policy makers can then address the reasons for failure and target specific weaknesses in small business owners-strategy with the ultimate aim of reducing the closure rate. We would argue, however, that, whilst the progress this literature has made in understanding the causes of failure is commendable, it has only begun to develop an understanding of the portfolio of possible reasons for business closure. The review so far also tends to support a weakness of the literature identified over 15 year ago by Scott and Ritchie: "In our examination of the way in which we view failure and the difficulties and the difficulties thrown up by our inability to produce clear definitions, the general tone has followed the cultural norm that failure is a negative event" (Scott and Ritchie, 1984: 49).

The role of the owner-manager in business closure

Whilst numerous studies of business closure have divided the causes of small business closure into exogenous and endogenous factors, some have been much more owner-manager focused. For some, focusing on the motivations of owner-managers is key to understanding the entrepreneurship process, which should also infer the reason for exit. One study indicated that the vast majority of small business close because their owners lacked total commitment to their product or service (Beam and Carey 1989). The authors surveyed over 250 small business owners through University course contacts in the USA and identified the ways in which owner managers can 'kill' their business: taking profits immediately as a salary; pay low wages; hire out management; and do not share information with employees.

Some studies have sought to investigate the possibility of using personal traits to distinguish successful from unsuccessful entrepreneurs. Littunen (2000) reviewed the literature to develop a list of characteristics of successful entrepreneurs sited by previous authors.

Characteristics of a successful entrepreneur

Casson (1982)	*Caird (1988)*	*Bird (1989)*	*McClelland (1961, 1965)*
Ability to take risks Innovativeness Knowledge of how the market functions Manufacturing know how Marketing skills Business management skills Ability to co-operate	Good nose for business Desire to take risks Ability to identify business opportunities Ability to correct errors effectively Ability to grasp profitable opportunities	Economic Risks Risks in Social relations Risks in career development Psychological and health risks	Economic Risk Power to decide due to economic commitments Personal income is dependent on the profit of the firm

Source: Littunen (2000)

Two distinct schools of thought have emerged in relation to the influence of the entrepreneur on their business. The 'trait model' emphasises distinct characteristics of the entrepreneur, focusing on the factors that led them to start the company and the features of their personality that makes them successful entrepreneurs. The 'contingency model' (Gilad and Levine, 1986) proposes that the environment and the current status of that environment demarcate the characteristics of the entrepreneur. This school of thought further proposes that an interaction between the individual and the environment leads to the development of personal characteristics.

Serial entrepreneurs

More recently, the literature relating to business closures has taken a more positive perspective through a focus on serial entrepreneurs. These are individuals who have founded and operated multiple start-up companies. According to Ryan (2000), serial entrepreneurs thrive on the psychological reward of having an impact as opposed to the wealth to be gained from operating successful ventures. These entrepreneurs are risk takers, having built sufficient wealth (relative to their comfort level); they will invest their money on new ventures that often tends to be a vague vision or notion of an unsolved problem. Ryan further suggests that serial entrepreneurs view failure as an experience that will make them stronger and boulder to take on new risks. Fraone (1999) suggests that some entrepreneurs thrive on the gruelling early stages of starting and building a business, and then pass it on to go off and start another business. Based on interviews with 3 high-tech businessmen, Fraone (1999) identified five key characteristics of a serial entrepreneur: ego; humility; vision; market timing and unstoppable enthusiasm. It has been suggested that the greatest strength of the serial entrepreneur is the ability to network. Serial entrepreneurs are able to quickly pull together elements of a successful start-up (Clancey, 2000; and Fraone, 1999). Clancey (2000) states that serial entrepreneurial behaviour has been identified as habit forming and that most serial entrepreneurs tend to be more intrigued by the possibility of exploring several opportunities simultaneously than the financial benefits of operating successful ventures.

Conclusions

In summary there are a number of shortcomings in this literature:

v. Most of the relevant studies have focused on the factors associated with the relative ‘success’ or ‘failure’ of small businesses. There has been a tendency to associate business closure with business failure, or to assume that the majority of closures represent unsuccessful business ventures.

vi. A large number of studies have attempted to build or test models for the identification of business failure and its prevention and cure. Again, this has been driven by an agenda that seems to imply that business closure is negative, rather than a natural consequence of a dynamic economy in the Schumpeterian sense.

vii. As well as confusion with failure, there are other problems in defining closures. There has been a conflation of the closure of the business and the exit of the owner-manager from business ownership. This has hampered study of the ex-owner managers, particularly from the perspective of their attitudes to the closure process.

viii. Very little research has been conducted into the range of exit rationales of small business owners. One of the reasons for this is that it is very difficult to identify and contact proprietors whose businesses are likely to, or have already, closed. Thus there are few adequate data sources on which to base a study of business closures.

Overall, our literature review leads us to concur with one of the myths of small business research exposed by Gibb (2000): "Notwithstanding the debates about what constitutes a 'failure' it is clear that the majority of business de-registrations are voluntary: and too little is known about the circumstances involved" (Gibb, 2000: 22).

APPENDIX TWO

INTERVIEW SCHEDULE

Appendix Two

INTERVIEW SCHEDULE

Questionnaire No. c1-4

If you have experience of owning and managing a business that you have subsequently left, sold or closed, please answer the following questions. (If you have had more than one experience, please answer thinking of your *most recent* *experience.)*

Q1 What organisational form did the business take?

(Tick one box)		c5
Sole proprietorship	☐	1
Partnership	☐	2
Limited company	☐	3
Other *(Please state)*	☐	c6

....

....

Q2 How long had you been an owner of the business?

(Write number of years in box) ☐ c7-8

Q3 How many owners (including yourself) did the business have?

(Write number in box) ☐ c9-10

Q4 Please tell us about your business experience:

	(1) *Yes*	*(2)* *No*	
Did you start the business yourself?			c11
Did you purchase it?			c12
Did you inherit it?			c13
Had you run a business before?			c14
Did you have management experience as an employee?			c15
Did you have management experience from running another business?			c16
Has your education included study/training in any business related			c17

subjects?

Q5 How important were the following reasons to you for starting/joining the business?

(Circle one number for each reason)

	Important				*Not important*	
Desire for independence	5	4	3	2	1	c18
Redundancy	5	4	3	2	1	c19
Frustration in previous job	5	4	3	2	1	c20
Fear of unemployment	5	4	3	2	1	c21
To accumulate wealth	5	4	3	2	1	c22
Saw excellent opportunity	5	4	3	2	1	c23
Wanted to earn additional income	5	4	3	2	1	c24
Other *(please state)*	5	4	3	2	1	c25

Q6 Did you have any other occupation(s) at the same time as running the business?

(Tick as many boxes as apply)

No	☐	c26
Yes, I ran another business	☐	c27
Yes, I ran more than one other business	☐	c28
Yes, I also had a paid job	☐	c29
Yes, I also had a voluntary/unpaid job	☐	c30
Other *(please state)*	☐	c31

....

…………………………………………………………………………………………………….

Q7 What was the maximum number of employees?

(Tick one box) c32

0 - 4	☐	1
5 - 9	☐	2
10 - 19	☐	3
20 - 49	☐	4
50 - 249	☐	5
250 or more	☐	6

Q8 What was the maximum annual figure for sales during the life of the business?

(Tick one box)		c33
Less than £50,000	☐	1
£50,000 - £149,000	☐	2
£150,000 - £499,000	☐	3
£500,000 - £999,000	☐	4
£1,000,000 - £2,799,000	☐	5
£2,800,000 or more	☐	6

Q9 How was the business managed during its last 12 months?

(Tick one box)		c34
Solely by one owner	☐	1
Mainly by one owner with advice/consultation with other owners	☐	2
By all owners equally	☐	3
By owner(s) with some senior managers	☐	4
Other *(Please state)*	☐	c35

....

……………………………………………………………………………………………………..

Q10 How would you describe the financial situation of the business at the time you left or the business was closed? *(Circle the number that corresponds closest to your view)*

Thriving				*Ailing*	
5	4	3	2	1	c36

Q11 If the business was insolvent, did any of the following situations arise?

(Tick one box)		c37
Voluntary arrangement with creditors to resolve financial difficulties	☐	1
Bankruptcy proceedings against the business's owner(s)	☐	2
Voluntary liquidation (companies only)	☐	3
Compulsory liquidation (companies only)	☐	4
Not applicable	☐	5

Q12 What happened to the business immediately after you left?

(Tick one box)		c38
It was given to/inherited by family member(s)	☐	1
It was sold to family member(s)	☐	2
It was sold to other existing owner(s)	☐	3
It was sold to existing manager(s)	☐	4
It was sold to an external party	☐	5
It continued/re-opened in a different organisational form	☐	6
The business closed down	☐	7
Other *(Please state)*	☐	c39

....

…………………………………………………………………………………………………….

Q13 When you left, did the business change to a different organisational form?

(Tick one box)		c40
Yes, to a sole trader/self-employed status	☐	1
Yes, to a partnership	☐	2
Yes, to a limited company	☐	3
No *(Go to Q15)*	☐	4

Q14 If you answered 'yes' to the previous question, please state why the business changed to a different organisational form.
c41-42

....

....

Q15 From a <u>personal</u> point of view, what was your main reason for leaving or closing the business?

(Tick one box)		c43
Had an idea for a different business	☐	1
Received an attractive job offer	☐	2
Wanted to retire	☐	3
Wanted to realise capital/assets	☐	4
Insufficient financial rewards	☐	5
Breakdown in relationship between owners	☐	6
Too stressful	☐	7
Other *(please state)*	☐	c44

....

……………………………………………………………………………………………………..

Q16 What did you do after leaving the business (or intend to do if your experience is very recent)?

(Tick as many boxes as apply)

Continued the business in a different organisational form	☐	c45
Opened a similar business in the same location	☐	c46
Started a similar business in a different location	☐	c47
Started a completely different business	☐	c48
Bought an existing business	☐	c49
Continued other existing business(es)	☐	c50
Took up employment	☐	c51
Registered as unemployed/looked for employment	☐	c52
Took up voluntary/unpaid work	☐	c53
Retired	☐	c54
Other *(please state)*	☐	c55

....

Q17 How would you rate your success as a business manager during the time you owned the business?

(Circle the number that corresponds closest to your view)

Successful			*Unsuccessful*		
5	4	3	2	1	c56

Q18 Compared with when you started the business, how do you rate your skills now in the following areas? *(Circle the number that corresponds closest to your view)*

	Better				*Worse*	*Not applicable*	
Planning the business	5	4	3	2	1	0	c57
Developing business networks	5	4	3	2	1	0	c58
Establishing systems	5	4	3	2	1	0	c59
Financial record keeping	5	4	3	2	1	0	c60
Raising finance	5	4	3	2	1	0	c61
Monitoring performance	5	4	3	2	1	0	c62
Attracting/retaining staff	5	4	3	2	1	0	c63
Building a customer base	5	4	3	2	1	0	c64

Identifying new opportunities	5	4	3	2	1	0	c65
Researching the market	5	4	3	2	1	0	c66
Promoting products/services	5	4	3	2	1	0	c67
Targeting customers/clients	5	4	3	2	1	0	c68
Team leadership	5	4	3	2	1	0	c69
Coping with setbacks	5	4	3	2	1	0	c70
Self-management	5	4	3	2	1	0	c71
Adapting to change	5	4	3	2	1	0	c72

Q19 Overall, has your experience of managing that particular business encouraged or discouraged you to have your own business in the future? *(Circle the number that corresponds closest to your view)*

Encouraged			*Discouraged*		
5	4	3	2	1	c73

Q20 If you needed advice whilst owning the business, who did you ask? *(Tick as many boxes as apply)*

Friends/family	☐	c74
Other business owners	☐	c75
Personal business advisor at Business Link, TEC, etc.	☐	c76
Bank	☐	c77
Accountant	☐	c78
Solicitor	☐	c79
Professional/trade body	☐	c80
Other *(Please state)*	☐	c81

....

Q21 Is there one particular experience you feel you have benefited from whilst owning this business that you consider would be useful if you were to become the owner-manager of another business? *(Pleasestate)*

c82-84

....

....

...................………………………………………………………………………………

Q22 Is there one particular experience you had whilst owning this business that you would like to avoid if you were to become the owner-manager of another business?

(Please state)

c85-87

....

....

Q23 Which industrial sector was the primary activity of the business in?

(Tick one box)		c88
Agriculture	☐	1
Manufacturing	☐	2
Construction	☐	3
Distribution	☐	4
Hotels and catering	☐	5
Transport and communications	☐	6
Banking and finance	☐	7
Other services	☐	8
Other *(please state)*	☐	c89

....

Q24 What is your main product and/or service? *(Please state)*
c90-92

....

Q25 What percentage of your sales were in the following markets?

	%	
Local	☐	c93-94
Regional	☐	c95-96
National	☐	c97-98
International	☐	c99-100

Q26 What is your gender?

		c101
Male	☐	1
Female	☐	2

Q27 What was your age when you left/closed the business?

(Tick one box only)		c102
Up to 25	☐	1
25 - 34	☐	2
35 - 44	☐	3
45 - 54	☐	4
55 - 64	☐	5
65 and over	☐	6

Q28 What is your ethnic origin?

(Tick one box only)		c103
Black Caribbean, Black African or other Black	☐	1
Indian, Pakistani or Bangladeshi or other Asian	☐	2
Chinese	☐	3
White	☐	4
Other *(Please state)*	☐	c104

....

Q29 What is your highest educational qualification?

(Tick one box only)		c105
No formal qualifications	☐	1
GCSE, O level or equivalent	☐	2
A level or equivalent	☐	3
BTEC certificate or diploma	☐	4
First degree	☐	5

Postgraduate degree	☐	6

Q30 Do you hold a professional qualification?

		c106
Yes	☐	1
No	☐	2

Would you be willing to be interviewed? If so, please print your details below:

Name: ....

Address:

....

....

....

Tel:..Email:...

Thank you very much for taking part in this survey.

Please return your completed questionnaire in the envelope provided to

Prof Robert Blackburn

Small Business Research Centre

Kingston University

Kingston Hill

Kingston upon Thames

Surrey KT2 7LB

APPENDIX THREE

STATISTICAL DATA

Appendix Three

STATISTICAL DATA

Question 1

Form	**Respondents**	**Respondents (%)**
Limited company	210	54
Sole proprietorship	113	29
Partnership	55	14
Association	4	1
Franchise	3	1
Other	2	1
Total	387	100

Question 2 and 3

	Mean	**Median**
Number of years of ownership	10	6.0
Number of owners	2	2.0

Question 4

Business Experience	**Respondents (%)**
Started business	81
Purchased it	20
Inherited it	7
Ran a business before	43
Mgt experience from employment	67
Mgt experience from former business	46
Business study/training	51

Question 5 – level 1

Reasons for start/join business	**Percentage**		
	Not important	**Neutral**	**Important**
Desire for independence	11	11	78
Excellent opportunity	13	22	65
To accumulate wealth	17	22	61
Additional income	39	19	41
Frustration	48	17	35
Redundancy	73	6	21
Fear of unemployment	73	11	15

Question 5 - level 2

Q5 -Other	Respondents	Respondents (%)
Important to community	33	43
Need to work	13	17
To keep family business going	12	16
Do something I was good at	10	13
Change in personal circumstances	5	6
Other	4	5
Total	77	100

Question 6 – level 1

Any other occupation during business?	Respondents (%)
No	60
Yes	40
Total	100

Question 6 – level 2

Which occupation?	Respondents (*) (%)
Another business	52
More than one other business	15
A paid job	34
A voluntary/unpaid job	15
Other	10

(*) 137 respondents

Question 6 – Level 3

Other	Respondents	Respondents (%)
Studying	7	50
Part Time	3	21
House Wife/Husband	3	7
Other form of income	1	21
Total	14	100

Question 7

Max number of employees	**Respondents**	**Respondents (%)**
0-4	183	47
5-9	67	17
10-19	57	15
20-49	45	12
50-249	33	9
250 or more	3	1
Total	388	100

Question 8

Max sales	**Respondents**	**Respondents (%)**
Less than £50,000	105	27
£50,000 - £149,999	86	22
£150,000 - £499,999	87	23
£500,000 - £999,999	39	10
£1m - £2.79m	41	11
£2.8m or more	26	7
Total	384	100

Question 9

Mgt of business	**Respondents**	**Respondents (%)**
Solely by one owner	185	48
Mainly by one owner	69	18
By all owners equally	69	18
By owner(s) with some senior mgrs	57	15
Other	5	1
Total	385	100

Question 10

Financial state of business	**Respondents**	**Respondents (%)**
Ailing	114	30
2	67	18
3	92	24
4	60	16
Thriving	49	13
Total	382	100

Question 11 – level 1

If insolvent	**Respondents**	**Respondents (%)**
Voluntary liquidation	54	15
Voluntary arrangement with creditors	36	10
Compulsory liquidation	10	3
Bankruptcy proceedings	8	2
Not applicable	245	69
Total	353	100

Question 11 – level 2

If insolvent	**Respondents**	**Respondents (%)**
Voluntary liquidation	54	50
Voluntary arrangement with creditors	36	33
Compulsory liquidation	10	9
Bankruptcy proceedings	8	7
Total	108	100

Question 12 – level 1

What happened to the business	**Respondents**	**Respondents (%)**
Sold-On	130	34
Closed Down	117	31
Insolvent	68	18
Continued/Re-Opened	64	17
Total	379	100

Question 12 – level 2

What happened to the business	**Respondents**	**Respondents (%)**
Sold-On 3rd Party	97	26
Sold-On Family	11	3
Closed Down	117	31
Insolvent-Voluntary	54	14
Insolvent-Compulsory	14	4
Continued/Re-Opened	64	17
Sold-On Owner/Managers	22	6
Total	379	100

Question 12 – level 3

What happened to the business	Respondents	Respondents (%)
Sold-on - 3rd Party	97	26
Sold-on - Owner/Managers	22	6
Sold-on - Family	11	3
Closed Down	117	31
Insolvent-Voluntary-Liquidation	36	9
Insolvent-Voluntary-Creditors Arrangements	18	5
Insolvent-Compulsory_Liquidation	8	2
Insolvent-Compulsory-Bankrupt	6	2
Continued/Re-Opened in Different Org Form	64	17
Total	379	100

Question 13 – level 1

Did business change form?	Respondents	Respondents (%)
No	295	80
To limited company	36	10
To sole trader/self-employed	21	6
To partnership	16	4
Total	368	100

Question 13 – level 2

Which form?	Respondents	Respondents (%)
To limited company	36	49
To sole trader/self-employed	21	29
To partnership	16	22
Total	73	100

Question 14

Why did business change form?	Respondents	Respondents (%)
Owner(s) choice/best option	27	42
Bought by larger company	6	9
Owners had different aims	5	8
Changed to PLC	5	8
Sold shares	4	6
Diversification	3	5
Accountant's advice	2	3
Other	13	20
Total	65	100

Question 15

Reasons for leaving business	Respondents	Respondents (%)
Insufficient financial rewards	99	27
Breakdown in relationship with owners	54	15
Wanted to retire	40	11
Wanted to realise capital/assets	31	8
Had idea for a different business	23	6
Received an attractive job offer	18	5
Too stressful	17	5
Running out of operatl funds/financ problems	17	5
Ill health/injury	10	3
Contract ended	9	2
Business insolvent	9	2
Business closed down	8	2
Risk	5	1
Other	30	8
Total	370	100

Question 15 – other

Other	Respondents	Respondents (%)
Continued paid job	11	26
Other	11	26
Off sick	6	14
Started a similar business	5	12
Part-time employment/semi retired	3	7
Continued education/Retrained	3	7
Went travelling	2	5
Take 1-2 years out	2	5
Total	43	100

Question 16 –level 1

What happened to the owners?	Respondents	Respondents (%)
Continued as business owner	226	62
Sought employement	107	29
Retired	34	9
Total	367	100

Question 16 – level 2

What happened to the owners?	Respondents	Respondents (%)
Continued existing business	75	20
Continued business in different form	32	9
Started similar business	65	18
Started/bought different business	54	15
Employed	83	23
Unemployed/ill	24	7
Retired	34	9
Total	367	100

Question 17

Success as business manager	Respondents	Respondents (%)
Successful	209	54
Neutral	122	32
Unsuccessful	54	14
Total	385	100

Question 18

Rating skills now	Percentage		
	Worse	Neutral	Better
Planning the business	2	18	79
Building customer base	4	23	73
Coping with setbacks	7	22	71
Financial record keeping	8	22	70
Self-management	5	26	70
Adapting to change	6	25	69
Identifying new opportunities	7	24	68
Targeting customers/clients	6	34	60
Team leadership	6	35	60
Promoting products/services	8	33	59
Monitoring performance	10	32	58
Attracting/retaining staff	9	33	58
Establishing systems	5	38	57
Developing business networks	8	39	53
Researching the market	10	38	52
Raising finance	13	31	40

Note: Based on 386 respondents.

Question 19

Have your own business in future	Respondents	Respondents (%)
Encouraged	264	70
Neutral	60	16
Discouraged	55	15
Total	379	100

Question 20

Advice	Respondents(*) (%)
Accountant	71
Other business owners	57
Bank	41
Friends/family	40
Professional/trade body	33
Solicitor	29
Business Link, TEC, etc	23
Other	5

(*) 373 respondents

Other	Respondents	Respondents (%)
Private Consultant	11	55
Managers	5	25
Customers/Clients	2	10
Internet	1	5
Other	1	5
Total	20	100

Question 21

Experience useful	**Respondents**	**Respondents (%)**
General business management and HR skills	62	20
Developed self-discipline/self-motivation	22	7
Managing debtors & creditors & cashflow&overheads	21	7
Dont trust banks/government	21	7
Developing good communications & networking	20	7
Dont trust partners	18	6
Doing everything oneself	13	4
Financial record keeping & planning start up	12	4
Move with the times and watch out trends	12	4
Finding a suitable partner and partners:trust	10	3
Research before starting business	9	3
Improving ability to raise finance	7	2
If customers lost, actively seek new ones	6	2
Beware of loopholes in contracts	5	2
Quality of service and product	5	2
Understanding taxation and co law	4	1
Time management and planning	4	1
Trust	4	1
Good relationship with accountants	3	1
Coping with the recession	3	1
Reserve capital, so that you can invest later if necessary	3	1
Dont postpone difficult decisions	2	1
Never work with relative and friends	2	1
Making sure to get professional advice	2	1
Avoid directs with shares who are not capable managers	2	1
Other	34	11
Total	306	100

Question 22

Experience to avoid	Respondents	Respondents (%)
Failure to control finances correctly	37	13
Staff managing problems	22	7
Avoid problems with the bank	19	6
Avoid having partners	16	5
Avoid taking all decisions, delegate to a manager instead	15	5
Avoid conflict with customers	14	5
Avoid equal partnership	10	3
Becoming overconfidence	10	3
Having wrong partner	10	3
Over reliance on overdraft	9	3
Problems with suppliers/distributors	8	3
Unexpected events - no contingency plan	8	3
Get everything in writing	7	2
Avoid employing family&friends	7	2
Renting	7	2
Badly adviced or lack of professional advice	7	2
Being too concerned about liabilities	6	2
Problems with Inland Revenue	5	2
Competition	5	2
Not to have to rely on anybody else	5	2
Losing money thru loopholes in contracts	4	1
Lack of experience	4	1
Being a minority shareholder	3	1
Waiting for invoices to be paid	3	1
Litigation	3	1
Bad credit management	3	1
Avoid franchise	2	1
Other	47	16
Total	296	100

Question 23

Industrial Sector	**Respondents**	**Respondents (%)**
Manufacturing	51	13
Distribution	42	11
Construction	41	11
Retail	30	8
Hotels & catering	21	5
Transport & communications	14	4
Banking & finance	12	3
Agriculture	9	2
IT industry	8	2
Design, Printing, Production	6	2
Craft and Art	5	1
Health	3	1
Motor Trade	3	1
Food & Drink--Import/Export	3	1
Leisure	2	1
Publishing	2	1
Other services	118	31
Other	16	4
Total	386	100

Question 24

Main product	**Respondents**	**Respondents (%)**
Building & construction & civil engineering	39	10
Consultancy & advice	36	9
Retail	24	6
Food, Drink	18	5
Maintenance & DIY	14	4
Software development and training	12	3
Production/manufacture of clothes	11	3
Leisure & tourism	10	3
Import & export	9	2
Motor vehicle distribution & repairs	9	2
Printing & supplying stationery etc	8	2
Health club & Beauty	8	2
Financial products	8	2
Distributor	7	2
Furniture	7	2
Management and Marketing	7	2
Graphic design	6	2
Pub, restaurant, club	6	2
Production of electronic components	6	2
Alcoholic Drinks & Soft drinks, Milk etc	6	2
Training, advice, recruitment	6	2
Horticulture	5	1
Sub-contractor	5	1
Craft & painting	5	1
Supplying and Repairing Equipment	5	1
Machine Tools and components	5	1
Commercial Vehicle Components	5	1
Gas & Eletricity & Fuel	4	1
Care/Help services	4	1
Estate Agency	4	1
Advertising & exhibitions	3	1
Prod of pictures, frames, mirrors	3	1
Houses	3	1
Catering	3	1
Games	2	1
Printing & textiles	2	1
Oil, quarrying, landfill	2	1
Retail pharmacy	2	1
Security and safety products	2	1
Wood carvings and traditional	2	1
Confectionary & Tobacco & Newsagency	2	1
Webpage design	2	1
Hotel	2	1
Security	2	1
Developing and Printing Films	2	1

Other	47	12
Total	**380**	**100**

Question 25

Markets	**Businesses** (%)
% sales in local markets	52
% sales in regional markets	19
% sales in national markets	23
% sales in international markets	6

Question 26

Gender	**Respondents**	**Respondents** (%)
Male	333	86
Female	54	14
Total	387	100

Question 27

Age on leaving business	**Respondents**	**Respondents** (%)
Up to 25	12	3
25-34	43	11
35-44	105	27
45-54	135	35
55-64	68	18
65 and over	23	6
Total	386	100

Question 28

Ethnicity	**Respondents**	**Respondents** (%)
White	355	94
Asian	14	4
Black	3	1
Other	6	1
Total	378	100

Question 29

Education	**Respondents**	**Respondents** (%)
No formal qualification	59	15
GCSE or equivalent	80	21
A level or equivalent	61	16
BTEC cert or diploma	58	15
First degree	81	21
Postgrad degree	41	11
Other	1	(a)
Total	381	100

Note: (a) Less than 1 per cent.

Question 30

Professional qualification	**Respondents**	**Respondents** (%)
No	192	51
Yes	184	49
Total	376	100

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