Successful Exit Processes of SMEs in Australia

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May 2010

Submitted in fulfilment of the requirements for the degree
Doctor of Business Administration

Graduate School of Business
Faculty of Business & Law
VICTORIA UNIVERSITY

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Declaration

I, Harry Rodney Ernest CON FOO, declare that the Doctor of Business thesis entitled *Successful exit processes of SMEs in Australia* is no more than 65,000 words in length including quotes and exclusive of tables, figures, appendices, bibliography, references, and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

Signature:

Date: 20th of May, 2010

Dedication

I wish to dedicate this dissertation to my beloved parents, Pamela and Harry Con Foo. You have always encouraged and inspired me to be the best that I can be.

Acknowledgements

The completion of this research degree and the journey undertaken has been immensely challenging and equally satisfying. Reaching this point would not been possible without the support and encouragement from many individuals and organisations.

Firstly, my sincere thanks goes to the business owners and managers who so willingly participated in this study and provided invaluable insight into their real life business experiences. I am indebted to many doctoral colleagues and friends who assisted me with collegial guidance and unfailing encouragement. In particular, I wish to acknowledge Hoa Hong Pham – you challenged and inspired me, we started together, let's finish together; Cheong Koo – you illuminated the path for us both; and Shirley Quo – you motivated and encouraged me. Words cannot truly convey my sincere appreciation.

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Rodney Con Foo
May 2010

Abstract

Small and Medium Sized Enterprises (SMEs) play a significant role in the Australian economy. The OECD (2000) reports that SMEs are the core to a nation's future economic growth and account for 95 percent of enterprises and 60 to 70 percent of jobs. The existing literature on small business primarily focuses on three specific areas: SME start-up/entrepreneurship, general management of the enterprise, and SME failure. Whilst it may be an idealistic notion that businesses will grow and long outlast their founders, the reality is that most businesses have finite lives with the vast majority of Australian business start-ups ceasing to exist within fifteen years. In the Australian context there are significant studies on business cessation but little research has focussed on business exits that do not include business liquidation (voluntary or involuntary). This study deals specifically with the subject of business harvesting associated with owners who voluntarily and successfully exit their businesses

The main aim of this study was to undertake an empirical study of SME exits focussing on details of the process to identify its major stages and contributing factors. To conduct this study a research framework for business exits was developed based on the conceptual framework for managing growth and change in small businesses proposed by Joyce and Woods (2003). The research framework consists of a process with three overlapping stages: exit contemplation, exit planning, and exit execution. In addition, the transition from one stage to the next is dependent upon three milestones in the overall process: the exit trigger; the exit decision; and finally, the actual exit. This study was based on an exploratory case methodology and focussed on the exit processes undertaken by twelve Australian SMEs. Primary data for the study was collected via semi-structured interviews and analysed using an abductive research approach.

The findings of the study revealed that the exit decision was not a single decision as originally proposed, but instead a process involving as many as four separate decisions: up to two ‘pilot exit decisions’; a ‘provisional exit decision’; and an ‘acceptance exit decision’. An exit trigger was originally perceived to be a prologue to the exit decision and identified the owner’s receptivity to making this decision, this study found that exit triggers preceded a decision to exit and were influenced by combinations of two groups of factors; opportunities and challenges. The exit trigger also brought to the fore the issue of the ‘owner’s characteristics’ and the role that they play in overall exit processes. These characteristics (craftsman - opportunistic) indicate whether owners are likely to undergo the complete exit process or an abbreviated version. Specifically, the study concluded that the stage referred to as exit contemplation was undertaken mainly by ‘opportunistic’ type owners, whereas ‘craftsmen’ style owners were more likely to be reluctant sellers who did not spend much time or effort in contemplating selling their business.

Exit preparation was derived from the original concept of exit planning and consists of three forms of preparation: deliberate, inadvertent, and buyer. Deliberate preparation referred to all activities which directly related to exiting. Inadvertent preparation referred to activities intended to aid the exit process or enhance the prospects of a sale but not for the purpose of exiting. The third concept was buyer preparation where exit preparation was done by the buyer and not the seller. Activities related to exit implementation consisted of two major activities: planning and execution. However, this study found that differentiation between these two activities was often difficult to achieve.

The major outcome of this research is the development of a 'topography' of the SME exit process by empirical evidence from the SME owner's perspective. This topography not only provides a framework for the extant 'how to' literature but for future research, establishing a foundation to communicate the key features of the business harvesting process. This study provides a better understanding of entrepreneurial characteristics and how they impact on the 'how' and 'why' entrepreneurs harvest their businesses. Enhancing knowledge on this aspect of the SME lifecycle is important in reducing enterprise mortality (i.e. voluntary closures) and encouraging business continuance and longevity, this will reduce the wastage of resources and experience resulting from business closures. Furthermore, increasing the level of voluntary exits is economically significant to the Australian economy. As a result, the potential consequence of this research is that more SME owners will be likely to exit due to their enhanced awareness of the business harvest process. More importantly, increased business harvesting should result in increased entrepreneurial activity because it enables successful entrepreneurs to undertake new opportunities (Timmons & Spinelli 2004). Given the commercial importance of SME activity in the Australian and most other economies, this research provides scholarly insights into an event in business ownership that is unfortunately too infrequent.

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Appendices

Acronyms & Definition of Terms

ABS	Australian Bureau of Statistics – a central statistical authority legislated to provide statistical services to Australian governments and other official bodies.
ABN	Australian Business Number - a unique eleven digit identifying number that Australian businesses use when dealing with other businesses and the Australian Taxation Office.
Acceptance Exit Decision	A multi-party decision between owner and buyer which signifies the changeover in ownership. Acceptance signifies the fulfilment of the agreement between the buying and selling.
ASIC	Australian Securities and Investments Commission
Acquisition	A transaction where new assets (business) are acquired in exchange for cash and/or shares.
Asset Sale	A business sale/exit/harvest where the assets of the business are sold rather than the underlying shares or units in the corporate structure which own those assets. In this case, the original owner retains the corporate structure and associated liabilities and the new owner is protected from risks associated with the previous ownership.
Asset Value Method	Refers to a business valuation method based on 'net tangible assets - net tangible liabilities'.
APEC	Asia-Pacific Economic Co-Operation Forum.
ATO	Australian Taxation Office – regulatory body which acts as the taxation revenue collection agency for the Commonwealth of Australia.
Barrier to Exit	An impediment or weakness in the business which either precludes exiting the business or reduces the overall price a vendor will receive.

Book Value	Business valuation terminology referring to the difference between total assets and total liabilities on the business's balance sheet.
Business Angel	The term 'business angel' is a term used to refer to individual investors with spare capital to risk. They are often affluent former business owners who provide capital for business start-ups in exchange for convertible debt or ownership equity.
Business Exit	Interchangeable with the term' business harvest', but in this study it also refers to business sale, business disposal, and voluntary exit. Business exits can also mean market withdrawal and business failure.
Business Failure	Where the business becomes insolvent and is put into liquidation or where the assets of the business are voluntarily or involuntary liquidated to satisfy creditors.
Business Harvest	Interchangeable with the term 'business exit'. The term 'harvesting' can also refer to the process where the business owner does not exit the business but ceases to further invest in the business's development but continues to draw a dividend or benefit from the business. In this study, this term is interchangeable with the terms business exit and business sale.
Business Plan/Planning	A written document which communicates the business objectives, an assessment of the environment, and the strategy and resources necessary to achieve those objectives. The business planning process refers to the process undertaken to produce this document.
CAQDAS	Computer assisted qualitative data analysis software.
Congeneric Merger	Merge between two businesses who are in the same industry but have no common buyer/customer or supplier relationships.
DCF	Discounted cash flow.
Decision	The act of making up one's mind resulting in: a judgment, a position, a verdict, a conclusion, or resolution for a course of action.

Due Diligence	A legal term which refers to a" measure of prudence, activity, or assiduity" to ensure that one receives what they are paying for. In more practical terms it refers to fully understanding all of the obligations of the company, specifically, debts, pending and potential lawsuits, leases, warranties, customer agreements, employment contracts, distribution agreements, compensation arrangements, etc..
Entrepreneur	An individual who: a) manages a business for the purposes of profit and growth; or b) to fulfil personal requirements for lifestyle and independence; or c) combinations of a) or b).
ESOP	Employee Stock Ownership Plan – a plan where employees are given a share of the business or a scheme where employees have a mechanism to purchase shares in the business. One of many exit options for owners.
Excess Earnings Method	Refers to a business valuation method based on 'capitalised earnings + net tangible assets'.
Execution	The act of accomplishing an objective, aim, or plan.
Exit Contemplation	Activity where the owner considers or deliberates on the issues of when, who, how, and how much in relation to exiting their business.
Exit Decision	A decision by the owners to exit or harvest the business.
Exit Execution	The carrying out of activities and specific actions to fulfil the owner's exit or harvest objective.
Exit Impediment	An impediment or weakness in the business which either precludes exiting the business or reduces the overall price a vendor will receive. In this study this is also referred to as a 'barrier to exit'.
Exit Implementation	Refers to activities associated with planning an exit and executing those plans or undertaking activities which directly result from a decision to exit.
Exit Options	Alternative ways in which owners can exit or harvest their business. See Section 3.8 for list of options.
Exit Plan	A plan which sets out sequential activities and specific actions to fulfil the owner's exit or harvest objective.

Exit Preparation	Refers to an activities or events that contribute (deliberate or inadvertent) towards a successful exit by reducing exit barriers or enhancing exit opportunities.
Exit Process	A series of actions, decision, changes, or functions that brings about a business exit.
Exit Point	Point in the exit process where the owner no longer owns or controls the business.
Exit Strategy	The way in which a business investor/owner plans to close out of an investment or business with an optimal outcome (financial and non-financial) for the investor.
Exit Trigger	A set of events or circumstances which results in the owner(s) having a proclivity to exit the business.
Fair Market Value	Business valuation terminology referring to what another party is willing to pay for the asset. Sometimes referred to as ‘market value’ or ‘cash value’.
Financial Buyer	Individuals or entities who purchase a business for its inherent profitability. Financial buyers are usually competitors or businesses wishing to achieve vertical integration and diversification by absorbing an organisation into its core business. This type of buyer often does not account for synergistic savings or strategic benefits. Value is achieved through sales growth and/or reducing costs.
Franchise	Franchising refers to a business model where the owner (franchisor) of a product, service, or method, obtains distribution through affiliated dealers (franchisees) - where a business is established or operated under an authorisation to sell or distribute a company's goods or services in a nominated territory.
GDP	Gross Domestic Product – refers to the total market value of all finished goods and services after deducting the cost of goods and services used up in the process of production in a country in a given year.
Going-Concern Value	Business valuation terminology referring to the value based on an expressed opinion of the value of the business if it were to continue to operate as opposed to a liquidation value.

Goodwill	Refers to the intangible component of a business's value that enables the business to earn a greater income than could be generated by the net tangible assets alone. Also refers to elements such as a positive business reputation, its brands, and the relationship the business has with its customers.
GST	Goods and services tax.
HR	Human Resources i.e. staff.
Industry Yardstick	Refers to a business valuation method based on gross sales, gross profit, gross commissions, and the number of customers/subscribers.
Information Memorandum	A document detailing the business operation, business plans, and the sale conditions/offer.
Intrinsic Value	Business valuation terminology referring to the value based on the characteristics of the business rather than requirements of a particular investor.
Investment Value	Business valuation terminology referring to what the value according to individual investment requirements and reflects what a business is worth to a particular investor.
IPO	Initial Public Offering – see 'Public Listing'.
IT	Information Technology.
ICT	Information, Communications and Technology.
Licensing	The granting of permission to use intellectual property rights such as trademarks, patents, or technology, under defined conditions.
Liquidation Value	Business valuation terminology referring to the value of business assets in the situation where the business ceases to operate.
M&A	Mergers and Acquisition – refers to the buying, selling, and combining of different companies to grow a business.
MBO	Management Buy-Out. Where the internal management seek external funding and buy out the owners.
MBI	Management Buy-In. Where an external management team with external funding buy out the owners and then manage/operate the business.
Medium Business	A business employing between twenty and 199 personnel.
Merger	Same as 'M&A' (see above). Voluntary amalgamation of two businesses into one new legal entity. The resources of the merging entities are pooled for the benefit of the new entity.

Micro Business	A business employing less than six personnel, including non-employing businesses.
Non-Voluntary Exit	A business exit where the owner is forced to leave the business due to insolvency.
Optimism	Refers to the level of confidence the owners has for the business, currently and for the future.
P/E	Price Earnings ratio. Refers to the measure of the price paid for shares relative to the profit earned. Higher P/E ratios mean that investors have paid more for their investments than lower P/Es.
Pilot Exit Decision	A single-party decision by the owner to effect a future exit or harvest.
Plan and Planning	A hierarchal process consisting of aims, analysis and action. A plan consists of three essential characteristics: an outcome, actions and resources needed to effect the plan (see Section 3.2.2).
Potential Buyer	Any individuals or entities capable and willing to purchase the business for sale.
Process	A series of interlinked and sequential actions, changes, or functions that bring about a result.
Provisional Exit Decision	A multi-party decision between owner and buyer which is a consequence of the exit process. A conditional agreement between the negotiating parties subject to conditions being fulfilled.
Public Listing	Where the shares in the business are offered to the public through an initial public listing (an IPO) and traded on a stock exchange.
Risk	Refers to any possibility of incurring loss, misfortune or situation which results in a negative business outcome.
Roll-Up	The purchase and merging of two or more smaller businesses in the same sector. This is part of a market consolidation process.
Share Sale	A business sale/exit/harvest where the shares or units in the corporate structure are sold. In this case the new owner takes over the corporate structure and the associated liabilities and risks.
Small Business	A business employing between six and nineteen personnel.
Small Business Owner	An individual who establishes and/or manages a business for the principal purpose of furthering personal goals.

SME	Small and Medium-sized Enterprise/business. In the Australian context this refers to all businesses with zero to 199 employees, and characteristically displays independent ownership, and close control and principal decision-making by owners/managers.
Stakeholder	Persons, groups, or organisations that have a direct or indirect stake in the business because it can affect or be affected by the business's actions, objectives, and policies. Typically these are creditors, customers, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, the community, family members of owners and staff.
Strategic Buyer	Individuals or entities who purchase a business because its strategic potential, assets or capability. Strategic buyers are those able to exploit opportunities through the combination of two businesses; their combined entity develops strategic assets and capabilities, and the focus of the buyer is not directed primarily to financial performance. Strategic buyers value the acquired business on the value that they can generate as a combined entity and are likely to pay significantly more than a 'financial buyer'.
Successful Exit	A successful exit is defined as a voluntary departure of the owner / shareholder(s) from the business, and where the owner / shareholder(s) receive a financial gain for their equity in the business greater than or equal to the net assets of the business.
Super Profits	Refers to a business valuation method of 'goodwill + net tangible assets'.
Trade Sale	Industry term used to describe the sale of a business to another party in the same industry. Typically this is a competitor but may be a like business wanting to expand into other markets. Can also be a supplier or customer.
Voluntary Exit	A business exit where the owner is able to voluntarily (i.e. has the option to continue in the business) make the decision to exit the business.

Part A

Chapter 1

INTRODUCTION TO THIS STUDY

1.1 Introduction

An important stage in the life of a Small to Medium sized Enterprise (SME)[1] is the planned voluntary exit of the owners due to an acquisition or merger. This event is sometimes referred to as a business harvest or business exit. For the purpose of this study, a successful exit or harvest is defined as a voluntary departure of the owner/shareholder(s)[2] from the business, and where the owner receives a financial gain for their equity in the business greater than or equal to the net assets of the business.

A business harvest is a significant event for business owners because it represents a windfall capital gain for their equity, and often represents the only chance they have to access rewards for many years of hard work. However, although successful harvesting (voluntary exit) of a business is the ideal, it occurs in less than two percent of SMEs (ABS 1997, ABS 2005, Con Foo 2006). Even though less than two percent of SMEs get the opportunity to voluntarily exit their business with a windfall gain, in 2004 SME harvests were estimated to contribute 9.26 billion dollars of

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1 SME refers to private enterprise organisations employing 1 – 199 employees (ABS 2005)

2 The terms ‘owner’, ‘business owner’, ‘shareholder’ and ‘entrepreneur’ are used interchangeably throughout this document and no attempt is made to differentiate between them.

economic activity to the Australian economy (Con Foo 2006). It is, therefore, important to understand the details surrounding this event, including the dynamics and outcomes of its process.

This chapter introduces the topic of SME exits, explains the key issues related to the topic, and provides an overview of the structure of this study. Specifically, the aim is to provide the necessary foundation for navigating this thesis. Subsequent chapters provide the context of the SME operating environment and the entrepreneurial mindset, followed by reviews of literature related to aspects of harvesting and a review of possible theoretical links and how this study contributes to the current body of knowledge. Having established the gap in the current body of knowledge, a method for conducting this study is developed to convert observations into an overall model of the SME exit process.

1.2 Overview of Prior Research and Literature

The term 'business exit' is generally understood to relate to the activities of business harvesting, market withdrawal, and business failure. Business harvesting is a kind of exit and refers to the value obtained (payout or profit) when the owner either exits or discontinues investing in the business. A firm's withdrawal from a market refers to divestment from a market or ceasing to undertake an activity, and is linked to the firm's competitive or strategic interests, and motivated by a search for improved profitability. In some cases, the term exiting is also used for non-voluntary exits including business failure (Scott & Ritchie 1984, Keasy & Watson 1987, Hall 1995, Everett & Watson 1998, Bruderl, Preisenddorfer &

Zeigler 1992, Beddall 1990, Lowe, McKenna & Tibbets 1990, Peacock 2000, Price 1984, Berryman 1983, Birley & Niktari 1995). This study, and the scope of the research, deals specifically with the subject of business harvesting associated with owners who voluntarily exit their businesses.

In its broadest sense, Henricks (1997) refers to business harvesting as a way of getting value out of a business, whereas for Timmons and Spinelli (2004), harvesting is a vehicle (plan or strategy) for reducing risk and creating entrepreneurial choices and options. Undertaking a decision to exit a business is likely to be one of the most significant business decisions an owner is ever likely to make. However, business harvesting is a complex task (Coulthard, Howell, & Clarke 1996) involving many decisions, substantial resources, and varying degrees of 'planning'. Unlike administrative or operating decisions, exit decisions are strategic in nature, unprogrammed, and customised to specific circumstances (Bridge & Dodds 1975, Ansoff 1987, Simon 1960).

Most of the literature on business exits has been published in trade based journals (Fischbach 2005, Molod & Sattler 2005, Basi & Renwick 2005, Brown 2005) or text books (Hawkey 2005, McKaskill 2006, Leonetti 2008, King 2002, Sherman 1999) rather than empirically supported publications. These publications are directed to their readership as 'how to' guides, and are not organisation size or type specific. A major focus of this literature (Fishbach 2005, Hawkey 2005) is the necessity for business owners to both plan their exits and plan them early. Common in many publications is the advice for future or contingency planning. According to Schaper and Volery (2004) three main elements need to be balanced when planning an exit: business strategy; stakeholder aspiration; and financial performance. Mintzberg (1994) defines these plans as having three essential characteristics: outcomes; actions; and resources. He explains that planning is necessary for: co-ordinating resources; accounting for the future (the inevitable, the undesirable, and the controllable); ensuring decisions are rational and consistent; and controlling further planning, quality, and resources.

1.3 Justification for This Study

SMEs play a critical role in the Australian economy, and contributing to knowledge on SME wealth creation is of benefit to entrepreneurial activity. This study provides insights into an activity which is central to SME ownership and entrepreneurial endeavour, this study is significant because it generates new knowledge on SME management. By developing a framework to understand the SME exit process, owner/managers can better understand the potential pitfalls, obstacles, and major decisions associated with business harvesting. Specifically, this study is significant on two fronts: firstly, there is very little in the way of empirically supported literature on the topic; and secondly, a business harvest is a significant and complex event for the owner of an SME.

Businesses, particularly SMEs, exist primarily for the purpose of generating wealth for their stakeholders and/or providing a desired lifestyle for their business owners. Studies on the management of these enterprises are generally directed at understanding how to start, manage, and operate them, with an often implied concept of business perpetuity. Whilst it may be an idealistic notion that a business will grow and long outlast its founders, the reality is that most businesses have finite lives, with the vast majority of Australian business start-ups ceasing within fifteen years (Beddall Inquiry 1990, Williams 1991). A number of studies (Bickerdyke Report 2000, Beddall Inquiry 1990, Lowe *et al.* 1990, Price 1984, Williams 1991, Peacock 2000, Berryman 1983, Birley & Niktari 1995) have been completed on areas associated with business cessation (liquidation, insolvency, non-voluntary exit, forced closure) because of the associated consequences of job losses, social impact, legal and regulatory issues, and flow-on effects to other businesses and organisations. However, little research has focussed on business exits that do not include business liquidation (voluntary or involuntary). Therefore, there is a need to undertake an in-depth analysis of the SME exit process.

As the body of knowledge on Australian SME exits is currently somewhat meagre, this study has been undertaken to better understand the processes, practices, influencing factors, and outcomes associated with exiting SME business. The main benefits will be its general contribution to SME management and entrepreneurial activity, and specifically, its contribution to knowledge on SME business harvesting. Therefore this research is a pioneer study for Australian SMEs and amongst the earliest of empirical studies on the topic.

A voluntary exit in the form of a business harvest is a positive and important outcome for owners because it can represent a windfall capital gain for equity gained from the acquired or merged entity. Successful harvests can potentially earn owners more than all the accumulated profits obtained through ownership. In addition, a successful harvest can release years of retained earnings employed as working capital. Equally, a failed harvest is significant as the consequences can be catastrophic due to: substantial costs associated with the attempted exit process (advisors, legal, additional resources); key personnel being diverted from the management of the business; and owners who were emotionally committed to exiting having difficulty reviving their enthusiasm and commitment to the business.

1.4 The Basic Research Problem

The underlying premises of literature on the SME exit process is based on a process sequenced *objective-decision-plan-execute* - the focus and emphasis directed primarily on the planning stage (Hawkey 2005, Fishbach 2005, Shaper & Volery 2004). However, although the planning shortfalls of SME owners are well documented (Gibb & Scott 1985, Churchill & Lewis 1983, Robinson & Pearce 1983), the extant literature fails to explain why so few owners get the opportunity to voluntarily exit their businesses. Are the few owners that successfully exit their businesses the ones that actually plan, or is there some other explanation? This investigation of what SME owners actually do in the context of a successful exit thus forms the basis of this study, identifying, ordering, and linking the actions of owners in order to fill a gap in the existing body of knowledge.

1.5 Research Objectives

This study aims to provide an empirical characterisation of successful Australian SME exits. Its main objective is to undertake an empirical examination of the factors, stages and processes associated with voluntary business exits. This investigation uses a multiple case study research strategy (Yin 2003a, Yin 2003b, Collis & Hussey 2003, Eisenhardt 1989) to explore examples of successful SME exits and reveal the major characteristics of the exit process.

Specifically, this projects aims to:

a) identify factors associated with the decision to exit and identify the key processes SME owners undertake when executing a successful exit;

b) identify and investigate the major milestones and timing in the exit process; and

c) analyse the role of factors including optimism, risk, timing, and the owner's receptivity and preparedness, in the exit process.

1.6 The Proposed Research Model

The proposed model for use in this study is based on the model for organisational change by Joyce and Woods (2003) which presents three distinct phases in managing change (see Figure 1.1 below): the decision making phase; the planning phase; and the implementation phase.

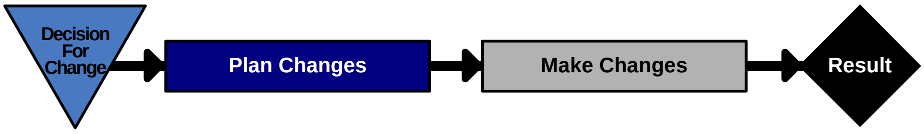

Figure 1.1: **Model for decision making, planning and making changes, adapted from Joyce and Woods (2003, p. 146).**

This study adopts a framework based on the decisions for change, planning the change, and execution the change, rather than the end result of the change (what happens to the business after the ownership change) as characterising the SME exit process. The function of this framework is to describe an exit process in terms of processes and steps undertaken by Australian SMEs. It is anticipated that the operation of this framework will begin with a decision to exit, followed by a period of planning the exit. Here an exit decision is hypothesised as consisting of a set of pre-conditions that create receptivity to exiting (referred to as the exit trigger), which when fulfilled results in a decision to exit. Exit planning which follows the exit decision involves activities including preparing business and exit plans, nominating advisors, considering possible exit options, and nominating potential buyers or sources of buyers. This planning process is followed by activities where prior planning is put into action.

1.7 Research Methodology

As the objective of this study is to explore and generate an in-depth understanding of the decisions and processes surrounding a successful business exit by an SME, an exploratory research methodology has been adopted in this study utilising an abductive approach to answer identified 'what', 'why' and 'how' questions (Blaikie 2000, Saunders, Lewis & Thornhill 2003). In order to gain a rich understanding of the context of the research problem, a multiple case study strategy is employed (Morris & Wood 1991, Yin 2003a and 2003b, Collis & Hussey 2003, Gilmore & Carson 2007). According to Yin (2003a, p. 15), the strength of a multiple case strategy comes from being able "to *explain* the causal links in real-life interventions that are too complex for the survey or experimental strategies".

The methods to conduct this study consist of five elements: the study's research questions; the derived propositions; its unit of analysis; the logic linking data to the propositions; and the criteria for interpreting the findings. Central to the study's investigation is the development of a research model from the extant literature and the investigator's own experience in helping to interpret the data and link it to the study's propositions (see Chapter 4).

Primary data for the study will be collected by interviewing the owners and key stakeholders of twelve cases in which owners have successfully exited their businesses. In addition, secondary data including business or exit plans and contracts of sale will also be investigated. Data analysis will be undertaken using two methods: content analysis and thematic analysis. The content analysis will involve data reduction by segmenting and summarising data using data displays and cross-case matrices, followed by coding to look for emerging themes (Miles & Huberman 1994).

In order to identify and help explain unanticipated findings, a separate thematic analysis of data will be conducted using NVivo™ 8, a computer assisted qualitative data analysis software [CAQDAS] (Ezzy 2002, Richards 2005, Kelle 1995, Fielding & Lee 1998, Bazeley 2007). The thematic data analysis is then divided into four discrete stages, each designed to reveal greater levels of detail in a series of hierarchical nodes starting with ‘characteristic’, followed by ‘construct’, then ‘concept’, and finally ‘category’ (Anderson & Dexter 2001, Glasser 1992). A diagrammatic representation of this approach is shown in Figure 1.2.

1.7.1 Unit of Analysis

In the case of SMEs, the conduct of the owner is often inseparable from that of the business, particularly when determining the use of organisational resources. Defining what is the responsibility of the shareholder versus that of the manager of the business is often unclear. The focus of this study, however, is on the conduct, plans, and decisions of business owners. In some instances owners can represent multiple business entities, so to avoid confusion, the unit of analysis is the owners in context of the identified business exit (Gilmore & Carson 2007).

1.8 Structure of The Dissertation

This dissertation is structured into three main parts: the background and context of the study; the design of the study; and finally, the results and findings of the study.

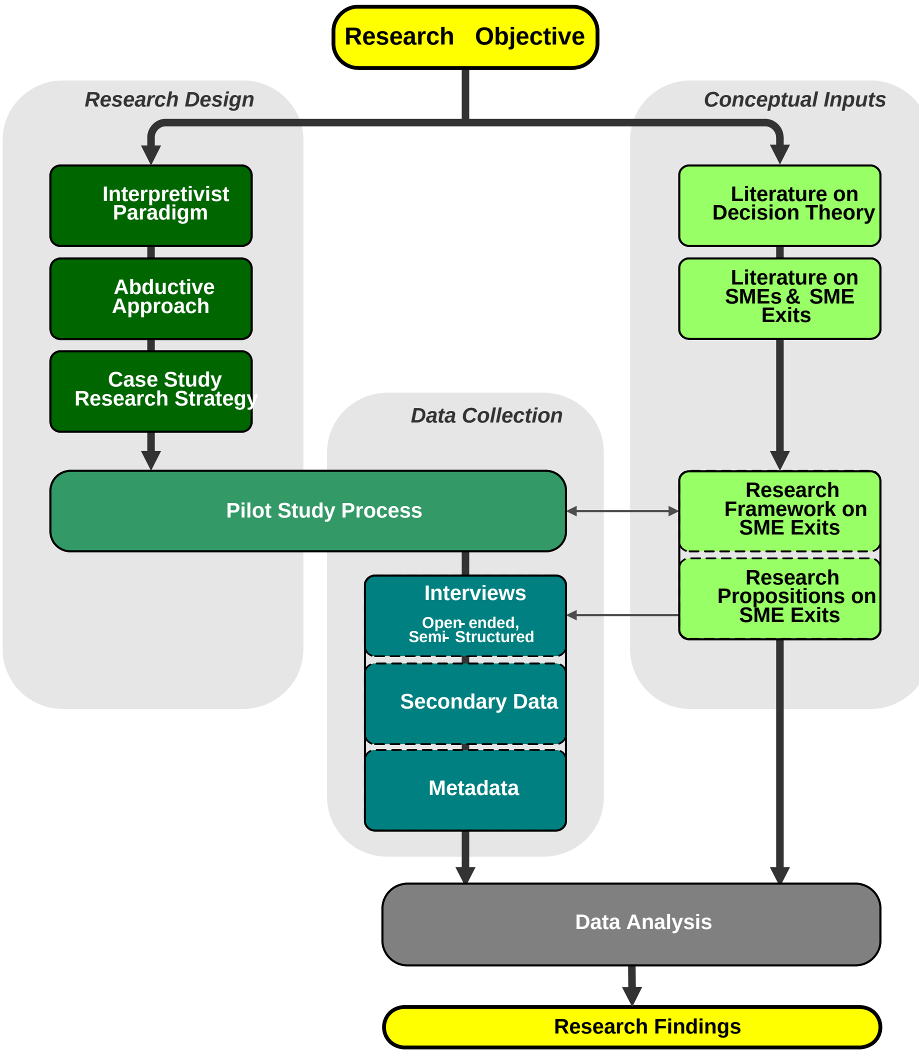

Figure 1.2: **Model of research methodology used, adapted from Koo (2004).**

Part A comprises three chapters: *Chapter 1* providing a background to the study and establishing the research purpose; *Chapter 2* reviews literature on Australian SMEs and entrepreneurial characteristics to build a contextual background on the SME environment; and *Chapter 3* which reviews literature on business harvesting and issues associated with business exits. These chapters introduce the topic and provide the necessary background for the reader to grasp the links and conclusions drawn from the research paradigm.

Part B focuses on the design of the study and comprises three chapters: *Chapter 4* which develops and describes the conceptual framework used in this study, *Chapter 5* which justifies the 'Research Methodology' and describes how associations and links are sought to evaluate and refine the theory; and *Chapter 6* which reports on the pilot process undertaken to refine the data collection methods and validate the research model. These chapters articulate the framework in which this study is investigated and how its subsequent findings are derived.

Part C reports on the study's outcomes and comprises three chapters: *Chapter 7* which reports study results; *Chapter 8* which analyses the data collected and leads to the study's findings about the SME exit process, and compares the results with the current body of knowledge to draw out implications; and finally, *Chapter 9* which reports on the implications drawn from the study's findings, discusses the study's limitations, and provides direction on areas for future research.

1.9 Study Limitations and Key Assumptions

This investigation uses a case study methodology as the primary data collection method. However, inherent in this method is the constrained generalisability of its findings due to small sample size. The case selection is limited to Australian SME business owners who had successfully completed an exit of their businesses in the period of 1995 to 2006. This period was chosen because it ensured sufficient time for commercial sensitivities to dissipate whilst remaining recent enough for owners to recollect details of the transaction. Case selection has been limited by the practical and financial constraints imposed by the prescribed conventions of this dissertation.

Australian SMEs are acknowledged as a wide and diverse group of organisations, and some generalisations have been necessary when discussing them as a whole. In this study there are nine key assumptions:

1. There are no regional specific characteristics which impact the exit processes of Australian SME owners.
2. Regulatory differences across Australian States and Territories are inconsequential to the SME exit process.
3. The exit process is homogenous across industries.
4. The business structure (shares, partnerships, sole traders, joint venture etc.) does not impact on the exit process.
5. The number of owners does not impact on the exit process.
6. The exit process is not specific to organisational size; however, exits for larger organisations are generally more complex, involve different levels of advisors, and have a greater array of exit options.

7. Ethnicity has no impact on the exit process.
8. Considerations for exits may occur in cash, shares, or some other form of equity.
9. All exits require at least one exit decision and a sequence of associated activities.

These assumptions are necessary firstly because the sample of cases, whilst rich in data, is too small a sample to determine findings based on region, regulation, jurisdiction, industry, structure, or ethnicity. Secondly, relation of these assumptions is unlikely to impact the stages and sequence of those stages in the exit process which is the primary role of this investigation. The researcher does acknowledge that differences in the above factors are likely to impact the timing associated with certain stages. An example of this might be with state based regulations in specific industries, owners may be required to undertake certain clearances before selling and therefore spend more time in the planning or preparation stages. The design of this study is able to account for variances in timing which results from these factors.

Part A

Chapter 2

REVEW OF SME LITERATURE

2.1 Introduction

Having introduced the topic in the previous chapter and provided an outline on how this study is to be conducted, the present chapter provides an overview of literature related to SMEs. The aim of this chapter is to provide a backdrop on SMEs in an Australian context. Because the general literature related to SME operation, start-up, and management is wide-ranging and diverse, this overview focuses its attention on details as to why this study is important. Furthermore, because small businesses and entrepreneurship are inextricably linked, a brief summary of literature on entrepreneurship is also undertaken. This precedes Chapter 3 which is more characteristic of a literature review, presenting the current body of knowledge and exploring the gaps which this study aims to satisfy.

2.2 Small Medium Enterprises

SMEs are major drivers of economic activity (ranging from 40 to 70 percent of a country's GDP) and provide the majority of jobs in the private sector (Beddall 1990, Schaper & Volery 2004, Reynolds, Savage & Williams 1994, Gaujers, Harper & Browne 1999). According to Gaujers *et al.* (1999, p.6), "…small business performance is recognised world-wide as the key to the achievement of general national economic goals". This has long been recognised with the Wiltshire Committee noting in 1971 (p. ix) that SMEs are responsible for "the preservation and stimulation of competition, which is the mainspring of efficiency" and "the provision of a wide range of employment opportunities and scope for innovatory talents, personal initiative and judgement".

According to Peacock (2004), Danridge (1979), McQuire (1976), and Welsh and White (1981) SMEs are not little 'big businesses' without resources but 99 times out of 100 they are the corner shop, hair dresser, courier, local tour operator, real estate agent, or local accountant servicing customers locally. Although perceptions of what SMEs are and what they do vary considerably, there is a general and growing awareness of the vital and unique role they play in most developed and developing economies[3]. For example, in the developed countries of United States, United Kingdom, and Spain, SMEs represent 48.0 percent, 51.5 percent, and 64.7 percent, respectively of their country's GDP (Ayyagari, Beck & Demirguc-Kunt 2007). In the Asia-Pacific economic region (APEC[4]) it is estimated that SMEs account for 95 percent of all firms, 80 percent of the workforce, 30 percent of exports, and contribute between 30 and 60 percent of GDP (Schaper & Volery 2004). In addition, Ayyagari *et al.'s* (2007) global study of SMEs found that the general importance of SMEs in the formal economy increased with GDP per capita. SMEs play an even larger role in developing countries where they often constitute almost the entire private economy and represent the only realistic chance of employment

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3 With the possible exception being countries in which political systems do not allow any form of private enterprise.

4 Asia-Pacific Economic Co-Operation Forum.

(Ayyagari *et al.* 2007, Lukács 2005). Where SMEs operate as part of the informal or shadow economy (Ayyagari *et al.* 2007) they are usually characterised by traditional activities with low levels of productivity, low use of technology, serving small localised markets, and operating in 'bare existence' survival mode (Lukács 2005). In developing countries such as Nigeria, estimations of SME contribution (formal and informal) to the economy are 76.0 percent of the overall GDP, in the Philippines 50.0 percent of GDP, and Thailand 71.0 percent of GDP (Ayyagari *et al.* 2007).

In developed OECD countries SMEs represent in excess of 95 percent of all enterprises and are the major generators of private sector employment (Lukács 2005). Examples include Japan where 81 percent of all employment is in the SME sector and the European Union (EU) where approximately half the employment is supplied by micro businesses (less than ten employees), and around sixteen percent by small and medium businesses (Lukács 2005).

While there is no globally accepted definition of an SME, most commonly definitions of SMEs include that SMEs have a relatively small share of the market they operate in; they are managed by their owner(s) in a manner that reflects their values, knowledge, and capabilities; and they are independently owned and operated and not part of a larger enterprise (Peacock 2004). In Australia, the Australian Bureau of Statistics (ABS) adds that SMEs are enterprises that are closely controlled by their owner/managers who contribute most, if not all, of the working capital and the principal decision-making functions (ABS 2001, Beddall 1990). Carland, Hoy, Boulton and Carland (1984) further added: SMEs are the primary source of income for their owners, consuming the majority of their time and resources. They are thus perceived to be an extension of their owner's personality in this context. The United States Small Business Act (2001) defines a small business as "a concern which is independently owned and operated and which is not dominant in its field". Table 2.1 provides a summary of the criteria used in defining the parameters of SMEs.

Criteria	Details
Market Share	Small market share in the markets they operate in.
Management	Usually owner/manager. Principal decision-making undertaken by owner. Management style is perceived to be an extension of the owner's personality.
Ownership	Independently owned & not part of a larger enterprise.
Working Capital	Supplied mostly by the owners/managers & family.
Income	Primary source of income for the owner.
Time & Resources	Business consumes the majority of the owner's time & resources.

Table 2.1: Criteria used in defining the main features of SMEs.

2.2.1 Definitions and Characteristics of SMEs

Although there is no central or globally accepted way to define the characteristics of SMEs, the most common criteria includes number of employees and annual turnover with even these definitions varying significantly across countries. Statistical or administrative definitions for SMEs can be based on (Harjula 2008, Ayyagari *et al.* 2007, Schaper & Volery 2004, OECD 2008):

a) number of employees;
b) number of annual working hours (i.e. part-time or full-time);
c) account measures such as annual turnover, total net assets, or investment levels;
d) annual production;

e) market share; or
f) independence of management/ownership.

Definitions can also vary according to industry, for instance the agricultural sector is often defined according to production and sales output[5], whereas others are defined according to employee numbers or turnover. In some jurisdictions the term 'small medium enterprise' is legally binding (e.g. Canada, Japan, Spain), however, the term SME is generally only applied for administrative or statistical purposes. In some instances a legal definition for SMEs is used for assistance programmes. Table 2.2 provides a cross-section of some of the definitions used for SMEs.

This study adopts the standard definitions used by the Australian Bureau of Statistics where for non-agricultural firms, a:

small business	is defined as a business employing less than twenty personnel;
medium business	as one employing twenty to 199 personnel; and
large business	as one employing 200 or more personnel.

Sub-categories of SMEs include: non-employing businesses which include 'sole proprietorships' and 'partnerships' without employees; 'micro business' employing less than six employees (also includes non-employing businesses); and 'small business' employing six or more personnel, but less than twenty. In the Australian context the

5 Agricultural businesses are difficult to classify according to employee numbers because they can have large scale operations with relatively few or no permanent employees. They often use large numbers of seasonal and itinerant workers to satisfy short term labour needs. An agricultural firm is considered small if their agricultural operations are between $22,500 and $400,000 AUD (ABS 2005).

Country	Number of Employees	Balance Sheet	Turnover	Investments
Australia	<20 Small 20-199 Medium			
Canada	<500		<$50 mil	
Czech Republic	<50 Small <250 Medium	<€10 Mil <€43 Mil		
Hong Kong	Small <100 in Manufact. <50 other sectors.			
Japan	<50-300			<¥50Mil - ¥300Mil
Malaysia	<150 Small		<RM25 Mil	
New Zealand	<6 Small 6-19 Medium			
Norway	<50			
Singapore	<200 (non manufacturing)	<S$15 Mil		
Spain	<50 Small <250 Medium	<€10 Mil <€43 Mil		
United Kingdom	0-49 Small 50-249 Medium	<£2.8Mil <£11.2Mil		
USA	<100 Small <500 Medium			
European Union	<50 Small <250 Medium	<€10 Mil <€43 Mil		

Table 2.2: A cross-section of definitions and thresholds used for SMEs (adapted from Harjula 2008, Schaper & Volery 2004, OECD 2008). (This table is by no means a comprehensive summary of SME definitions and merely identifies some of the characteristics based on employee numbers and some key financial factors)

ABS (2005A) classifies ‘micro-businesses’ as employing less than five employees, whereas in Europe and the United States, it is less than ten employees (Harjula 2008). In summary, for the purposes of this study, SMEs are formal enterprises that are normally privately and independently owned and operated, managed by the owner or part-owner, have less than 200 employees, have a relatively low volume of sales, and a small market share (Ayyagari *et al.* 2007). They may also be publicly owned listed or unlisted entities.

Although the term ‘SME’ represents a very diverse group of businesses operating in service, trade, agri-business, and manufacturing sectors, there is often a tendency to treat them as a homogeneous group. However, they not only differ in industry and size, but also in context and goals (Parker & Castleman 2007). SMEs provide products and services that big businesses do not or cannot deliver, and often perform a complementary role in supplying and supporting larger businesses. In some cases SMEs are dynamic, innovative, and growth orientated, while others are satisfied to remain small, manageable, and family owned (Lukács 2005, Schaper & Volery 2004). Typically, the term ‘SME’ refers to businesses such as convenience stores and other small shops such as bakeries or delicatessens, village handicraft makers, hairdressers, tradesmen, lawyers, accountants, restaurants, guest houses, photographers, small-scale manufacturers, and computer software firms. The smallest businesses which are often located in private homes are called micro-businesses, home based businesses (HBB), or SoHos (small office home office). Many of these are single-family operated with few (or no) employees other than the owners (Schaper & Volery 2004). Although these SMEs vary considerably in their sophistication and skills, they not only make major contributions to innovation, but are the principal creators of new jobs (Lukács 2005).

SMEs differ from large businesses in a number of ways. Firstly, they are considered to be more vulnerable to their external environment (Lee, Lim & Tan 1999, Schaper & Volery 2004) so to operate successfully they often need to concentrate their efforts in niche market segments (Bishop 1998, Lee *et al.* 1999). Whilst more vulnerable, SMEs also have a better capacity to cope in volatile environments because they are flexible and adaptable. This is an area where SMEs have a competitive advantage over larger firms (Fiegenbaum & Karnani 1991). Secondly, they are simpler (flatter) in structure than larger firms. This brings the benefit of shorter decision processes and faster dissemination of decisions (Yusof & Aspinwall 2000). Another benefit of a smaller structure is that owner/managers are closer to their customers and therefore more responsive to them. Furthermore, being organic in structure rather than bureaucratic and systems orientated, they generally provide benefits of higher levels of employee involvement and satisfaction (Yusof & Aspinwall 2000).

Despite the advantages, SMEs face numerous disadvantages. Typically SMEs are constrained by their available resources, so their main constraint is the availability of or access to finance, sometimes requiring owners to mortgage their family home and/or pay higher finance costs (Poutziouris, Chittenden, Michaelas & Oakey 2000, Schaper & Volery 2004). This manifests itself further by constraining growth due to lack of cash flow (i.e. inventory and debtors), or through investment in plant and equipment (i.e. added capacity). Another resource constraint is in access to human capital (Yusof & Aspinawall 2000) where the scale of SMEs means that they often cannot afford to employ the necessary expertise to compete with larger businesses or grow with opportunities. In addition, highly skilled employees who are in demand are more likely to be attracted to larger firms which are perceived as 'less risky' and able to offer enhanced employee benefits. Finally, as SMEs often lack systems (management reporting, quality control, planning) because of their scale, inefficiencies and a lack of control may result, particularly when growing fast (Meredith 1993).

2.2.2 SMEs in The Australian Context

According to Reynolds *et al.* (1994, p. 13) “small enterprises, .. make very significant contributions to the economic welfare of Australia and the quality of life in every community across the nation”. They account for 99 percent of enterprises, 60 to 70 percent of new jobs generated (OECD 2000), and in agriculture, forestry and fishing production, 95 percent of the industry turnover (Ergas & Orr 2007). In June 2006 SMEs accounted for: 73 percent of all active trading businesses; they employed 42 percent (4.1 million people) of the working population; and contributed 426 billion dollars (46 percent) of Australia’s Gross Domestic Product (ABS 2007). Table 2.3 summarises some of major characteristics of Australian SMEs.

The nature of SMEs in Australia is that there are many start-ups and almost as many failures each year (ABS 2005, ABS 1997). Due to the consequences associated with loss of jobs, social impacts, legal and regulatory issues, and possible flow on effects to other businesses and organisations, several studies have been undertaken on Australian business cessations which involve liquidation and insolvency (Peacock 2000, Beddall Inquiry 1990, Lowe *et al.* 1990, Price 1984, Williams 1991, Ahmad & Seet 2009, Watson 2003, Watson & Watson 2010, Everett & Watson 1998).

2.2.3 Contribution of SMEs to the Australian Economy

According to a Federal Government longitudinal study of business (BLS) completed in 1998 (DEWRSB 2000), overall Australian SMEs generated 62 percent of industry gross products (micro - ten

Employment	Small enterprises employ equal numbers of full-time and part-time employees but the number of part-time employees reduces to 40 percent when the enterprise grows;
	The proportion of staff to owners is low for SMEs;
	Of the 1.1 million full-time small businesses operating in 2004, 30.2 percent of owners indicated they worked more than 50 hours per week and in excess of 5,200 (4.7 percent) indicated that they worked more than 75 hours;
	51 percent of private sector business employment was by small business.
Ownership	Approximately half Australian SMEs are family owned;
	Approximately 30 percent are willing to take external equity;
Demographics	Women represent 31.9 percent of small business operators and more than 60 percent of these worked only part time;
	In 2004 almost 60 percent of all small business operators were aged between 30 and 50 years of age, with 31.3 percent being more than 50 years old;
	At the 30th of June 2004, 30.2 percent of small business operators were born overseas;
	The distribution of small businesses throughout Australia reflects the general population distribution with Williams (1991) identifying the bulk of them (81.9 percent) as operating outside central business districts;
	99.7 percent of enterprises in Australia are SMEs with small business representing almost 96 percent of that;
Management	SMEs are likely to direct attention to short term needs rather than long term organisational development;
	The management of SMEs is characterised as pragmatic, results orientated, flexible, and innovative;
	Only ten percent aspire to significant growth;
	SMEs are disengaged from government;
Products & Services	71.6 percent of small businesses are involved in the delivery of services, and 28.4 percent in the delivery of manufactured goods;
Resourcing	SMEs have more difficulty than large businesses in obtaining finance.

Table 2.3: Some of the major characteristics of Australian SMEs adapted from (ABS 1997, 2001, 2005, 2007, PC 1997).

percent, small - nineteen percent, medium - 33 percent). In line with being the major driver of economic activity, SMEs are also the largest employers in Australia, and according to an ABS publication (2001), small businesses alone accounted for almost half of all private-sector employment. In the seventeen year period from 1983/84 to 2000/01 they contributed more job growth than any other sector of the economy. In a further study of private sector employment, Priestley (2002) analysed Australian private sector employment (1990 to 2001) and found that 'small businesses' (categorised as businesses with less than 100 employees and agricultural operations with turnovers not exceeding $400,000) accounted for over 50 percent of employment. This fluctuated from a peak of 57.9 percent in 1995 to a low of 51.8 percent in 2001. In addition, SMEs provide alternative employment opportunities for individuals who are unsuited or unwilling to be employed by larger organisations (Gaujers *et al.* 1999).

Expressed in financial terms the estimated economic contribution of SMEs in terms of the Gross National Product (GNP) is: in retailing and other service industries, over 50 percent; in manufacturing, 25 percent; and in wholesaling, 25 percent (Gaujers *et al.* 1999).

SMEs contribute to the Australian economy through being sources for the next generation of larger firms (Schaper & Volery 2004). They interact with large business on three other fronts: by servicing and supporting larger firms; by providing competition; and by being a source of innovation (Meredith 1993, Schaper & Volery 2004, Peacock 2004, Beddall 1990, Reynolds *et al.* 1994). Large private sector firms and the public sector rely on SMEs to supply materials, logistics, labour, and other services, forming a mutually beneficial relationship rather than a competitive one (Meredith 1993). Thus even though a major benefit is that SMEs bring competition to the marketplace, they cannot and do not compete with larger businesses on large business terms. Instead, they focus their resources and produce specialised, and often innovative, specialist products and services. The large numbers of SMEs, their proliferation and lower costs of operation mean better customer choices, more competitive pricing, and improved customer responsiveness (Beddall 1990, Schaper & Volery 2004, Peacock 2004, Reynolds *et al.* 1994).

As well as being a catalyst for competition, SMEs are a major source of Australian innovation. Here entrepreneurs start out using small businesses as the means to launch new ideas and innovative products and services, providing a dynamic contribution where ideas are tested in the marketplace. If successful these ideas grow to become big businesses, or are adopted or acquired by larger firms (Peacock 2004, Schaper & Volery 2004, Beddall 1990, Reynolds *et al.* 1994, Meredith 1993).

Other benefits that SMEs bring to the Australian economy are: decentralisation where products and services are delivered effectively and economically to communities outside capital cities; widespread distribution of resources, wealth and opportunities so that a cross-section of the community is able to build wealth and cater for their own and their communities' economic future; flexibility, a superior ability to respond to changes, and adversity (e.g. economic downturns, globalisation); exports of products and services; the delivery and development of specialised services that are not economically viable for large businesses to deliver (Schaper

& Volery 2004, Peacock 2004, Reynolds *et al.* 1994), and "the provision of stability and a sense of value in rural and remote communities" (Gaujers *et al.* 1999, p. 7).

2.3 Business Ownership

The benefits and attractions of SME business ownership are generally well documented in the literature on SMEs (Gaujers *et al.* 1999, Schaper & Volery 2004, Peacock 2004, Reynolds *et al.* 1994, Dixon, Hodgetts, Kelmar & Kuratko 1991). The most common benefits include: being your own boss; having flexible working hours to suit a particular lifestyle; opportunities to fully develop and exploit own ideas into income generating opportunities; opportunity to build personal wealth and achieve a desired lifestyle; securing ones future; personal satisfaction and a sense of achievement; opportunities to develop leadership skills through leading the business and being involved in community activities; and lastly, the opportunity to successfully exit the business (Gaujers *et al.* 1999, Dixon *et al.* 1991).

There are many reasons why successful owners may want to dispose of their successful businesses. Some of these are cited below.

Lifestyle: Operating and managing SMEs are often hard work involving long days and without regular days off or holidays. This can affect relationships with both family and friends and even impact on the personal health of owners (English 1992, Gaujers *et al.* 1999, Reynolds *et al.* 1994).

Risk: SMEs have a high risk of failure. (Williams 1991, Peacock 2000, Beddall Inquiry 1990, Lowe *et al.* 1990). Williams (1991) found that 32 percent of Australian businesses failed in their first year of operation and the survival rate after five years was only 34 percent, and thirteen percent after ten years. More optimistically, Ergas and Orr (2007) noted that SMEs had an 81 percent chance of surviving two years of operation. Owners are often required to invest all their personal assets (e.g. family home), and sometimes that of family and friends, to continue operating their business. This means that failure can have considerable personal consequences. In addition, SMEs can be impacted by environmental influences beyond the owner's control (e.g. fire, changes in planning laws, economic conditions) as they often do not have the internal resources to 'ride out' difficult times. Furthermore, SMEs often operate in environments of uncertainty and insecurity where they cannot be guaranteed of future income or profitability (Schaper & Volery 2004, English 1992, Gaujers *et al.* 1999, Peacock 2004, Bridge, O'Neill & Crombie 2003, Reynolds *et al.* 1994).

Stress: Associated with the risk of ownership failure is the resultant stress. Other factors which contribute to business owner's stress are task complexity and role ambiguity in which owners have to make decisions and accomplish most tasks themselves; work overload; supervision of staff, especially when they lack the relevant experience; conflict with family members or co-owners; and total responsibility where success or otherwise falls wholly on the shoulders of the owners (Gaujers *et al.* 1999, Reynolds *et a*l. 1994).

Staff Issues: Attracting, managing, motivating, and maintaining staff are often cited as burdensome tasks by SME owners. The major reasons are that many SME owners do not have the appropriate human relations and leadership skills training, being required to 'learn on the go' (Gaujers *et al.* 1999, Reynolds *et al.* 1994).

Motivation: Motivation and enthusiasm are essential ingredients when managing a small business. Maintaining this, especially through periods of difficulty and over sustained periods, can be personally taxing and adds to the stress of business ownership. Unlike larger organisations, SME owners cannot rely on other parties to maintain their morale, so need self-motivation and persistence when facing difficulty. Levels of motivation can also be associated with both length of ownership and the relative age of owners (Gaujers *et al.* 1999, Reynolds *et a*l. 1994).

Complexity: Operating SME businesses require a range of skills. Owner managers must 'wear many hats' because SMEs are often not large enough for personnel to specialise in tasks. In addition, owners are required to respond to many stakeholders including customers, suppliers, government agencies, bankers, and the community (Gaujers *et al.* 1999).

Loneliness: Working long hours, being isolated from family and friends, and not being able to discuss many issues with staff members can often result in SME owners feeling very alone and isolated (Gaujers *et al.* 1999).

Succession: Owners have thought in advance about the future and plan to leave the business when a suitable replacement has been selected/nominated. Other benchmarks may also need to be achieved (e.g. experience, availability of funds to pay owner, a nominated date, etc.) before succession can be achieved (Morris, Willliams, & Nel 1996).

2.4 Entrepreneurs

Entrepreneurs are central to the creation of new businesses or ventures. They are responsible for creating new value in the form of innovations and/or new organisations (Schaper & Volery 2004). Schaper and Volery (2004 p.88) classify an entrepreneur as someone who "develops new ideas, starts an enterprise based on these ideas, and provides added value to society based on independent initiative". Some owners do not seek out new ideas or opportunities and can be classified as owner-managers or business owners rather than entrepreneurs (Carland *et al*. 1984, Brockhaus

1980, Schumpeter 1935 & 1983). Some of the distinguishing features of entrepreneurs are that they have a vision for growth and a commitment to innovation; they also persist in gathering resources and have incessant needs for achievement (Schaper & Volery 2004, Carland *et al.* 1984). Carland *et al.* (1994, p. 1,267) offers the following distinctions between entrepreneurs and small business owners:

Small business owner:	*is an individual who establishes and/or manages a business for the principal purpose of furthering personal goals.*
Entrepreneur:	*is an individual who establishes and manages a business for the principal purpose of profit and growth.*

Entrepreneurs do not operate exclusively in the context of an SME and can often be found in larger organisations where they may also be referred to as 'intrapreneurs' (Pinchot 1985). Whilst owner-managers of small businesses may not possess many of the characteristics associated with entrepreneurs, anecdotal evidence is that many are effective and operate their businesses successfully.

According to Schaper and Volery (2004) there are two basic schools of thought on what defines an entrepreneur: the economists' view and the behaviourists' view. The economists' view focuses on the roles that the entrepreneur plays including the arbitrageur, the innovator, and the co-ordinator of scarce resources. In contrast, the behaviourists' view (including sociologists and psychologists) focuses on the psychological characteristics and personality of the individual (Schaper & Volery 2004). Table 2.4 summarises some of the common characteristics of entrepreneurs that have been identified in prior studies.

Extensive research has been conducted into understanding entrepreneurs better (Smith 1967, Kuratko, Hornsby & Naffziger 1997, Krueger & Carsrud 1993, Gundry & Welsch 2001, Robichaud, McGraw & Roger 2001, Naldi, Nordqvist, Sjoberg & Wiklund 2007, Davidsson 1989 & 2004, Liao, Murphy & Welsch 2005), small business owners (Zinger, Lebrasseur, Robichaud & Riverin 2007, Friar & Meyer 2003), and business types (Massey, Lewis, Warriner, Harris, Tweed, Cheyne & Cameron 2006, Baines & Wheelock 1998, McMahon 2001, Bridge *et al.* 2003, Tan, Menkhoff & Chay 2007).

Characteristics of Entrepreneurs	
Self-confidence	Tolerance of ambiguity
Risk taking propensity	Responsiveness to suggestion
Flexibility	Dynamic leadership qualities
Independence of mind	Initiative
Drive, energy & diligence	Resourcefulness
Hard-work ethic	Good communication skills
Creativity & imagination	Perseverance
The need for achievement	Profit orientation
Internal locus of control	Perception with foresight
Good problem solving ability	Imagination

Table 2.4: Common characteristics of successful entrepreneurs (but most do not possess ALL these characteristics), adapted from Schaper & Volery (2004, p. 35) and Gibb (1987 p. 6).

Prior studies in entrepreneurship have examined links between business success and a range of personality traits (Rauch & Frese 2007, McClelland 1961, Collins, Hanges & Locke 2004, Smith

1967). Research suggests that entrepreneurs are: confident (Robinson 1987); often possess a high internal locus of control, i.e. believing that they can influence their world (Schaper & Volery 2004, Gasse 1985, Hansemark 2003); have high levels of self esteem and self efficacy with a strong belief in their ability to achieve goals (Kruegel & Brazeal 1994, Erickson 2002, Frazier & Niehm 2006, Rauch & Frese 2007); and demonstrate greater levels of initiative with more positive attitudes towards risk and autonomy than the general population (Bateman & Crant 1993, Shaper & Volery 2004, Douglas & Shepherd 2002, McMullen & Shepherd 2006, Rauch & Frese 2007, Palich & Bagby 1995). In addition, successful entrepreneurs are often characterised as being creative (Feldman & Bolino 2000, Zampetakis & Moustakis 2006, Schumpeter 1935), innovative (Rauch & Frese 2007, Schumpeter 1935, Schaper & Volery 2004), resourceful (Amabile 1983), and able to improvise (Hmieleski & Corbett 2006).

Curiosity, creativity, confidence, and having a positive attitude to risk are not the only characteristics that successful entrepreneurs typify. Other characteristics are perseverance (Eisenberger & Leonard 1980, Stoltz 1997, Markman 2007, Locke & Baum 2007); propensity for risk taking (McClelland 1961, Chattopadhyay & Ghosh 2002, Stewart & Roth 2001, Sexton & Bowman 1984); variety or ‘sensation’ seeking (Zuckerman 1979); and penchant for collecting information prior to decision making otherwise referred to as ‘strong judgement’ (Learned 1992, Baron 2000, Shook, Priem & McGee 2003).

Smith’s (1967) seminal typology of entrepreneurs refers to them as ‘craftsmen’ at one extreme and ‘opportunistic’ at the other.

‘Craftsmen’ are categorised as paternalistic and autocratic with goals of independence, autonomy and producing a quality offering. Financial gain and growth are not their key motivations, and operating their own business is symbolic of their success. The ‘opportunistic’ entrepreneur on the other hand is well educated, engages in long-term planning, and is able to delegate to managers. He or she will have a well rounded education and management experience, and is risk-orientated with growth being the major goal for the company.

Kuratko *et al.* (1997) identified that entrepreneurs were not only motivated by extrinsic goals such as personal wealth and income opportunities but also by intrinsic goals of recognition, excitement and a sense of accomplishment. Porter and Lawler’s (1968) motivational model suggests that entrepreneurs are also motivated by the act of entrepreneurship (starting and building organisations, taking advantage of opportunities).

For the purposes of this study all participating business owners were assumed to be ‘entrepreneurs’ because classification of the owners (business owner versus entrepreneur) fell beyond the scope of this study.

2.5 Summary

The purpose of this chapter has been twofold. The first has been to provide a contextual backdrop to explain why enhancing SME harvesting generally is important, and why it is important in the Australian context. The second purpose has been to summarise relevant literature on entrepreneurship to provide a context to understanding the attitudes and decisions made by the business owners examined in the following. Chapter 3 also reviews theories associated with decision making and planning in relation to business harvesting and reviews the extant literature associated with business harvesting.

Part A

Chapter 3

BUSINESS EXITS

3.1 Introduction

The previous chapter discussed the major characteristics of small businesses and their owners to provide a context for a review of business exits and business harvesting. The term 'business exits' is generally understood to be related to the activities of business harvesting, market withdrawal, and business failure. Business harvesting refers to the value obtained when exiting. Similarly, a firm's withdrawal from a market refers to their divestment from a market or ceasing to undertake an activity as part of the firm's development (Jones 2004, Henricks 1997, Stokes & Blackburn 2002, Siegfried & Evans 1994). The basis for withdrawal is primarily linked to the firm's competitive or strategic interests and motivated by a search for improved profitability. However, some authors prefer to use the term 'exiting' to describe non-voluntary exits such as business failure (Scott & Ritchie 1984, Keasy & Watson 1987, Hall 1995, Everett & Watson 1998, Bruderl *et al*. 1992, Beddall 1990, Lowe *et al*. 1990, Price 1984, Williams 1991, Birley & Niktari 1995, Berryman 1983, Peacock 2000).

This study focuses on the subject of voluntary exits and business harvesting and all subsequent references to an exit or exiting are couched within this context. The sections that immediately follow provide a synopsis of the theories that underpin the decision making and planning involved in voluntary exits. This is then followed by a review of the extant literature on business harvesting.

Henricks (1997) refers to business harvesting as a way of getting value out of a business, Timmons and Spinelli (2004) however, view business harvesting as a vehicle (plan or strategy) for reducing risk and creating entrepreneurial choices and options. Schaper and Volery (2004 p.354) refer to harvesting as:

> *The process entrepreneurs and investors use to exit a business and realise their investment.*

Business harvesting is, however, a complex task (Coulthard *et al*. 1996) involving many decisions, substantial resources, and planning.

3.2 Decision Making and Planning Theories

According to Mintzberg (1994, p. 12) "planning is a formalised procedure to produce an articulated result, in the form of an integrated system of decisions". In an attempt to define planning and strategy Mintzberg, highlights some of the developments in the literature. His review on planning includes:

- future thinking or action laid out in advance;
- controlling the future;
- decision making; and finally
- integrating decisions.

Just as planning and decisions are inextricably linked, planning and strategy are also interrelated through the decision process (Ansoff 1977 Hitt, Freeman & Harrison 2005, Thompson & Strickland 2003, Stonehouse & Pemberton 2002). In agreement with Mintzberg (1994) who defines strategy as 'a plan' and 'a pattern', this study recognises planning as the process which SME owner/managers undertake to achieve their exit objectives. Decisions refer to the exit decision and any major decision which represents a milestone[7] in the exit process. In order to understand the decision process SME owners undertake to exit their businesses, the following sections provide a background for the theories related to decision making and planning processes.

3.2.1 Decision Theory

Behavioural science decision theories can be used to understand the process owners undertake when making numerous management decisions including business exits. Making decisions "is a fundamental part of the management process" (Gilligan, Neale & Murray 1983, p. 1). Exit decisions are likely to be some of the most significant management decisions owners will ever undertake. According to Dearlove (1998, p.14):

> *A decision is the point which a choice is made between alternative – and usually competing – options.*

Therefore, it is pertinent to review this topic to gain a better understanding of the possible influences and mechanics involved in exit related decisions. In this context Gilligan *et al.* (1983 p. 1) define a good decision as:

7 An event marking a significant new development or stage in the process.

> *..one that achieves an objective that has been set in advance,*
> *..one that minimises the degree of conflict within an organisation,*
> *..a decision that is readily accepted by those who are involved in its implementation …*

Decision theory deals with situations where decision makers (often referred to as 'actors') make choices between given options or alternatives. Typically these options may take the form of a course of action to be undertaken, an object to possess, and how much to pay for possession (Rapoport 1989). The underlying premise to decision theory is that choices (decisions) have consequences called outcomes, and that each of the decision makers making the choices has preferences for different outcomes (Rapoport 1989).

In behavioural science the earliest work on decision theory makes a distinction between programmed and non-programmed decisions (Simon 1960). The focus of earlier studies on the topic was the decision maker at the moment of choice together with factors influencing choice behaviour (Gilligan *et al*. 1983, Eisenhardt & Zbaracki 1992). Gilligan *et al*. (1983, p. 2) noted:

> *..to be in pursuit of a single, fixed objective: to have perfect or near-perfect information on the outcome of the decision alternatives; to be willing and able to spend a seemingly inexhaustible amount of time evaluating this information; and to possess an almost supernatural ability to analyse, understand and retain the information inputs.*

Theories relating to decision theory can be classified as being 'descriptive' which principally deals with questions on how people <u>do</u> behave when given choice situations, and 'normative' (sometimes referred to as 'prescriptive' models) which principally deals with how people <u>ought to</u> behave in the same situations (Rapoport 1989, Baird 1989). The 'normative' classification relates to how people should behave if they are perfectly rational and under ideal operating conditions. However, in reality very few business decisions are made with access to perfect information. Whilst normative theories may have limited application, in real life situations the linkage between the two approaches is 'how the decision process might be improved'.

According to Simon (1960) and Mintzberg, Raisinghani and Théorêt (1976) there are two groups of business decisions: straight forward, repetitive and routine, categorised as 'programmed decisions'; and novel, unstructured and consequential, referred to as 'non-programmed'. Programmed decisions are typical of day-to-day activities that organisations are able to undertake using formalised procedures. This type of decision allows an organisation to make routine decisions efficiently without committing significant management resources. Examples of programmed decisions are short-term operating control decisions which are routine and frequent and require the implementation of straight forward decision rules. These types of decisions are often referred to as 'administrative decisions'. Other examples are periodic control decisions, sometimes referred to as 'operating decisions', occur less frequently than operating control decisions and are usually concerned with monitoring the effectiveness of resource allocation (Gilligan *et al*. 1983, Bridge & Dodds 1975).

On the other hand, non-programmed decisions are required when the situation is unique or complex and organisationally unforseen, so the circumstances require a custom developed decision (Simon

1960). In these situations more creativity, experience, and judgement is required, so these types of decisions are undertaken by senior levels of management. Examples include strategic decisions (e.g. new investments, market expansion) which are significant to the future development of the organisation and have a high cost (Bridge & Dodds 1975, Ansoff 1987). According to Simon (1960), programmed and non-programmed decisions represent the two extremes of a continuum. Ansoff (1987) sees these types of decision as both interdependent and complementary. However, in most instances decisions for business exits by owners will occur at the non-programmed extremity. Table 3.1 provides a summary of the three major decision types.

To understand how decisions are made in complex business environments, Gilligan *et al.* (1983) represent the process[8] with an 'open systems decision model'. This approach takes into account unpredictable environments in which rational concepts and mechanistic techniques may be difficult to apply. An open systems approach is able to account for the influence of the environment on both the organisation and the decision maker, with emphasis placed on feedback, learning, and adaptation.

The starting point for the above model is to define the objectives to be pursued. From this the decision maker can identify some of the courses of action open to him and then evaluate the options, referencing the level of performance required. If the performance

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8 Decisions per se are the end product of the decision process (Drummond 1996).

	Periodic Control Administrative	Operating Control Operative	Strategic
Decision Group	Programmed	Programmed	Non-Programmed
Typical Problem	Structure organisation's resources for optimum performance	Optimise realisation of ROI* potential	Select product mix
Nature of Problem	Organisation, acquisition & development of resources	Budgeting of resources Scheduling resource application Supervision & contact	Allocate resources for market opportunities
Key Decisions	Structure of information, authority & information flows. Structure of workflow, distribution system, facilities location Resource acquisition & development	Operating objectives & goals Pricing & output levels Operating levels Marketing policies & strategy Control	Objectives and goals Diversification strategy Expansion strategy Growth method Timing
Key Characteristics	Conflict between strategy & operations Conflicts between individuals & organisation Decisions triggered by strategic or operating problems	Decentralised decisions Risk & uncertainty Repetitive decisions Large volume decisions Decisions self-regenerate Sub-optimisation	Decision centralisation Partial ignorance Decisions non-repetitive

Table 3.1: Types of management decisions adapted from Ansoff (1965) in Bridge & Dodds (1975 p. 11).

** ROI – Return on Investment.*

criterion is met, the decision can be implemented and the results evaluated for subsequent decisions. In the evaluation of options, Bazerman and Moore (2009, p.3) refer to computation of the optimal decision in which each alternative is weighted according to the decision criteria, and the choice of decision is made according to the highest weighting.

Since the publication of Simon’s (1957) bounded-rationality framework, some of the developments in decision making have focussed on decisions made with limited information and biased human judgement (Bazerman & Moore 2009). Here it was discovered that people often rely on simplifying strategies or rules of thumb when making decisions. Bazerman and Moore refer to this process as ‘heuristics’ which act as a mechanism for coping with complex environments, but can sometimes result in severely erroneous decisions. Due to time-poor environments and limited resources, managers of SMEs will often use heuristics to help make decisions (Mole 2007, Busenitz & Barney 1997). In addition, despite a primary influence of self-interest, decision makers usually care about the impact of outcomes on others.

At a more pragmatic level, Dearlove (1998) argues that effective decision-making is more an art than a science, and is a combination and balance of logic, experience and intuition. The logic comes from hard data and rigorous analysis, but often there are intangible factors such as intuition, experience, and moral and ethical judgements. Even then, Dearlove contends that the right decisions can often be made for the wrong reasons.

As previously highlighted, undertaking a decision to exit a business is likely to be one of the most significant business decisions an owner is likely to make. Unlike administrative or operating decisions, exit decisions are strategic in nature, unprogrammed but in some cases planned, and customised to specific circumstances.

To arrive at an exit decision owners will embark on a process which firstly involves defining an exit objective and criteria for assessing possible options, then exploring and evaluating possible exit options before deciding which option best fulfils their exit objective.

3.2.2 Planning in Business

To understand ways of characterising mind and action, the core theme is to understand one's 'intention'. This is central to predicting, explaining or co-ordinating actions, and leads to a 'theory of rational intention' (Bratman 1987, 1998). According to Bratman (1987, p. 2) "intention is inextricably tied to the phenomena of plans and planning". Furthermore, he refers to human beings as rational agents who make plans[9] for the future and use these plans to guide their conduct. As planning agents, human beings have two central capacities: to act purposively, and to form and execute plans. In doing so, human beings undertake processes of deliberation and rational reflection. Deliberation cannot be undertaken at the time of action and requires a combination of both time and resources. Bratman (1987, 1998) states that deliberation and reflection need to influence both current and future actions as well as provide support for intrapersonal and interpersonal co-ordination. Human beings construct plans for the future which helps co-ordinate their own activities over time, and their activities with the activities of others. Bratman explains that human beings are limited by their ability to deliberate and process information, so generally are unable to make plans which foretell all future activities. Typically, plans are partial and incomplete and details are added over time, enabling the

[9] Plans as a mental process, not an abstract structure that can be represented, i.e. a documented plan.

accomplishment of complex goals that would otherwise be unachievable.

Intentions are also linked to desires and a belief, which Bratman (1987) refers to as the desire-belief model. An individual's desires and beliefs provide reasons for acting in particular ways. This is because intentional action extending from a particular choice (decision) is supported by desire-belief reasons over possible alternatives (Gauthier 1998). Whilst there is a link between intentions and desires they differ in their relationship to commitment. The difference is that intentions are conduct controllers which directly affect future choices, whereas desires are merely potential influences of action. In other words, an intention is a commitment to action whereas an ordinary desire is not (Bratman 1987). On another dimension of commitment, intentions resist reconsideration; they have a characteristic stability or inertia. In addition, an initial intention will provide the reasoning and constraints for future further intentions. This is done to make intentions consistent with each other and with one's beliefs. Bratman refers to this as 'reasoning-centred' commitment.

According to Bratman (1987), plans are intentions writ large, and display similar characteristics and properties: they resist consideration; are conduct-controllers; and provide inputs for further reasoning and planning. He explains that plans have two important features: they are typically partial, initially incomplete and detailed with more specific information over time; and they have a hierarchical structure which results in some aspects being deliberated upon while holding others as fixed. An example of this is a plan to exit a business while deliberating on the exit options.

Partial, hierarchically structured plans are the rational approach humans use to cope with their limited capacity to deliberate on and process information. According to Bratman (1987 p.30), plans eventually control or guide conduct through the connection of deliberation and action over time; they "systematically extend the influence of deliberation on later conduct". Hopkins (2000) studied the causal efficacy of plans and identified five ways in which they operate: as agendas, policies, visions, designs and strategies. According to Hoch (2007, p. 25):

> *Agendas and policies order priorities, while visions, designs and strategies offer different representations of future interdependencies.*

He says that plans are tools human beings use to build joint intentions. Furthermore, he describes plans as a method used to prepare for and cope with complexity whilst accounting for needs and fulfilling purposes.

In Bratman's (1987) context, plans include intention and deliberation. This concurs with the current study which includes an exit objective (intention) and deliberation (large or small). Using this simple definition, the vast majority of business owners could be classified as both planning and having an exit plan. From the mainstream management literature, Mintzberg (1994) defines a plan as one that has three essential characteristics:

outcome	describes the expected outcome in some level of detail;
actions	describes the actions needed; and
resources	shows the resource commitment needed to effect the plan.

Coultard *et al*. (1996) similarly views business planning as a hierarchical process divided into three part: aims, analysis and action. This differs slightly from the Mintzberg (1994) view because it emphasises the environment, market opportunities, and competitive advantage of the firm. For the purposes of this study, a 'plan' is defined as one that can be expressed (orally or written), and fulfils Mintzberg's (1994) three characteristics for planning. There are four major reasons why business planning is done: to co-ordinate resources (Quinn 1980, Miller & Friesen 1984); to account for the future (the inevitable, the undesirable, and the controllable); to ensure decisions are rational and consistent; and to control further planning, quality, and resources (Porter 1980, Mintzberg 1994).

3.2.3 Planning by SMEs

SMEs and planning in general are reluctant 'bedfellows'. Despite considerable support linking planning, particularly at the long-term strategic level, to business success and performance (Glaister & Falshaw 1999, Lurie 1987, Hormozi, Sutton, McMinn & Lucio 2002, Schwenk & Shrader 1993, Miller & Cardinal 1994) many SMEs are reluctant or poor planners (Stonehouse & Pemberton 2002, Wang, Walker & Redmond 2007, O'Regan & Ghobadian 2002).

Planning by SMEs is orientated towards short-term objectives (sales forecasts, financial reporting), ad-hoc and intuitive rather than formal and written (Kelmar & Noy 1990, Wang *et al.* 2007). Stonehouse and Pemberton (2002) suggest that this may be indicative of either a lack of awareness for long term planning or a lack of belief in its benefits. Furthermore, they argue that this may be indicative of an emergent or learning view of strategy development rather than one orientated on planning (Mintzberg 1994).

O'Regan and Ghobadian (2002) suggest that the lack of planning is associated with implementation barriers. Wang *et al.* (2007) concluded that planning was not a priority with SME owners because performance (a proxy for planning) ranked behind intangible goals such as autonomy, personal satisfaction, and lifestyle. In particular they argue "owner aspirations are integral to whether or not SMEs strategically plan" (2007, p.1).

3.3 Australian Context for Business Exits

Understanding exits and business harvesting in the Australian context can be best described through an overview of the economic importance of SME exits in Australia. Based on the only empirically supported study on this topic (ABS 1997), SME exits equate to an estimated value add to the economy of 6.3 billion dollars each year, and a possible 9.3 billion if untraceable responses are accounted for (Con Foo 2006). Therefore, SME harvesting represents an economic activity which impacts on the economy to the effect of at least 0.74% of GDP[10].

In 2004 there were 3,015,318 active private and public businesses in Australia (ABS 2005B & ABS 2005C). This excludes businesses without ABNs, general government, the central bank, non-profit

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10 Based on Australia's 2004 reported GDP of $640b USD [exchange rate of 0.75 USD:AUD as viewed 'Australia : Fact Sheet' <http://www.dfat.gov.au/GEO/fs/aust.pdf> viewed on 16 May 2009] and the ABS (1997) estimate of $6.3b.

institutions serving households, charitable institutions, social and sporting clubs, trade unions and other associations, unincorporated entities, diplomatic or trade missions, and foreign governments.

Business Exits Australia (ABS 1997)[11] analysed employing, non-agriculture, and non-government enterprises. A subsequent study *Experimental Estimates, Entries and Exits of Business Entities* (ABS 2005D) also eliminates non-ABN enterprises coupled with taxation activity/inactivity in its count of businesses. Of the 3,015,318 active businesses operating in June 30 2004 (ABS 2005B), the vast majority (72.2 percent) were non-employing businesses (i.e. owner only operated or legal entities - trusts, corporate shells) established for non-trading and structural purposes. Of the 837,078 employing enterprises, 130 were public (i.e. government owned enterprises), and 74,111 were involved in agriculture, forestry and fishing. The non-agriculture private sector included 90.0 percent of small businesses (1-19 employees), 9.4 percent medium businesses (20-199 employees), and 0.6 percent large businesses (200+ employees) (ABS 2005C).

3.3.1 All Business Exits

There is limited data available on business exits in Australia (ABS 1997). The most common and available information from sources such as the Department of Attorney General and ASIC, is usually associated with measures of business failure and bankruptcy. Even these data provide only partial insight into business failure because it often does not cover events such as voluntary closures and forced sales which do not result in bankruptcy proceedings (ABS 1997,

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11 Precedes the introduction of ABNs which coincided with the introduction of the GST in Australia.

Bickerdyke, Lattimore & Madge 2000). In order to identify rates of business exits due to changes in ownership/mergers (often referred to as 'harvests') it is necessary to remove data associated with business failure (forced or voluntary). To date, the most in-depth analyses of business exits have been found in *Business Exits Australia* (ABS 1997) and *Experimental Estimates, Entries and Exits of Business Entities* (ABS 2005D).

The findings from these studies reveal similar exit rates; *Business Exits* (ABS 1997) reports an average exit rate of 7.6 percent, and *Experimental Estimates* (ABS 2005D) reports an average exit of 6.6 percent. If the abnormally high 2001-2002[12] rate is removed from *Experimental Estimates* (ABS 2005D), the 'adjusted' rate becomes 4.2 percent which is more attuned with a normal year's activity (Con Foo 2006).

Experimental Estimates (ABS 2005C) reported entries and exits of businesses based on the ATO and maintained Australian Business Register (ABR). The key unit of data in the ABR is the ABN, which is discrete and unique to each business entity. All businesses with turnover above the GST threshold[13] are required to register for an ABN by the ATO. Businesses with turnovers below this threshold may voluntarily register for an ABN. Therefore, utilising the counts of ABNs with records on tax activity provides the key basis for determining business entries and exits.

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12 Exit rate for 2001-02 was abnormally high due adjustments to ABN registrations for introduction of the GST and associated tax legislation.

13 GST threshold for not-for-profit entities is $100K and $50K for all others.

3.3.2 Business Exits Studies

Business Exits (ABS 1997) examined the rates at which firms exit the business population by studying responses to surveys on Fixed Capital Expenditure and Stocks and Sales for the periods 1994-95 and 1995-96. The scope of the study was non-government employing businesses, excluding businesses operating in agriculture, forestry and fishing. Exits were categorised into two groups: changes in ownership and business cessation (see Table 3.2). Changes in ownership included all businesses that were sold, taken over or merged. Cessations included businesses that ceased or closed, were liquidated or in receivership, were untraceable, or the reasons for their exit were unknown. Up to twenty percent of the sample exits were not traceable and as a result they were assumed to be cessations.

	Number of Business Exits		*Exit Rates (%)*		
Type of Exit	94-95	95-96	94-95	95-96	Average
Changes in ownership					
Sold	4,393	5,324	1.2	1.2	1.2
Takeover	1,739	1,426	0.5	0.3	0.4
Total Changes in Ownership	6,133	6,750	1.7	1.6	1.6
Cessations					
Ceased	14,036	19,020	3.8	4.4	4.2
Liquidation / Receiverships	1,140	521	0.3	0.1	0.2
Unknown	490	157	0.1	0.0	0.1
Untraceable	4,436	7,710	1.2	1.8	1.5
Total Cessations	20,102	27,408	5.5	6.4	5.9
Total Exits	26,234	34,158	7.2	8.0	7.6

Table 3.2: Numbers of Australian SME business exits, adapted from ABS 1997.

From a total sample of 60,392 surveys over two years the *Business Exits* study (ABS 1997) estimated that the overall exit rate was 7.6 percent, of which 5.9 percent involved business cessations and 1.6 percent involved changes in ownership (ABS, 1997). Over one in five exits (20.1 percent) were not traceable by those conducting the study, and subsequently were all categorised as business cessations rather than proportioned over the two groups. As acknowledged by the ABS, this slightly overstates cessations, and equally understates changes in ownership. Therefore, if they were proportioned according to the pre-existing distributions the ‘adjusted’ rates would be 5.6 percent for business cessations and 2.0 percent for changes in ownership.

One of the key findings of the ABS (1997) study was the higher exit rate (7.7 percent) of small businesses (1-19 employees) than medium and large businesses (20+ employees) which had an overall exit rate of only 5.4 percent (see Table 3.3). Medium and large businesses tended to fail at a rate almost half (49.2 percent) that of small businesses (3.0 percent cessation rate versus 6.1 percent for small business), and when an exit occurred in large businesses there was an over 45 percent chance of that being a business harvest rather than a business failure. By comparison, business harvests were more than double that of small businesses (20.8 percent). Medium and large businesses also had a 56.3 percent better harvest rate than their small business counterparts (2.5 percent versus 1.6 percent).

	Number of Business Exits		Exit Rates (%)		
Age of Business	Change In Owner	Cessation	Change In Owner	Cessation	Total
Less than 2 years old	2,510	9,184	2.1	7.4	9.5
2 to less than 5 years old	1,908	6,999	1.5	5.7	7.2
5 to less than 10 years old	1,390	4,899	1.6	5.6	7.2
10 or more years old	633	2,673	0.9	4.0	4.9
Total	6,441	23,755	1.6	5.9	7.6

Table 3.3: Numbers of Australian SME business exits relative to age of business, adapted from ABS 1997.

Based on a June 30, 2004 population of 762,837 employing non-agricultural private enterprises, approximately 9,917 owners sold their businesses in that financial year. This compares favourably with the 1995-1996 *Business Exits* count of 6,750 businesses allowing for a 3.5 percent annual growth in business counts for the period 1996 to 2004[14]. Utilising a similar methodology to the Bickerdyke *et al*. (2000) study but adjusting for CPI[15], Con Foo (2006) estimated the annual value added for 2004 exits to be $9.26 billion.

14 In the period 1983-84 to 2000-01 the ABS reported that small business numbers had an average annual increase of 3.5 percent and medium / large businesses grew at annual rate of 3.3 percent (ABS 2001)

15 CPI (Consumer Price Index). Bickerdyke *et al*. (2000) used data from *A Portrait of Australian Business* (IC and DIST, 1997) which attributes average value add of $176K and $5,784K for small and larger businesses respectively. This is then adjusted for annual CPI of 3 percent for the period 1997 to 2004. Assumed that 9,917 businesses are proportioned according to the actual population of small business (90 percent) versus medium / large businesses (10 percent).

Although the definitions of an exit in both *Business Exits* and *Experimental Estimates* are clear, neither study takes into account the three distinct scenarios which would impact on both business harvests and business cessations. The first of these is a change in business ownership due to imminent business failure. In this case, the change in ownership is counted as a harvest, but without the benefits of timing this should be considered as a business cessation. This clarification increases the count and hence the rate for changes in ownership, and conversely, reduces it for cessation.

The second scenario is that in many cases where there is a change in ownership, the old corporate entity is voluntarily closed/liquidated. This is undertaken to reduce the risk of prior operation (litigation, warranties etc.) and can be executed by either the old or new owner, depending on whether shares in the entity are sold as part of the change in ownership or whether just the business assets are sold. Although deregistering the associated ABN is attached to the entity's records as a business cessation, it is in fact associated with a business harvest. Removing non-employing ABNs from the count may account for some errors in cessations (in situations where deregistration occurs across financial years) but misses changes in ownership. The effect is to again increase the count and hence the rate of changes in ownership, and conversely, reduce the rate for cessation.

Although business cessation is normally associated with business failure, it could be argued that by voluntarily closing a business and freeing up capital and assets which are required to operate it, the owner may actually be undertaking a form of business harvest. Lastly, in the third scenario some owners choose to close their business down by voluntarily liquidating it because they either cannot sell the business or choose not to sell it. This is often the case in smaller businesses without large numbers of employees and where the business is very much owner/operator dependent. Although the influence of these cases can be reduced by removing non-employing ABNs from the count, the net effect is an increase in the change of ownership count.

3.4 The Nature of Exiting

Exiting or harvesting a business can be viewed from a range of approaches. For some (Leonetti 2008, Timmons & Spinelli 2004, Fischbach 2005) exiting is a risk mitigation strategy where owners convert an 'investment which represents the majority of their wealth' (Leonotti 2008) into a less risky investment (cash, debt note). For authors like Hawkey (2005), Baker (2004), and Ahern (2003), exiting is the natural conclusion to the ownership cycle and the inevitability that one day most owners will retire. Timmons and Spinelli (2004) and Brown (2005) refer to this in the context of a journey and what owners can create, an owner's legacy to an industry or to his or her family (family business or wealth for the family), or simply attainment or seeking a desired lifestyle (Baker 2004, Brenner & Schroff 2004, Hawkey 2005). Owning and operating a small business is often physically and mentally challenging even to the point of being a personal health risk (Schaper & Volery 2004). In this case exiting provides the owner with an option of reducing that risk. This does not always mean that business owners have to sever links with the business, because exits such as mergers and 'cash cowing' (see

Section 3.8) permit owners to improve their lifestyle without fully departing.

Exiting can sometimes be associated with life cycle and growth of the business (Molod & Sattler 2005, Baker 2004, Moody 2004, Thurow 2001, Brenner & Schroff 2004, Coulthard *et al.* 1996). In these situations the original owner's skills are not appropriate for the next stage of growth, and new owners with appropriate skills take over to bring the business to its next stage of development (management buy-ins and management buyouts). Sometimes the owner has neither the capacity nor the will to fund the next stage of business growth, so exiting provides an avenue for the business to continue developing. In these situations owners recapitalise the business by taking on equity partners, merging with other firms, or seeking a public listing. In some cases exiting is about an industry or technology maturity when future prospects for the business are on the wane. Merging with other firms can provide access to newer technology or products, allow for synergistic operational savings so that business becomes more competitive, or achieve operational scale to enhance future opportunities (Timmons & Spinelli 2004).

Furthermore, outside a purely business context harvesting can be about achieving a status which allows the owner to participate in philanthropic activities, in vibrancy and business renewal as an 'angel'[16] investor in new enterprises, or in the community by mentoring entrepreneurs and new business owners (Timmons & Spinelli 2004). In simpler terms, Timmons and Spinelli refer to these

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16 The term 'business angel' is a term used to refer to individual investors with spare capital to risk. They are often affluent former business owners who provide capital for business start-ups in exchange for convertible debt or ownership equity.

activities as the ‘ultimate goal of entrepreneurship’, as a business strategy. However for others (King 2002, Moody 2004) these activities are just about financial gain. Because exiting has many beneficial consequences; an exit goal establishes a strategic focus, high standards, and “a serious commitment to excellence over the course of developing the business” (Timmons & Spinelli 2004, p. 608).

3.4.1 Business Saleability

Selling should not be seen as synonymous to exiting or harvesting, despite being one of the most common forms of business exits. The reason for this is that a sale is not always possible or optimal. A natural preconception on whether a business is saleable is that all businesses are saleable, at the ‘right price’. Referring to the United States (US) Chamber of Commerce data, Leonetti (2008) argues that this is a common misconception and that only one in five US businesses listed for sale will actually sell. Brown (2005), using statistics from the US Annual Business Reference Guide 1999–2004, quotes even more pessimistic sales results: a 16 percent success rate, and even among those that sold, only 13 percent received greater than ‘fair market value’[17].

According to Leonetti (2008), the reasons why businesses cannot / do not sell include: owner is too much part of the business for it to sell; buyers cannot find finance for the transaction; an unfavourable economic cycle; and unreasonable price expectations from the owner. When the economic cycle does not suit the timing of an exit by sale of the business, owners can still implement a range of strategies to achieve their goal. Selling is only one of several exit

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[17] See Section 3.7.5 for a definition of fair market value.

options available to an owner who wants to harvest their business (Sperry & Mitchell 2004). Other typical exit options for SME business owners are cash cowing, franchising, merging with another firm, family succession, or public listing. Depending on the option chosen, the owner may be required to continue in the business for a time in order to increase their investment in the business, prior to exiting.

Coulthard *et al*. (1996) refers to the dilemma of accountants of small businesses trying to minimise taxes payable, but when it comes to exiting this aspect can significantly impact on the value received. Brown (2005) points out that when owners view their business as a job they are not only less likely to survive but it will be almost impossible to sell their business. When they view their businesses as an investment they can make better financial decisions, and according to Leonetti (2008), are more likely to consider and plan for a future exit.

3.5 Timing

For most small business owners, timing their exit is often not at their choosing[18] (Brown 2005, McKaskill 2006), and it often occurs at the wrong time in haste (Timmons & Spinelli 2004, Schaper & Volery 2004, Leonetti 2008, Coulthard *et al*. 1996, Kupferman 2003, Hooke 2002). However, in maximising the exit return, selling at the right time is vital and involves hitting one of many ‘strategic windows’ - ideally ones that are opening rather than closing.

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18 Brown (2005) states that there is a six percent survival rate for businesses to make it to their 10th birthday.

Leonetti (2008) frames this in terms of market and economic cycles which are affected by the overall economy, the availability of credit finance, and the balance between buyers and sellers. Missing these windows can be catastrophic as can be seen by the dot.com market crash[19] where the NASDAQ index fell from a high of over 5,132 to under 2,000 (Timmons & Spinelli 2004, p. 609). To take advantage of strategic windows, Timmons and Spinelli (2004) stress the need for patience and having an exit strategy timeframe of at least three to five years, and up to seven to ten years. Figure 3.1 shows that in a ten year cycle there are ideal periods for business owners to exit, and with patience they can maximise their values by exiting in a 'sellers market'. McKaskill (2006) takes this a step further by arguing that sellers who take the initiative and control their timing can achieve better results through a 'strategic sale' (see Section 3.7.2) than they can by undertaking a 'real estate transaction' of a financial sale.

Figure 3.1: Strategic windows for exiting adapted from Slee (2004, cited in Leonetti 2008, p. 19).

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19 The 'crash' occurred in 2001 after peaking on March 10, 2000. NASDAQ lost 78 percent of its value, http://www.investopedia.com/features/crashes/crashes8.asp (accessed 1105, May 6, 2008).

Hawkey (2005) approaches the issue of timing from another perspective. He acknowledges that most owners wish to exit their business at a time and in a manner of their choosing. He argues that 'when you exit' is determined by 'why you exit', which flows on into 'how you exit' and the planning timeline available to the owner. An example of this is an owner with a family crisis (e.g. divorce); this permits a window of one to two years so only exits which can be implemented in that time can be undertaken. Owners who anticipate their exit are able to plan and execute that plan on a timeline of their own choosing. On the other hand, owners who exit for unanticipated reasons have a shorter time frame which in turn influences their method and effectiveness of exit (Hawkey 2005, Timmons & Spinelli 2004). Figure 3.2 illustrates that why an owner exits ultimately determines that timeline.

3.6 Exit Process

Leonetti (2008) maintains that an exit 'process' is determined by first establishing an exit goal. This is followed by the choice of an optimal exit option, and then by a strategy and plan to achieve the exit goal. This process takes the business owner through a series of critical thought processes which help frame subsequent exit choices. Step one is the establishment of an exit goal, next is to identify the type of exiting owner, then the choice of an optimal exit option and the value of that option, and finally a strategy to execute that exit. These steps that assist the exit process might be better described

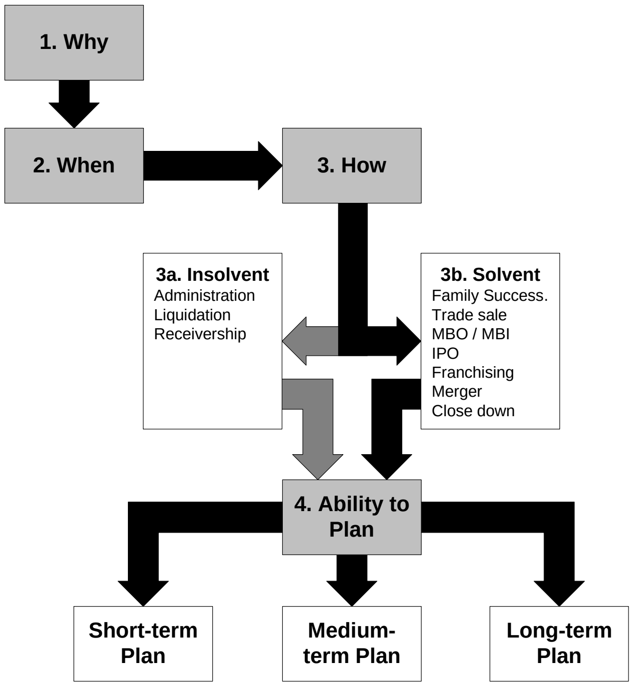
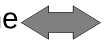


Figure 3.2: The inter-relation on how 'Why' determines the timing of the exit process and the resultant planning, adapted from Hawkey (2005, p. 39). Dark arrows emphasise researcher's focus because this study excludes forced exits.

as an 'exit planning process'. This study seeks to identify the complete exit process (conception, decision, planning, execution) to determine how some of the extant 'how to' and empirically untested literature, particularly on planning (Hawkey 2005, Fischbach 2005, Molod & Sattler 2005, Basi & Renwick 2005, Brown 2005, Sperry & Mitchell 2004), can be positioned into the overall exit process.

Leonetti (2008) contends that through the exit process an owner's exit 'choices' are dependent on their financial situation and mental readiness to exit. His dimensions of ‘financial readiness’ and ‘mental readiness’ are useful in understanding influences on the exit decision, for example, what is needed to get an affirmative decision. However, this dimension is somewhat limited when applied to selecting exit options, mainly because it does not always provide clear options. For example, many of the available options[20] can appear in almost all scenarios and assumes one of two states: ‘I’m ready’ or ‘I’m not ready’.

Some insight into the exit process can be gained through literature on mergers and acquisitions (Bower 2001). Sherman (1997, 1999, 2001) identifies discrete steps in the acquisition process which provide insights into the parallel steps taken by the seller/exiter. Table 3.4 reveals the steps presented in Sherman’s (1997, 2001) acquisition process juxtaposed against Leonetti’s (2008) exit process of the seller. Note that some steps in these two processes occur independently and with their own related timings. Where there are direct linkages, these are highlighted by the  between the columns.

One limitation of Sherman’s (1997, 2001) process is the absence of a ‘due diligence’ step after ‘bidding and negotiations’. Due diligence at this point is more specific and detailed than that at the earlier due diligence step and focuses on confirming the information provided by the seller. Overall, the activities of the ‘shadow’ exit process can be divided into two discrete groups of activities: ‘planning’ (exit objectives – develop exit strategy and exit plan) and ‘execution’ (execute strategy plan – close the deal).

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20 When applied to all the exit options presented in Section 3.7.

Acquisition Process Steps	Exit Process Steps
Develop acquisition objectives	Develop exit objectives +
Analyse gains from acquisition	Assemble advisory team
Assemble advisory team	Evaluate exit options & potential deal structures +
	Develop and execute exit strategy plan +
Perform due diligence on potential candidates	Identify potential buyers
Negotiate the value of the selected target	Locate interested buyers
Select structure of transaction	Provide information to potential buyers
Identify source of financing	
Conduct bidding and negotiations ⟺	Negotiations with buyer
Obtain shareholder & third party consents & approvals ⟺	Provide or assist in obtaining consents & approvals
Structure the legal documents ⟺	Approve & negotiate legal documents
Prepare for closing ⟺	Prepare for closing
Close the deal ⟺	Close the deal

Table 3.4: Sherman's (2001) acquisition process [left column] with the parallel shadow exit process [right column] using aspects of Leonetti's (2008, p. 184) exit planning process (+ and coloured blue).

3.7 Exit Strategy and Determinants

King (2002 p.6) describes an exit strategy as "the way that entrepreneurs and their venture backers resolve tension and align their interests". An exit strategy is an intended or deliberate strategy (Mintzberg 1994) and can be defined as the method or actions undertaken to achieve specific stakeholder exit objectives. The exit strategy accounts for the environment, possible changes to that environment as a result of the strategy, options for achieving the exit objective, and the time available. Specifically, it is determining the steps and allocating resources that are considered in the planning phase of the exit process. In addition, King (2002) advises that an initial public offering (IPO) should be the default exit strategy of all business owners.

Major determinants of the exit strategy are the time available, the financial objective (if any), and the owner's residual involvement (Leonetti 2008, Hawkey 2005). Hawkey (2005) argues that timing is ultimately the key determinant because it identifies the exit options available to the owner. Equally, it can be argued that potential buyers will affect the overall strategy, because who they are will impact on both the achievability of the financial objective and future owner involvement. King (2002) contends that the scale and maturity of the business identifies potential exit options and buyers for the business. This supports Hawkey's (2005) emphasis on time, because scale can be achieved with an appropriate timeline, especially when the exit timing has an over five to ten years' horizon (Timmons & Spinelli 2004, McKaskill 2006).

Overall, exit strategies for SME owner/operators can be categorised into two major groupings, both associated with the exit timeline. The first choice is: choose the best exit options available within a restricted or limited timeframe, or choose the options which achieve the exit objectives with a long exit timeline or where time is not a primary factor (see Figure 3.3). The second choice is primarily early preparation and planning to avoid exclusions of possible exit options. As has already been identified, the literature suggests that the 'intention' (goal or objective) is central to the exit plan and strategy (Bratman 1987, Mintzberg 1994, Ansoff 1987, Kupferman 2003). Business exit objectives can be secondary or subservient to timing when the exit timeline is short or inflexible. Hawkey (2005) refers to this as the reason for 'why' one is exiting.

Why is timing so important in determining the exit strategy? The available time impacts the exit strategy at two levels. First, a short timeline can limit the exit options available to the owner because some options require time to achieve (scale and/or execution). This in turn limits the potential buyers of the business. Generally, the more competition there is amongst potential buyers the more likely an owner is to achieve the financial criteria of their exit objectives. To illustrate this point, Figure 3.3 has identified the exit options available to owners with and without time restrictions. Time limitations remove the option for owners to modify (grow, change key characteristics, implement new systems) their business extensively before exiting. Secondly, the exit process is complex and requires considerable planning and time for executing that plan. If this is rushed, mistakes or exit impediments (Section 3.10) in the form of readily available information can deter potential buyers or impact the value that the owner receives (Hawkey 2005, McKaskill 2006, Kupferman 2003).

3.8 Exit Options

As previously stated, exiting a business is not the same as selling it because a sale is only one of the exit options (Leonetti 2008). Leonetti explains that although exiting is normally a process to

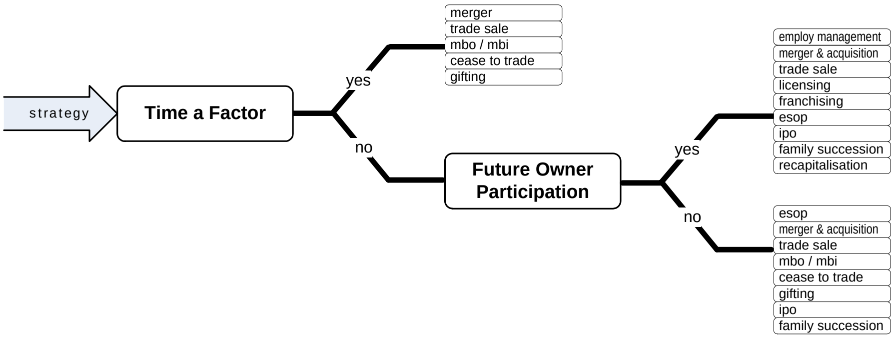

Figure 3.3: How time affects the exit strategy.

protect the owner's accumulated wealth, sometimes there are other contexts or objectives which owners may seek when exiting their business. For example, exiting may be a way to fund a new venture or project or an anticipated future lifestyle like retirement. It may also involve non-financial objectives such as: to pass business assets to family heirs; to pass the business onto business colleagues or partners; or to ensure the business name and reputation continue (Hawkey 2005).

The major exit options available to SME owners (King 2002, Hawkey 2005, Bower 2001, Leonetti 2008, Baker 2004, Brown 2005, Barrow 2009, Trautwein 1990, Schaper & Volery 2004, Ahern 2003, Timmons & Spinelli 2004, Brenner & Schroff 2004, Feldman & Page 1985, Sperry & Mitchell 2004, Sherman 2007, 1999, 2004, 1997, 2001, 2005, Grassi & Giarmarco 2008, Bower 2001, Trautwein 1990) are summarised as follows:

Sale of Business	Typically this is a sale to a third party (individual or organisation) on the open market. When the third party is a competitor, customer or supplier, this is referred to as a 'trade sale'. Some authors (Schaper & Volery 2004, Molod & Sattler 2005, Brown 2005, McKaskill 2006, Sperry & Mitchell 2004, Leonetti 2008, Baker 2004, Barrow 2009) differentiate buyer types as financial or strategic. Trade sales are the most common type of exit undertaken by SMEs because it is a fast and relatively cost effective method for exiting.
Merger or Joint Venture	Here the assets and resources of two or more organisations are combined to achieve strategic and/or financial objectives. It operates like a partnership and is likely to lead to a staged exit with lifestyle benefits initially, and financial benefits at a later stage. This suits smaller businesses and professional practices (Sherman 1997 & 1999, Bower 2001, Trautwein 1990, Roche 2002)
Employee Stock Ownership Plan	The employees buy out the owner. Requires the support of an 'employee buyout' (EBO), a specialist funds provider, and often requires terms from the owner (Sherman 1999).
Employ Management	Here the owner employs a manager to operate the business and becomes hands-off in day to day management. The owner gets immediate lifestyle benefits and continues to receive an income via dividends from the business. This is a relatively simple exit solution but has issues related to agency theory[21].. Sometimes this option can be referred to as 'capital cow' or 'cash cow'. (Feldman & Page 1985)
Recapitalisation of the Business	Equity capital is injected into the organisation by a private equity fund allowing the owner to convert equity into cash for personal pursuits. Private equity owners acquire the majority of equity and the owner retains a minor share but continues to manage the business and work with the equity fund to pursue the growth strategy. It may result in a subsequent listing or trade sale (Sherman 2001, 2005).

21 Agency theory refers to the relationship between a principal (shareholder) and an agent of the principal (company's management). Essentially it involves the costs of resolving conflicts between the principals and agents and aligning interests of the two groups (Viewed online 8.27 pm 25 August 2009) <http://www.investopedia.com/terms/a/agencytheory.asp>.

Management Buy-in / Buy-Outs	An external management team buys out the owner (MBI) or the internal management buys out the owner (MBO). Both forms usually require the support of an external funds source and are sometimes generically known as leveraged buyouts (LBOs). Sometimes a financier will bring in management talent to bolster an internal team. This is known as a hybrid or BIMBO (Sherman 2007, 1999, 2004, 1997).
Family Succession	The business is sold to a family member of the owner. Can be complex because of added family complexities and the payout can be staged or delayed. Sometimes it requires a grooming period which can also delay the date of exit (Grassi & Giarmarco 2008).
Public Listing	The shares in the business are offered to the public through an initial public listing and traded on a stock exchange. Requires business to qualify to certain criteria and is one of the more complex and expensive ways to exit. May require owner to delay their exit from the business (Holmberg 1991, Brenner & Schroff 2004).
Franchising	A multi-staged exit strategy where part of the existing business is sold off as franchises. Growth and expansion are achieved through franchising and paid for by franchisees. Owner receives franchise fees and royalties for use of trademarks and intellectual property (Sherman 1999).
Licensing	The owner grants a license to parties to use intellectual property, technology or brands. Payment is via an initial and/or annual license fee and royalties. Owner becomes passive in day-today management (Sherman 1999).
Ceasing to Trade	The owner ceases to trade and in an orderly managed manner disposes of the assets of the business. This is one of the simplest exit methods and is only chosen when there is no buyer or the value received is less than the realisable value of the assets when disposed of in an orderly manner. Selecting this option means no value will be received for the business's goodwill.
Gifting the Business	The owner gifts the business to a nominated successor. A simple exit method but it may have taxation implications for the owner.

It is rare for all exit options to be available to all owners. Often options available are dependent upon the time available to exit (Hawkey 2005), but sometimes issues such as business size, length of operation, type of business, internal systems, and costs involved in exiting can also impact on the options an owner has to consider. For example, an owner of a small three year old hairdressing salon would not consider public listing of the business as an exit option. However, public listing may be a viable option for a chain of 45 salons with a combined turnover of 100 million dollars.

3.8.1 Optimum Exit Option

A common theme in the literature is the concept of 'optimum exit option' (Bazerman & Moore 2009, Hawkey 2005, Leonetti 2008, Sperry & Mitchell 2004). Hawkey (2005, p. 79) defines this as "the method of exit that maximises the owner's net exit proceeds and/or personal satisfaction". Leonetti (2008) refers to the optimum option in terms of links to the 'next phase' of the owner's life. However, this term varies according to the owner's objectives. In many cases 'optimum' refers to the largest financial return, but it can also be viewed in dimensions of time, stress, risk, or ease of execution. Hawke (2005) defines an 'optimum exit option' as one that achieves some of the following outcomes:

Selling Price The option that provides the maximum gross selling price.

Tax The option that minimises the legal tax obligation from the sale proceeds.

Family The option that allows for the business assets to be transferred to family members.

Staff The option that allows for the business to be transferred to work colleagues or business partners.

Lifestyle	The option that allows the owner to receive sufficient money to undertake a desired lifestyle.
Continuation	The option that allows the business name and reputation to continue.

In some cases 'continuation' can refer to an owner's desire to enhance or continue the careers of employees. Other dimensions for determining an optimum exit option are 'affordable costs' (what the owner can actually afford to undertake), or taken a step further, the 'best net proceeds option'. This option is a combination of selling price, tax obligations and fees associated with the exit. In some cases the term 'optimum' can also refer to the owner's desire for a 'low profile exit' or a 'timely exit' where an exit can be completed without alerting competitors, staff, customers, and/or suppliers.

3.9 Exit Planning

Most literature on exit planning comes from trade based journals (Fischbach 2005, Molod & Sattler 2005, Basi & Renwick 2005, Brown 2005) rather than empirically supported publications. These journals act as guides on 'how to' and are generally not organisation specific. Hawkey (2005), Knight and Whittaker (2002), Leonetti (2008), Coulthard *et al*. (1996), and McKaskill (2006) have provided a more detailed coverage of the topic, focussing on the prescriptive 'how to' approach. SME operators consider exit plans as an activity for some "indefinite time in the future" (Basi & Renwick 2005 p.38), but Schaper and Volery (2004, p. 355) stress the need to anticipate the options for exit because:

the exit is more than simply leaving the business; it is the final piece in creating the ultimate value.

The issue of planning is central to the the articulation of a strategy and a set of goals or objectives (Mintzberg 1994). Authors like Leonetti (2008), Basi and Renwick (2005), and Timmons and Spinelli (2004) refer to 'a harvest goal' as being central to the harvest process. Timmons and Spinelli (2004) argue that a harvest goal creates high standards and a commitment to excellence over the course of developing the business. In addition, it provides a motivating force and strategic focus to management of the business. A harvest goal is not a just a goal of selling and leaving the company but also a process where real value is created, and through re-investment[22] becomes a process for "economic regeneration, innovation and renewal" (Timmons & Spinelli 2004, p. 608).

Barrow (2009) approaches planning from the perspective of the owner's readiness to sell and the issues associated with the exit decision. He presents it as a 'plan for the rest of your life' which includes issues of coping with retirement, other stakeholders in the decision, and questions of uncertainty and guilt associated with pricing, staff, and customers.

3.9.1 Have a Plan

A major theme covered by some of the literature is the necessity for business owners to both plan their exits and plan them early. Common in many publications is the advice of planning for the future

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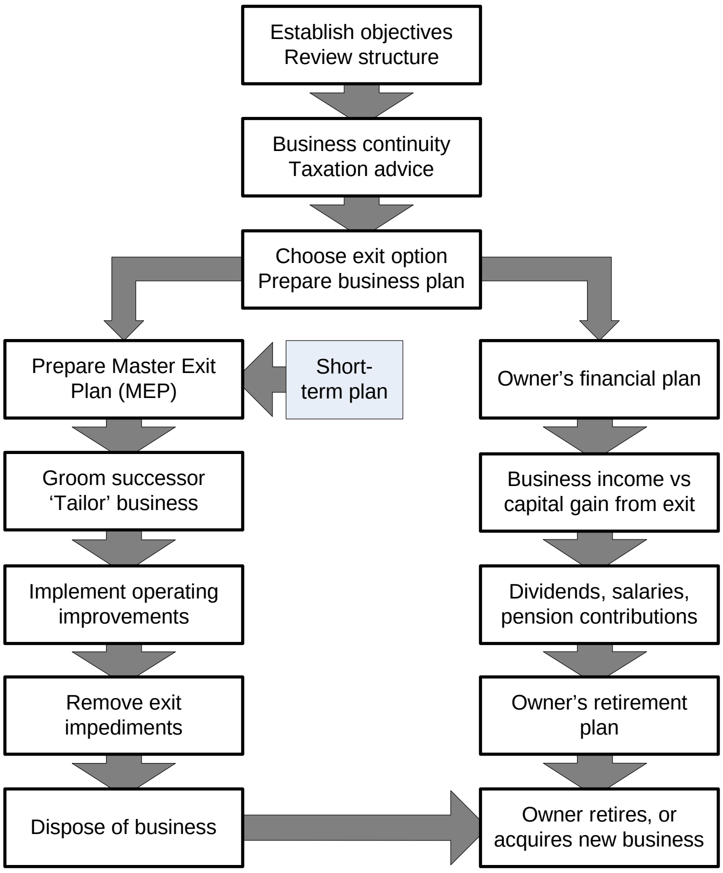
22 Seed investment and angel activity.

or contingency planning. Fischbach (2005) emphasises a plan timeline of up to ten years, whereas Hawkey (2005) stresses the need for owners to even consider exit planning right at the start by structuring their ownership correctly for exit, including structuring correctly for tax purposes. Others like Timmons and Spinelli (2004) and Leonetti (2008) stress time frames as broad as three to ten years to 'time' exits when market conditions are best suited. In addition, Hawkey (2005) says that the plan should include a nominated exit date. Basi and Renwick (2005, pp. 38-39) emphasise planning for 'best case' and 'worst case' scenarios, as without them "the plan is probably incomplete". They say "the exit plan is a device to get the owner to think about the future" and should be dovetailed into the ongoing business plan, which in turn, is tailored to fit in with a nominated (most likely) exit option.

According to Schaper and Volery (2004) there are three main elements to planning an exit: business strategy, stakeholder aspirations, and business finance. Planning an exit is a balance of these three elements. Business strategy is linked to the business environment. For potential buyers to be interested in the firm, the business must have an established track record and still have potential for growth. In practical terms this means that the firm has a good stream of successful and upcoming products, and be well established in the market. Stakeholder aspirations, in the form of personal goals and objectives, are integral in any plans to exit because the SME business dominates its owner's life. Finally, the financial performance of the business can determine the exit options available to the owner. An example of this is a high debt-to-equity ratio which may attract corporate investors who could restructure the balance sheet, but be less attractive to a smaller buyer.

The presentation of the above three elements are illustrative in highlighting key aspects of what a plan needs to address, rather than being a systematic process describing actions, outcomes and resource commitments (Legge & Hindle, 2004). Hawkey (2005) is more prescriptive and detailed about the actions required (see Figure 3.4), and stress it as "a long term process", not an isolated event. Hawkey argues that an exit plan should be an integral part of the overall business and strategic plan and that the business should be steered and developed with the nominated exit option in mind. The Hawkey process provides the most detailed and cohesive guide to steps involved in the exit planning process. Upon choosing an exit option, Hawkey's model states that two parallel and simultaneous planning processes need to be established; one for the business and one for the owner. Hawkey's process is supported by Leonetti (2008) who stresses that the overall exit plan is driven by the goals, motives and financial requirements of the owner. Leonetti defines exiting according to two owner related dimensions: 'mental readiness' to exit and 'financial readiness'. However, whilst this author/researcher would agree with the general framework and thrust of Hawkey's model, it does display some practical limitations.

Without engaging in the debate on plan versus planning, Hawkey's (2005) requirement of a Master Exit Plan (MEP) being separate from the enterprise business plan is rarely used (Brown 2005), even though many other authors (Basi and Renwick 2005, Fischbach 2005, Roche 2002) emphasise its importance. Managers of SMEs are often reluctant planners and cite business pressures and excessive workloads as excuses for not producing regular up-to-date business plans. Timmons and Spinelli (2004) highlight a study



<u>Figure 3.4:</u> Exit planning detailed overview adapted from Hawkey (2005, p. 11).

by Holmberg (1991), where only five percent of software industry entrepreneurs had a formal harvest plan, with 80 percent having only an informal one. To require SME owner/managers to produce a separate MEP is somewhat impractical and certainly not reflective of Australian SME exit behaviours[23]. A more likely practice is the development of an 'exit strategy' (see Section 3.7) with specific exit objectives[24] coupled with an overall business strategy to provide key inputs into the business 'planning process'; subsequently, the exit plan is embedded into the business plan.

Another practical weakness of Hawkey's (2005) model is the owner's financial plan. Owners undoubtedly have exit objectives and aspirations and require specific actions, but whether these formulate into a plan is debateable. These objectives need to be accounted for otherwise an exit is unlikely to occur. Alternatively they could be viewed as an exit precondition or exit barrier that must be fulfilled for the exit to occur. This author/researcher is unable to determine if the simultaneous planning processes for the business and the owner are a function of display neatness, or meant to convey concurrent actions. In reality, many of the owner-related activities are most likely to occur just prior to the actual exit. Furthermore, Hawkey (2005) seems to infer that retirement is the ultimate goal for business owners. The use of the term 'retirement' excludes owners who voluntarily re-enter the workforce, those who continue on with the business in some modified role, and those performing roles not for income, such as academics, coaches, mentors, and some board positions. A more universally appropriate label might be 'nominated lifestyle'.

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23 A study by Holmberg ('Value Creation and Capture: Entrepreneurship, Harvest and IPO Strategies' 1991) found that 80% of companies surveyed did not have an informal harvest plan. Of the remainder, only 15% had a formal written exit strategy in their business plan and 5% had a formal harvest plan written after the business plan (Timmons & Spinelli, 2004, p. 608)

24 For example, sales and profitability targets.

3.9.2 Identifying Potential Buyers

Consistent among many of the publications on business exits is the advice to identify potential buyers (Fischbach 2005, Molod & Sattler 2005, Basi & Renwick 2005, Brown 2005, Hawkey 2005, McKaskill 2006, Barrow 2009). Potential buyers come from a wide spectrum of sources; including trade sales, competitors, large corporations, franchising, the public (IPO), and in some cases, internally from the staff or management (MBOs or ESOPs). Barrow (2009) categorises the sources as coming from three distinct groups: trade sale (competitors or suppliers), private equity (MBO, MBI, BIMBO[25]), or the public market (IPOs listed or unlisted). As discussed previously, other exit options that are beyond the scope of this study include family succession or controlled liquidation of the business assets (Brown 2005).

McKaskill (2005), Schaper and Volery (2004), Molod and Sattler (2005) and Brown (2005) further define potential buyers along the lines of 'financial' and 'strategic'. Financial buyers are individuals (Brown 2005) or organisations (McKaskill 2006) who purchase the business for their inherent profitability (current and future profit streams). According to Schaper and Volery (2004) financial buyers are usually competitors or businesses wishing to achieve vertical integration and diversification by absorbing an organisation into its core business. This type of buyer often does not account for synergistic savings or strategic benefits, and according to Brown (2005, p.23), has limited capital and "usually does not want to pay fair market" prices. However, value is achieved through sales growth and/or reducing costs (Schaper & Volery 2004). McKaskill (2006) categorises 95 percent of business acquisitions as coming

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25 BIMBO Buy-In Management Buy-Out.

from financial buyers. Valuing businesses can cause much heated debate, and there are many varied and controversial ways to do so, particularly in relation to the value of 'goodwill'. In the case of financial buyers the formula for value paid is typically:

Value Paid = Goodwill[26] + Net Assets

Unlike financial buyers, strategic buyers are those "able to exploit a significant revenue opportunity through the combination of the two companies" (McKaskill 2006, p. 4). This combined entity develops strategic assets and capabilities, and as a result focus is not directed to financial performance. McKaskill (2006 p.5) provides the following example:

> *The assets or capabilities being acquired were considered by the buyer to be too expensive to copy, build or develop, or would take the buyer too long to assemble or to create internally.*

Strategic buyers value the acquired business on the value that they can generate as a combined entity and are likely to pay significantly more than a financial buyer. Brown (2005) and Schaper and Volery (2004) characterise strategic buyers as typically having strong capital positions and more willing to pay Fair Market Value (FMV). They describe strategic buyers as corporations with a consolidation strategy. These buyers acquire businesses and fit them into their other holdings, trying to eliminate costs and derive economies of scale.

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[26] Goodwill is defined as "the intangible component of a business that enables the business to earn a greater income than could be generated by the net tangible assets alone" or "the difference between the total value of a business and its net tangible asset value" (Hawkey 2005, p. 203) .

3.9.3 Soundness of Operation

Another common theme in the literature on exit planning is an emphasis on the business operating on a sound footing and according to its operational business plan (King 2002, Hawkey 2005). According to Timmons and Spinelli (2004 p. 606), entrepreneurs are motivated by "building a great company", and understand that a future payoff will "take care of itself" if they concentrate on growing the business. Similarly, Hawkey (2005) refers to this two step process to wealth creation as: build the value and then realise the value through a disposal. Whilst acknowledging that any business can potentially be sold, Hawkey (2005 p. 116) notes that "it is difficult to sell a loss-making business for anything other than net tangible asset value". Schaper and Volery (2004) refer to growing and building the business as the first two steps of a three step process to building wealth; the third step being harvesting where the entrepreneur realises their investment. McKaskill (2006 p. 4) infers this in his opening chapter:

> *Very few firms choose the timing of their acquisition. Most are forced into a sale by external events or through poor management…..Those businesses that deliver inherent profitability must create value for the buyer through enhanced profitability and future profit growth.*

Related to process is the issue of 'management reports' and 'accounting procedures'. To get the optimum value for their businesses, owners not only need to have a sound business, but also be able to demonstrate this performance to potential buyers. This is done through internal management reports and business systems (business plans, budgets, profit and loss reports, accounting procedures) that relate to past and future performance. Hawkey (2005) and McKaskill (2006) refer to this as potential impediments or barriers to exit (see Section 3.10) which can potentially reduce attractiveness of the business to potential buyers.

3.9.4 Getting Advice

According to the ABS (1997) less than two in a hundred business owners get the opportunity to sell their business and even fewer get the opportunity to do it more than once. As a result, very few acquire knowledge of the divestment process (McKaskill 2006, Coulthard *et al*. 1996). Leonetti (2008, p. 10) states that “because the process of exiting is so complex”, most owners are ill equipped to handle an exit effectively. Advisors such as merchant or investment banks, business brokers, mergers and acquisition specialists, corporate advisors, lawyers and accountants, perform the same economic function as a real estate agent. Leonetti (2008) differentiates advisors into two key categories: transactional and relationship. Relationship advisors (financial, lawyer, accountant) are ones that are involved with the business long-term, while transactional advisors (corporate advisory, merchant bank, consultant, broker) are engaged with the specific aim of exiting the business. Timmons and Spinelli (2004) view this as not being ideal because the process is incentive based (commissions) and operates in a short timeframe.

Schaper and Volery (2004), Sperry & Mitchell (2004), Timmons and Spinelli (2004), Baker (2004), Hooke (2002), and McKaskill (2006) stress that advisors should ideally be engaged to work with the owner many years prior to the actual exit; as much as five years in advance and while the business is still growing. The difficulty in engaging transactional advisors long-term is that they generally only get paid when a successful transaction has been completed. As a consequence, they find long time horizons as a disincentive (Leonetti 2008). McKaskill (2006, p. 164) stresses that using specialist advisors can enhance the reputation of the seller and save the owner time, resulting in "receiving considerably more for the business".

Advisors can fulfil a range of roles depending on the complexity and size of the sale or business (McKaskill 2006). Exit planning is a complex engagement and the majority of business advisors are not suited to assist in business exits (Leonetti 2008). Businesses may use a single advisor or a range of them when selling their business. Often a council or team of advisors is formed by the owner to plan, execute and resolve the exit issues. According to McKaskill (2006), Leonetti (2008), Hawkey (2005), and Sperry and Mitchell (2004) the types of roles and functions these advisors often fulfil are:

Valuation	Review or provide business valuations[27] of the current business and future opportunities for potential acquirers. Validate underlying assumptions for valuations.
Preparing and Information Memorandum	Advise on preparing the owner for exit and what potential buyers will require e.g. business plans, and budgets. Review the investment criteria and processes with the management team to prepare them for negotiations and the due diligence process. Prepare the Information Memorandum which is the primary selling document for soliciting interest in the business.
Review Information	Review current financial information to ensure they are prepared according to generally accepted accounting principles and presented in conventional formats. Also ensure any accompanying data that can support a detailed investigation.

27 Using a number of methods (DCF, times multiple, synergy savings etc.) and usually a range of values.

Introductions and Referrals	Provide a short list of potential buyers and help with introductions and referrals and/or make contact with potential buyers. Provide referrals to other advisors or suppliers who may be able to assist the owner.
Negotiations	Assist or represent the owner in negotiations with potential buyers.
Terms and Conditions	Review vendor terms and conditions and guide the seller on what is reasonable and what should be negotiated.
Due Diligence	Undertake a trial ‘due diligence’ to ensure the business is fully prepared and to help correct any deficiencies.
Internal Structure	Review the business’ internal structuring and staff remuneration and benefits.
Tax Advice	Review or direct the owner to advice on ownership structure to optimise result for the owner. Review business compliance, tax collection, and reporting.
Exit Options	Define what exit options are available to the owner and how and when those exits could be undertaken.
Exit Strategy	Assist owner to plan and implement an exit strategy once the exit options have been defined.
Review Agreements	Review purchase agreements, warranties and indemnities. Review employment and non-compete agreements. Assist with disclosures.
Review Corporate Documents	Review corporate documents to ensure that change of ownership is reflected in the appropriate documents and reporting compliance (board minutes, change in shareholders, change in directors etc.).

3.9.5 Business Valuations

According to Hawkey (2005) understanding the current and future value of one’s business is vital to an exit: it puts the exit into ‘proper’ context, it influences ‘when’ one exits, it influences the post-exit agenda, and it affects the implementation of the exit plan. Whilst a business is ultimately worth what a buyer is prepared to pay, Hawkey (2005 p.196) maintains "business valuation is an art and not a science" because it involves subjective judgements. Others like Tuller (2008, p. 3) describe it as a 'creative endeavour' and "no single method or procedure for accomplishing this task exists". Leonetti (2008) argues that privately held businesses do not have a single value, and what the owner receives for it will depend on who purchases it.

According to authors Tuller (2008) and Brown (2005), the term 'valuation' refers to a range of terminology used in both legal and business contexts. These can be summarised as follows:

fair market value	what another party is willing to pay for the asset. Sometimes referred to as 'market value'[28] or 'cash value'. Market value is assumed as universal and all parties are assumed to be arms length.
investment value	the value according to individual investment requirements and reflects what a business is worth to a particular investor.
intrinsic value	the value based on the characteristics of the business rather than the requirements of a particular investor.
going-concern value	an expressed opinion by accountants which refers to 'valuation' of the business if it were to continue to operate, as opposed to 'liquidation value'.
liquidation value	refers only to the value of business assets in the situation where the business ceases to operate.
book value	an accounting term referring to the difference between total assets and total

[28] Generally, fair market value is usually less than market value (Leonetti 2008, p. 85).

liabilities on the business's balance sheet. Ignores contingent and intangible items.

Tuller (2008) specifies that irrespective of the valuation method employed, the four major steps in the valuation process involve: firstly forecasting the business's future cash flow; secondly, estimating the cost of capital, then determining the continuing value of the business; and finally analysing assumptions and interpreting the results of calculations.

One of the most common forms of valuing a small business is to capitalise the future incomes of the business. The key principal involved in valuing a business is to capitalise[29] anticipated future profits or cash flows into a present value with appropriate adjustments for risk. The process of capitalisation is a calculation of the product of 'profit' using a multiple or ratio to arrive at a value for the business (Hawkey 2005, Tuller 2008).

valuation (capitalisation) = multiplier x profit (or cash flow)

Future Maintainable Profits (FMP) contain three elements; the future, real profit, and maintainability. When valuing a business, adjustments for risk are made with each element. For example, the further one goes into the future, the higher the risk adjustment applied because of uncertainty as to its maintainability (i.e. larger discount factor).

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29 'To compute the present value of a business or an income'. (Viewed online 1445, 16 March 2009), http://www.thefreedictionary.com/capitalise.

How long one might value income or profit into the future will depend on the industry and individual business, and is reflected in the value of the discount factor. For example, a new retailer in a volatile market might receive the benefit of only one year into the future, whereas in the case of a long established services supplier with established long-term government contracts, it might be six or seven or ten years. Typically, sellers tend to be overly optimistic with future forecasts, and buyers the opposite.

A simplified version often used to calculate the value of a business is to use average past 'real profits' or cash flows and an industry related multiple or ratio. The multiple (also referred to as 'times multiple', 'ratio', and 'industry ratio') accounts for the risk associated with earning the future profit or cash flow. The principle involved in valuing a business is the higher the risk the lower the multiple. Hawkey (2005) defines the multiple as indicative of the probability of future profit growth. In a small business environment this multiple can range from a factor of '1' for high risk situations[30] to a factor of '7' or '8' for low risk[31]. Leonetti (2008, p21) notes:

> *Ultimately, a business is valued based on the predictability and quality of the future cash flows to the new owner.*

Considerable literature exists on categorising and capitalising future risk (Dewing 1953, Schilt 1982, Pratt 2001, Pratt 2002, Reilly & Schweihs 2000, Pratt 2008, Gabehart & Brinkley 2002, Lonergan 2003). Pratt (2008) employs a five category system ranging from

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30 Annual risk factor of 50 percent assumes that profit for one year into the future can be counted on.

31 Annual risk factor of 14.3 percent - 12.5 percent so it is assumed that seven to eight years of profit can be counted on.

low risk (category 1: established business, good trade position, good management, stable earnings, predictable future) with a capitalisation rate of between six and ten percent[32], to high risk (category 5: small personal services business with a single owner manager) with a capitalisation of 26 to 30 percent.

In the context of risk, SMEs are risky propositions because owners are an integral part of their operation (Leonetti 2008). Removing the owner increases the risk to survival and this has to be factored into any valuation of the business. Also, the risk of illiquid privately held SMEs are higher than risks associated with publicly listed companies. Other types of risks which form part of the business valuation are: capital risk, (which accounts for whether the purchase price involves tangible assets such as property or plant and equipment); staff retention risk; customer risk; supplier risk; compliance risk; and political risk (Hawkey 2005).

For valuation purposes the calculation of profits fall into three categories: real[33], super, and future maintainable (Hawkey 2005). Real profits refer to the profits of the business when owner related transactions, taxation minimalisation measures, and inter-related party transactions have been removed; as well as profits adjusted to remove any one-off transactions and expenses to reflect true market values[34]. Table 3.5 identifies some typical adjustments for determining real profits and how they might impact the overall profit (profit effect).

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32 A capitalisation rate of 6 percent equates to a multiple of 16.6 and 10 percent to 10.0.

33 Sometimes referred to as 'adjusted' profit or normalised profits.

34 Some owners may not charge rents reflecting true value if they own the premises or pay themselves lower than market salaries.

Super profits are similar to real profits but relate to smaller businesses where profit is often expressed in gross terms prior to any owner's salary deductions. Super profit is calculated:

super profit = gross profit + owner's salary[35]

Future Maintainable Profit (FMP) contains three components: the future, the maintainability of profits at a certain level, and the real or adjusted profit. "FMP is usually calculated by averaging a combination of past and projected profits" (Hawkey 2005, p. 200). The 'averaging' may require past profits to be weighted higher than future ones.

Item	Details	Profit Effect
Non-Business Items	Private vehicles, travel expenses, private telephone usage, holiday homes, club memberships, items for private use.	+
Non-Recurring Items	Capital improvements, adjustments due to accounting changes, gains or losses from suppliers or customers, courses.	+ or -
Owner's Salaries	Deduct owner's salary and replace with a market rate for an equivalent manager.	+ or -
Premises	Where premises are owned by the owner (separate legal entity) but rents are used as a mechanism for adjusting profits rent for the premises should reflect market rate.	+ or -
Cost of Goods	Adjustments to the value of inventory so that it reflects market value.	+ or -

Table 3.5: Adjustments to normalise reported profits so that real profits can be used in valuation calculations (Hawkey 2005).

35 At market rate for manager in equivalent position.

Other ownership factors that may affect the valuation of a business particularly when there is more than one shareholder, are: marketability of the owner's equity interest (this usually results in a discount being applied to valuations particularly when equity is small), and a control premium to reflect when the acquisition involves gaining controlling interest of the business.

According to Hawkey (2005), the four major valuation methods used for valuing small businesses are: the super profits method, the Price Earnings (PE) ratio method, the Discounted Cash Flow[36] (DCF) method, and the industry yardstick. Less common but often used by the United States Internal Revenue Service, are the excess earnings method and the asset value method (Tuller 2008). Table 3.6 provides a summary of the major features of all these methods.

Brown (2005) takes a broader approach in categorising the valuation methods as: asset approach (book value, liquidation value); income approach (capitalisation); market approach (what like organisations have sold for); and a hybrid approach (excess earnings). However, buyers, sellers and advisors will use the method that they are most familiar with and the method that best suits their needs. In some cases a range or basket of methods are employed, and the results compared (Gabehart & Brinkley 2002). Finally, many business owners have an inflated view of what their businesses are worth, simply because they base the value on what they need to sustain their lifestyle when they exit the business (Leonetti 2008, Coulthard *et al*. 1996).

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36 Includes continuing value method which is seen as a derivative of the DCF method.

3.10 Exit Impediments

Unlike many other classes of 'assets', not all businesses are saleable, irrespective of the price being asked. An exit impediment can be described as a component or factor which can in the worst case, cause an exit to not eventuate, or at best, reduce the overall price a vendor will receive (McKaskill 2006). Exit impediments can also be referred to as 'barriers to exit' and are sometimes known in the trade as show stoppers or deal breakers. According to Coulthard *et al*. (1996) the seller needs to view the business from the buyer's perspective and assess the strengths and weaknesses of the business. The relationship of impediments with other identified elements and links to timing prior to the exit decision, are at this stage unclear, although a hypothesised framework is presented in Chapter 4.

Hawkey (2005) identifies three types of impediments which can impact on or ultimately stop the potential sale of a business. These impediments are categorised as:

1. Structural barriers / impediments;
2. Operational impediments; and
3. Other impediments.

McKaskill (2006) frames these potential impediments as 'buyer's risks' which are categorised as either observed risks or missing information.

Method	Valuation	Comment
Super Profits	Goodwill + Net Tangible Assets	Goodwill = Super Profits[37] x Future Ratio[38]. Used mainly for smaller businesses
Price Earnings Ratio (PE)	Future Maintainable Profit / Yield (%)[39]+ Net Tangible Assets	Most commonly used method for small and listed businesses. The higher the PE, the greater the value. PE ratios for private companies (2 - 7 typically) are less than publicly listed companies (10 – 20 typically).
Discounted Cash Flow (DCF)	$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \ldots + \frac{CF_n}{(1+r)^n}$ CF = Cash Flow r = discount rate (WACC)	Discounts future anticipated cash flows (profits) into present value.[40] Main method used for valuing larger listed firms.
Industry Yardstick[41]	Based on gross sales, gross profit, gross commissions, number of customers or subscribers	Usually a short-cut method for very small businesses but can also be a guide for new or evolving businesses.
Excess Earnings Method	Capitalised Earnings + Net Tangible Assets	Based on capitalising earnings beyond net tangible assets.
Asset Value Method[42]	Net Tangible Assets – Net Tangible Liabilities	Can be book value or liquidation value depending on the scenario.

<u>Table 3.6:</u> Major valuation methods (Adapted from Hawkey 2005, Tuller 2008, Gabehart & Brinkley 2002).

37 Before tax.

38 Usually one or two to accounts for future year's profit.

39 PE ratio is calculated as 100 / Yield (%).

40 'What Does Discounted Cash Flow - DCF Mean?' (Viewed 20 April 2009), http://www.investopedia.com/terms/d/dcf.asp

41 Sometimes referred to as the 'market approach' to valuations (Gabehart & Brinkley 2002).

42 Sometimes referred to as the 'balance sheet approach' to valuations (Gabehart & Brinkley 2002).

3.10.1 Structural Impediments

A structural impediment as defined by Hawkey (2005) is one that does not directly impact on profitability of the operational business. Neither Hawkey (2005) nor McKaskill (2006) are clear on the categorising of business systems and governance. In McKaskill's defence he makes no attempt to frame buyer's risks as potential impediments. In some cases, Hawkey categorises business planning and regulatory compliance as operational impediments, but it could be equally argued that like accounting procedures (or lack of), these represent business systems that are structural rather than operational.

3.10.2 Operational Impediments

By contrast, Hawkey (2005) defines operational impediments as those that directly impact the profitability of the business. Here, most of the potential impediments highlighted by Hawkey and McKaskill could be viewed as having a negative impact on business value. In cases when there is intellectual property this is indisputable. This however, is not always the case and may often be dependent on the potential buyer's scenario. An example of this is business premises in which a long incumbent lease could be seen positively by a potential buyer who has no existing presence in a geographic area. On the other hand, a competitor in a trade sale situation may view this negatively, because they would have the problem of operating from two premises (reduced benefit) or having to exit a long term lease which could be potentially expensive. Here a shortcoming may be viewed as either an opportunity to renew or impose the new owner's requirements, or to not pay for something that the new owner does not want. The impact of 'impediments' is often dependent upon the buyer's specific requirements, the negotiations, and the deal structuring that occurs prior to a sale.

3.10.3 Other Impediments

Hawkey (2005) identifies two other major areas of potential impediments. These include: attitudes and circumstances which make it difficult for an owner to exit; and cosmetic issues which can impact on the potential sale price. The most controversial (and always at the forefront of any negotiations) is the sale price of the business. As stated above and almost without exception, sellers have an optimistic view on the value of their businesses, and buyers, the opposite. Hawkey (2005) identifies this as the largest impediment to a potential sale. In the absence of a strong desire by one of the negotiating parties to acquire or divest, the sale process will result in a negotiated price somewhere between these two positions.

3.10.4 Identifying and Resolving Impediments

Some impediments are obvious and relatively easy to resolve. Others require planning and forethought. Hawkey (2005) proposes that an analysis based on structural or operational improvement provides a suitable framework for identifying and rectifying potential impediments.

> *The key to removing most impediments is to allow yourself sufficient time*
>
> (Hawkey 2005 p.127).

Impediment removal can occur many years prior to the actual exit date. Also, acquiring entities generally undertakes resolution of potential risks that impediments may impute, or factoring risks into the purchase price. McKaskill (2006 p.120) states that:

> *in almost all cases, the passage of time in finalising the sale is at the expense of the selling firm*

Thus, understanding and resolving potential risks prior to exit is a key factor in achieving a successful exit.

3.11 Summary

This chapter has provided a review of the major issues relating to business exits. It began with an overview of relevant theories related to decision making and planning, and then went on to highlight some of the extant studies on business exits in Australia. Section 3.4 provided a context to exiting by providing a background on how this topic has been approached in the literature. The following sections (Sections 3.5 to 3.7) discussed the importance of timing in an exit and how this affects the exit process and the exit strategy that owners adopt. Adoption of an exit strategy being closely linked to the selection of options is discussed in Section 3.8. As the exit process is a complex process that requires significant planning, the final two sections provide a summary of the relevant literature on planning and impediments that can hinder an owner's exit.

The following chapter (Chapter 4) discusses the development of a suitable research framework to conduct this study. It provides a discourse on the development of a theoretical paradigm starting with Joyce and Wood (2003), with the aim of providing the reader a rationale for the research methodology adopted in this study.

Part B

Chapter 4

RESEARCH FRAMEWORK

4.1 Introduction

The previous chapters have provided a background to owner/ managers of SMEs and raised some of the substantive issues associated with the exit process for SMEs in Australia. This chapter discusses how the research framework of this thesis (see Figure 4.1 below) was developed from the model for change management in SMEs proposed by Joyce and Woods (2003), the extant literature, and the researcher's own personal exit experience. This chapter is an explanation on the development of a theoretical paradigm starting with Joyce and Woods, with the aim of providing a foundation and background for the Research Methodology chapter that follows.

This chapter consist of four main sections. The first section explains the central theory of research frameworks for conducting research. This is followed by Section 4.3 which identifies and discusses the central concept used to develop the research framework for this thesis. The third section explains how the framework was developed and then finally, Section 4.5 presents the research propositions, identifies the logical links between the key stages in the exit process, the major milestones, and the main factors involved in exiting a small business.

4.2 The Need for a Research Framework

A research framework provides a set of theories which can support a research study (Collis & Hussey 2003, Yin 2003a & 2003b, Miles & Huberman 1994). It shows logical relationships among variables and factors which have been identified as significant 'issues' in the research (Sekaran 2003, Miles & Huberman 1994). Existing published research is pivotal in developing a scientific basis for investigating the research problem (Sekaran 2003), and theories can flow logically from research related to the topic when used in combination with a logical understanding of the problem. Thus, researchers are able to understand the dynamics of the problem and construct a framework suitable to testing propositions which can examine whether the theories are valid or not (Sekaran 2003, Collis & Hussey 2003). The development of a research framework also helps researchers to hypothesise and test certain relationships with the objective of improving understanding of the phenomena under investigation.

In practical terms, a research framework defines both who and what will be studied. Therefore, this framework is not static and will be subject to modification as the study develops. This evolution involves analysis, synthesis, reflexivity and the development of methods consistent with the theoretical concepts and constructs being developed. "Conceptual framework is simply the current version of the researcher's map of the territory being investigated" (Miles & Huberman 1994, p. 20).

This study adopts an *abductive approach*[51] where the objective is to explore and generate specific understanding of the decisions and processes surrounding the successful exit of an SME rather than prove any generic theories. The abductive approach is best suited to answering the 'what', 'why' and 'how' questions (Blaikie 2000, Saunders *et al*. 2003), so researchers use a research framework to interlink a set of research propositions. In this study, these propositions have been derived from the existing literature (generally non-empirical) and the researcher's own experience. In agreement with Miles and Huberman (1994), Yin (2003a), and Saunders *et al.* (2003), the research framework plays an important part because it can forecast what to expect.

The following section represents the process of how the research framework for this study was developed, and as a logical flow-on, how the research propositions and questions evolved.

4.3 Assembling the Fundamental Concept

The fundamental concept of this study has been based on the following professional practice questions:

1. *What process does the owner of an SME undertake to successfully exit their business?*
2. *What are the critical milestones and considerations when undertaking that process?*

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51 See Section 5.3 for justification of this approach.

These research questions draw attention to three constructs. The central construct is that of the exit decision. What is the nature of this decision, what type of decision is it, who makes it, and how long does it take. This leads to the next construct: what precedes this decision, what are the inputs or factors, are there any preconditions? And finally, the construct of what actions or outcomes follow from this decision. The combination of these constructs forms what this investigator refers to as the 'exit process'.

To begin this investigation one approach to a business exit is to view it as a form of change management; essentially as a change in business ownership. In change management, issues revolve around the change management decision, the change process, managing people in a changing environment, change and innovation, change and organisational structure, results of the change, and making those results permanent (Randall 2004, Grover & Kettinger 1995, Brown & Harvey 2006, Graetz, Rimmer, Lawrence & Smith 2002, Ahmed & Simintiras 1996, Paton & McCalman 2000, Joyce & Woods 2003, Rusjan 2005). This study is interested in the decisions for change, planning of change, and execution of such change, rather than the end result of the change (what happens to the business after the ownership change). In their research framework for managing growth in small business, Joyce's and Woods's (2003) identify three distinct phases in managing change:

1. the decision making phase;
2. the planning phase; and
3. the implementation phase.

All of the above identified phases have dimensions that are dependent upon organisational characteristics and capabilities. Ansoff and McDonnell (1990), Miles and Snow (1978), and Pettigrew and Whip (1991) provide models and frameworks for describing various aspects of the change management process. Figure 4.1 shows Joyce's and Woods's (2003) model showing each phase/stage as a discrete step. However, in practice these often coincide and may not be easy to discern (Pettigrew & Whipp 1991). Paton and McCalman (2000) discuss a change and transition model which addresses issues associated with constant change (see Table 4.1). Their model suggests that four interlocking management processes must take place to "implement and sustain major organizational changes" (p. 9). These processes operate at distinct levels referred to as layers.

NB: Hereafter, the researcher has a preference to refer to these 'phases' as 'stages' with the term 'phase' being used to describe sub-stages.

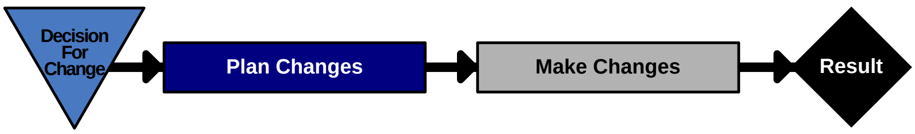


Figure 4.1: **Model for decision making, planning and making changes, adapted from Joyce and Woods (2003, p. 146).**

Layer	Key Processes
Trigger	Concerning identification of the need for major change
Vision	Articulation of a vision that communicates where the organisation is heading
Conversion Layer	Mobilising support for the change
Maintenance & Renewal	Where changes can be sustained

Table 4.1: Paton's and McCalman's (2000) change and transition model with four interlocking management processes.

Applying Pettigrew's and Whipps's (1991) approach to Joyce's and Woods's (2003) model provides a preliminary and baseline framework for business exits (see Figure 4.2).

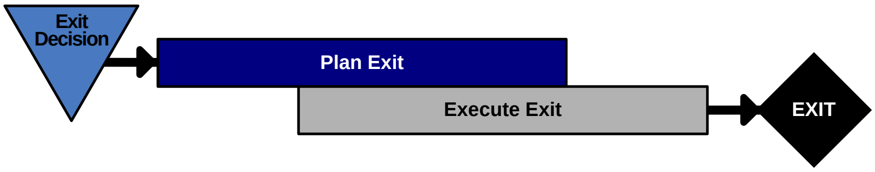


Figure 4.2: Initial baseline framework for business exits, adapted from Joyce and Woods (2003, p. 146). No conclusions should be drawn from the scale, relative lengths, size, or degree of overlap of the elements presented.

A brief description of the operation of this framework is: a decision to exit is made which is followed by a period of planning the exit. First, the decision to exit is multi-dimensional. Based on personal experience, the researcher contends that the decision to exit consists of a set of conditions which create receptivity to exiting (exit trigger - see Section 4.3.1) which then results in the decision to exit (exit decision – see Section 4.3.2). Exit planning, which follows the exit decision, involves activities such as preparing business and exit plans, nominating advisors, considering possible exit options, and nominating potential buyers or sources of buyers. The timeline for this process can range from many years to a matter of weeks. McKaskill (2006) prescribes that the preparation for exit should be eighteen months to two years. Both Hawkey (2005) and McKaskill (2006) go as far as saying that there is a direct relationship between length of planning time and the likelihood of exit success.

The planning process for exiting is followed by activities in which prior planning is put into action; the business is prepared for sale, potential buyers are approached, organisational changes are implemented, and negotiations with potential buyers begun in earnest. Execution of plans can occur either after the planning process or concurrently. An example of the concurrent execution of an exit plan is that in achieving a certain enterprise scale, owners may continue planning their exit whilst actioning the plan which requires the business to grow to $x turnover or 'y' number of outlets. Another example could be requirements to implement certain management systems (e.g. back office, customer relationship management, e-commerce) to ensure that owners are well bedded in before actioning other aspects of their exit plan.

Much of the literature on business exits is focussed on specific activities related to exit planning and the executing of an exit. This study aims to position these activities in the context of the overall exit process while focusing on detailing the operation of other related concepts including exit triggers, owner/exit aspirations, exit contemplation, and barriers to exit, and to understand how these relate in the overall exit process. As this study is one of the earliest on the topic, the researcher has the added challenge of articulating an exit topography.

4.3.1 Exit Trigger

Paton and McCalman (2000, p.10) identify a specific trigger layer which relates to “the identification of needs and openings for major change deliberately formulated in the form of opportunities”. In this thesis an ‘exit trigger’ is defined as a set of events or circumstances which results in the owner(s) having a proclivity to exit. Based on the researcher’s own experience and observations, the exit trigger may be perceived as a prologue to the exit decision (Cánez, Platts & Probert 2000; Fountas, Wulfsohm, Blackmore, Jacobsen & Pedersen 2006). It does not guarantee that a decision to exit will be made, but identifies an owner’s receptivity to making that decision. Furthermore, a decision to exit will not occur unless conditions for an exit trigger are first fulfilled. The central connection between the exit trigger and exit decision is that a trigger is the precondition to the decision (Fountas *et al.* 2006). This precondition can exist long before or just prior to the actual exit decision (if ever) being made. Based on first hand experience, the researcher contends that this trigger exists and that there are four tangible factors (financial [TF-F], timing [TF-T], crisis [TF-C], and risk [TF-R]) and one subjective factor (optimism [SF-O]) that determine the status of the trigger.

The five factors that trigger a decision to exit are as follows:

Financial *(TF-F)* refers to any events or circumstances related to financial matters (e.g. income, profit, cash flow, offer) related to the business, owner(s) or key stakeholders (Baker 2004, Brenner & Schroff 2004, Hawkey 2005).

Timing *(TF-T)* refers to any milestone event(s) or circumstance(s) related to time or timing in relation to the business, owner(s) or key stakeholders. Examples are retirement age, a nominated date, time in business, economic trends, and industry evolution (Timmons & Spinelli 2004, Schaper & Volery 2004, Leonetti 2008, Coulthard *et al*. 1996, Kupferman 2003, Hooke 2002).

Crisis *(TF-C)* refers to any event(s) or circumstances which are unanticipated and considered a trauma to the business, owner(s), or key stakeholders. Examples include divorce, major health issues, law or regulation changes, and cancellation of agency or contracts (Schaper & Volery 2004).

Risk *(TF-R)* refers to any possibility of incurring loss, misfortune or situation which may result in a negative outcome in relation to the business, owner(s), or key stakeholders. Whilst SMEs are inherently risky ventures, this factor refers to the owner's or business's ability to manage business risks and the owner's threshold for risk (Leonetti 2008, Timmons & Spinelli 2004, Fischbach 2005).

Optimism *(SF-O)* refers to the level of confidence the owner has for the business now and/or in the future. It also relates to current and future confidence in the industry and the economy in general. Levels of optimism (or lack of) vary with individuals (Timmons & Spinelli 2004).

Optimism has dual influences in this model. On its own, a lack of optimism can trigger an exit, but in general, a lack of optimism combined with one or more of the other exit factors results in an exit trigger. Table 4.2 illustrates some examples of how various degrees of optimism operate either alone or with other exit factors.

Any one of the four tangible factors may singularly, or in combination with another, establish conditions suitable for a trigger. However, a trigger from a tangible factor(s) [TF-? – see Tangible Factors] exists only when this is combined with a lack of optimism [SF-O – see Subjective Factor]. The researcher contends that triggers are likely to be the result of situations where multiple tangible factors exist but singularly do not result in conditions for a trigger. However, their combined effect together with a lack of optimism can establish a receptivity to exit. Examples of this are: continual tight cash flow (TF-F) combined with a timing milestone of ten years operation (TF-T) and low business optimism (SF-O), or cancellation of a key supplier agency (TF-C) while retaining a strong balance sheet of substantial retained earnings [why risk these] (TF-R) and low optimism in regard to the general economy (SF-O).

4.3.2 Exit Decision

In the proposed baseline framework (Figure 4.1) the exit decision is the starting point of the exit process. Section 4.3.1 highlighted that a decision to exit is only made after the conditions for an exit trigger have been fulfilled. The framework identifies that this decision is

Scenario	Optimism	Outcome(s)
Low or no profits (financial)	High	Persist with attempts to grow business. Find strategies to grow (medium to long term) and / or cuts costs (short term), e.g. cut owner's salary. Look for more capital ,i.e. borrow to keep business going.
	Low	Find strategies to cut costs (short term). Focus on business survival. Unwilling to recapitalise business. Consider selling or closing business.
Tight cash flow (financial)	High	Owners inject more capital or borrow funds. This may involve mortgaging personal assets.
	Low	Reduce inventory, decrease or stagnate business growth. Begin removing assets (capital) from business. Consider selling or liquidate business to realise assets.
Offer to buy business (timing)	High	Reject offer because owner optimistic about future earning capacity of business.
	Low	Accept offer to buy because of uncertainty of future profits.
Reach nominated retirement milestone (timing)	High	Delay retirement until some future date.
	Low	Retire and sell business or close business.
Industry maturing (timing)	High	Owner believes they will prosper as industry consolidates, i.e. acquire competitors.
	Low	Owner believes they will struggle as industry consolidates and so is receptive to being bought out.
Family crisis (crisis)	High	Borrow money to settle divorce / separation.
	Low	Rush sale of business or liquidate assets.
Health crisis (crisis)	High	Get a manager in to temporarily manage business. Get assistance from family, friends, or colleagues.
	Low	Rush sale of business or liquidate assets.
Supplier requires personal guarantee (risk)	High	Give guarantee or negotiate mutually agreeable outcomes.
	Low	Avoid giving guarantee and / or negotiate mutually agreeable outcomes. Consider selling or closing business.

Table 4.2: Examples of trigger factors with and without optimism.

then followed by planning and execution stages (see Figure 4.3).

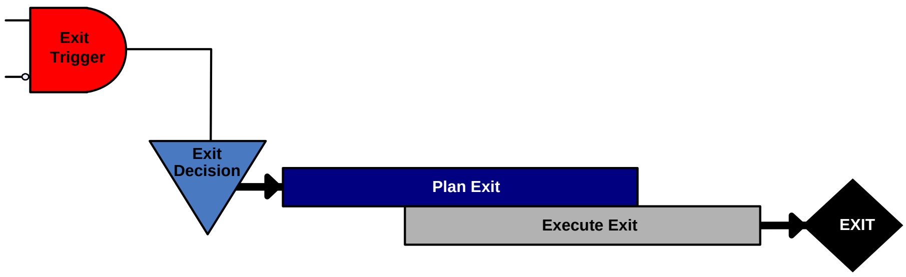
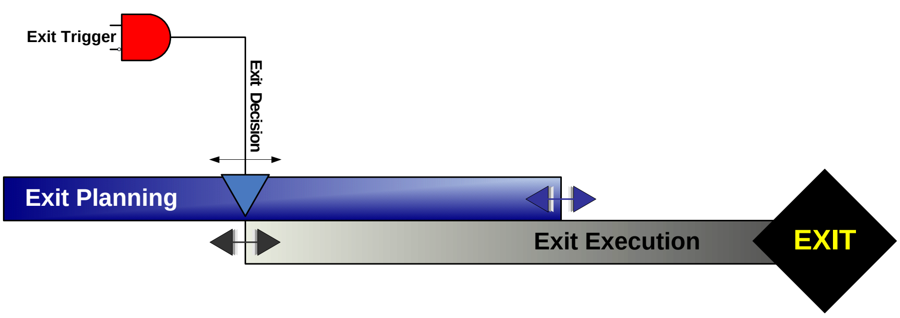


Figure 4.3: Baseline framework with the exit trigger, adapted from Joyce and Woods (2003, p. 146).

In many circumstances planning for an exit is done years in advance prior to the actual exit (McKaskill 2006, Hawkey 2005, Fischbach 2005, Timmons & Spinelli 2004). However, this understanding may also indicate the possibility that an exit decision made many years in advance indicates preparation for a future activity or business evolution. Therefore this study contends that exit planning is not dissimilar to any other business planning process where change is anticipated or a specific outcome is desired and planned for. So when is the exit decision made and what does its timing signify? In the researcher's own exit experience the exit decision did not signify the start of the exit process, but instead the start of activities related to the exit execution stage. In other cases however, this may not be absolute as it is dependent upon the level of planning that has occurred prior to this point, usually signifying a point in time where the owner(s) commits significant resources and time to exit activities. In some cases this may also signify the conclusion of exit planning activities, but in most instances such planning activities relate to execution requirements rather than an actual decision to exit (e.g. research for short listing potential buyers). In its current format the proposed baseline framework (Figure 4.3) is unable to adequately model actual exit actions. Accordingly, further adaptations have been made to provide a framework that is more representative of what actually happens when a decision to exit is made (see Figure 4.4).



<u>Figure 4.4:</u> Evolution of the baseline framework showing the exit trigger and exit decision, adapted from Joyce and Woods (2003, p. 146).

4.3.3 Exit Contemplation

If the exit execution process is delimited by the exit decision and actual exit, this begs questioning what event(s) and/or processes denote the start of an exit planning process. This researcher contends that the exit planning process commences by a process referred to as exit contemplation. Exit contemplation is defined as a process where the owner might consider, deliberate, and 'romanticise' on questions of when, how, who, and how much, in relation to harvesting their business. In its simplest form "what is this business ultimately worth?" becomes a more dynamic consideration of the business's future prospects and requirements, the future needs of the owner(s) or key stakeholders, and the current and future operating environments (business and economic). This can be a continual process at the forefront of the owner's regular decision making processes or business strategisation, (e.g. organisation's market positioning or achieving turnover targets instead of profit targets) to aid 'harvestability'; or an ad-hoc irregular thought underpinning long range or optimal scenario planning.

The notion of exit contemplation resonates with some of the literature on models for organisational change. Brown and Harvey (2006) present a five stage process: Stage 1 – anticipate the need for change; Stage 2 – develop the practitioner-client relationship; Stage 3 – diagnostic phase, Stage 4 – action plans; and Stage 5 – self-renewal, monitor and stabilise. Here 'Stage 1' could be interpreted as 'exit contemplation'. Similarly Paton and McCalman (2000) refer to a layer that establishes a vision that communicates a future development of the organisation; in this case a future with new owners, or in the context of the owner, goodwill exchanged for cash. Ahmed and Simintiras (1996) utilise a three stage model for business process re-engineering and radical transformation: Stage 1 – Vision; Stage 2 – Strategy; and Stage 3 – Actualisation. The main difference between these models and that proposed in this study is the intended audience. The models in the literature propose a change vision and is directed to communicate to other stakeholders in the organisation, whereas in this study exit contemplation (the vision) is inwardly focused as an exercise of self-contemplation and consideration by the owner.

Exit contemplation involves a multitude of dynamics. Table 4.3 below provides some examples of how this process operates, from the original decision to enter a business, through to exit and decisions about post business lifestyle. The examples in Table 4.3 identify that exit contemplation has two distinct dimensions. The first dimension, which is referred to as the 'romanticising' phase, is where the owner(s) contemplate possible optimal exit outcomes. At some later juncture, depending again on individual owner characteristics, this gives way to a more realistic outlook which is referred to as the 'realism phase'. Both phases can co-exist, and the romanticising phase can disappear and then reappear at a later date if for example the environment changes (e.g. dotcom technology bubble of 1995-2001).

The researcher contends that the progression of moving from exit contemplation to exit planning is not clearly definable. A natural transition is when realistic exit scenarios have been contemplated and planning for those scenarios can begin. Both the exit contemplation and exit planning processes can operate concurrently. While not definitive, once a decision to exit has been made and exit execution has begun, the exit contemplation process ceases (see Figure 4.5). The researcher contends that exit contemplation is a precondition to an exit decision (i.e. no decision is made without prior contemplation). This does not preclude a very short period of contemplation after receiving an 'unrefusable[52] offer'.

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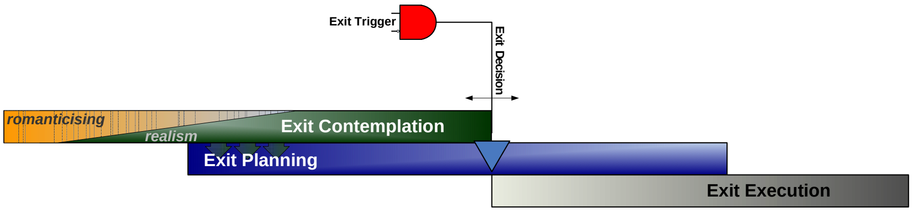
52 An 'unrefusable offer' is an offer that greatly exceeds the owner(s)'s financial expectations.

Scenario	Consider-ation	Key Inputs	Comment
What's this business worth?	At the start, once only	Owner's imagination and optimism	Future worth may be justification for starting the business.
	Irregular from time to time	Competitors Industry standards Personal requirements	Ad-hoc consideration to maintain optimism and enthusiasm when operating conditions difficult.
	Regular	Competitors Industry standards Operating environment	Regular assessment of what the business may be worth when considering operating conditions.
When to sell?	Nominal	Nominating of an anniversary	On a nominal anniversary that matches the needs of the stakeholders (e.g. retirement).
		When I can get $x or more or when the business is worth $x	At a nominated $ amount to meet stakeholders post-business requirements or to sell part of business (IPO).
		When ROI is $x or less	A nominated $ amount where return is considered to be insufficient.
		An event	An scenario such as a partnership break-up (business or personal) occurs.
		When these conditions exist ….	A future scenario of certain operating conditions may have been contemplated.
	Strategic	Profit, sales, head count	The business has achieved 'xx' scale.
		Industry cycle	Industry consolidates as part of the natural business cycle.
		Operating environment	Operating conditions are positive or negative, depending on scenario.

Table 4.3: Examples of exit contemplation (cont'd next page).

Scenario	Consider-ation	Key Inputs	Comment
How to exit?	At the start, once only	Owner's imagination and optimism	Optimism could be a significant factor in starting the business (e.g. IPO).
	Irregularly from time to time	What's happening with competitors What's happening in the Industry Personal requirements Pressure	Ad-hoc consideration when owner's sees press on the topic or sees competitor's achieving desirable exit results.
	Regularly	What's happening with competitors What's happening in the Industry Operating environment Personal requirements	Strategic consideration with regular monitoring of inputs to identify optimum outcome.
What are the business needs?	Irregularly or Regularly	Growth needs of the business i.e. resources, management	Some owner / managers understand they do not have the right skills or resources to take the business through to its next stage and understand they should stage an orderly exit of the business.
Post-business lifestyle	What the owner(s) want to do post-business	Personal desires Key stakeholder desires	In some cases the focus is not actually on the exit but what happens after the exit. This establishes specific objectives which in turn determines timing, amounts etc.

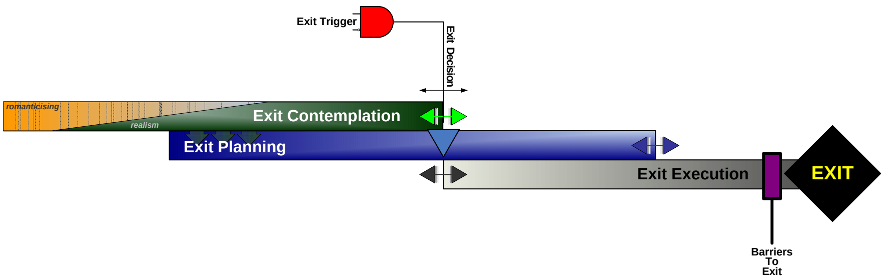
Table 4.3 (cont'd): Examples of exit contemplation.



<u>Figure 4.5:</u> Exit contemplation transitions into exit planning and ceases at the exit decision when exit execution begins.

4.3.4 Adaptations from the Business Exit Literature

McKaskill (2006) and Hawkey (2005) identify exit impediments (see Section 3.10) as components or factors which can deter an exit from eventuating. Impediments do not inhibit the exit planning process. However, planning may be required to remove an impediment which ultimately will not allow the completion of an exit execution stage in the overall exit process. In the proposed framework, the term 'exit impediments' are referred to in conventional business terminology as 'barriers to exit' (see Figure 4.6).



<u>Figure 4.6:</u> Evolution of the baseline framework with exit contemplation, exit trigger, exit decision, and barriers to exit.

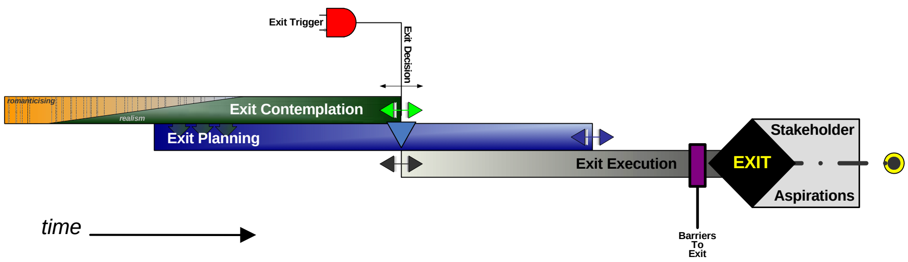
As discussed in Chapter 3, Schaper and Volery (2004) identified three key elements in exit planning: strategic elements linked to the business environment; entrepreneurs' personal aspirations; and the business's financial situation. This researcher contends that whilst the above three elements form part of the exit planning process, they can also be construed in a more significant context to the overall exit process. 'Strategic elements' and 'business financials' identified by Schaper and Volery (2004) link to the fundamental day-to-day operations of the business rather than just exiting activities, and it could be argued that without these elements an exit is unlikely. One approach may be to view these elements as possible pre-conditions to an exit, which include the contemplation or planning processes. Whilst they could impede an exit, they are different to barriers to exit because they are fundamental to the exit decision. This decision is unlikely to be made without the conditions for these elements being fulfilled; otherwise there may be very little value to sell.

Similarly, Schaper's and Volery's (2004) stakeholder aspirations explain that what owners want as a result of the exit plays an important role in the overall exit process. Aspirations are typically contextualised in financial terms, but can also be expressed in terms of a desired lifestyle (e.g. retirement, semi-retirement, buying a farm, or personal pursuits) or pursuit of a non-financial goal (i.e. go back into business again or career change). If stakeholder aspirations are not fulfilled in a voluntary exit, the exit decision will logically be negative, otherwise this would be considered a non-voluntary exit. Are stakeholder aspirations a barrier to exit or a precondition to exit? It can be argued that they are both a precondition and a barrier. Without an exit valuation where an owner's aspirations can be fulfilled, a decision to exit is unlikely. For example when a decision to exit has been made but negotiations fall short of allowing the owners to achieve their aspirations, this could be viewed as a barrier to exit. By contrast, both exit preconditions and exit barriers relate directly to the business, whereas aspirations primarily relate to the owners. Therefore, to differentiate these factors the researcher contends that both should be considered separately and possible linkages explored in the pilot phase of the study.

Up to this point the time of exit has been assumed to be fixed. The exit can occur on a specific date but the exit can often be a staged event, and in the case of some IPOs it can be up to five years before owners are able to fully access proceeds from the exit. Exits are staged to allow arrangements where business owners receive payments after settlement based on an agreed formula of future earnings. This is often referred to as an 'earnout', and in some cases may require owners to remain in the business. Even when earnouts do not apply, owners are often required to stay on as employees for up to several years. Therefore an adaptation to the model of the process is proposed which can accommodate the owner 'leaving' after the point of exit. Figure 4.7 is the concluded proposed schematic model of the process to be studied.

4.4 The Proposed Research Framework and Testable Propositions

Section 4.3 discussed the development of a baseline framework for organisational change (Joyce & Wood 2003) to the proposed model in Figure 4.7. The function of this framework is to describe an exit process in terms of the published literature and processes undertaken by Australian SMEs. No conclusions should be drawn from the model's scale, relative lengths, size, or degree of overlap. Double ended arrows are used to indicate expansion, contraction, or movement of stages or milestone events. The unfurling of the process from left to right is representative of time elapsed, even though no scale is shown.



<u>Figure 4.7:</u> Schematic display of the proposed research framework for the SME exit process.

4.4.1 Research Framework Elements

To assist in the formation of testable research propositions from the proposed research framework, the process has been broken down into the following seven elements (see Table 4.4).

4.4.2 Testable Propositions

In order to form testable research propositions, the proposed research framework and framework elements from Table 4.4 have been re-assembled and summarised. This results in ten research propositions which this study will investigate, and summarised in Table 4.5. To provide an explicit representation of the SME exit process these propositions have then been overlayed onto the schematic representation of the proposed research framework for this study in Figure 4.8 at the end of this chapter.

4.5 Summary

This chapter has provided an explanation on the rationalisation of a research paradigm for this study, with the objective of providing the reader with a foundation to the following Research Methodology Chapter. The output from the present chapter has been the development of a research framework based on the basic model for change management proposed by Joyce and Woods (2003). This framework is represented diagrammatically in the schematic display of the exit process shown in Figure 4.7.

Element	Item	Concept[3]	Comment
Stages	Exit Contemplation	New	Start of the overall exit process.
	Exit Planning	Existing (Hawkey 2005)	Planning follows contemplation planning as the 2nd stage of the exit process.
	Exit Execution	Existing (Hawkey 2005)	Executing the plans derived from the 2nd stage is the final stage.
Processes Within Stages	Romanticising	New	1st phase of exit contemplation.
	Realism	New	2nd phase of exit contemplation. Leads on from romanticising when realistic scenarios are considered.
	Exit Contemplation	New	May be earlier than the start of the business, or alternately very late in the overall process.
	Exit Planning	New	Defined as a transition from the realism phase of exit contemplation.
	Exit Execution	New	Defined as at or near the point where the decision to exit is made.
	Exit Contemplation	New	Defined as the point where the decision to exit is made (i.e. where exit execution begins).
	Exit Planning	Existing (Hawkey 2005)	Not defined. Occurs before the end of exit execution.
	Exit Execution	Existing (Hawkey 2005)	At or near point4 of exit.
	Exit Decision	Existing (Gilligan et al. 1983) but also New	Original start point of exit process now redefined in the overall process. Requires exit trigger to be fulfilled.
	Exit Trigger	New	Fulfilment of a set of conditions which indicates owner's penchant to exit.
	Actual Exit	Existing (Bratman 1987)	Endpoint of the exit process.
	Financial	New	Tangible factor related to any financial matters which may trigger an exit.
	Timing	New	Tangible factor related to time or any timing matters which may trigger an exit.
	Crisis	New	Tangible factor related to any unanticipated or traumatic circumstances which may trigger an exit.

<u>Table 4.4:</u> Research framework elements (cont'd next page)

3 Here 'new' refers to concepts developed by the author. 'Existing' refers to concepts found in the literature.

4 May actually occur after exit when 'earnouts' are utilised.

Element	Item	Concept[5]	Comment
Endpoints - Start	Exit Contemplation	New	May be earlier than the start of the business, or alternately very late in the overall process.
	Exit Planning	New	Defined as a transition from the realism phase of exit contemplation.
	Exit Execution	New	Defined as at or near the point where the decision to exit is made.
Endpoints - Finish	Exit Contemplation	New	Defined as the point where the decision to exit is made (i.e. where exit execution begins).
	Exit Planning	Existing (Hawkey 2005)	Not defined. Occurs before the end of exit execution.
	Exit Execution	Existing (Hawkey 2005)	At or near point[6] of exit.
Milestone Events	Exit Decision	Existing (Gilligan *et al.* 1983) New	Original start point of exit process now redefined in the overall process. Requires exit trigger to be fulfilled.
	Exit Trigger	New	Fulfilment of a set of conditions which indicates owner's penchant to exit.
	Actual Exit	Existing (Bratman 1987)	Endpoint of the exit process.

<u>Table 4.4:</u> Research framework elements (cont'd next page)

5 Here 'new' refers to concepts developed by the author. 'Existing' refers to concepts found in the literature.

6 May actually occur after exit when 'earnouts' are utilised.

Element	Item	Concept[7]	Comment
Conditions and Factors	Financial	New	Tangible factor related to any financial matters which may trigger an exit.
	Timing	New	Tangible factor related to time or any timing matters which may trigger an exit.
	Crisis	New	Tangible factor related to any unanticipated or traumatic circumstances which may trigger an exit.
	Risk	New	Tangible factor related to any possibility of loss or misfortune which may trigger an exit.
	Optimism	New	Subjective factor related to level of confidence owner has for the business which may trigger an exit. Lack of optimism is a pre-condition for an exit trigger.
	Exit Trigger	New	Pre-condition for the decision to exit.
	Barriers to Exit	Existing[8]	Also referred to as exit impediments.
	Financial	New	Must be linked with a lack of optimism to fulfil an exit trigger.
	Timing	New	Must be linked with a lack of optimism to fulfil an exit trigger.
	Crisis	New	Must be linked with a lack of optimism to fulfil an exit trigger.
	Risk	New	Must be linked with a lack of optimism to fulfil an exit trigger.
	Optimism	New	A lack of optimism can fulfil an exit trigger by itself.
	Exit Trigger	New	Precondition to the exit decision.

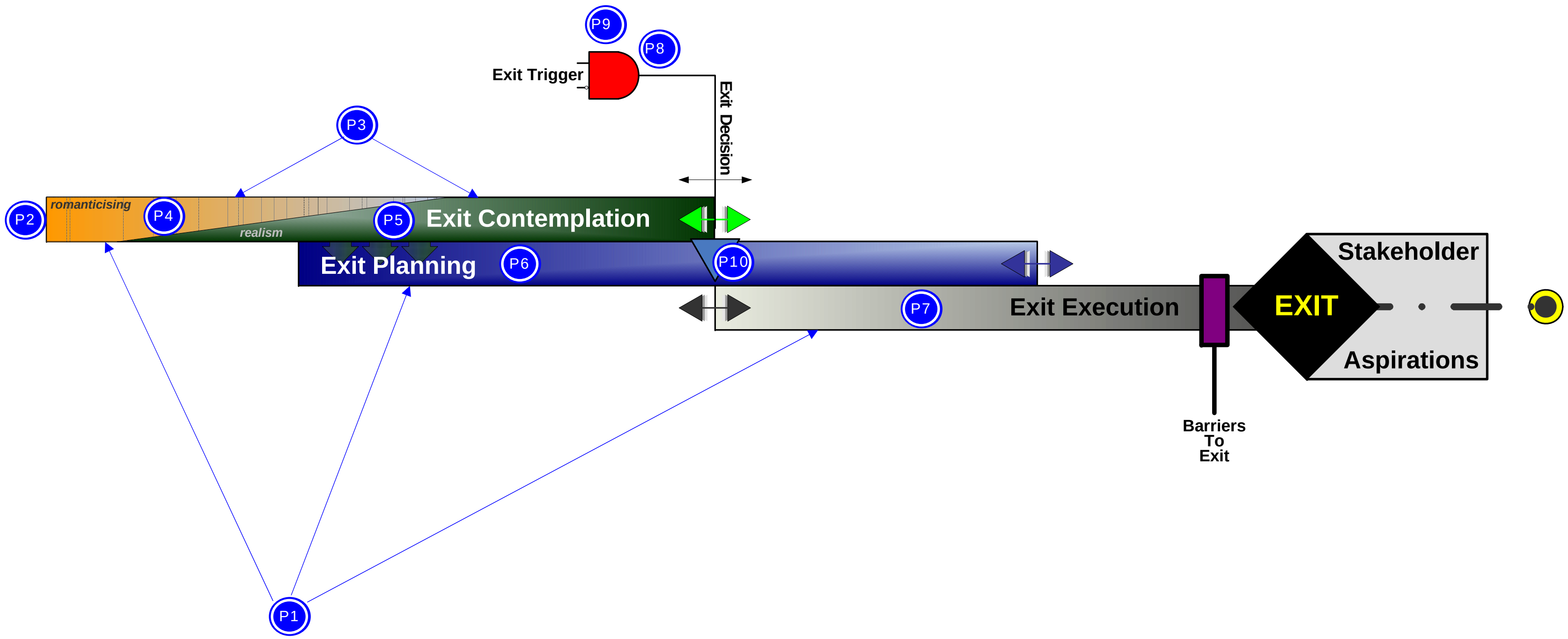
Table 4.4: Research framework elements (cont'd from previous page)

7 Here 'new' refers to concepts developed by the author. 'Existing' refers to concepts found in the literature.

8 (Hawkey 2005, McKaskill 2006)

Item		Propositions
Exit Process	P1	The overall exit process consists of three (3) distinct stages: exit contemplation is the first stage, this is followed by an exit planning stage and finally the plans are executed in an exit execution stage.
Exit Contemplation	P2	The earliest start point of the exit contemplation stage is prior to starting the business. It ends when the exit decision is made.
	P3	Exit contemplation consists of two (2) distinct phases and is the start of the exit process. The two (2) distinct phases are romanticising and realism.
Romanticising & Realism	P4	Romanticising is where owners contemplate unconstrained desired exit outcomes and after a period of time this progresses into a realism phase.
	P5	Romanticising eventually evolves into a realism stage where desired possibilities convert into more realistic scenarios.
Exit Planning	P6	Exit planning stage begins with the realism phase of exit contemplation. Exit planning generally occurs prior to exit execution but these stages may be concurrent. It ends at a point prior to exit.
Exit Execution	P7	Exit execution stage begins at the exit decision and ends at the exit. Exit execution is where exit plans and operational activities are executed.
Exit Trigger	P8	An exit trigger indicates an owner's penchant to exit and is a precondition for an exit decision.
	P9	There are five factors which can fulfil an exit trigger. Four (4) tangible factors (financial, timing, crisis, risk) and one (1) subjective factor (optimism). A trigger for a voluntary exit is established by one (1) or more tangible factor(s) in combination with the subjective factor or by the subjective factor singularly.
Exit Decision	P10	The exit decision signifies the start of the exit execution stage. A precondition to a decision to exit the business is that conditions for an exit trigger must first be fulfilled.

Table 4.5: The research propositions.



<u>Figure 4.8:</u> The proposed research framework with research propositions overlaid.

Part B

Chapter 5

RESEARCH METHODOLOGY

5.1 Introduction

This chapter outlines the research methodology used to investigate the Australian SME exit/harvest process in order to identify key aspects of the procedures used by SME owner/managers who have successfully exited their businesses. A qualitative approach has been used to identify factors affecting their success, and determine important milestones in the process. The professional practice questions are:

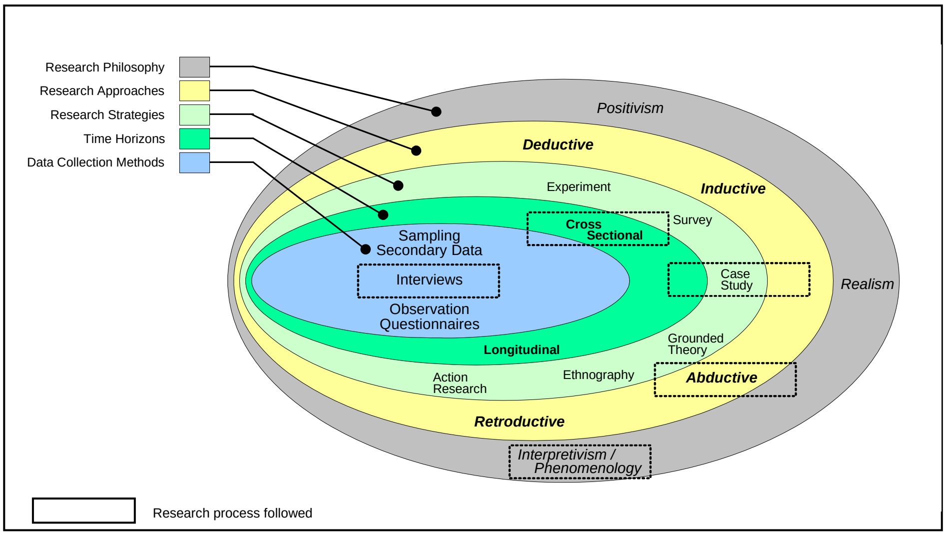
1. *What process does the owner of an SME undertake to successfully exit their business?*
2. *What are the critical milestones and considerations when undertaking that process?*

The model used in this study is an interpretivist/phenomenological research paradigm, an abductive research approach, and a case research strategy. In order to address the professional practice questions, this chapter presents: the reasons for selecting the research method; the associated research paradigm; the research approach and research strategy; and the data collection technique and analysis. In Chapter 3, literature on key facets of the exit process were reviewed, and in Chapter 4 a framework for understanding that process and its key milestones were developed to help guide the data collection and analysis. The research process adopted in this study is based on a model proposed by Saunders *et al.* (2003). To further enhance this model the researcher has added dual abductive and retroductive strategies to the research approach layer, based on strategies outlined by Blakie (2000).

5.2 Research Paradigm

Saunders *et al.* (2003) proposed a model in which the research philosophy, the first layer in the research process (see Figure 5.1), forms the foundation for the research. It accounts for how researchers think and determines the ways that research is conducted and knowledge (i.e. answers to the research questions) is derived (Saunders *et al.* 2003). Neuman (1994, p. 57) states that a scientific paradigm includes the "basic assumptions, the important questions to be answered or puzzles to be solved, the research techniques to be used and examples of what scientific research looks like".

The major research paradigms are positivism, interpretivism (also referred to as phenomenology), and realism (Collis & Hussey 2003, Saunders *et al.* 2003). A positivist researcher "assumes the role of an objective analyst, coolly making detached interpretations about those data that have been collected in an apparently value-free manner" (Saunders *et al.* 2003, p. 83). The main characteristics of



<u>Figure 5.1:</u> Research process model adopted from Saunders, Lewis & Thornhill (2003, p. 83). An additional two research approaches have been added (Blakie 2003) to the Research Approach layer. The 'boxed' texts indicate the processes followed in this study.

this paradigm are a highly structured methodology which facilitates replication. The data collected is quantifiable and lends itself to statistical analysis.

At the other end of the spectrum, an interpretivist argues that the social world is too complex to be mapped and modelled, and insights can be lost in positivist law-like generalisations. Saunders *et al.* (2003) argue that qualitative data is subjective and dependent upon the participants of the research. By trying to map the data, the researcher runs the risk of oversimplifying the data and in doing so, loses the subtleties of the situation (Saunders *et al.* 2003). One of the key assumptions of interpretivism is that reality is in the eyes of the beholder and that each situation is a unique case of circumstances and individuals.

Located between these two extremes is realism which argues that “a reality exists that is independent of human thoughts and beliefs” (Saunders *et al.* 2003, p. 84). It attempts to understand a social reality in the context of broader social forces and structures or processes that influence people’s views and behaviours. The assumptions for these paradigms are summarised in Table 5.1.

Assumption	Positivist	Interpretivist	Realist
Ontology	Reality is objective and singular.	Reality is subjective and unique.	Reality is independent of human thoughts and beliefs.
Epistemology	Researcher is independent.	Researcher interacts.	Researcher interacts.
Axiological	Value free and unbiased.	Value laden and biased.	Value mediated findings.
Rhetorical	Formal language used.	Informal language used.	Informal language used.
Methodology	Accurate and reliable. Can be validated.	Context bound. Can be verified.	Dialectical. Can be verified.

Table 5.1: Assumptions of each research paradigm adapted from Collis & Hussey (2003, pp. 54-76), Saunders, Lewis & Thornhill (2003, pp. 83-85) and Hesse-Biber & Leavy (2004, p. 26).

As this study is about understanding how owners make their decisions to exit, the dynamics involved in making them, and the processes that operate prior to and after those decisions are made, the goal is to try and understand how this happens and the reasons behind the processes. Therefore this study follows an interpretivist paradigm in which the researcher’s objective is to reveal “the details of the situation to understand the reality” (Saunders *et al.* 2003, p. 84). The aim of this study is to gather detailed qualitative data from people in small sample groups and acquire an in-depth understanding of how they create meaning in their everyday lives. As such, it is a 'practical orientation' and is concerned with how ordinary people manage affairs in everyday life (Neuman 2000). Qualitative research implies an emphasis on process and meanings, not measured in terms of quantity, amount, intensity or frequency, thus allowing for the collection of phenomena that is often unobservable such as perceptions or feelings (Hunt 1991).

The researcher in this study is neither detached nor entirely objective because some of the richness of the study comes from the implicit knowledge of the researcher, allowing for an interpretivist approach. Reality in this research is subjective and multiple, based on the actions and interpretations (with the benefit of time and reflection) of different exiting owners – see Section 5.3 following. The main features of the interpretivist paradigm showing direct comparisons to the positivist paradigm are described in Table 5.2 below.

Feature	Interpretivist	Positivist
Data type	Mostly qualitative	Mostly quantitative
Sample size	Small	Large
Theory	Generating theories	Hypothesis testing
Data type	Rich and subjective	Highly specific and precise
Location	Natural	Artificial
Reliability	Low	High
Validity	High	Low
Generalisability	From one setting to the next	From sample to population.

<u>Table 5.2:</u> Features of an interpretivist paradigm versus a positivist paradigm adapted from Collis & Hussey (2003, p. 55).

5.3 Research Approach

The selection of a research approach is based on the research problem at hand. According to Blaikie (2000) there are four research approaches (referred to as strategies): the inductive, the deductive, the retroductive, and the abductive. Table 5.3 identifies the major characteristics of these approaches. “These strategies provide different ways of answering research questions by specifying a start-point, a series of steps and an end-point” (Blaikie 2000, p. 100).

	Inductive	Abductive	Deductive	Retroductive
Aim	To establish universal generalisations	To describe and understand social life in terms of social actors	To test theories	To discover underlying mechanisms to explain observed regularities
Start Point	Accumulative observations	Discover everyday lay concepts, meanings and motives	Borrow or construct a theory	Document and model a regularity
Steps	Produce generalisations	Produce a technical account	Deduce hypothesis	Construct a hypothetical model
End Point	Use ‘laws’ as patterns to explain further observations	Develop a theory and test iteratively	Test the hypothesis by matching it with data	Test the model by observation and experiment

<u>Table 5.3:</u> Aims, start and end points of each research approach, adapted from Blaikie (2000, pp. 100-120).

If the aim is to test a ‘theory’, the researcher uses either a deductive or retroductive approach. A deductive strategy starts with data collection which is analysed and then used to test against an existing theory or hypothesis. Researchers first develop the theory and then design the research approach to test the theory. A retroductive approach is similar to the deductive strategy in that it tests ‘theory’, but differs because the data collection is qualitative and the verification method uses observation and experiment rather than testing of hypotheses.

On the other hand if researchers want to discover new theories, they adopt either an inductive or abductive strategy. Both of these approaches are similar but involve different processes for data collection and theory verification. An inductive approach is closely tied to a positivist paradigm and quantitative data, and an abductive approach is more applicable to describing social behaviour.

This study adopts an abductive approach. Blaikie (2000, p. 25) describes how in the abductive approach “the researcher has to enter their world (i.e. the participants) in order to discover the motives and reasons that accompany social activities”. The objective of this study is not to prove theory but to explore and generate an in-depth understanding of the decisions and processes surrounding the successful exit of an SME (Gilmore & Carson 2007). Having experienced first hand a successful business exit this researcher is ideally situated to understand and explain data. An abductive approach is selected because it is also best suited to answering the ‘what’, ‘why’ and ‘how’ questions posed by this study.

5.4 Research Strategy

A research strategy is defined as a general plan of the steps taken to answer the research questions (Blaikie 2000). In this research a case study strategy has been adopted. Collis and Hussey (2003) describe the case study as being "extensive examination of a single instance of a phenomenon of interest" with the intention of gaining a rich understanding of the research context and the processes being enacted (Morris & Wood 1991, Gilmore & Carson 2007). Its strength comes from being able "to *explain* the causal links in real-life interventions that are too complex for the survey or experimental strategies" (Yin 2003a, p. 15).

> *The essence of a case study, the central tendency among all types of case studies, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result*
>
> (Schramm 1971, cited in Yin 2003a, p. 12)

Case studies involve in-depth exploration of a programme, an event, an activity, a process, or one or more individuals (Stake 1995). Case studies are bounded by time and activity in which researchers collect detailed information using a variety of data collection procedures over a sustained period of time. A case methodology is valuable when issues are difficult to extract from their context. Yin (2003a & 2003b) considers case studies as empirical investigations that explore contemporary phenomena within real life contexts, especially when the boundaries between the phenomenon and context are not clearly evident. In other words case studies are intensive holistic descriptions involving analysis of a single unit or bounded system to provide insight into how and why things are as they are.

Adoption of case study strategy approach ensures application to a single event or multiple cases (COLMR 2005, Eisenhardt 1989) that can be either short or long in duration. The sampling of informants and/or experiences is typical rather than total immersion in the setting or culture, as is the case with action research or participative enquiry. Miles and Huberman (1994) and Gilmore and Carson (2007) maintain that qualitative researchers usually work with small samples of people nested in their context and studied in-depth. Furthermore they maintain that the case study is a bounded system in which the boundary determines what is included and excluded as part of the case, since it is not possible to "study everyone, everywhere, doing everything" (Miles & Huberman 1994, p. 27).

Stake (1995) suggests that an instrumental case study that examines a number of cases is a collective case study. Hill (1998, p. 190) observes "a case is handsomely enriched by the possibility of being placed in some relationship to another case framed as a similar kind of case in hot pursuit of a solution to a problem, or an 'issue". As one of the intentions of studying twelve SME exits is to develop the level of 'enrichment' described by Hill (1998), multiple cases have been selected to strengthen the results by replicating pattern-matching (Tellis 1997). In this way confidence in the findings emerging from the study is increased.

Yin (2003a) identifies four contexts in which a case study is most appropriate: investigation of a contemporary phenomenon; where there are more variables than data points; when there are multiple sources of evidence; and when existing theories can be used as a guide to the data collection and analysis. This study fulfils all these criteria.

5.5 Extant Literature

The extant literature on business exits provides an incomplete coverage of the SME exit process. Whereas some of the literature provides insights into key areas that may direct data collection and aid the identification of themes, there has been no research to define a model or framework that describes either an exit process or its major mechanisms. Hawkey (2005) has investigated the issue of timing, where it was established that 'when you exit' is determined by 'why you exit'. This flows onto 'how you exit' and the planning timeline available to the owner. However, owners who anticipate their exit need to be able to plan and execute that plan on a timeline of their own choosing. Figure 5.2 (Hawkey 2005, p. 39) illustrates the process which shows that the reasons why owners exit ultimately determines the exit timeline.

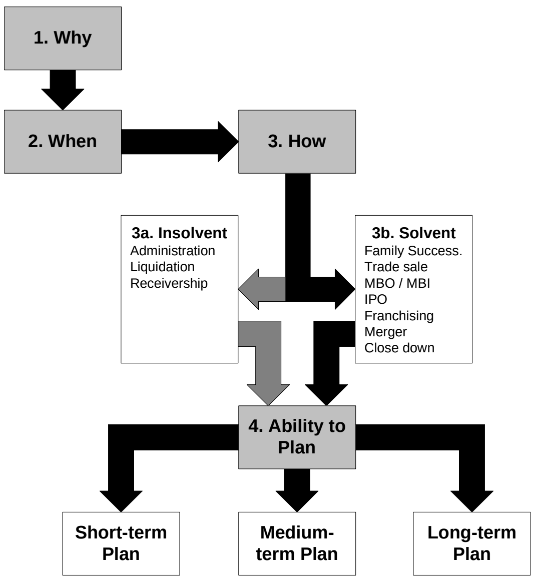


Figure 5.2: How 'Why' determines the timing of an exit process and its resultant planning. Adapted from Hawkey (2005, p. 39).

Schaper and Volery (2004) stress the need to anticipate options for exit, because “the exit is more than simply leaving the business; it is the final piece in creating the ultimate value”. They contend that there are three balanced elements to planning an exit: strategic elements linked to the business environment; entrepreneur’s personal aspirations; and the business financial situation (see Figure 5.3 below).

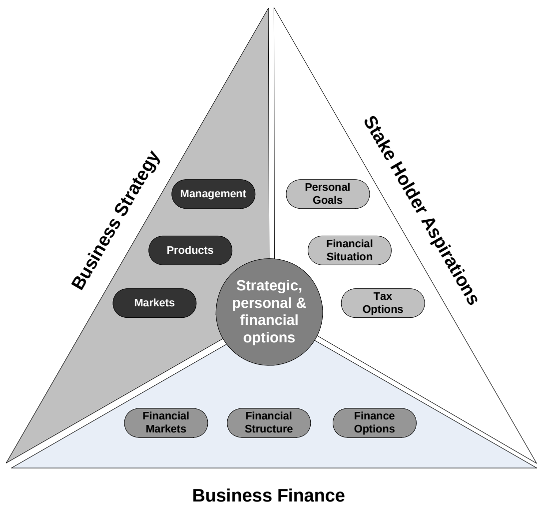
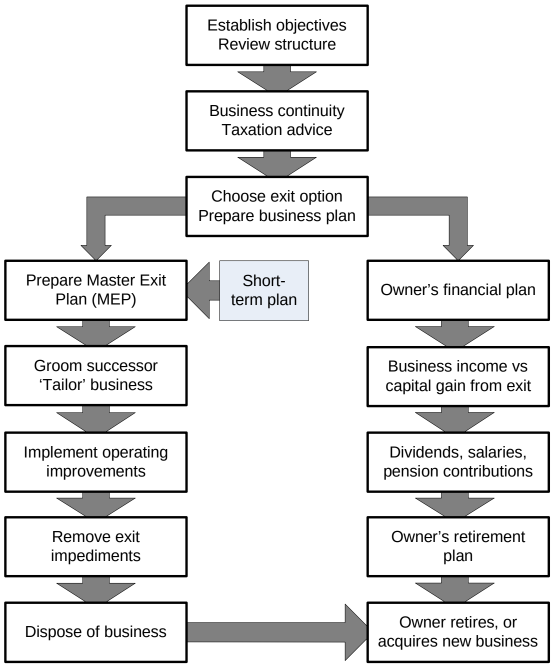


Figure 5.3: **Balancing of strategic, personal goals in an exit plan according to Schaper and Volery (2004, p. 355).**

Presentation of the above elements highlight the key aspects of what an exit plan needs to accommodate, rather than a systematic process describing actions, outcomes and resource commitments (Legge & Hindle 2004). Hawkey (2005) by comparison is more prescriptive and detailed on actions required (as shown in Figure 5.4) and emphasises that they are a long term process, not an isolated event. Hawkey (2005) argues that an exit plan should be an integral part of the overall business and strategic plan, and businesses should be steered and developed with nominated exit options in mind.



<u>Figure 5.4:</u> Exit planning overview (Hawkey 2005, p. 11).

The Hawkey (2005) process provides a detailed and cohesive guide to steps involved in an exit planning process. Upon selecting an exit option, Hawkey's model states that two parallel and simultaneous planning processes are established; one for the business and one for the owner.

Sale of a business can be impeded for many reasons. For example, in the worst case an exit impediment can cause an exit to not eventuate, or at best, reduce the overall price a vendor will receive (McKaskill 2006). In the literature, exit impediments are also referred to as 'barriers to exit', and sometimes known in the trade as show stoppers or deal breakers. Furthermore, Hawkey (2005) broadly identifies three types of impediments that can impact or ultimately stop the potential sale of a business: structural barriers /impediments; operational impediments; and 'other' impediments.

Whilst the above literature related to business exits is not extensive, those reviewed in the above section do serve to provide a skeletal guide to the data collection and analysis in the search for concepts and themes relevant to the present study.

5.6 Case Study Design

A case study design is an action plan which starts with a set of questions and is followed by steps towards obtaining answers to those questions (Yin 2003a & 2003b). The plan consists of five components: the study's questions; its propositions (if any); its unit(s) of analysis; the logic linking data to propositions; and the criteria for interpreting findings. Therefore, in response to the two key research questions of this study (see Section 5.1), ten research propositions have been generated and a unit of analysis determined. This is followed by a description of the logic linking data to the propositions, and the criteria used to interpret the research findings.

5.6.1 Research Propositions

Existing studies on processes, models and frameworks related to business harvests or exits are limited in number. Therefore, with so little work to refer to, this study is primarily exploratory in nature. Yin (2003) states that propositions are not always suited to exploratory studies, however, “each proposition directs attention to something that should be examined within the scope of the study” (Yin 2003a, p. 22). Based on available literature and the researcher’s first hand experience on exits, a research model (see Figure 4.7 in Chapter 4) and set of ten propositions were developed to guide this study on business exit processes. These have been summarised in Table 4.5 in Chapter 4.

5.6.2 Unit of Analysis

As this is a study of individual businesses (SMEs), sale of the business is dependent on the decisions made by the shareholders/owners. In the case of SMEs, often the conduct of the owner is inseparable from that of the business. The character, behaviour and culture of the business reflects the personality and values of its owners (Gaujers *et al.* 1999, Gilmore & Carson 2007). However, in the case of business harvest the interest and responsibilities of the business and the owner are not the same. For example, the appointment of exit advisors may be a requirement of the shareholders but not the business. This is particularly pertinent when only some of the shareholders are exiting, or for tax calculations (e.g. cost base versus deductibility).

Yin (2003a) suggests that researchers refer to the primary research questions to help define the unit of analysis. In this thesis these are:

1. *What process does the owner of an SME undertake to successfully exit their business?*

and

2. What are the critical milestones and considerations when undertaking that process?

The focus here is on the conduct and decisions of the business owners. In some instances they can represent multiple business entities, so to avoid confusion the unit of analysis is the owners in the context of the identified business exit.

5.6.3 Linking Data to Propositions

The research model (Figure 4.7) developed from the literature on business exits (Chapter 3) and the researcher's first-hand exit experiences were used to prepare the initial interview questions. This model also provides the initial framework for analysing the interview results from the cases under study. The initial case results and preliminary findings are then, as a cognitive process, used to modify the protocols for the subsequent cases and to further explore possible linkages between propositions and unexplained phenomenon. The analysis of each case adds to the analysis of subsequent cases.

5.6.4 Interpreting the Findings

The data was interpreted based on the developed model and the researcher's own experience. These findings are compared with the available literature to determine the degree of 'fit'. Figure 5.5 shows how the Research Framework has initially been used to direct the analysis. The results are then used to modify the research protocols and analyses of subsequent cases.

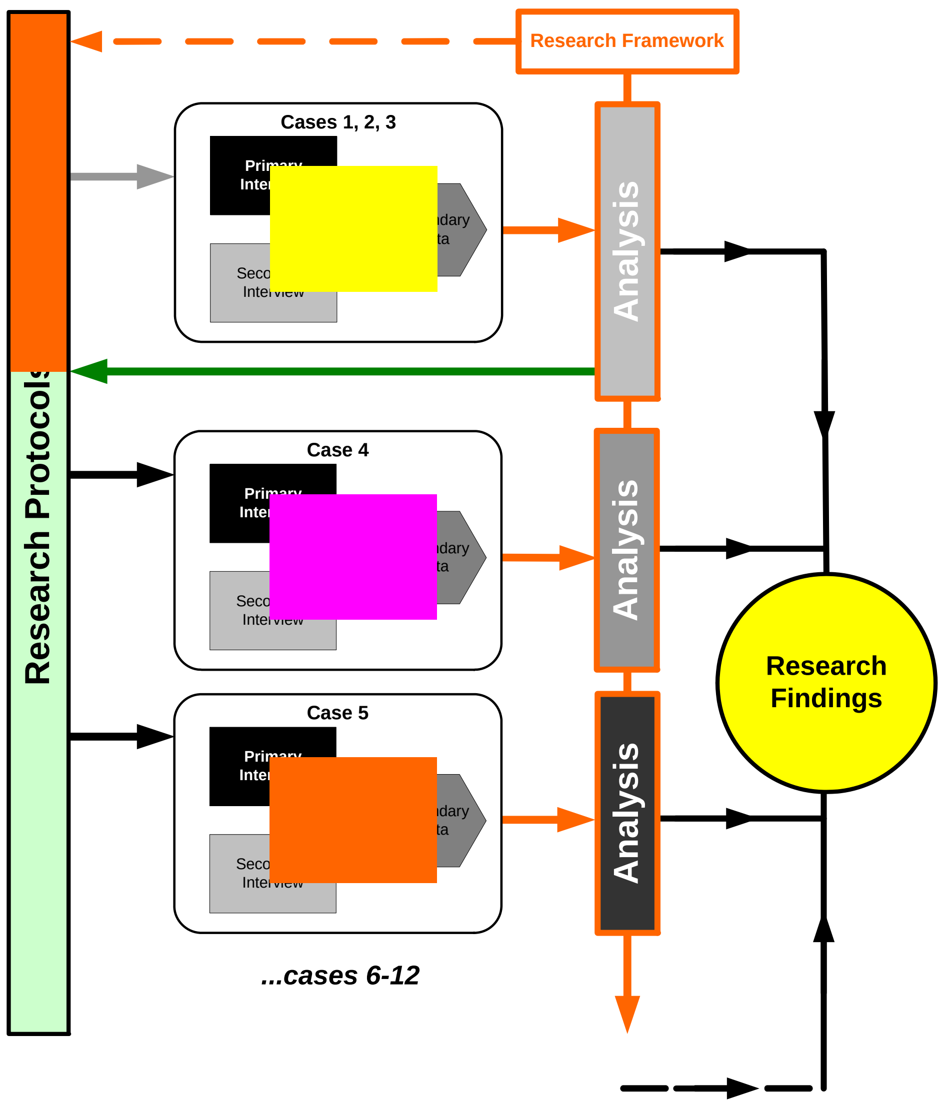


Figure 5.5: A model of how this research study was conducted.

5.7 Data Collection Process

In this study, primary data was collected through interviews asking questions in uncontrolled situations which are used as the basis for twelve case studies. These interviews were divided into two categories: primary, with principal shareholder/owners and secondary, with other shareholders and/or advisors. Secondary datum such as business or exit plans and contracts were also sourced.

In this study multiple cases were examined for several reasons. Firstly, case studies are methodologically sound because they are based on the logic of replication (Parkhe 1993, Yin 2003a & 2003b). Secondly, the phenomena did not represent a rare occurrence or an instance of unusual access and therefore warranting a study of a single case. Thirdly, multiple cases are used to investigate complex behaviouristic phenomena and represent a greater variety of evidence (Yin 2003a). Finally, multiple cases offer the researcher an opportunity to triangulate evidence (Bonoma 1985, Eisenhardt 1989, Yin 2003a).

Miles and Huberman (1994) and Patton (2002) point out that there are no clear rules as to the correct number of cases. Eisenhardt (1989) recommends a range of four to ten cases as manageable, whereas Guba and Lincoln (1994) take the approach "as many as required to achieve theoretical saturation". Perry (1998) believes that the acceptable range falls between two and four as a minimum, with an upper limit of fifteen. According to Patton (2002 p.244):

> *there are no rules for sample size in qualitative inquiry. Sample size depends on what you want to know, the purpose of the inquiry, what's at stake, what will be useful, what will have credibility, and what can be done with available time and resources*

Keeping in mind that this is an exploratory study with the objective of proposing a new theory, theoretical saturation was the desired outcome which resulted in twelve cases being developed.

5.7.1 Case Selection

Purposeful or judgemental sampling techniques are typically used by qualitative researchers in the selection of case studies, as opposed to the systematic sampling techniques used in quantitative studies (Patton 2002). Researchers use their judgement to select cases where the phenomenon they are studying is most likely to occur (Neuman 2000, Collis & Hussey 2003). The logic and power of purposeful sampling is derived from the emphasis on in-depth understanding: "This leads to selecting *information-rich cases* for study in depth" (Patton 2002, p. 46). Patton further adds that studying information-rich cases produces insights and in-depth understanding, rather than empirical generalisations.

In this study, cases were selected on the following basis:

1. where a completed exit occurred, and
2. where the researcher was able to gain a level of rapport with the potential interviewee through personal contact or by introduction from a mutual contact.

In determining the number of interviews necessary to complete this study, two initial interviews per case were attempted. Firstly, the principal shareholder/owner was selected for the main interview (primary interview), with separate shareholder or advisors to the exit process for the supplementary interviews (secondary interview). Adding cases ceased when saturation of the concepts was achieved or when the researcher became convinced that the proposition was not going to be supported. However, due to single shareholdings and unavailability of advisors in some cases, a total of only sixteen interviews were completed.

5.7.2 Interviews

Focussed interviews were determined as the most suitable format, and these were undertaken in semi-natural settings (Merton, Fishke & Kendall 1990). Yin (2003a) defines these as interviews which are open-ended and conversational in nature but following a certain line of questioning derived from the case study protocol and the interview guide. In this study the main interviews with owner/principal shareholders are referred to as primary interviews, and any subsequent interviews as secondary interviews.

Van der Heijden (1996) refers to interviewing from the perspective of scenario planning, and output from interviews can be viewed as scenarios. One of the main objectives of interviewing is to identify critical issues of concern. As it is important to make the interviewees feel that they are making a valuable contribution, the critical challenge is for the interviewer to be fully accepted by the interviewee and for there to be interaction between the two. Another important issue is an assurance that all information is kept confidential and for there to be no identifiable linkages with the data collected (refer Section 5.12 – Ethics).

Interviews can have shortcomings of being biased, having poor recall, and poor or inaccurate articulation (Yin 2003a). These weaknesses may stem from bias due to poorly constructed questions, or response bias, and reflexivity, where a respondent merely answers what they believe the interviewer wants to hear. In order to overcome these limitations, Yin (2003a) suggests three principles to be observed: use of multiple sources of evidence, creation of a case study database, and maintaining a chain of evidence.

Although the main source of data in this study was via primary interviews (Yin 2003a), where possible data collected was corroborated with other sources of information. The researcher undertook several strategies for corroborating data. Firstly, where secondary data in the form of printed Business Plans, Exit Plans, contracts of sale, reports, and Information Memorandums were available to the researcher, these were compared to the outputs from interview data. Yin (2003a) refers to this as non-converging evidence. In addition, data triangulation of a second source of interview data was established by interviewing a business partner or exit advisor for a specific case (Yin 2003a). This was then compared with data from primary interviews.

Following Yin's (2003a) second principle for overcoming the limitations of interviews, all the collected case data in this study was organised into an evidentiary base consisting of case study notes, case documents (secondary data), and case narratives which were placed into separate storage folders. Finally, in accordance with Yin's (2003a) third principle of ensuring robustness of the interview data; a chain of evidence was employed to allow retracing of steps leading from interview questions to logical conclusions.

To aid the interviews in this study an 'evolved' interview guide was developed. A series of questions was formulated from the Research Framework and Research Propositions (see Section 4.4.2) to probe issues during the interview process with the aim of answering the research questions. The guide was designed to allow the researcher to accommodate real-life context and the fact that each case experience would vary markedly. The key purpose to this guide was to ensure that data collected during interviews remained relevant (Yin 2003a). This standardised interview guide was then revised following the pilot process.

5.8 Pilot Study

This study utilised the initial three cases as a pilot study to aid the development of data collection methods and provide preliminary analysis of the data. A sequential process was employed where data for the first case was collected; the outcomes and the process were then assessed and reviewed. Before collecting the next data set, protocols and questions were modified to overcome weaknesses in the data collection (Eisenhardt 1989, Parkhe 1993, Perry & Coote 1994). This procedure was repeated in two additional cases in order to refine the protocols and questions used in the main data collection (see Appendix 5G).

Where critical data was not revealed in the pilot cases, a follow-up process was initiated in which the interviewee was re-approached and asked specific questions to complete the data collection. After the pilot process, data from the three pilot cases were utilised together with the remaining case data (Cases 4 to 12), contributing to the final analysis and the study's findings.

5.9 Primary Data Collection

The interview method used for this research was semi-structured with a broad set of standardised questions being used to guide the interview (see Section 5.6.1). Barker, Jenkins and Bonavita (1999) refer to this as a form of scenario planning to avoid rigidity leading to poor responses that lack depth of information and failing to identify the critical issues. Van der Heijden (1996) suggests that interviews should last for at least one hour to enable major issues to surface.

An important aspect of multi-case design is an effective case study protocol which increases the reliability of data and forces the researcher to consider literal and theoretical replication (Yin 2003a). A case study protocol was used by the researcher in this study to provide an overview of the study project, to develop field procedures, to assist in the development of the case study questions, and to guide the study report. The major benefit of this protocol is that it enabled the researcher to stay focussed and anticipate potential problems (see Appendix 5F).

In this study, interviews were conducted with former business owners[58] who had successfully exited their businesses (see Section 5.7.1). The process for participant selection and interview were to:

1. Identify potential sources of former SME owners who had exited their businesses (see list in Appendix 5A), known

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[58] See 'Acronyms & Definition of Terms' for the definition for 'successful business exit' used in this study.

business advisors (accountants, legal counsel), business brokers, and others.

2. Request identification of cases that fitted the study criteria, and where owners (and others) were willing to participate in the study. Arrange appropriate introductions and establish rapport with participants. Where necessary, provide a précis of the study to aid participation.
3. Provide willing participants with a letter of invitation outlining research objectives and requesting permission to conduct the interview (see Appendix 5B). Ensure full transparency of all participants for each case by informing participants of other participants related to specific cases.
4. Determine the availability of participants and arrange suitable times for interviews.
5. Provide participants with a copy of specific questions that the researcher would ask so that they could prepare responses for the interview. Request access to any supplementary documentation (secondary data).
6. Conduct face-to-face interviews according to the procedure outlined in Appendix 5C. Record all interviews (with permission of the participants) to leave the researcher free to concentrate on the dialogue with the participant.

The data from all recorded interviews were transcribed in full, without alteration or 'interpretation'. Arksey and Knight (1999, p. 141) argue that a transcript is but "one interpretation of the interview", capturing only the spoken aspects of the procedure. It misses the setting, context, body language and 'feel' of the interview. To overcome some of these shortcomings, the researcher made time stamped field notes on the body language and 'feel' of the interview so that the data could be analysed contextually. As an added measure all transcripts were checked for accuracy by the researcher by comparing the transcript with the recorded interview.

In accordance with steps prescribed by Eisenhardt and Bourgeois (1988), interviews were transcribed within 24 hours together with any interview notes. All data was considered relevant irrespective of initial classification, and all thoughts and perceptions immediately recorded after the interview(s) as reflective notes.

To supplement the transcribed data from each interview in this study, the researcher employed three additional notations relative to the interview to identify critical subjectivity and reflexivity (Lincoln 1995). These notations involved making field notes during the interview, writing reflections (post-interview) on the case specifics and the interviewee in the context of the research questions, and writing a set of self debriefing notes on the interview (see Appendices 7B, 7C and 7D for samples of these supplements). These had a three-fold effect: they contribute to the non-verbal dimensions of the data and aided interpretation of the interview, they enhanced subsequent data collections by providing insights into some concepts, and they provided a purging effect to aid case data separation.

5.9.1 Limitations of Interviews

In collecting interview data the understanding of that data is impacted on by the researcher, the literature, and the participant

(Arksey & Knight 1999). Therefore, some of the recognised challenges in finding interview data are that some interviewee judgements are hidden from the researcher when the interviewee has forgotten details of their exit. Table 5.4 summarises some of the study's challenges (Eisenhardt 1989, Stake 1995, Yin 2003a) and how they were overcome.

The key to finding the meaning in the data was to ensure that the influence and 'biases' of the researcher did not pervade the investigation. This was achieved through sound research design and a thorough account of the literature (Arksey & Knight 1999).

5.10 Data Analysis

Miles and Huberman (1994) suggest a framework for analysing qualitative data that has three simultaneous flows of activity: data reduction, data display, and conclusion drawing and verification. Therefore in this thesis, data reduction took place initially through editing, segmenting and summarising data, then coding and looking for themes, clusters and patterns, and finally through conceptualising and explaining. It was a process that continued even after data was collected. In accordance with Miles and Huberman (1994) repeated iterative displays of the data were used. Following this, the drawing and verifying stage required speculative conclusions to be formed.

Within the broader framework, a thematic analysis of the data attempted to identify themes (Strauss & Corbin 1998). Ezzy (2002) suggests that a thematic analysis is inductive because the themes are not decided upon prior to the coding process but instead are induced from the data. This approach often causes issues and

Limitation	Action to Overcome
The interviewee recalls details in the best light, this is also referred to as 'the halo effect'.	In depth questioning by interviewer. Use researchers experience to delve past just the positive recalls.
The interviewer receives a spontaneous understanding.	Questions were sent in advance so the interviewee was able prepare for the interview.
Responses are impacted by when data is collected and in the circumstances of the study (referred to as 'context effect');	Field summary notes conducted after each interview (see sample Appendix 7B) to determine if current circumstances affected responses.
The researcher's judgement pervaded the research.	Document and review stages when analysing data – see Research Diary Appendix 8A.
The researcher's own preconceptions and experiences impacts on the scope of data collection.	Provide interviewees with opportunities to discuss details outside the set interview guide.
The literature influenced meanings which caused some data to be discarded.	No data was discarded because a thematic analysis was undertaken after the content analysis.
The research design imposed limits on possible meanings.	This was overcome by using both a content and thematic analysis.
Some connections are determined without formal support.	This is an initial exploratory study with little existing formal support.

Table 5.4: Limitations of interviews and actions to overcome these limitations (Eisenhardt 1989, Stake 1995, Yin 2003a).

problems to be raised that are unanticipated by the researcher. Therefore, after sorting data through a 'patent' process, it was then thematically analysed. The researcher remained open-minded to themes being induced from the data as well as to the possibility of moving entries from one theme to another as they subsequently emerged.

5.10.1 Computer-Aided Data Analysis (CAQDAS)

QSR's[59] NVivo™ 8, a Computer Assisted Qualitative Data Analysis software (CAQDAS) programme, was utilised to assist in managing the vast quantity of data gathered during this study. Kelle (1995) suggests that NVivo™ is a comprehensive package that meets the requirement of software ergonomics, graphic display, and user-friendliness. Unlike similiar tools such as SPSS and Statistica which are used for analysing quantitative data, NVivo™ does not analyse data but is used to manage, structure, and organise it.

After transcription and checking, each interview was saved in 'rich text format' (rtf) and imported into NVivo™ for data management. The NVivo™ data analysis was divided into four discrete stages. Each stage was designed to reveal greater levels of detail. For coding purposes a framework of hierarchical nodes was established: 'category', 'concept', 'construct', and 'characteristic' (Glasser 1992, Anderson & Dextor 2003).

The initial coding of the data was into one of ten 'category nodes' that matched the study propositions (see Section 5.6.1), or into a free node (suspended node). Once the data from the initial interview had been categorised, the category and free nodes were revisited for further categorisation of the data into concepts. Each concept node was a 'child' of the higher level category node. Before further classification of 'children' for the concept nodes, these were

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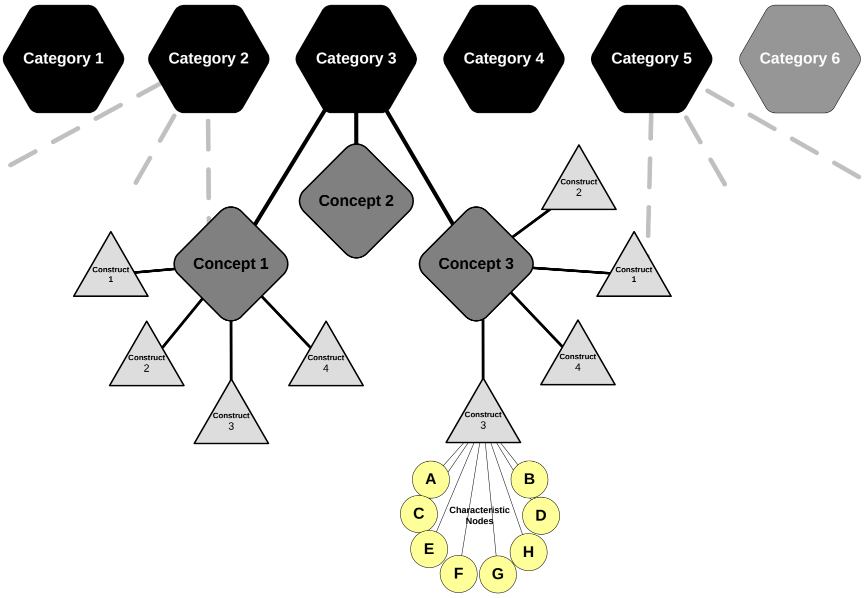
59 QSR International Pty Ltd, www.qsrinternational.com.

revisited to determine if some nodes could be regrouped or re-ordered using alternative labels/concepts.

This process of breaking down the levels of detail, categorising and then revisiting categories, was repeated several times with finer and finer levels of attention to detail, their significance, and their attributed values (see Figure 5.6).



<u>Figure 5.6:</u> Categorising the data, adapted from Kelle (1995).

One advantage of this kind of computer analysis is the ability to 'play' (i.e. easily manipulate) with the data (Fielding & Lee 1998). The ease of finding, sorting and re-sorting, comparing and contrasting the data, allowed this researcher to focus on thematic interests rather than having to wade through masses of paper-based information to find themes and linkages, however, this would have also been a suitable approach to analyse data had a CAQDAS approach not been adopted.

In addition to the NVivo™ aided analysis, the researcher also employed the following methods recommended by Miles and Huberman (1994), to further analyse the data:

- data was placed into a category matrix;
- timelines were created for each case and with major milestones highlighted;
- each case exit process was flow charted; and
- frequency of major milestones and events were tabulated.

5.11 Research Credibility

In order to ensure credibility in this research, measurements of: validity, reliability, authenticity, criticality, and generalisability were conducted (Yin 2003a, Neuman 2000, Collis & Hussey 2003, Patton 2002, Brower, Abolafia & Carr 2000, Hall & Callery 2001, Saunders *et al.* 2003). This is in agreement with Yin (2003a) who stated that the quality of a case study design can be assessed by four logical tests: construct validity, internal validity[60], external validity, and reliability.

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60 Internal validity is concerned about cause and effect relationships (Yin 2003a). For internal validity a researcher needs to be able to measure the link between the phenomenon and its effect. This generally applies for causal or explanatory type case studies (Yin 2003a), and since this research is primarily exploratory, internal validity is not pertinent.

5.11.1 Construct Validity

Construct validity relates to "establishing correct operational measures for the concepts being studied" (Yin 2003a, p. 34). Patton (2002) suggests that credibility depends on three elements: rigorous techniques for capturing and analysing data, credibility of the researcher, and a philosophical belief in the value of a qualitative enquiry. To improve construct validity, Yin (2003a) recommended three tactics: using multiple sources of evidence with converging lines of enquiry; establishing a chain of evidence during data collection; and having a draft case study report reviewed by key participants.

In this study, the following steps were employed to improve construct validity:

1. Data triangulation (Yin 2003a, Collis & Hussey 2003) by utilising multiple sources of evidence. For each case multiple interviews (with different participants at separate times) were employed, and in some cases where access to secondary data was possible, cross-checking of interview data was utilised.
2. All interviews were electronically recorded and transcripts were offered to interviewees for verification.
3. The research problem was discussed with interviewees prior to the interview. In addition, the main questions[61] (see Appendix 5E) were supplied one week prior to the interview to enable interviewees time to consider responses or check details.

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61 If clarification or more details were required, supplementary questions were asked of interviewees e.g. "can you tell me more about …" or "what were you thinking at that time".

4. A database was used to record information about the data collected (when it was collected, from whom, what type, how it was stored, who accessed it and when it was accessed).
5. The draft study results were reviewed by two participants for comment and feedback.

5.11.2 External Validity

External validity refers to generalisation of the results of the study outside the immediate cases being studied (Yin 2003a, Collis & Hussey 2003). However, generalisation was not assumed and does not apply to this study (see Chapter 9), for the findings to be considered a theory, further testing and replication have been required.

5.11.3 Reliability

The goal of reliability is to minimise the study's errors and biases. It relates specifically to the credibility of the findings (Collis & Hussey 2003). In practical terms reliability means: "if a later investigator followed exactly the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions" (Yin 2003a, p. 37). To do this, Yin (2003a) recommends documenting the operational steps and procedures so that a following researcher could replicate the study. In line with these authors this study employed a robust case study protocol, a documented chain of evidence, and a study database to achieve a suitable level of reliability.

5.11.4 Authenticity

While validity refers to the link between construct and data, Neuman (2000) advocates that interpretive researchers should be interested in authenticity to provide a fair and balanced account. Lincoln and Guba (2000) relate this with trustworthiness, rigour, and fairness.

In this research the authenticity of the data was addressed by three methods: firstly when writing the analysis of the interview data and reporting on the findings, all responses were represented and nothing was excluded. Secondly, when accounting for the strength of responses, their number and importance was determined through tone and volume of voice, in relation to body language. Thirdly, the sampling of interviewees was done purposefully (see Section 5.7.1 Case Selection).

5.12 Role of the Researcher

In this study the role of the researcher was determined by selection of the research paradigm and strategy, varying from complete detachment to committed involvement (Blaikie 2000). Although the researcher is generally totally detached from the cases involved, in the present study the researcher was very familiar with details of three of the twelve cases reviewed. Yin (2003a) highlights that such personal involvement provides an opportunity to gain access to data not available to external parties, and provides 'reality' from the inside. As a certain amount of bias cannot be avoided, Saunders *et al.* (2003) recommend that the researcher seek ways to control their bias. Therefore, to ensure researcher bias did not distort the findings of the study, the following strategies were employed:

1. Interviewing of multiple participants in organisations (where possible) to compare accounts and see if they concurred or contradicted each other.

2. Verification of data by presenting the results of the research to interviewees for authentication.
3. Use of rich and thick descriptions to convey findings.
4. Use of existing literature to determine whether the literature supported or did not support the findings of the research.

5.13 Limitations of the Research

The major criticisms of case study research in general are that the analysis of case studies can result in: overly complex theory development; difficulty in establishing external validity; and difficulty in their conduct. Furthermore, no single approach may be sufficient for sound theory development (Parkhe 1993).

In response to these possible criticisms, the researcher offers the following justifications for the present study. Firstly, the objective of this study is modest, it has not aimed to produce complex theories but instead generate an initial framework on the topic (Perry 1998). As it is primarily exploratory research, this to some extent negates the perceived limitations of theory development and generalisability. With regards to study difficulty, by using an extensive case study protocol, the researcher was able to maintain a uniform procedure and control the management of the study. Finally, as findings of this study are a unique contribution to the limited body of knowledge on SME exits, they should be considered as only one part of the total journey towards theory development on the topic.

5.14 Ethics

As with any study involving people there has been ethical issues to consider. Saunders *et al.* (2003 p.129) defines research ethics as "appropriateness of your behaviour in relation to the rights of those who became the subject of your work, or are affected by it". In this study, an ethics application was made to Victoria University of Technology's Faculty of Business and Law Human Research Ethics Committee and was approved in March 2008.

In addressing the issues relevant to this study, informed consent was addressed by providing information about the research (see Appendix 5D) to each participant to enable an informed decision on whether to participate. Included was an outline of the research, the rights of the participant, confidentiality of the interview, and the procedure of documenting and analysing the data collected.

In addition, all participation by interviewees was voluntary. The interview process commenced with the researcher explaining the purpose of the research; each participant was assured that he or she would be able to pull out of the interview and research at any time; participants were assured of anonymity and confidentiality of information; and participants were informed of the need for the interview to be electronically recorded. If the participant agreed, they were asked to sign a letter of consent. The formal interview started once the letter was signed.

For confidentiality purposes a code name was provided for each participant. Anonymous transcripts were shared with the supervisor, a professional transcriber, and co-researchers (co-supervisors) after permission was granted by interviewees. When information in the transcript revealed sensitive information (such as a name, medical condition, or sensitive financial data), this was masked. A written offer to check transcripts was made to all interviewees to verify their veracity, and they were assured that all data would be kept in a locked filing cabinet with electronic data requiring password access and all data to be destroyed after five years. Furthermore, the researcher had no positional power or financial influence over any of the interviewees.

5.15 Summary

This chapter has presented and justified the research paradigm. There has also been a detailed discussion on ways in which the credibility and validity of the findings have been addressed. Table 5.5 summarises the study's key details including the research strategy, the data gathering procedures, and the analysis techniques employed in this study. The following Figure 5.7 provides a diagrammatic display of how the research was undertaken.

Research Issue	Choice for Study
Research Paradigm	Interpretivist
Research Approach	Qualitative abductive
Research Strategy	Multiple case studies
Time Horizon	Cross sectional
Data Collection Methods	In depth semi-structured interviews, document analysis.
Research Participants	12 SME organisations located throughout Australia
Ethical Considerations	Victoria University – Ethics guidelines for the conduct of research
Data Analysis	Qualitative, abductive, content and thematic analysis of 12 interviews and secondary data. Use of NVivo™ as a CAQDAS.
Validity / Limitations	Recognition of the strengths and limitations of the multi-case methodology.

Table 5.5: Study summary.

The following chapter reports on the Pilot Study process and adaptations to the data collection methods used to enhance this study. This is followed by Chapter 7 which presents the case data in a series of formats for analysis.

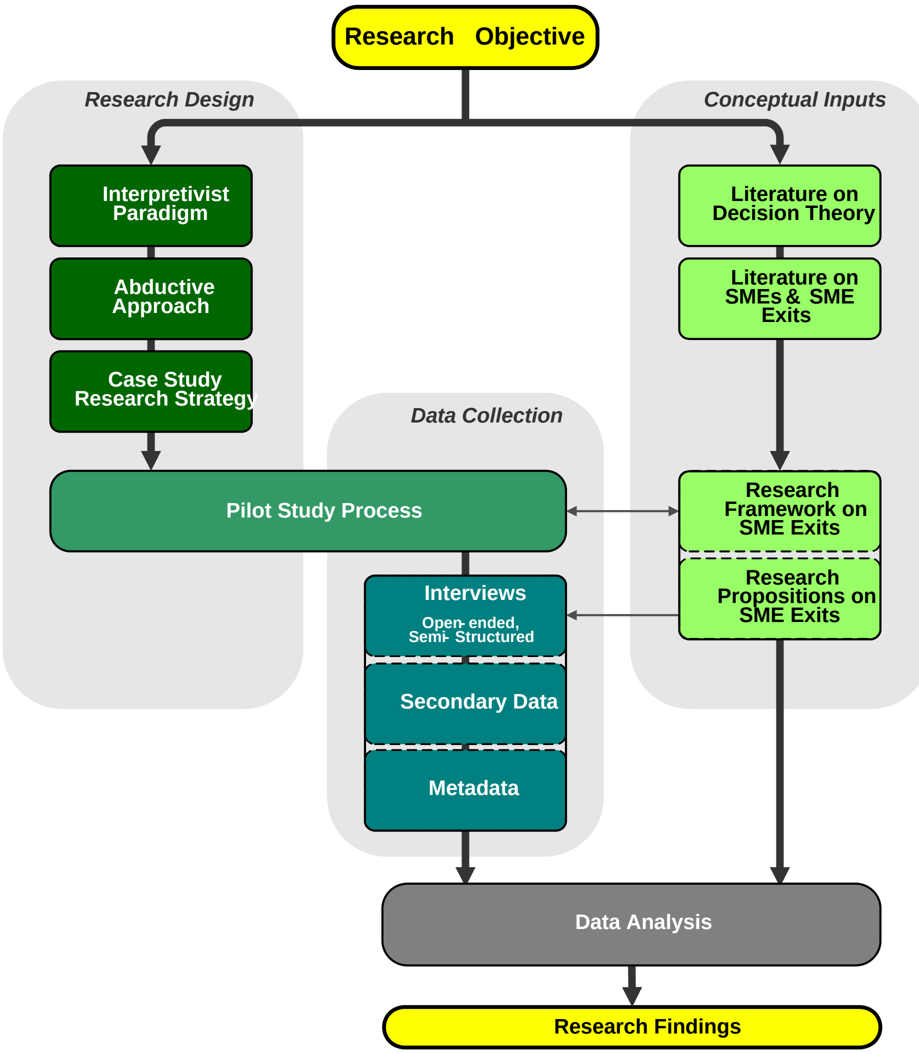

Figure 5.7: **Model of research methodology used, adapted from Koo (2004). Changes to the Koo model included the Pilot Study Process and the use of secondary and meta data.**

Part B

Chapter 6

PILOT STUDY

6.1 Introduction

This chapter describes the pilot process and refinements undertaken to improve the data collection methods used in this study. Veal (2005), Leedy (1989), Arskey and Knight (1999), and Yin (2003a & 2003b) suggest this can be done by:

- clarifying the interview questions;
- determining the field procedures and interview times;
- refining the data collection process; and
- testing the analysis procedures.

Furthermore, the suitability of data and analysed concepts and relationships are also assessed in order to direct the focus of the data enquiry.

The pilot process in this study involved three cases (case ID: ZY110, XW120, NM160) as a sequential cognitive process beginning with the initial Interview Guide (version JUL08-1.1 - see Appendix 6A). This guide was developed from the Research Framework (see Chapter 4) and used to direct the data collection for the first case (ZY110). Outputs from this process were then assessed, and the Interview Guide modified (version SEP08-1.1 - Appendix 6B) and applied to the next pilot case (Miles & Huberman 1994). This process was repeated (see Appendices 6C and 6D) until the investigator was satisfied with the results of the data collection process. Sections 6.2 to 6.8 identify the outcomes and specific adaptations that resulted from this process. Output of this pilot process was then used as the final version of the Interview Guide (version SEP08-2.2) used to collect data for this study. In addition, all data from the pilot cases was also included in the main study (see Figure 6.1)

6.2 Pilot Case Adjustments

To aid the analysis of the data collected in the three pilot cases (cases 1P, 2P and 3P) a summary table was developed (post case 1P) to help reduce the data and highlight possible deficiencies in the data collection method (Strauss & Corbin 1998, Veal 2005). Where applicable, an absence of data in the table indicated possible weaknesses in the data collection method and resulted in an adjustment by modifying an existing question, the addition of a new question, or alteration in the line of questioning (see Table 6.1).

Key dates and milestones of the exit process were then translated onto a generic timeline to display data (Miles & Huberman 1994, Veal 2005) and further gauge effectiveness of the data collection. When critical data was not revealed in the interviews, a follow-up process was initiated where the interviewee was re-approached and asked specific questions to complete the data collection. No conclusions should be drawn from the relative positions of data on the generic timeline. This arrangement merely aims to represent all cases in a common format.

CASE	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Partners	Shareholding	Structure	Target Customers	Types of Products
Reasons for sale						Role of Interviewee			Partners' Roles			
Role Prior to this Business					Years of Prior SME Business Experience			Current Occupation		Sold Business Prior		
Miscellaneous Information												
Date of Exit Decision		Date of Actual Exit		Match to Pre-Exit Expectations		Changes to Expectations		Influences on Exit Decision with Weighting			Buyer Classification	
Time Taken for Exit Decision		Others Involved in Exit Decision		Single or Staged Exit Decision		Steps After Exit Decision		Other Parties Involved in Exit Planning			Influence of Optimism	
Start Exit Planning		End Exit Planning		Start Exit Execution		End Exit Execution		Start Exit Contemplation		Transition to Realism		Advisors Used in Exit
Evidence of Pre-Conditions to Exit		Evidence of Barriers to Exit				Evidence of Other Stakeholder Aspirations			Evidence of Exit Trigger		Date of Exit Trigger	
Other Exit Information												

<u>Table 6.1:</u> Summary table used to analyse the key details of the pilot data collected in the pilot study. The highlighted boxes in this table indicate the data translated to the timeline.

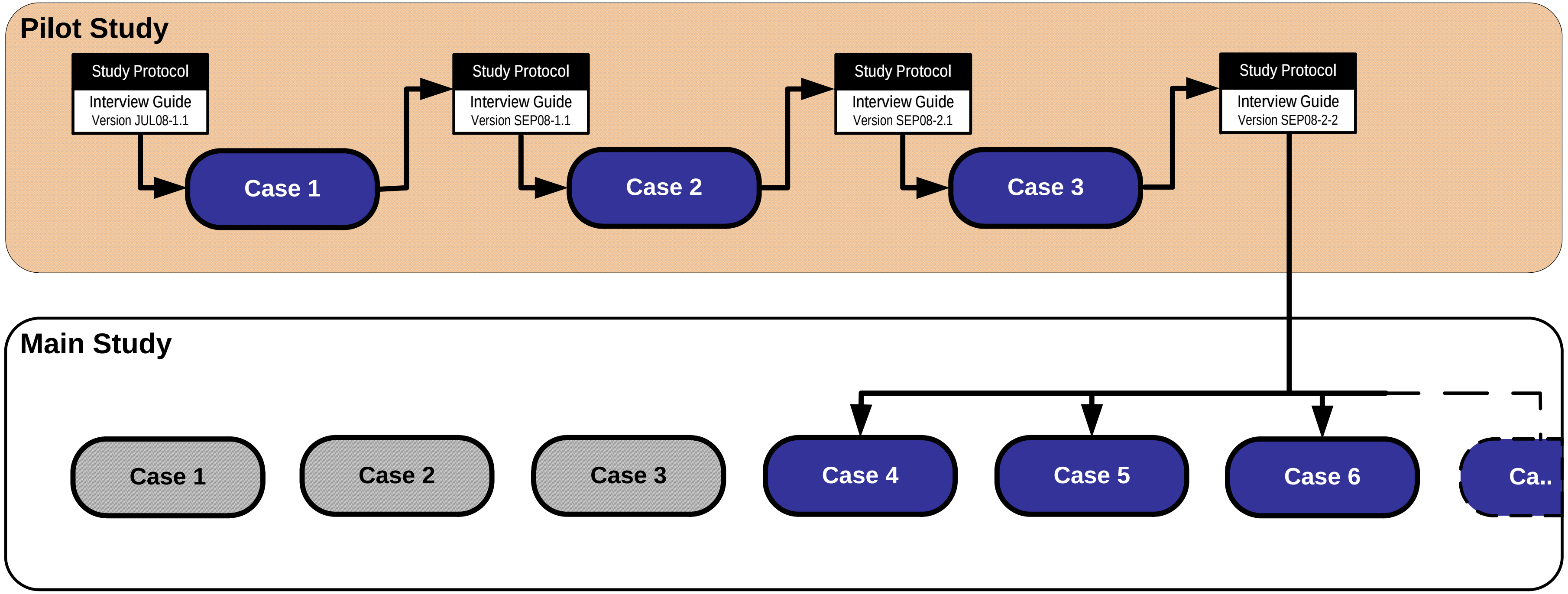

Figure 6.1: The pilot process undertaken to refine the data collection method and validate the research model.

6.3 Results from the First Pilot Case

A summary of data collected for the first case (Case 1P) is displayed in Table 6.2, and in generic timeline format in Figure 6.2. In the first pilot case the owner had been bought out by an existing business partner. A feature of this case was its very short timeframe and the way in which it bypassed many of the steps and features identified in the research propositions (see Chapter 4). Overall there was little evidence of exit planning activities. Nor was there support for concepts such as barriers to exit and preconditions to exit.

6.3.1 Preliminary Analysis

The concepts which were confirmed by the analysis of the first pilot study are as follows: exit contemplation as the first step in the exit process, followed by an exit trigger which acts as a precondition for the exit decision; this is followed by activities related to executing the exit.

Apart from verifying the proposed concepts four potentially new concepts were derived from analysis of this initial case data. Firstly, where buyers originate from (internal to the organisation versus external) is a possible major determinant of the exit process. This idea formed the foundation for the theme eventually referred to as buyer's characteristics. Secondly, characterising the exit as reactive, where the seller is approached by the buyer, or proactive, where the seller approaches the buyer, is a new concept that explains influences in the exit process[62].

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[62] It is propositioned that a *proactive* situation usually results in a longer exit process than a reactive one. See Sections 8.5 and 8.6 for further discussion on this concept.

The third new concept is that the identification of individual personal characteristics are both an influence and factor in the exit process. This realisation lead to a concept referred to as 'entrepreneur's characteristics' (Smith 1967) influencing the degree of exit contemplation and impacting on exit aspirations.

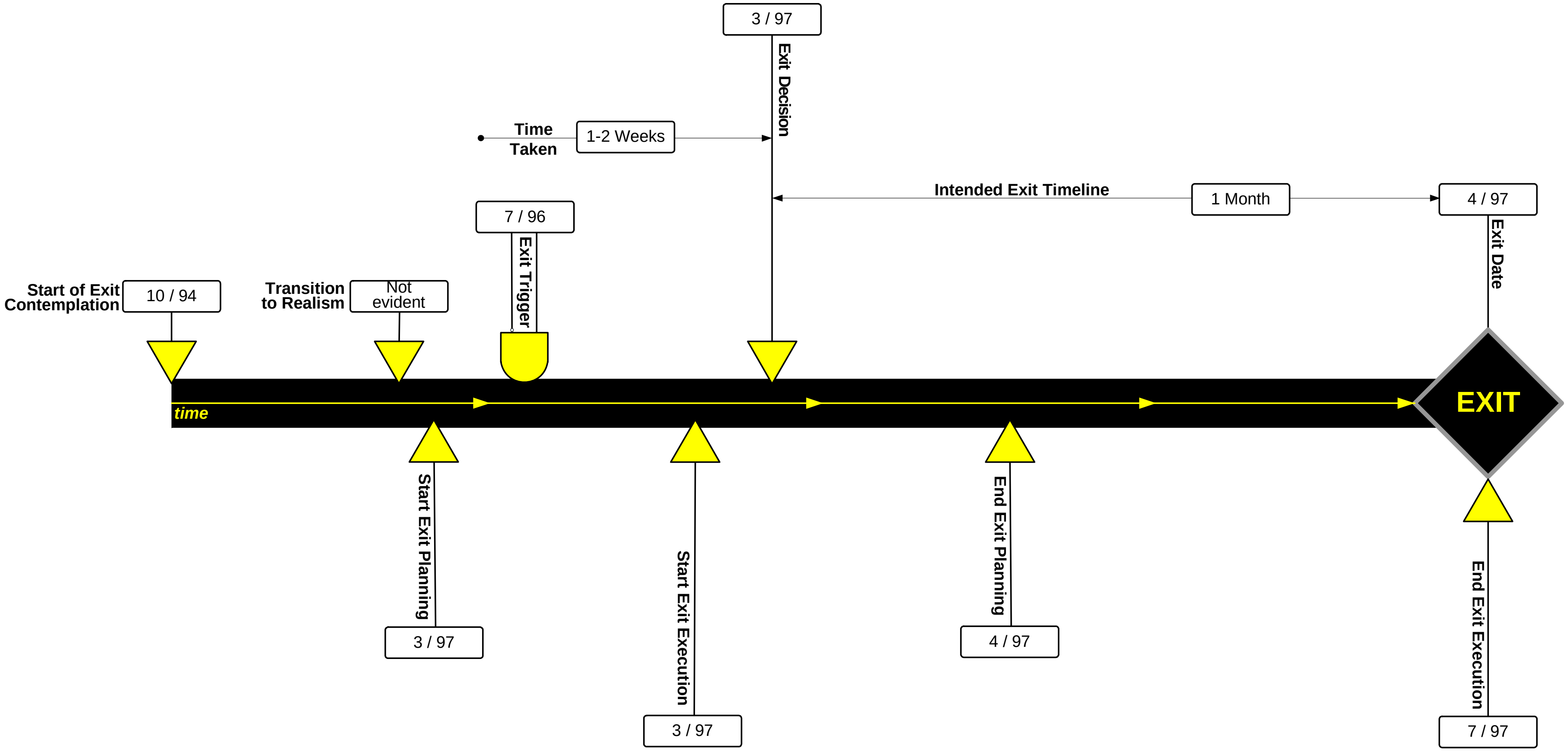
The fourth and final concept is an adaptation to the structure of the exit decision. This case provided an insight into the exit decision as consisting of possibly three stages: the exit trigger, a 'provisional' decision and a 'final acceptance' decision (Gilligan *et al*. 1983, Simon 1960, Rapport 1989). At this stage it was determined that no adjustments needed to be made to the Interview Guide (version SEP08-1.1) for this concept, but should be reviewed in the next pilot case (Case 2P) analysis. A more detailed analysis of this case is discussed in Chapter 8.

From the above summaries it appears that this initial data collection yielded little data on many aspects of the overall exit process as proposed in Chapter 4. This outcome is supported by the need to introduce the four new concepts identified above. As a result, it was determined that at this stage no concepts would be disregarded until further analyses had been conducted on the subsequent pilot cases. Therefore, pilot study two was designed to incorporate few changes. These are discussed in the following sub-section.

CASE 1P	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Partners	Shareholding	Structure	Target Customers	Types of Products
	ZY110	ICT	1990	04 / 97	7	Yes	7	1	50% respondent, 50% partner	Pty Ltd	SME, Govt, Education	Mobile computer specialist, hardware and services.

Reasons for sale	Offer made by partner	Role of Interviewee	Director of Administration & Operations	Partners' Roles: Director of Marketing & Sales								
Role Prior to this Business	Managing Director of ICT Re-Seller, Regional Manager for Japanese	Years of Prior SME Business Experience	8	Current Occupation	Business Owner	Sold Business Prior	Yes, similar business to this one. This was a spin-off from previous business.					
Miscellaneous Information												
Date of Exit Decision	03 / 97	Date of Actual Exit	04 / 97 07 / 97	Match to Pre-Exit Expectations	No Expectations	Changes to Expectations	Not evident	Influences on Exit Decision with Weighting	30% offer, 40% industry trends / optim., 20% energy/ enthus., 10% lack of optim.	Buyer Classification	Reactive - Internal Known / Other	
Time Taken for Exit Decision	1-2 weeks	Others Involved in Exit Decision	Family	Single or Staged Exit Decision	Single	Steps After Exit Decision	Appoint accountant	Other Parties Involved in Exit Planning	Minimal, accountant assistance in deal structuring	Influence of Optimism	Significant, 10% stated + 40% due to poor industry trend	
Start Exit Planning	Mar 97	End Exit Planning	Apr 97	Start Exit Execution	Mar 97	End Exit Execution	July 97	Start Exit Contemplation	Oct 94	Transition to Realism	Not evident	Advisors Used in Exit: Accountant
Evidence of Pre-Conditions to Exit	Not evident	Evidence of Barriers to Exit	Yes, supplier agreements continued.	Evidence of Other Stakeholder Aspirations	Need to consult family prior to making exit decision	Evidence of Exit Trigger	Some but not strong. Anecdotal, accepted offer but was unsure how much business was worth.	Date of Exit Trigger	Jul 96			
Other Exit Information	Internal sale, buyer was the other partner. Exit process was streamlined and condensed. Comment made about the ability to attract quality personnel impacted owner's level of optimism. The decision to exit is 2 staged; there is a provisional decision and then a final decision subject to negotiations and receiving an acceptable offer.											

Table 6.2: **Summary of data collected from the first pilot case (Case 1P).**



<u>Figure 6.2:</u> Generic timeline plot of first pilot case (Case 1P).

6.3.2 Changes for the Second Pilot Interview

Following the analysis of Case 1P four changes to the Interview Guide (SEP08-1.1 –see Appendix 6B) for the second pilot case (Case 2P) were made as follows:

1. A question was added to specifically identify the source and background of the buyer: “Who bought the business? Can you tell me about them?” Certain aspects of the buyer’s circumstances have an impact on the exit process undertaken, particularly in relation to the planning and overall timeframe of the exit;
2. Specific questions were highlighted to direct the interviewer’s attention in order to draw out a more detailed response to the topic, and to streamline the remaining questions. This change was made in response to identifying that the question format was process specific and may not apply in some exits;
3. More focus was directed towards establishing the entrepreneur’s profile and ascertaining and understanding their individual characteristics, e.g. management style, attitude towards staff; and
4. A specific question was added to the *sell decision* section on whether the situation was *proactive* or *reactive*; “Did you seek the buyer or did the buyer seek you?”

6.4 Results from the Second Pilot Case

A summary of the data collected for the second case (Case 2P) is displayed in Table 6.3 and in generic timeline format in Figure 6.3. The second pilot case identified a business exit in which the strategy from conception included sale of the business. This case is rich in data, particularly in regard to the exit decision(s). The owners proactively sought potential buyers and engaged in an elongated 'dating' process with their eventual buyer, a large multi-national corporation and customer of the business.

Planning for the exit was a regular part of partner meetings. During these meetings the business strategy was readjusted according to the business fit with potential buyers. There was evidence of an exit trigger in July 2003, and like the previous case, the decision to sell was multi-tiered. A provisional decision was made in early 2004, and acceptance of the final offer (final acceptance) made in April 2006.

In this case it is difficult to differentiate between planning activities and exit execution. However, the case shows significant support for the concepts of barriers to exit (long due diligence process) and preconditions to exit (gestation period to start of the exit process) suggested in this study.

6.4.1 Preliminary Analysis

Case 2P provided detailed data on the exit decision process. At a prima facie level the actual exit decision fits, but awkwardly, with the research model. There is evidence of a 'slight' (weak support) exit trigger and a definite decision to exit. In its proposed state the model is, however, unable to account for the strategic decision (from start-up) to exit, and the final (second) exit decision in March 2006. As previously suggested in the first pilot (section 6.3.1) this delay alludes to the exit decision being more complex than a single decision, and the possibility of it being conceived as a multi-tiered decision or series of decisions. In this case, early indications suggest that the exit decision consisted of three distinct tiers: an exit trigger, a provisional exit decision, and a final acceptance exit decision.

CASE	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Partners	Shareholding	Structure	Target Customers	Types of Products
2P	XW120	HR	12 / 95	07 / 06	11	Yes	11	2	15% respondent, 15% partner 1, 70% partner 2	Pty Ltd	Blue chip corporate	Unique HR solutions, talent management, systems and consulting.
Reasons for sale	Business strategy, proactively sought buyer	Role of Interviewee	Systems development & delivery, business management	Partners' Roles	1. Accounting (silent)	2. Sales and consulting						
Role Prior to this Business	Multiple roles with large oil company	Years of Prior SME Business Experience	0	Current Occupation	Business Principal at buyer's business (similar role)	Sold Business Prior	No					
Miscellaneous Information	Products and services evolved over the life of the business.											
Date of Exit Decision	01 / 04	Date of Actual Exit	07 / 06	Match to Pre-Exit Expectations	70% P(2) > 70%	Changes to Expectations	Not evident	Influences on Exit Decision with Weighting	Not stated as % but mentioned economic factors, risk, security. P1 health issues.	Buyer Classification	Proactive - External Known / Customer	
Time Taken for Exit Decision	28 months	Others Involved in Exit Decision	2 business partners	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Appointed corporate adv. & engaged legal advisor	Other Parties Involved in Exit Planning	Legal advisor	Influence of Optimism	Not quantified but mentioned impact of 02 econ. Downturn.	
Start Exit Planning	Not definitive	End Exit Planning	Not evident	Start Exit Execution	06 / 05	End Exit Execution	07 / 06	Start Exit Contemplation	12 / 95	Transition to Realism	Not evident	Advisors Used in Exit: Legal, Corporate
Evidence of Pre-Conditions to Exit	Not evident	Evidence of Barriers to Exit	Yes, elongated due diligence process.	Evidence of Other Stakeholder Aspirations	Unknown, majority partner aspirations dominate	Evidence of Exit Trigger	Weak, business strategy was to always sell. Anecdotal based on comment re: 02 econ slowdown	Date of Exit Trigger	07 / 03			
Other Exit Information	Business strategy was to always sell the business. Proactively sought potential buyers and engaged in an elongated 'dating' process with final buyer. Business strategy adapted according to potential buyers. Planning for exit was part of regular partner meetings held regularly. There is a weak trigger in July 2003 and the decision to sell is multi-tiered, provisional decision made early 04 and acceptance of final offer made in April 06. Difficult to differentiate between planning and execution.											

Table 6.3: **Summary of data collected from the second pilot case (Case 2P).**

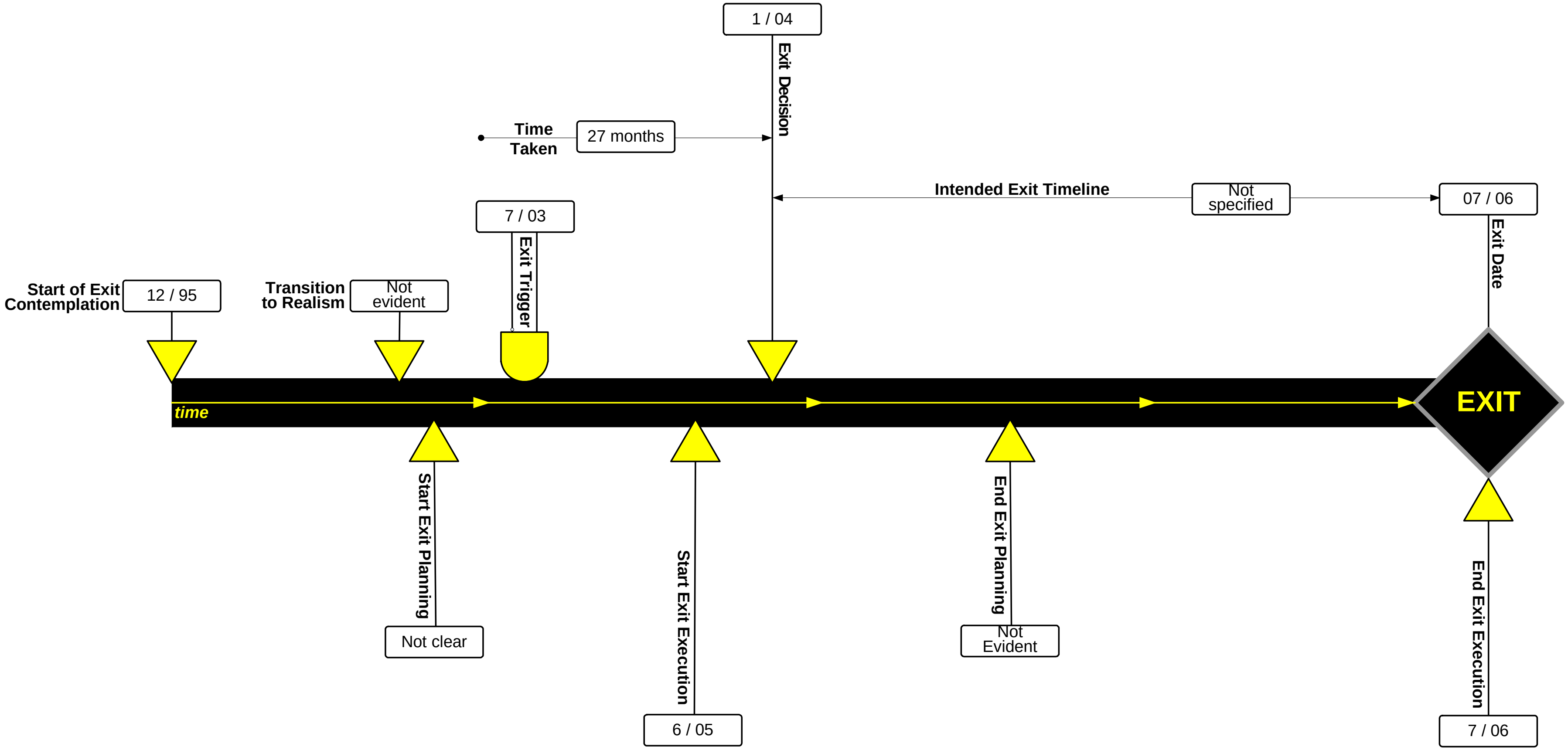


Figure 6.3: Generic timeline plot of second pilot case (Case 2P).

This adaptation, however, did not account for the strategic exit decision occurring prior to the exit trigger, which achieved a suitable but short lived explanation that was modified after analysing the third pilot case (Case 3P).

Case 2P also provides firm support for the concepts of barriers to exit, preconditions to exit, exit planning and exit contemplation. In addition, it supports the explanations of the new concepts derived from the first pilot: proactive versus reactive, internal versus external, and how these factors influence the exit process.

Whilst the initial two pilots yielded valuable data there were only minor overlaps in the exit processes which resulted in negligible concurrence in key areas. As a consequence, it was deemed that a third pilot case should be undertaken. Once again, it was decided that no concepts be disregarded. A more detailed analysis of this case is discussed in Chapter 8.

6.4.2 Changes for the Third Pilot Interview

As a result of the analysis of data from the second pilot (Case 2P), the following two changes were made to the Interview Guide (version SEP08-2.1 – see Appendix 6C) for the third pilot case (Case 3P):

1. An adaptation to the diagrammatic display of the exit decision (page 5 of Interview Guide) was made to record multiple (exit trigger, provisional, and final acceptance) dates, and account for a multi-tiered decision process; and

2. The elimination[64] of questions where saturation was evident and where there were either superfluous data or null responses.

6.5 Results from the Third Pilot Case

A summary of the data collected for the third case (Case 3P) is displayed in Table 6.4 and in generic timeline format in Figure 6.4. This case identified a business exit where the owners strategised an exit as "the next growth step" for their business. The owners proactively sought three potential buyers, settled on one external party, and finalised their 'exit'[65] in ten months. This is a case which clearly shows the multi-tiered exit decision process, but with the exit trigger not being a function of either lack of optimism or the four trigger factors (timing, crisis, risk, financial) identified in the research model (Chapter 4).

What differentiates this case is that it presents a continuation of the owners into a merged and larger business rather than a large financial gain or risk mitigation tactic of the owners (Entrepreneur's Toolkit 2005). Although the owners' aspirations are stated explicitly these are presented within the framework of future growth, broadly as 'future financial security', rather than as a nominated lifestyle or financial benefit. Like the earlier pilots there is very little evidence of

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64 Blanking out the text with the intention of deleting it in the next version of the *Interview Guide,* if this approach proved successful.

65 Exit is a merger with a multi-national firm in a similar line of business.

CASE 3P	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Partners	Shareholding	Structure	Target Customers	Types of Products
	NM160	Eng. Cons. & Design	1984	11 / 96	12	Yes	12	4	20% each shareholder	Pty Ltd	Mining & Sugar Industry	Engineering process design & consultation
Reasons for sale	Business strategy, proactively sought buyer					Role of Interviewee	Systems development & delivery, business management		Partners' Roles: 1. Chemical engineer	2. Civil engineer		3. Sugar technologist
Role Prior to this Business	Employed as a researcher at a local university.				Years of Prior SME Business Experience		0	Current Occupation	Consulting engineer	Sold Business Prior	No	
Miscellaneous Information	Multi-disciplined engineering business focussed on minerals processing and sugar processing.											
Date of Exit Decision	01 / 96	Date of Actual Exit	11 / 96	Match to Pre-Exit Expectations	75%	Changes to Expectations	Not evident	Influences on Exit Decision with Weighting	75% capital, 5% energy & enthusiasm, 10% economic factors, 10% family		Buyer Classification	Proactive - External Known / Other
Time Taken for Exit Decision	3 months	Others Involved in Exit Decision	4 business partners	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Engaged legal advisor late in the process.	Other Parties Involved in Exit Planning	Legal advisor		Influence of Optimism	Not a factor
Start Exit Planning	01 / 96	End Exit Planning	07 / 96	Start Exit Execution	01 / 96	End Exit Execution	11 / 96	Start Exit Contemplation	9 / 95	Transition to Realism	Not evident	Advisors Used in Exit: Legal
Evidence of Pre-Conditions to Exit	Not evident		Evidence of Barriers to Exit	Not evident		Evidence of Other Stakeholder Aspirations	Not evident		Evidence of Exit Trigger	Needs a redefinition of a trigger because this was a deliberate strategy decision.	Date of Exit Trigger	9 / 95
Other Exit Information	This was a strategised business decision to grow the business. Issues of inadequate capital base for future growth prospects.											

Table 6.4: Summary of case data from the third pilot case (Case 3P).

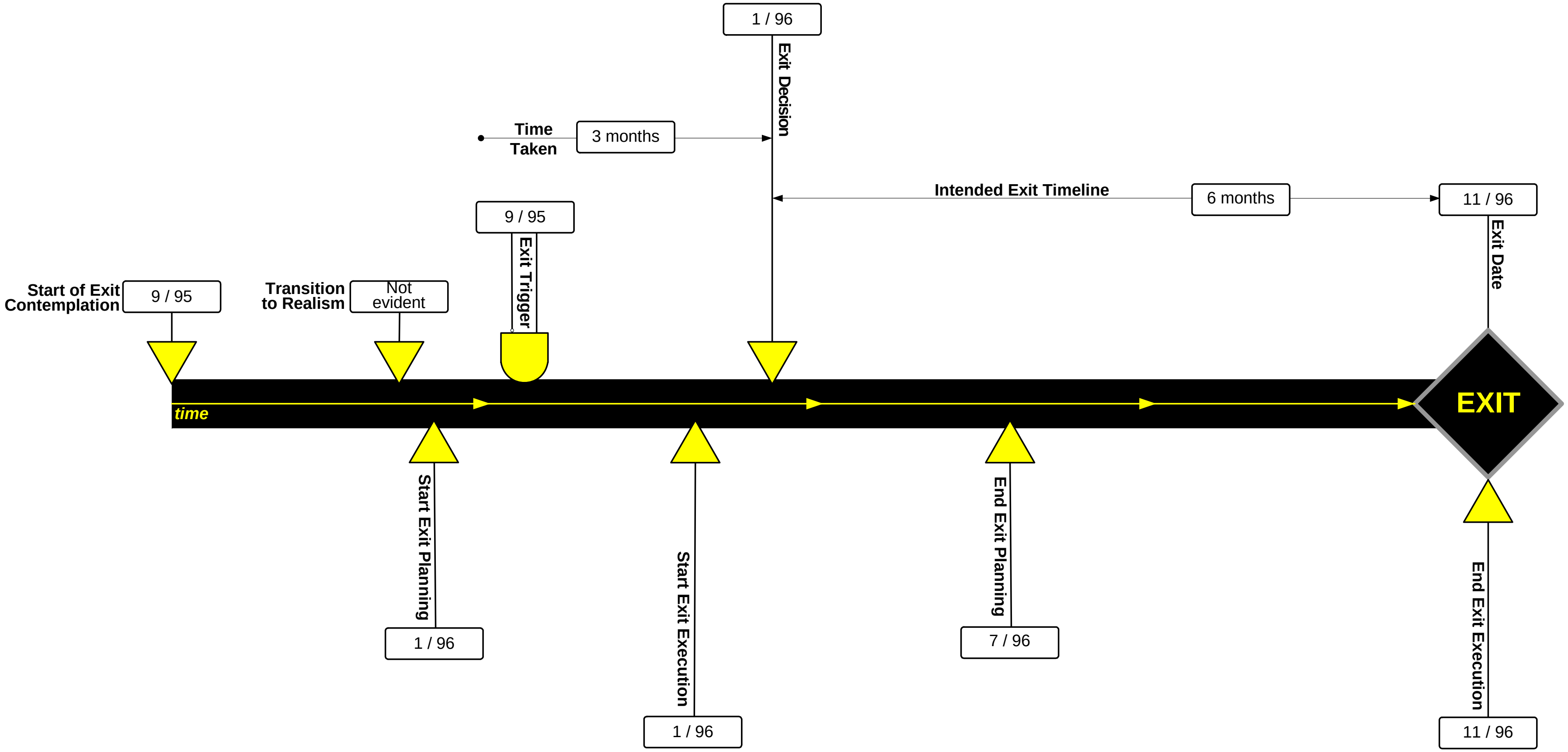


Figure 6.4: Generic timeline plot of third pilot case (Case 3P).

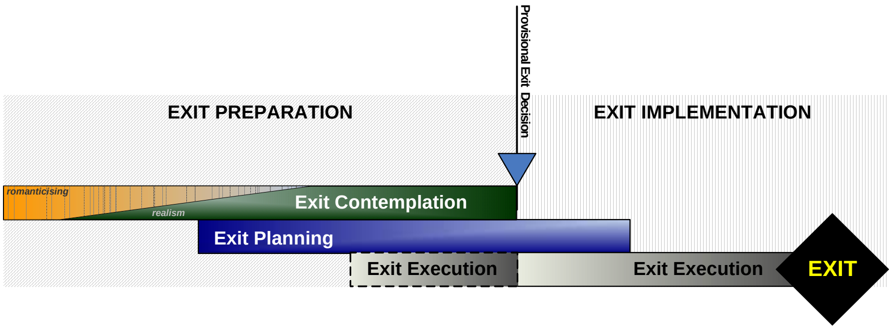
formal planning and once the decision to exit was made (January 1996), it became very difficult to distinguish between the activities of planning, and those of execution.

6.5.1 Preliminary Analysis

Using concepts developed from the previous pilot cases (Cases 1P and 2P), pilot case 3P has been categorised as a 'proactive-external' exit, which implies a longer exit process with at least two exit decisions and evidence of barriers to exit. At eleven months this was not a long exit timeline. Case XW120 (Pilot Case 2P) took 31 months in comparison to fast exits such as the 'reactive-internal' exit of case ZY110 (Pilot Case 1P) which was completed in just one month. Overall this case supports preliminary explanations derived from the earlier pilots of proactive versus reactive and internal versus external and how these factors influence the exit process.

In the case of NM160 (Pilot Case 3P), the strategic decision to 'exit' in order to grow the business does not fit the proposed model of the exit trigger and subsequent conditions for a decision to exit. The decision was not made in an optimistic environment, there were no crises (financial, health, family, risk related), and there was no offer to buy. A preliminary conclusion calls for an adaptation to the understanding of the exit trigger in order to add 'strategic decision' as a sixth factor in the proposed framework (Chapter 4). However, despite its differences, case 3P concurs with the earlier pilot cases in that an exit decision was not a single decision but one that was multi-tiered (the provisional decision was made on January 1996, and the final acceptance in August 1996). This case also provides firm support for the concept of barriers to exit. The data from this pilot assists in validation of the exit process undertaken in Case 2P which was similarly ‘proactive – external’, and in part reconciles why there was little consensus in data from the first two pilots.

A review of data from the three pilots identified that the concepts of exit planning and exit execution fit inelegantly with the pilot data. There is little or no evidence of formal planning activities, and determining the details of planning (either formal or informal) from execution activities has proved difficult. Therefore, an adaptation to the Interview Guide was made in order to consolidate all activities in the period prior to the exit decision (the provisional decision because it is the earlier exit decision), now referring to it as ‘exit preparation’, and activities after this point as ‘exit implementation’. Both periods within the exit process may contain a range of activities such as planning and execution, but these could be viewed as ‘activity layers’ occurring within the period (see Figure 6.5). These activities can also span more than one period. As with the previous pilot cases, (1P and 2P), a more detailed analysis of this case is discussed in Chapter 8.



<u>Figure 6.5:</u> A simplified display of the exit process framework with the addition of the *Exit Planning* and *Exit Implementation* concepts.

6.5.2 Changes for the Interview Guide

As a result of the analysis of the data from this pilot case 3P, four final changes were made to the Interview Guide for the remaining cases:

1. The blanked out questions were removed from the document;
2. Some questions were redrafted to encourage the respondent to elicit more details and help with the general flow of the interview e.g. “Can you tell me a little about those expectations?”;
3. A further culling of questions that were either yielding superfluous data or repeating null responses; and
4. Questions were rearranged from headings of planning and execution to revised concepts of preparation and implementation.

The final version of the Interview Guide (version SEP08-2.2) used in this study can be found in Appendix 6D. In addition, changes were made (see Appendix 6E) to the original data reduction table and generic timeline display to reflect changes and adaptations resulting from the pilot study analyses.

Finally, perceived gaps in the pilot data were pursued to develop a generic interview guide accommodating the nuances of businesses included in this study, and all these pilot cases were included in the main study.

6.6 Summary

This chapter has reviewed the pilot processes and refinements undertaken to improve the interview guide used for this study. This undertaking involved a reduction of questions to streamline the data collection process and a rewording of some questions to encourage interviewees to respond more meaningfully (Arksey & Knight 1999). The chapter also involved appraisal of the suitability of data, as well as preliminary analyses of the concepts and relationships contained within the proposed research model (see Chapter 4) used to direct the focus of data enquiry (Strauss & Corbin 1998, Yin 2003a, Yin 2003b).

This pilot study involved three cases (cases ZY110, XW120, and NM160) in a sequential cognitive process (Miles & Huberman 1994). It began using the initial Interview Guide (version JUL08-1.1) and ended with the fourth iteration and final version (SEP08-2.2) to be used as the main instrument for data collection in this study. Results of this pilot and its findings are further discussed in the following two chapters.

Part C

Chapter 7

CASE STUDIES

7.1 Introduction

Following the refinements of the *Pilot Study* described in the previous chapter, the aim of this chapter is to present the results of the study. It is divided into three main sections: the first part (Section 7.2) is a summarised presentation of the types of data acquired; how they were acquired and recorded, what protocols were used to verify and confirm their validity, and finally, the form they are presented in for analysis (Saunders *et al.*, Gibbs 2007).

The second part (Section 7.3) provides a demographic summary of twelve cases and their participants. The objective here is to inform the reader of the study's soundness as a representation of the Australian SME community, and provide a holistic backdrop before discussing each case in more detail. Included in this section is also a framing of key exit features in an attempt to better identify how certain exits should be clustered and explain the processes undertaken (Miles & Huberman 1994).

Finally, Section 7.4 of this chapter provides for each case:

- a highlighted description explaining the factors that impacted the decisions to exit, who bought each business, and any extraordinary facets identified in the exit process;
- a data reduction in the form of a summarised table; and
- an exhibit of key exit details on a standardised timeline.

7.2 Data Acquired

Sections 5.7 and 5.9 detailed the data sources, the collection methods, and how the data would be handled. This study's data was acquired from twelve cases of successful SME exits. To ensure anonymity, each case was provided with a coded identification and the specific details stored in a secure research database (Yin 2003a, Veal 2005). All data was then stored and referenced according to that code. Table 7.1 summarises the sources of data acquired and the sections that immediately follow (7.2.1 to 7.2.3) provides detail of that data.

7.2.1 Primary Data

The sources of primary data for this study were semi-structured interviews[66] with shareholders; with the principal shareholder in all but two cases. Each case provided at least one interview, lasting on average 47 minutes, a total of 549 minutes of primary interview data.

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66 Based on the Interview Guide (version, SEP08-2.2) developed through the Pilot Study process as described in Chapter 6.

	Case Identification	Primary Data Interview	Primary Data Field Notes	Secondary Data and/or Second Interview	Metadata Reflections	Metadata Debrief
1	ZY110	Yes	Yes	Yes	Yes	Yes
2	XW120	Yes	Yes	Yes	Yes	Yes
3	NM160	Yes	Yes	Yes	Yes	Yes
4	VU130	Yes	Yes	No	Yes	Yes
5	TS140	Yes	Yes	Yes	Yes	Yes
6	RQ150	Yes	Yes	Yes	Yes	Yes
7	PO170	Yes	Yes	Yes	Yes	Yes
8	JI180	Yes	Yes	Yes	Yes	Yes
9	LK190	Yes	Yes	No	Yes	Yes
10	HG200	Yes	Yes	No	Yes	Yes
11	FE210	Yes	Yes	No	Yes	Yes
12	DC220	Yes	Yes	No	Yes	Yes

Table 7.1: Summary of data acquired and analysed in this study.

In addition to the primary interviews, four secondary interviews were conducted with partners or exit advisors. All interviews were electronically recorded[67] and then transcribed. Confirmation of the transcripts was conducted in two steps: the first was a confirmatory check by listening to the entire recorded content of each interview against the transcript, and the second step was to send the transcripts of randomly selected cases (XW120, TS140, RQ150, PO170) to interviewees to verify that the transcript was a true and accurate account of their interviews (Arskey & Knight 1999, Marshall & Rossman 2006, Veal 2005). A sample of an interview transcript is contained in Appendix 7A.

67 With the permission of the interviewees.

Key data from each transcript was then summarised as 'case attributes' in NVivo (Fielding & Lee 1998, Kelle 1995, Bazeley 2007, Richards 2005) for subsequent analysis[68], and the transcript data was reduced using a summarised table format (Miles & Huberman 1994), modifying the Pilot Study process (see Appendix 6E and Section 6.2). To assist in the investigation, information was then extracted from the summary tables and displayed on a generic timeline[69] to display key attributes of the exit process and allow comparison and analysis (Miles & Huberman 1994, Silverman 2000)[70].

The transcripts of each case interview were then imported into NVivo and coded (see also Section 5.10.1) as part of a thematic analysis. This output was then combined with the other data sources using non-CAQDAS analyses (see Section 5.10.2) to produce the study's Findings (Chapter 8). In addition to the transcripts, handwritten field notes notated on the Interview Guide during the interview were analysed.

7.2.2 Secondary Data

To corroborate the interview data, secondary data in the form of supporting documentation was sought from all business owners (Veal 2005). Due to the commercially sensitive nature of these documents (contracts, guarantees, due diligence studies, etc.), secondary data was only available in three cases. In the cases where documents were available for inspection they were used to confirm key details such as:

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68 Refer Section 5.10.1.

69 Adopted from the Pilot Study in Chapter 6.

70 This is also displayed in Section 7.3, Figures 7.1 to 7.12.

- agreed exit processes;
- exit dates;
- appointment of external parties associated with exit preparation and execution activities;
- confirmation of potential exit barriers (completion of tasks prior to settlement, confirmation of stated details, settlement requirements, etc.); and
- business details (staff, length of operation, type of business).

7.2.3 Metadata

Further to the primary and secondary data acquired for each case, a series of metadata was notated on each case to aid subjectivity and reflexivity (Lincoln 1995, Veal 2005, Holliday 2002). These supplements were used to contribute to the non-verbal dimension of the data and aid the interpretation of interviews. This process included the following:

a) a field summary which included information on the setting - who was present, what 'things' meant, and other insights - made straight after the interview without the interviewee present (see Appendix 7B);

b) case reflection notes completed post-interview which covered information on the individual (interviewee), the buyer, the decision to sell, and contemplation (see Appendix 7C); and

c) self-debrief notes prepared after the interview covering topics such as "how the interview felt", "did any new concepts come up", and "how the interview went" (see Appendix 7D).

These meta-data were imported into NVivo, and the relevant parts coded to aid analysis (Bazeley 2007, Richards 2005).

7.3 Selection of Cases

The twelve cases used in this study were selected in order to achieve 'theoretical' and literal replication. In order to lay the foundation for examining the research propositions outlined in Chapter 4, interviews were conducted with the owners of twelve businesses, with each interviewee providing a summary of their personal and business backgrounds (see Interview Guide, Appendix 6D). The purpose of this was twofold, to help interviewees relax and to provide a context for each business exit.

As shown in Table 7.2, the range of businesses covered in this study were; five small and seven medium sized businesses[71], meaning that the majority of cases were medium sized businesses. There was a spread of both business types and industries represented; the most common business type being re-seller/ supplier agents; and industries ranged from ICT and human resources (HR) to construction and hospitality. While some businesses were similar (e.g. re-seller/ICT), there were key differences in operating regions and target customers. No cases were competitors with other cases.

This study was conducted in Melbourne, Australia, so there is a high representation of businesses (nine in total) operating in the State of

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71 Australian Bureau of Statistics defines SMEs as: micro business (1-5 employees), small business (6-19 employees), medium business (20-199 employees).

Victoria. Because four of the nine Victorian businesses, had operations in more than one state, they were subsequently classified as national businesses. The only regions not represented by operations or customers were the Australian Capital Territory and the Northern Territory. All businesses except one, were based in the capital city of their respective states.

Business start dates ranged from 1975 to as recent as 2001. Seven of these businesses were start-ups by their owners, with four of these being their owner's first business. Nine cases had been owned for more than six years with half at nine years or more. However, the two businesses operating in hospitality exited after only three and four years of operation. With the exception of two, all businesses were structured as limited liability companies. In most instances (seven cases), businesses were wholly owned by the interviewees. However, in two of these cases the interviewees had bought out their partners during the time of ownership. The largest grouping of partners in any business was six.

There were no patterns in the educational background of owners, with five having post-graduate qualifications and only four being educated to year twelve or less. The sample was not representative of Australian female ownership of small businesses[72] because only one female interviewee was represented. No attempt was made to account for the ages of interviewees, but since their exits five have retired or semi-retired, one has been employed, and the remainder have continued operating/owning a business of some form.

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72 Australian Government website for Office for Women quotes 32 percent female ownership of small business in June 2004. *Small Business,* viewed 19 November, 2008. < http://www.ofw.facsia.gov.au/work_education/eco_security/small_business.htm>

Case Identification	Business Type	Industry	Location	State[1]	Date Started[2]	Date Exited[3]	Business Structure	Business Partners[4]	Education Levels	No's of Staff	Original Owner	Sex	Entreprep. Type[5]	Prior Yrs Business	Years of Ownership
ZY110	Re-Seller	ICT	City	VIC	1990	04 / 97	Pty Ltd	Yes (2)	Postgrad.	11-20	Yes	Male	Serial	8	7
XW120	Consultant	HR	City	National	1995	07 / 06	Pty Ltd	Yes (3)	Postgrad.	11-20	Yes	Male	First	Nil	11
NM160	Consultant	Engineering	City	QLD	1984	11 / 96	Pty Ltd	Yes (5)	Postgrad.	21-49	Yes	Male	First	Nil	12
VU130	Retail	Pharma-ceutical	City	VIC	1989	07 / 04	Bus. Name	No	Postgrad.	6-10	Yes	Male	Serial	2	14
TS140	Cafe	Hospitality	Regional	QLD	1999	02 / 04	Pty Ltd	No	Undergrad.	21-49	Yes	Male	Serial	15	4
RQ150	Re-Seller	ICT	City	WA	1984	08 / 04	Pty Ltd	No	Undergrad.	11-20	No	Male	Serial	15	16
PO170	Re-Seller	ICT	City	National	1993	08 / 04	Pty Ltd	Yes (2)	Postgrad.	21-49	No	Male	Serial	9	11
JI180	Logistics	Logistics	City	National	1990	10 / 02	Pty Ltd	No	Undergrad.	21-49	Yes	Male	First	Nil	12
LK190	Construction	Building	City	National	1992	03 / 01	Pty Ltd	No	Year 11	21-49	Yes	Male	First	Nil	9
HG200	Distributor	Motor Vehicle	City	VIC	1982	10 / 96	Pty Ltd	Yes (6)	Year 11	6-10	No	Male	First	Nil	6
FE210	Re-Seller	Building	City	VIC	1975	07 / 02	Pty Ltd	No	Year 11	6-10	No	Male	Serial	6	5
DC220	Cafe	Hospitality	City	VIC	1995	05 / 05	Bus. Name	No	Year 12	11-20	No	Female	Serial	8	3

Notes:

[shaded] *Denotes cases which were also used as pilot cases*

1. *Where more than one state, 'National' was indicated.*
2. *Start date of the business*
3. *Date owner exited*
4. *Yes if 2 or more owners (?) denotes total # of owners*
5. *Serial if owned more than 1 business, refers to respondent not all partners*

<u>Table 7.2:</u> Summary table of case backgrounds obtained from the interviews.

7.4 Case Overview

This section presents an overview of each case. Tables 7.3 to 7.14 which follow are reductions of interview transcripts which have been summarised in a data display (Strauss & Corbin 1998, Veal 2005, Miles & Huberman 1994). Similarly, Figures 7.1 to 7.12, following their respective data summary tables, are displays of key aspects of the exit processes in a universal timeline format.

7.4.1 Case 1 – ZY110

In February 1997 the business partner[73] of the interviewee asked him if he was interested in selling his share of the business. After a short period of negotiation, the partners entered into a share sale agreement in March, with the interviewee exiting the business in April, and settlement occurring in two stages; April and July of that year because of the structuring of the deal.

The decision to exit was based on a single decision (see Figure 7.1) where the interviewee indicated to the buyer of his receptivity to a buy offer. Table 7.3 shows that this receptivity was driven by a sentiment of negative industry trends (40 percent weighting) and a general lack of optimism (10 percent), and when combined with the timing of an attractive offer, resulted in a conclusive decision to exit.

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73 Both partners were active in the business.

CASE 1	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	ZY110	Re-seller	1990	04 / 97	7	Yes	7	2	50% respondent, 50% partner	Pty Ltd	SME, Govt, Education	Mobile computer specialist, hardware and services.
Reasons for sale	Acceptable offer made by partner	Role of Interviewee	Director of Administration & Operations	Partners' Roles	Director of Marketing & Sales							
Role Prior to this Business	Managing Director of ICT Re-Seller, Regional Manager for Japanese	Years of Prior SME Business Experience	8	Current Occupation	SME Owner / Manager	Sold Business Prior	Yes	Number of staff	11 - 20	Location	Victoria	
Miscellaneous Information	Sold a similar business to this one. This was a spin-off from the previous business.											
Date of Exit Decision (1)	02 / 97	Date of Exit Decision (2)	03 / 97	Date of Actual Exit	04 / 97 07 / 97	Match to Pre-Exit Expectations	No Expectations	Influences on Exit Decision with Weighting	30% offer, 40% industry trends / optimism 20% energy/ enthusiasm, 10% lack of optimism	Buyer Classification	Reactive - Internal Known / Other	
Time Taken for Exit Decision	< 1 Month	Others Involved in Exit Decision	Family	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Appoint accountant	Other Parties Involved in Exit Planning	Minimal, accountant assistance in deal structuring	Influence of Optimism	Significant, 10% stated + 40% due to poor industry trend	
Start Exit Preparation		End Exit Preparation		Start Exit Implementation	03 / 97	End Exit Implementation	07 / 97	Start Exit Contemplation	10 / 94	Transition to Realism	Not evident	Advisors Used in Exit: Accountant
Evidence of Pre-Conditions to Exit	Not Evident	Evidence of Barriers to Exit	Yes, supplier agreements continued.	Evidence of Other Stakeholder Aspirations	Need to consult family prior to making exit decision	Evidence of Exit Trigger	Some but not strong. Anecdotal, accepted offer but was unsure how much business was worth.	Date of Exit Trigger	07 / 96			
Other Exit Information	Internal sale, buyer was the other partner. Exit process was streamlined and condensed. Comment made about the ability to attract quality personnel impacted owner's level of optimism. The decision to exit is 2 staged; there is a provisional decision and then a final decision subject to negotiations and receiving an acceptable offer. Two dates of actual exit due to exit structuring.											

Table 7.3: Data summary of key details for Case 1.

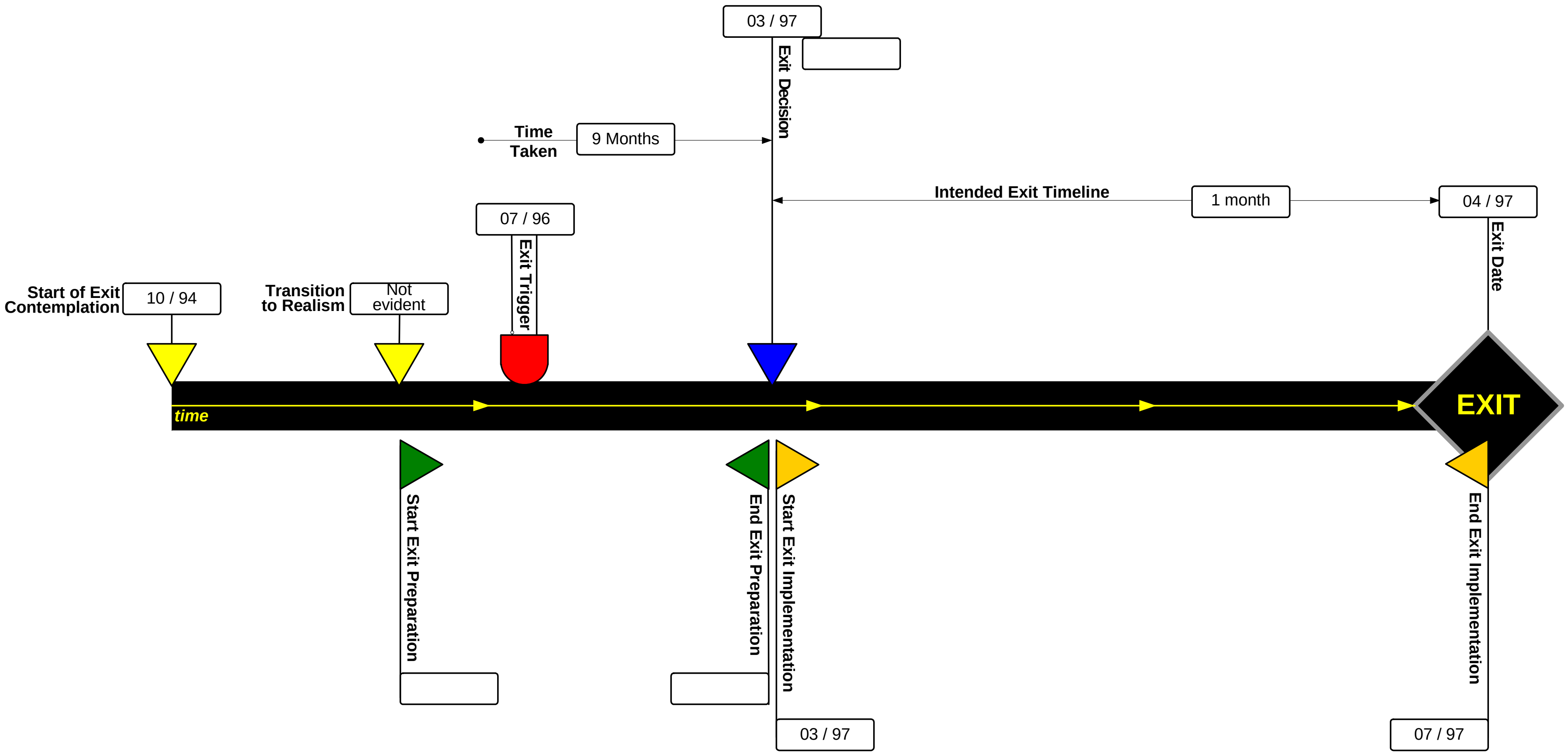

Figure 7.1: Display of key exit details for Case 1 (ZY110) onto a generic timeline.

There was no evidence of any form of exit preparation (deliberate or inadvertent) by the interviewee or the organisation, and the exit timeline was exceedingly short because the buyer was so familiar with the business' operation. There was no funding issue, which removed one of the major potential barriers to exit. This case was expeditious and simple in its execution, as shown by both the exit timeline and the single advisor (accountant) used in the exit process.

7.4.2 Case 2 – XW120

This case is an example of a business that was established with the exit at the forefront of its strategic processes, with the exit as the ultimate end goal for its owners. Three years prior to the exit, the owners proactively sought a buyer of their business, adapting their products and short-term strategy to suit potential suitors. Eventually, a customer to the business, who was also a large multinational consulting corporation and subsidiary of a public listed entity based in the United States, was identified as the likely buyer, and a protracted process of selling the business began. A series of due diligence processes was required by the buyer, which took almost twelve months to complete. This eventuated in a final offer being made in April 2006, and an exit in July of the same year.

A combination of factors made the owners receptive to exiting;

- 2001-02 was a difficult economic period;
- their personal risk tolerance had reduced;
- their families needed security; and
- personal health issues were developing with the senior partner in July 2003.

Figure 7.2 shows that the time taken from the initial decision to exit to the final acceptance was 28 months.

A clear start date for exit preparation was not apparent because the interviewee and his partners had regularly discussed exit matters at their weekly management meetings. Exit activities directly related to the eventual buyer began in June 2005. The many due diligence processes required by the buyer was evidence of a significant barrier to exit. Another feature in this case is the data on contrasting stakeholder aspirations; in the post-exit period one partner required ongoing 'appropriate' employment and the other required little or no restrictive 'handcuffs' to his future involvement. The interviewee was one of three partners (only two active), and a minor shareholder (15 percent of shares) – see Table 7.4 for a summary of other exit details.

7.4.3 Case 3 – NM160

At a management meeting of partners in September 1995 it was concluded that, after twelve years of operation, the path for this organisation was to sell out because the business could no longer fund its capital requirements for future growth[74]. In January 1996 the partners decided to make a strategic exit decision, and the shareholders (five active partners) proactively sought potential merger partners. Within a short period of time they had identified an interested party (multinational consulting entity without a local presence) who made a preliminary offer which was acceptable to all

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74 Capital required was in the form of business guarantees for large engineering projects. These were required by customers as a standard requirement for these types of projects.

CASE 2	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	XW120	HR	12 / 95	07 / 06	11	Yes	11	2	15% respondent, 15% partner 1, 70% partner 2	Pty Ltd	Blue chip corporate	Unique HR solutions, talent management, systems and consulting.

Reasons for sale	Business strategy, proactively sought buyer	Role of Interviewee	Systems development & delivery, business management	Partners' Roles:	1. Accounting (silent)	2. Sales and consulting

Role Prior to this Business	Multiple roles with large oil company	Years of Prior SME Business Experience	0	Current Occupation	Multiple roles with large oil company	Sold Business Prior	No	Number of staff	11-20	Location	National

Miscellaneous Information	Products and services evolved over the life of the business.

Date of Exit Decision (1)	01 / 04	Date of Exit Decision (2)	04 / 06	Date of Actual Exit	07 / 06	Match to Pre-Exit Expectations	70% P(2) > 70%	Influences on Exit Decision with Weighting	Not stated as % but mentioned economic factors, risk, security. P1 health issues.	Buyer Classification	Proactive - External Known / Customer
Time Taken for Exit Decision	28 months	Others Involved in Exit Decision	2 business partners	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Apptd corporate adv. & engaged legal advisor	Other Parties Involved in Exit Preparation	Legal advisor, corporate advisor	Influence of Optimism	Not quantified but mentioned impact of 02 econ. Downturn.

Start Exit Preparation	Not definitive 01 / 04	End Exit Preparation	Not evident	Start Exit Implementation	06 / 05	End Exit Implementation	07 / 06	Start Exit Contemplation	12 / 95	Transition to Realism	After 2002	Advisors Used in Exit: Legal	Corporate

Evidence of Pre-Conditions to Exit	Not Evident	Evidence of Barriers to Exit	Yes, elongated due diligence process.	Evidence of Other Stakeholder Aspirations	Unknown, majority partner aspirations dominate	Evidence of Exit Trigger	Weak, business strategy was to always sell. Anecdotal based on comment re: 02 econ slowdown	Date of Exit Trigger	07 / 03

Other Exit Information	Business strategy was to always sell the business. Proactively sought potential buyers and engaged in an elongated 'dating' process with final buyer. Business strategy adapted according to potential buyers. Planning for exit was part of regular partner meetings held regularly. There is a weak trigger in July 2003 and the decision to sell is multi-tiered, provisional decision made early 04 and acceptance of final offer made in April 06. Difficult to differentiate between planning and execution.

Table 7.4: Data summary of key details for Case 2.

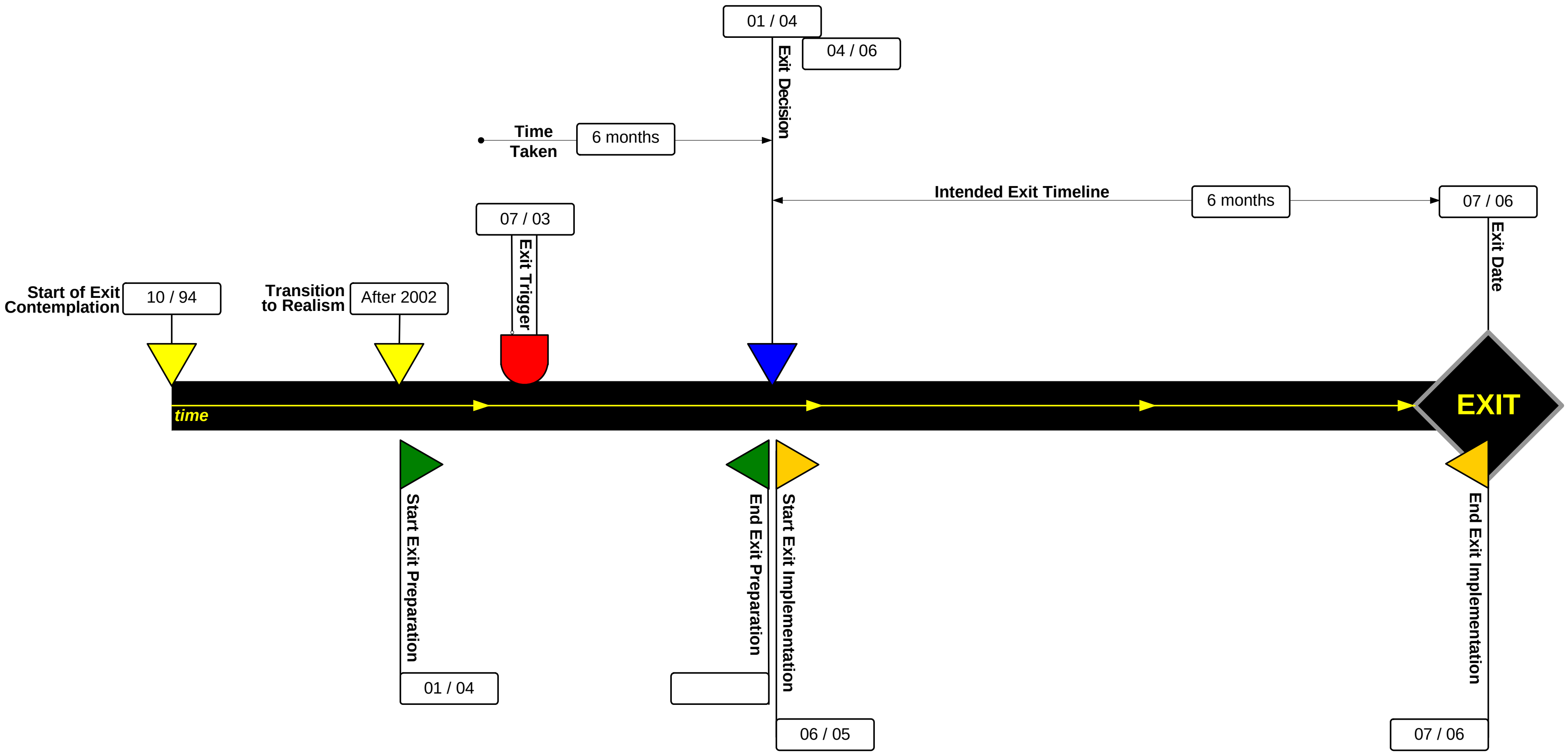

Figure 7.2: Display of key exit details for Case 2 (XW120) onto a generic timeline.

shareholders. This was followed by a period of due diligence by the buyer, and resulted in a final offer in August 1996 (see Figure 7.3). The partners then made the decision to accept this offer and the entities were merged in November 1996. This case can be defined as a congeneric merger[75], because rather than receiving cash the owners received shares in a merged entity.

In this case the start of exit preparation and implementation are difficult to differentiate because the shareholders decided and executed the exit activities quickly. By July 1996 all preparation had been completed, and the final offer was in August with contracts following.

In this case the potential trigger condition (financial - capital requirements) was not coupled with any obvious negativity or lack of optimism (in fact the opposite). Rather, it was a strategic decision based on growth and the future needs of the organisation (refer Table 7.5). Another aspect was that stakeholder aspirations were stated explicitly in the framework of future growth and broadly as 'future financial security' rather than as a nominated lifestyle or financial benefit.

7.4.4 Case 4 – VU130

After several unsuccessful attempts to purchase this business, a large retail pharmaceutical chain's (a competitor's) preliminary offer to buy the interviewee's business was finally responded to favourably.

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75 Congeneric mergers are defined as mergers between two firms who are in the same general industry, but have no mutual buyer/customer or supplier relationship. Mergers and Acquisitions, viewed 22 November, 2008. <http://en.wikipedia.org/wiki/Mergers_and_acquisitions#Merger>

CASE 3	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	NM160	Eng. Cons. & Design	1984	11 / 96	12	Yes	12	5	20% each shareholder	Pty Ltd	Mining & Sugar Industry	Engineering process design & consultation
Reasons for sale	Business strategy, proactively sought buyer	Role of Interviewee	Systems development & delivery, business management	Partners' Roles	1. Chemical engineer (x2)	2. Civil engineer	3. Sugar technologist					
Role Prior to this Business	Employed as a researcher at a local university.	Years of Prior SME Business Experience	0	Current Occupation	Consulting engineer	Sold Business Prior	No	Number of staff	21-49	Location	Queensland	
Miscellaneous Information	Multi-disciplined engineering business focussed on minerals processing and sugar processing.											
Date of Exit Decision (1)	01 / 96	Date of Exit Decision (2)	08 / 96	Date of Actual Exit	11 / 96	Match to Pre-Exit Expectations	75%	Influences on Exit Decision with Weighting	75% capital, 5% energy & enthusiasm, 10% economic factors, 10% family	Buyer Classification	Proactive - External Known / Other	
Time Taken for Exit Decision	3 months	Others Involved in Exit Decision	4 business partners	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Engaged legal advisor late in the process.	Other Parties Involved in Exit Preparation	Legal advisor	Influence of Optimism	Not a factor	
Start Exit Preparation	01 / 96	End Exit Preparation	08 / 96	Start Exit Implementation	01 / 96	End Exit Implementation	11 / 96	Start Exit Contemplation	09 / 95	Transition to Realism	Not evident	Advisors Used in Exit: Legal
Evidence of Pre-Conditions to Exit	Not Evident	Evidence of Barriers to Exit	None	Evidence of Other Stakeholder Aspirations	None	Evidence of Exit Trigger	Needs a redefinition of a trigger because this was a deliberate strategy decision.	Date of Exit Trigger	09 / 95			
Other Exit Information	This was a strategised business decision to grow the business. Issues of inadequate capital base for future growth prospects.											

<u>Table 7.5</u>: Data summary of key details for Case 3.

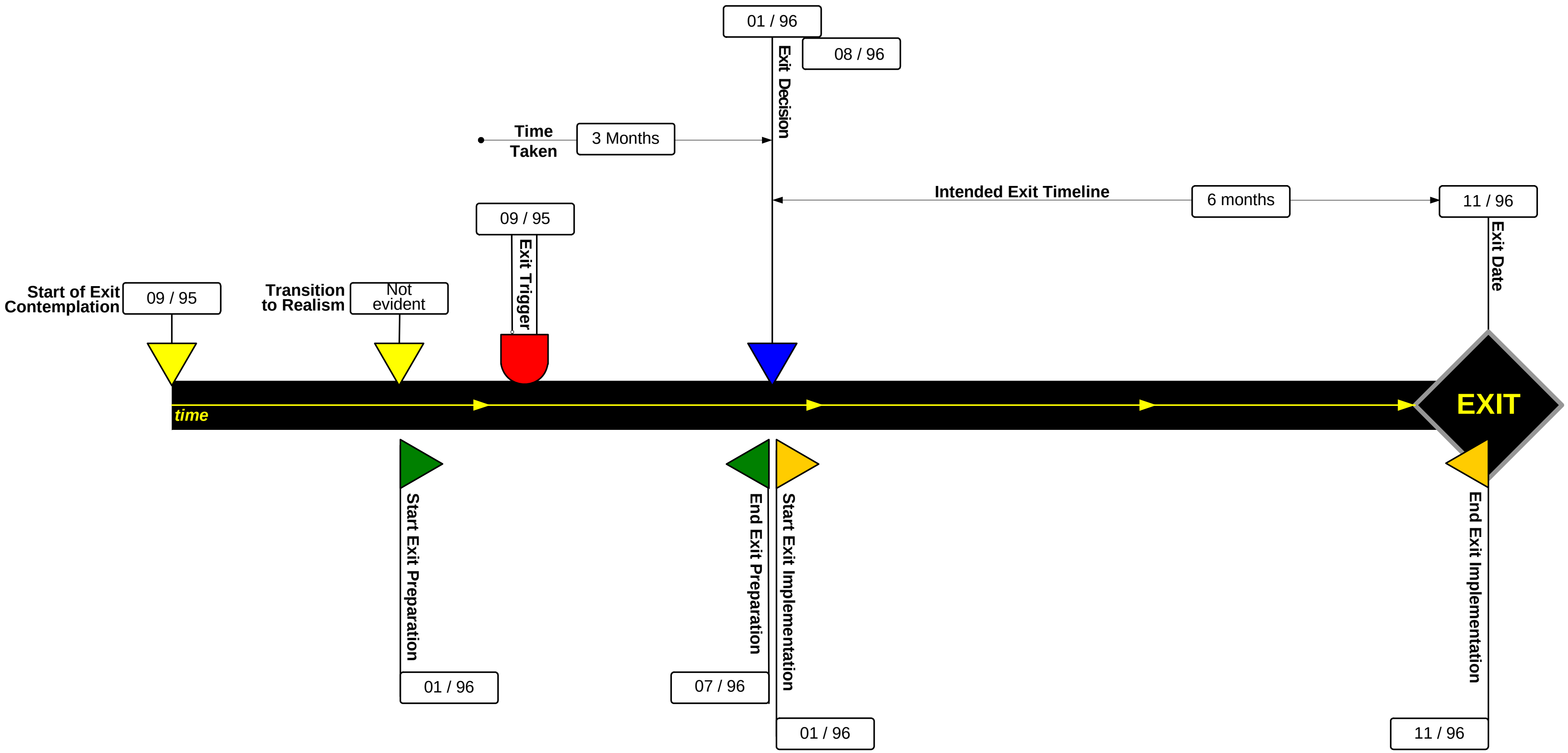


Figure 7.3: Display of key exit details for Case 3 (NM160) onto a generic timeline.

A firm offer was made in May 2004, and the transaction was completed without delay in less than three months (July 2004).

This business was one of several owned and accumulated by the interviewee. Exiting was counter-intuitive, but several factors contributed to him taking the opportunity (refer Table 7.6). The attractive offer, which he weighed as only twenty percent of his exit decision, came when he was experiencing a difficult human resources problem which could not be resolved by normal business means (30 percent weighting). On top of this was a changed lifestyle which no longer fitted with the business (40 percent weighting) and an acknowledgment that previously planned business synergies were unlikely to eventuate (10 percent weighting).

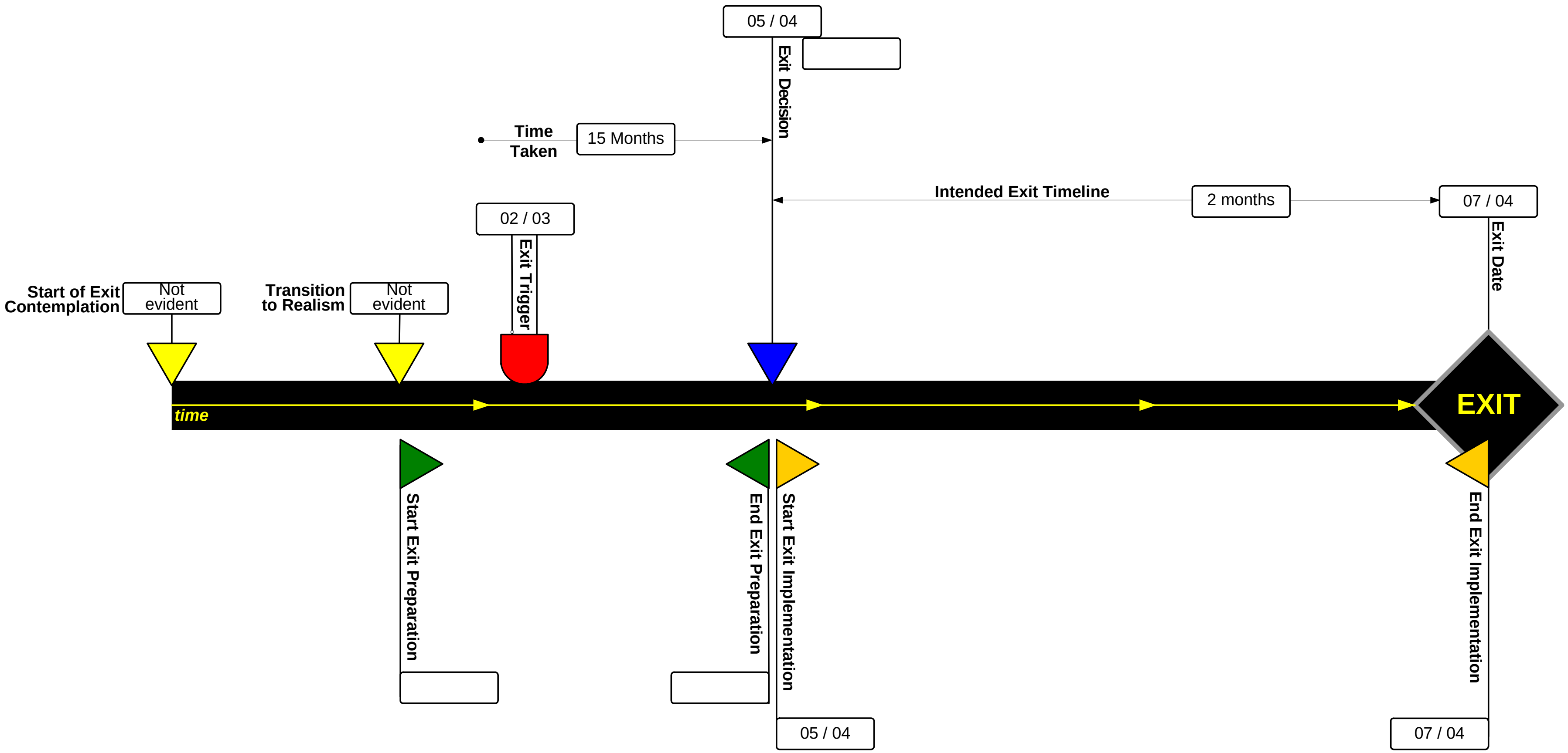
This short timeline (see Figure 7.4) is an example of what is often referred to as a "walk-in walk-out" sale. There is no evidence of preparation required by the seller, although there may have been by the buyer, and once the formal offer was received, contracts were finalised (exit implementation) and staff continuance staff resolved (an example of stakeholder aspiration), the agreed handover procedures were finalised.

A feature of this case was the timing of the offer. This was a confluence of the timing of the offer and the unresolved HR issue (exit trigger) and even though the owner remained optimistic about the future (personally and for the industry) he exited the business. He continued to operate his second business (different location) and went on to purchase another comparable business after exiting this one.

CASE 4	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	VU130	Retail	1989	07 / 04	15	Yes	15	1	100% Respondent	Bus. Name	Local retail	Dispensary of medications

Reasons for sale	Made an acceptable offer by a competitor	Role of Interviewee	Pharmacist / Owner / Manager	Partners' Roles									
Role Prior to this Business	Pharmacist / Business Owner	Years of Prior SME Business Experience	2	Current Occupation	Pharmacist / Business Owner	Sold Business Prior	Yes	Number of staff	6-10	Location	Victoria		
Miscellaneous Information	Lifestyle refers to the distance of the business from home and having to respond to security calls late at night. Logistics refers to the non-eventuality of cost savings from a second like business that was purchased prior to this exit. HR issue refers to complicated HR issue involving employee who was also a family friend.												
Date of Exit Decision (1)	05 / 04	Date of Exit Decision (2)	N / A	Date of Actual Exit	07 / 04	Match to Pre-Exit Expectations	100%	Influences on Exit Decision with Weighting	20% offer, 40% lifestyle, 30% HR issue, 10% logistics	Buyer Classification	Reactive – External Known / Competitor		
Time Taken for Exit Decision	< 1 Month	Others Involved in Exit Decision	None	Single or Staged Exit Decision	Single	Steps After Exit Decision	Await offer contracts, refer contracts to lawyers	Other Parties Involved in Exit Preparation	None	Influence of Optimism	Not a factor		
Start Exit Preparation	Not Evident	End Exit Preparation	Not Evident	Start Exit Implementation	05 / 04	End Exit Implementation	07 / 04	Start Exit Contemplation	Not Evident	Transition to Realism	Not Evident	Advisors Used in Exit	Lawyer
Evidence of Pre-Conditions to Exit	Not Evident	Evidence of Barriers to Exit	Not Evident	Evidence of Other Stakeholder Aspirations	Required positions for staff before accepting offer to sell	Evidence of Exit Trigger	Complex HR issue that cannot be resolved by dismissing staff member (see Miscellaneous)	Date of Exit Trigger	02 / 03				
Other Exit Information	Eventual buyer made several attempts to purchase the business. Owner only agrees to sell because it resolves several issues for him (see miscellaneous information) and the price offered is attractive i.e. timing of offer comes at the right time.												

Table 7.6: Data summary of key details for Case 4.



<u>Figure 7.4</u>: Display of key exit details for Case 4 (VU130) onto a generic timeline.

7.4.5 Case 5 – TS140

This is a case where the owners (husband and wife team) are serial entrepreneurs whose standard business strategy is to start a new business, build up its turnover and profitability, and then capitalise on that growth by selling the business (see Table 7.7). From prior experience they know that exits need to be executed within a three to four year timeline, because this is when enthusiasm and enjoyment wanes due to their seven-days-a-week work regime and the type of business they are involved in (hospitality).

Embarking on a new project in 1999, with grand growth and harvest plans (this is an example of the romanticising phase in the exit contemplation stage), the interviewee and his partner started a café in a major regional tourist destination. They busily applied themselves to building the business with the aim of establishing a chain of successful stores. After eighteen months of operation they had established good growth and a product range of unique refreshments, but realised that their vision was too ambitious for their energy levels and cash flow. As a result, they lowered their sights to getting the best harvest result for the business at this initial stage (an example of the realism phase taking over in exit contemplation – see Figure 7.5).

At the three year mark (November 2002), the owners decided that the timing was now right for them to exit, making a 'provisional' decision to exit; but due to having good profitability, they did not set a definite exit timeline. Shortly after, a major human resources issue (an example of an exit trigger) convinced them that they should find

CASE 5	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products	
	TS140	Cafe	1999	02 / 04	4	Yes	4	1	100% Respondent*	Pty Ltd	Locals + Tourists	Hot and cold beverages, light meals, snacks	
Reasons for sale	Strategically planned from inception	Role of Interviewee	Manager, supply ordering, food production	Partners' Roles (Wife)	Staffing & coffee roasting								
Role Prior to this Business	SME owner / operator	Years of Prior SME Business Experience	15	Current Occupation	SME owner / operator	Sold Business Prior	Yes	Number of staff	21-49	Location	Queensland		
Miscellaneous Information	Husband and wife team but interviewed as a single respondent.												
Date of Exit Decision (1)	11 / 02	Date of Exit Decision (2)	09 / 03	Date of Actual Exit	02 / 04	Match to Pre-Exit Expectations	100%	Influences on Exit Decision with Weighting	50% energy & enthusiasm, 15% anniversary, 15% strategic decision, 20% HR	Buyer Classification	Proactive – External Unknown / Contact of contact		
Time Taken for Exit Decision	Strategic	Others Involved in Exit Decision	None	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Ref. to business brokers, advertise business 4 sale	Other Parties Involved in Exit Preparation	None	Influence of Optimism	Minor factor		
Start Exit Preparation	01 / 03 *	End Exit Preparation	04 / 03	Start Exit Implementation	03 / 03	End Exit Implementation	09 / 03	Start Exit Contemplation	09 / 99	Transition to Realism	Evident, 2 years in	Advisors Used in Exit	Accountant, Lawyer
Evidence of Pre-Conditions to Exit	Not evident, exit process focussed on owner's desires	Evidence of Barriers to Exit	Evident, HR issue needed to be resolved	Evidence of Other Stakeholder Aspirations	Not evident	Evidence of Exit Trigger	HR trigger even though a strategic exit decision has been made based on an anniversary date.	Date of Exit Trigger	12 / 02				
Other Exit Information	They had major plans for business when it started e.g. import and roast their own coffee and 'invent' their own frappes etc. Eventually they modified these expectations and aim for a simple sale. They produced their own information booklet for potential buyers of the business based on input from business brokers. They are experienced start-up entrepreneurs and harvesters of businesses. * it could be argued that they were always preparing the business for sale because this decision was made at start-up (Sept 1999). Buyer wants long settlement terms because they have to move the family from interstate.												

Table 7.7: Data summary of key details for Case 5.

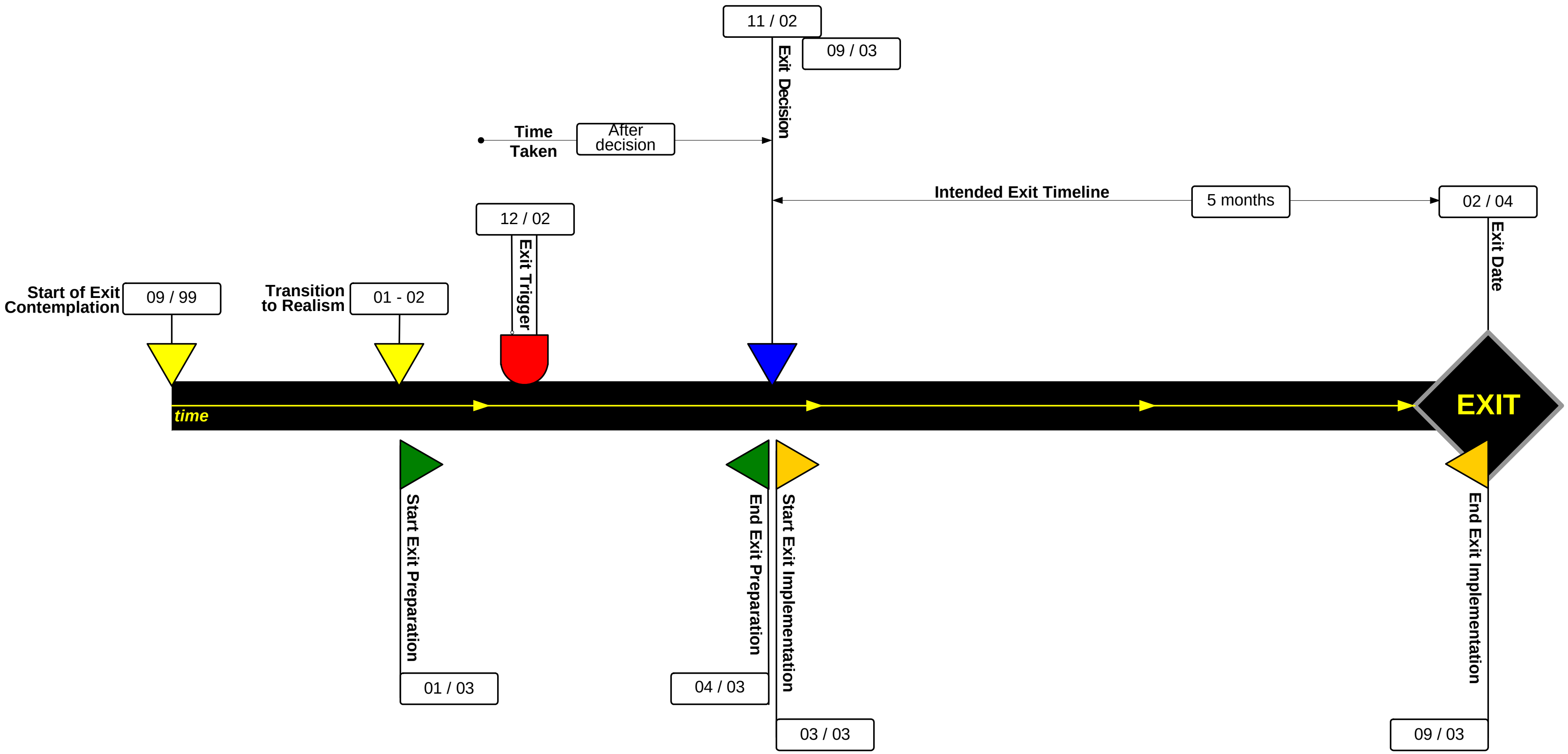


Figure 7.5: Display of key exit details for Case 5 (TS140) onto a generic timeline.

a buyer as soon as possible. Having resolved the HR issue (an example of a barrier to exit) in early 2003 they prepared an information portfolio and began advertising the business in the national press. Eventually they located an interstate buyer, concluded negotiations (September 2003), had their legal advisors prepare contracts, and exited the business in February 2004.

The major feature of this case was the strong evidence of exit contemplation. Firstly, this was an inherent harvest strategy as part of the overall business plan and then a distinct transition from an initial romanticising on what might be realised in an optimum harvest to the realism of what could realistically be achieved. Despite this downgrade in expectations, the interviewee was 100 percent satisfied with what had been attained at exit.

7.4.6 Case 6 – RQ150

The next two cases (RQ150 and PO170) are related exits. Case 7 (PO170) was the buyer (facilitator) of this business (RQ150) in an industry consolidation commonly referred to as a roll-up[76]. Even though the sale and implementation of these two cases are interlinked, how they came to their exit decision and the preparation involved, are different, offering insights into the distinct paths undertaken by their respective owners. After several unsuccessful attempts at developing a suitable exit the interviewee was approached by the owner of a similar business from interstate with an offer to purchase his business. This offer was conditional to the buyer himself finding a buyer for his consolidated group of similar businesses in Australia and New Zealand. Unlike his earlier

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76 A roll-up refers to a group of businesses being rolled up into a ‘single’ organisation by a facilitator and then sold as a single entity to a buyer.

attempts, this exit[77] was to result in the interviewee retiring a few years prematurely. However, the decision to exit was made because the opportunity occurs simultaneously with the realisation that his own exit plans would require a significant scaling-up of his business (a pre-condition to exit). Accepting this offer meant that the interviewee did not have to take that risk, so a preliminary decision to exit was made in March 2004. After an extensive due diligence process the sale was delayed (an example of barriers to exit), but eventually proceeded with confirmation occurring in July (acceptance decision). An exchange of contracts and settlement occurred in August 2004 (see Figure 7.6).

Table 7.8 summarises the case's circumstances continuing to the actual decision to exit into a confluence of the interviewee's pending anniversary (nominated retirement age), industry trends[78] (40 percent weighting), and a general lack of optimism (30 percent), combined with the timing of the offer (30 percent). Preparation for the exit began as early as 2001 when the owner began to implement systems for when he would no longer be the key manager of the business (i.e. an operations manual was developed with policies based on the owner's operational experience and intellectual property).

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77 Intended that he would continue some form of employment in a merged operation.

78 Difficult operating conditions, reducing margins, conflicts with suppliers and reducing average sale prices of units, means more work for the same turnover.

CASE 6	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	RQ150	Re-seller	1988	08 / 04	20	No	16	1	100% Respondent	Pty Ltd	Business & Government	Supply and servicing of PC mobile computing hardware.

Reasons for sale	Made an acceptable offer by an industry colleague to form a consolidation / roll-up	Role of Interviewee	Managing Director	Partners' Roles								
Role Prior to this Business	Accountant for a publicly listed company	Years of Prior SME Business Experience	10	Current Occupation	Retired	Sold Business Prior	Yes	Number of staff	11 - 20	Location	Western Australia	
Miscellaneous Information	Mobile computer specialist, re-seller for largest supplier of mobile computer's. Has largest market share for supplier in WA.											
Date of Exit Decision (1)	03 / 04	Date of Exit Decision (2)	07 / 04	Date of Actual Exit	08 / 04	Match to Pre-Exit Expectations	90 - 95%	Influences on Exit Decision with Weighting	40% industry trends, 30% lack of optimism, 30% offer	Buyer Classification	Reactive – External Known / Industry colleague	
Time Taken for Exit Decision	4 months	Others Involved in Exit Decision	None	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Refer to accountant and lawyer	Other Parties Involved in Exit Preparation	None but part of a roll-up	Influence of Optimism	Major factor, see 'Influences'	
Start Exit Preparation	01 / 01	End Exit Preparation	04 / 04	Start Exit Implementation	03 / 04	End Exit Implementation	09 / 04	Start Exit Contemplation	2000	Transition to Realism	Not evident	Advisors Used in Exit: Accountant, Lawyer
Evidence of Pre-Conditions to Exit	Evident, makes comment regarding scale of business	Evidence of Barriers to Exit	Yes, delays and due diligence process	Evidence of Other Stakeholder Aspirations	Yes, required staff to be employed with existing conditions	Evidence of Exit Trigger	Yes, mentions lack of enthusiasm and how industry is trending.	Date of Exit Trigger	Early 03			
Other Exit Information	Investigates 2 exit options in 2003 but they do not come to fruition. Aware of impending retirement (3 years) and sees a need to double or treble size of business in order to get investors interested. In early 2001 he prepares quality manuals so that business could be operated by a manager or someone from outside the industry. Starts to implement systems beyond the scope of the current operation which is preparation for a 'scaled' up business. This is part of the 'informal' exit preparation.											

Table 7.8: Data summary of key details for Case 6.

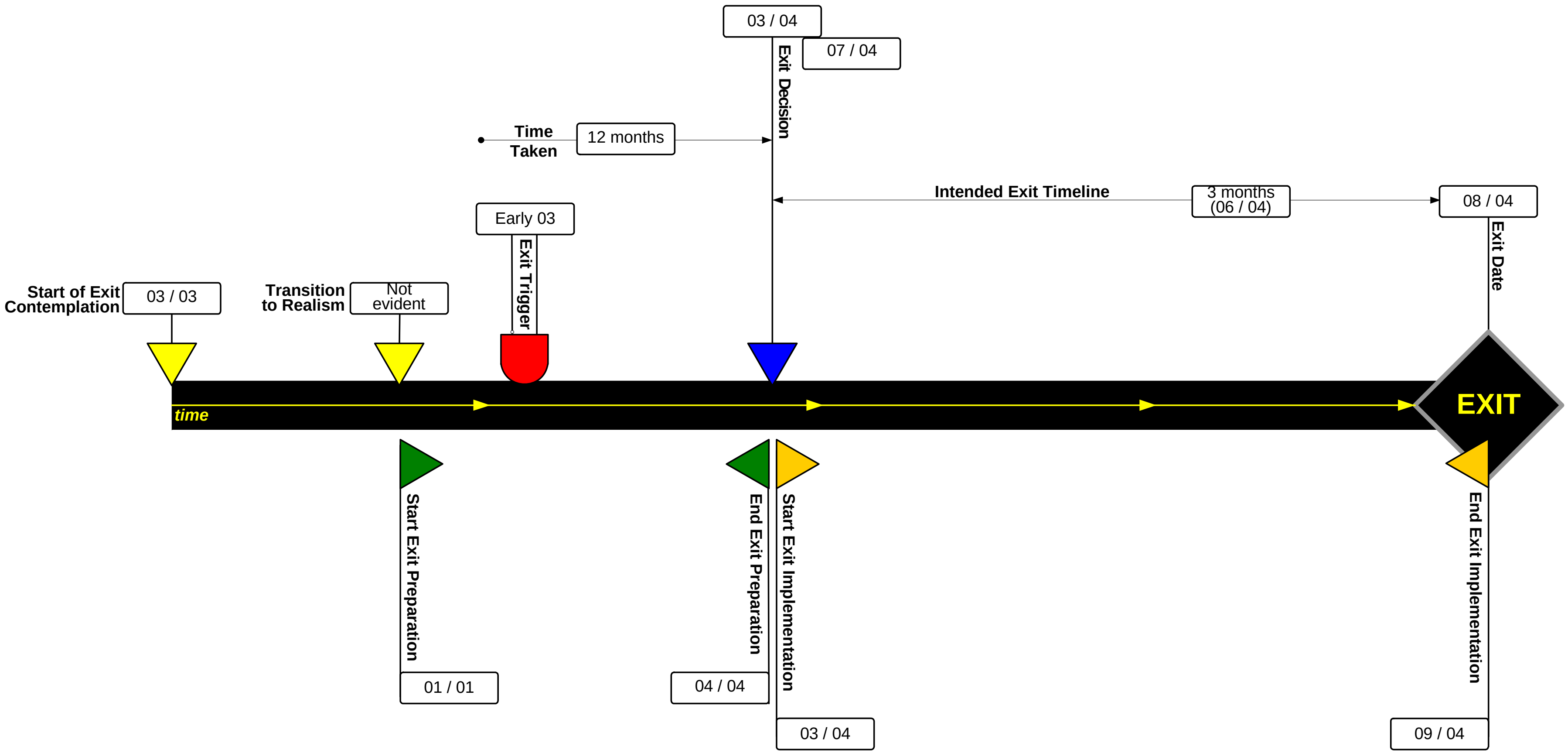

Figure 7.6: Display of key exit details for Case 6 (RQ150) onto a generic timeline.

A feature of this case is the impact of lack of optimism (70 percent overall) on the decision to exit, with trigger conditions evident from as early as 2003. This is an example of an exit waiting for the opportunity to happen. Negotiations included mandatory roles for all staff members as evidence of key stakeholder aspirations.

7.4.7 Case 7 – PO170

As previously mentioned, this case was part of a consolidation roll-up where the owner of this business was also the facilitator of the overall roll-up. The details of this case refer only to the business owned by the facilitator and not the other businesses that were rolled in. After experiencing a trigger event (dispute with a major supplier in October 2003) the owner quickly decided to exit his business (November 2003). After appointing a corporate advisor (merchant bank), an exit strategy was devised to roll-up a group of comparable businesses (independently owned) to achieve a minimum turnover (this is an example of a pre-condition to exit). This was achieved by rolling up four other complementary businesses based throughout Australia and proactively seeking a buyer for the group.

After a short period of promotion, a public listed entity (who was also a competitor) expressed interest, and the terms of a sale were negotiated. This resulted in an acceptance decision (conditionally based on further due diligence) in April 2004. After a six week delay (evidence of barriers to exit), the due diligence process was completed and settlement occurred in August 2004 (see Figure 7.7). This is one of the few cases in the sample that showed significant preparation for an exit. These activities included:

- implementing systems (accounting and inventory controls) to suit a much larger organisation;
- appointment of corporate advisors;
- appointment of mergers and acquisition legal specialists;
- structuring the business with a chief financial officer (CFO and interviewee);
- using a roll-up to facilitate an exit; and
- publishing an Information Memorandum to promote the business to potential buyers.

A failed attempt to publicly list the company in 2002 – 2003 had also contributed to the preparation of both the owner and the business for this exit. In fact contemplation of an exit by the owner went back as far as 1993 (see Table 7.9) when the business was first acquired. As with Case 6 (RQ150), there was an inherent strategy to build and prepare the business for a future exit. Overall, this case was complex, demonstrating many of the processes and milestones described in the proposed research model in Chapter Four.

7.4.8 Case 8 – JI180

After twelve years of successfully operating and managing a national logistics company, the interviewee was approached by a large publicly-listed competitor with an offer to buy his business and provide ongoing employment. This offer arrived at a time of significant industry change (25 percent exit decision weighting) when customers were requiring complete logistics solutions[14] rather

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14 Solutions refer to warehousing, pick-and-pack services, and freighting to customers.

CASE 7	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	PO170	Re-seller	1990	08 / 04	14	No	11	2	80% partner (2), 20% staff	Pty Ltd	Med. Business & Education	Supply and servicing of PC mobile computing hardware.
Reasons for sale	Dispute with major supplier, industry optimism, timing / opportunity	Role of Interviewees	Chief Financial Officer (1) Chief Executive Officer (2)	Partners' Roles	~90% of staff participated in company share scheme							
Role Prior to this Business	Regional Manager of hardware distributor (2)	Years of Prior SME Business Experience	11 (2)	Current Occupation	Consultant, Company Secretary (1), Retired (2)	Sold Business Prior	No	Number of staff	21-49	Location	National	
Miscellaneous Information	Staff share scheme operating. Staff controlled 20% of the shares of the company.											
Date of Exit Decision (1)	11 / 03	Date of Exit Decision (2)	04 / 04	Date of Actual Exit	08 / 04	Match to Pre-Exit Expectations	Yes, exceeded 100%+	Influences on Exit Decision with Weighting	Industry trends 25%, enthusiasm & energy 25%, optimism 10%, supplier 20%, strategic opportunity 20%	Buyer Classification	Proactive – External Competitor / Known	
Time Taken for Exit Decision	5 months	Others Involved in Exit Decision	Staff, family	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Appoint advisors, achieve rollup / scale	Other Parties Involved in Exit Preparation	Corporate advisors & legal advisors	Influence of Optimism	Evident, industry optimism diminishing, general outlook	
Start Exit Preparation	09 / 02	End Exit Preparation	03 /04	Start Exit Implementation	01 / 04	End Exit Implementation	09 / 04	Start Exit Contemplation	10 / 93	Transition to Realism	06 / 03	Advisors Used in Exit: Corporate, Lawyers, Accountant, Fin. Model.
Evidence of Pre-Conditions to Exit	Yes, roll-up of businesses required to exit	Evidence of Barriers to Exit	Yes, several delays in settlement, due diligence	Evidence of Other Stakeholder Aspirations	Yes, staff positions with buyer, wife & family of all owners	Evidence of Exit Trigger	Strong evidence, contract issue with major supplier and previous attempt to exit in 02 / 03	Date of Exit Trigger	10 / 03			
Other Exit Information	This exit involved 'rolling up' five resellers into the one business and then selling all businesses to a large public listed ICT company who was a competitor. There is clear evidence of both pre-conditions to exit (rollup required for scale) and barriers to exit (due diligence and several delays in nominated exit dates. Preparation is informal but there is evidence of deliberate and inadvertent preparation. Because of its complexity this case used a large number of advisors. Principle shareholder purchased business with intention to sell out in the future.											

Table 7.9: Data summary of key details for Case 7.

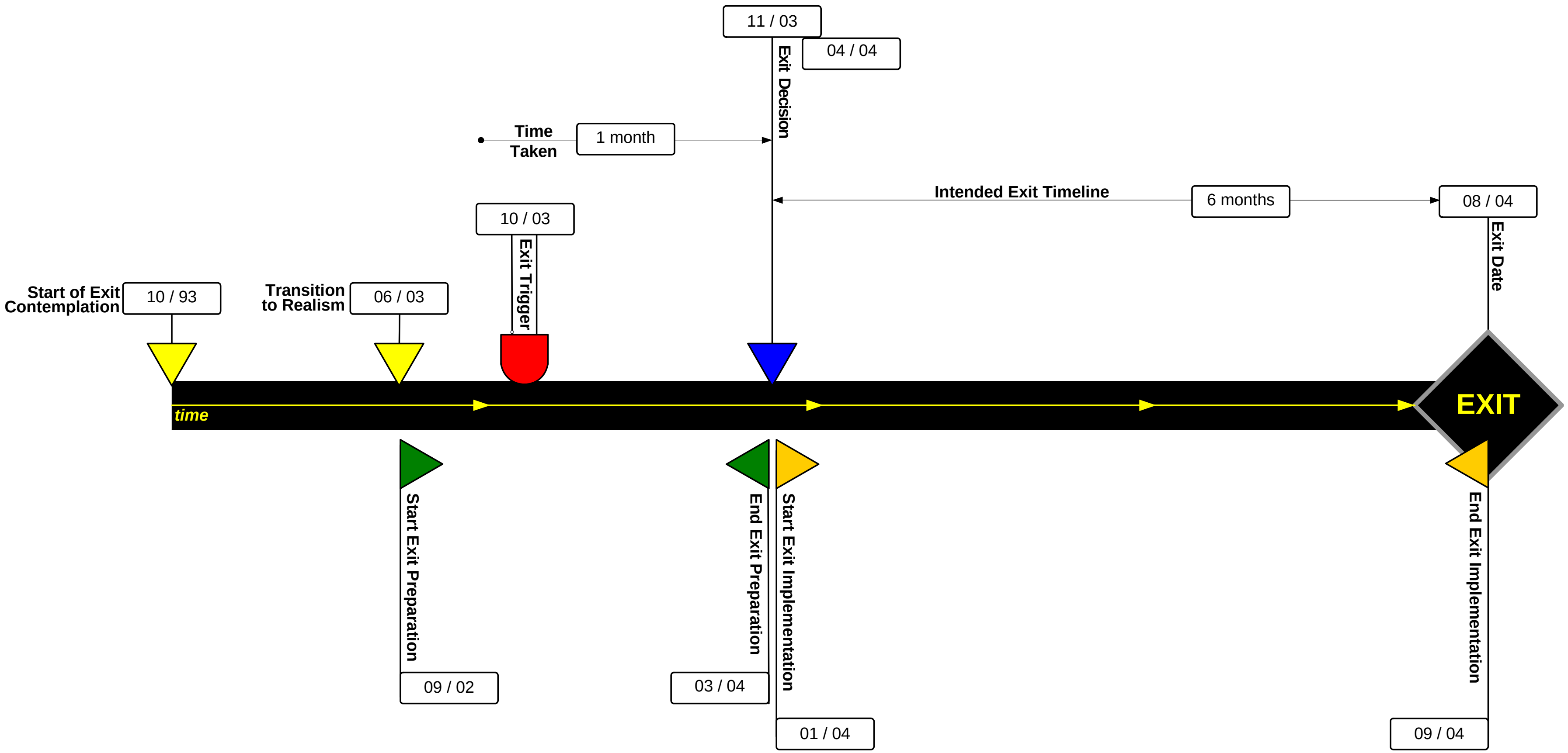

Figure 7.7: Display of key exit details for Case 7 (PO170) onto a generic timeline.

than just freight services. Industry consolidation was occurring due to industry maturity and tight operating margins. Faced with the prospect of a significant investment in capital (25 percent weighting), the owner accepted the attractive offer (50 percent weighting) in August 2002 (see Table 7.10). Contracts were undertaken, and the transaction was completed in October 2002.

This case gave no evidence of planned or inadvertent preparation for an exit, but this had no effect on the success of exiting because it was a ‘reactive’ exit. Unlike many of the other cases it required only a single exit decision (see Figure 7.8). However, the requirement for capital investment was a trigger for this decision and existed for most of that year (2002). Implementation of the exit occurred quickly and there was limited due diligence because of the ongoing relationship (employment) between the parties. Resembling many of the other cases, the execution stage continued beyond settlement and it was not until January 2003 that exit activities were completed.

Like Case 4 (VU130), there had been no evidence of exit contemplation even though the owner was approaching retirement (within ten years). An exit was only “a distant goal”, but the owner had considered taking on an equity partner to help fund the new logistic systems required. This case also had a staged settlement.

CASE 8	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	JI180	Logistics	1990	10 / 02	12	Yes	12	1	100% Respondent	Pty Ltd	Freight to Tasmania	Freight forwarding, freight consolidation, custom's clearance, general freight

Reasons for sale	Made an acceptable offer by a competitor at a time where the industry was changing and required a significant capital investment.	Role of Interviewee	Managing Director	Partners' Roles											
Role Prior to this Business	Consultant in a shipping company	Years of Prior SME Business Experience	0	Current Occupation	Retired	Sold Business Prior	No	Number of staff	21-49	Location	National				
Miscellaneous Information	Worked previously for 37 years in sales and marketing roles in freight and logistics in UK and Australia.														
Date of Exit Decision (1)	08 / 02	Date of Exit Decision (2)		Date of Actual Exit	10 / 02	Match to Pre-Exit Expectations	80%	Influences on Exit Decision with Weighting	50% offer, 25% industry trends, 25% finance capital	Buyer Classification	Reactive – External Known / Competitor				
Time Taken for Exit Decision	<1 month	Others Involved in Exit Decision	Family directors	Single or Staged Exit Decision	Single	Steps After Exit Decision	Refer to accountant and lawyer	Other Parties Involved in Exit Preparation	None	Influence of Optimism	Not a factor				
Start Exit Preparation		End Exit Preparation		Start Exit Implementation	08 / 02	End Exit Implementation	01 / 03	Start Exit Contemplation	Distant goal	Transition to Realism	Not evident	Advisors Used in Exit	Accountant	Lawyer	
Evidence of Pre-Conditions to Exit	Not evident	Evidence of Barriers to Exit	Evident	Evidence of Other Stakeholder Aspirations	Not evident	Evidence of Exit Trigger	Mild evidence in early 2002 with investment required to "full solution" logistics	Date of Exit Trigger	Early 02						
Other Exit Information	Becomes aware of industry trends towards parcel tracking, warehousing, outsourced logistics and knows that this requires significant capital investment. This is on the owner's mind when the offer comes in in August 2002. Owner lunches regularly with the owner of a competitor to discuss various matters. He does not sell to this competitor but sells out to a larger national (listed) competitor who is busily consolidating / acquiring many smaller players in the industry.														

Table 7.10: Data summary of key details for Case 8.

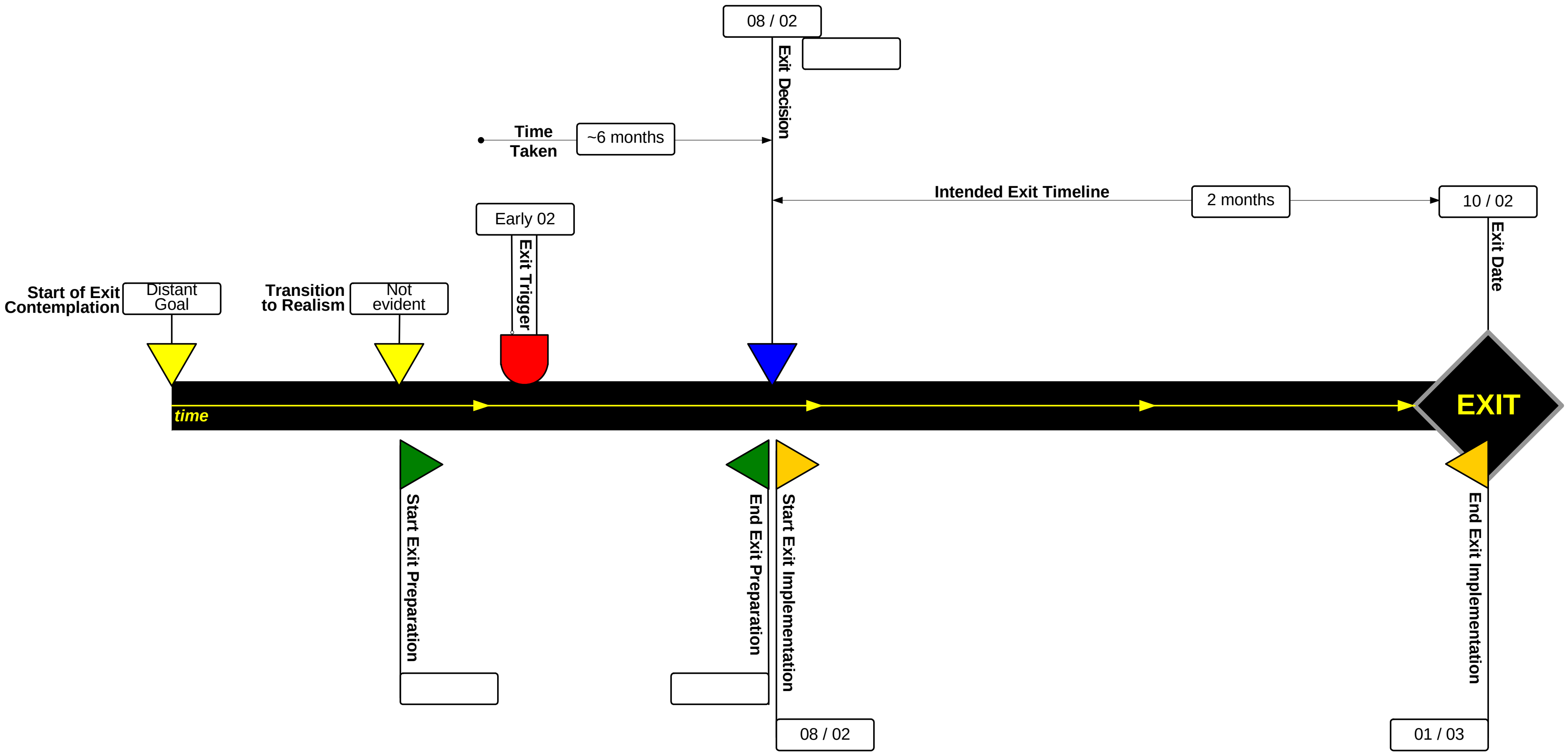

Figure 7.8: Display of key exit details for Case 8 (JI180) onto a generic timeline.

7.4.9 Case 9 – LK190

This case followed a very similar storyline to the previous one (JI180). In September 2000, a senior manager of a large national construction company[80], who was also a customer, arrived unscheduled and unsolicited at the business' premises to enquire if the interviewee was receptive to an exit offer. After receiving an affirmative response (provisional exit decision), further meetings were scheduled between the respective management teams. In February 2001 a final offer (80 percent weighting in decision to exit) was submitted and accepted (acceptance decision) and this was followed by an exchange of contracts and settlement in the next month (March) – refer to Table 7.11.

Unlike the previous case, there were several steps to the decision to exit and there was no trigger scenario; the owner remained optimistic for the future and had major expansion plans for the business. Contemplation of this exit began as early as 1998 (see Figure 7.9) when the interviewee bought out his start-up partners, but a preoccupation with day-to-day management meant that an exit remained a distant goal without any detail or preparation (business or owner).

Prior to the purchase the interviewee's company had fulfilled the role of a contractor to the buyer. The buyer was significantly larger and bid directly for communications contracts that the interviewee's company did not have the in-house capability to complete. Once contracts were awarded, the buyer's company brought in

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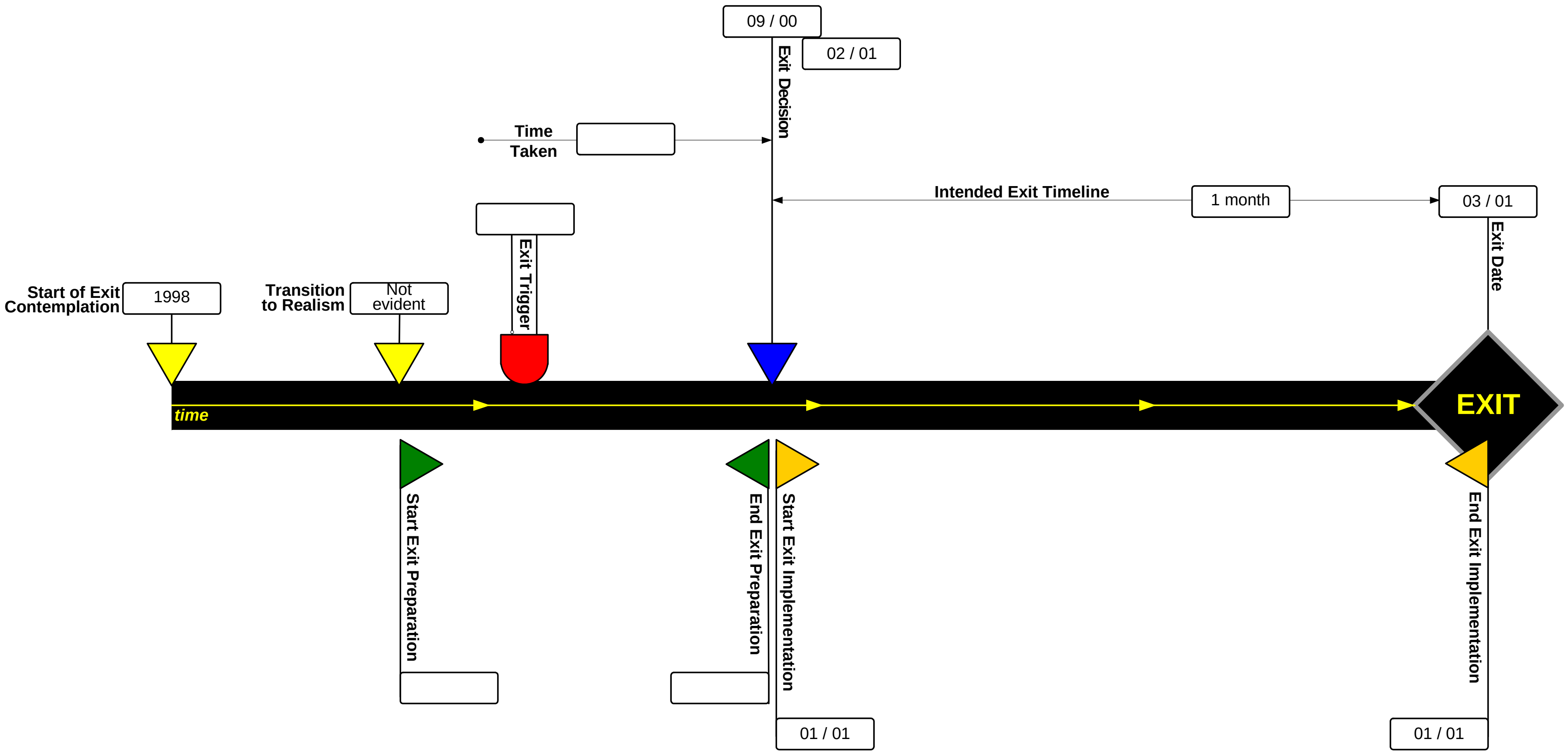
80 Wholly owned by an ASX publicly-listed company.

CASE 9	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	LK190	Construction	1992	03 / 01	9	Yes	9	1	100% Respondent	Pty Ltd	Telco & Equip. Manufacturers	Construction and maintenance of communications infrastructure

Reasons for sale	Made an attractive offer by a customer	Role of Interviewee	Managing Director	Partners' Roles							
Role Prior to this Business	Construction employee in civil aviation	Years of Prior SME Business Experience	0	Current Occupation	Retired	Sold Business Prior	No	Number of staff	21-49	Location	National
Miscellaneous Information	Customer is a large scale construction company who outsources components of its construction contracts to smaller organisations. The customer could also be viewed as a competitor.										
Date of Exit Decision (1)	09 / 00	Date of Exit Decision (2)	02 / 01	Date of Actual Exit	03 / 01	Match to Pre-Exit Expectations	80 - 100%	Influences on Exit Decision with Weighting	80% offer, 10% health issues, 10% energy & enthusiasm	Buyer Classification	Reactive – External Known / Customer
Time Taken for Exit Decision	5 months	Others Involved in Exit Decision	Family directors	Single or Staged Exit Decision	Multiple	Steps After Exit Decision	Request firm / agreed offer & consult accountant	Other Parties Involved in Exit Preparation	None	Influence of Optimism	Not a factor
Start Exit Preparation		End Exit Preparation		Start Exit Implementation	01 / 01	End Exit Implementation	03 / 01	Start Exit Contemplation	1998	Transition to Realism	Not evident
Advisors Used in Exit	Accountant										
Evidence of Pre-Conditions to Exit	Not evident	Evidence of Barriers to Exit	Due diligence conducted by buyer	Evidence of Other Stakeholder Aspirations	Pre-requisite that all staff to have positions in acquired business	Evidence of Exit Trigger	Not evident	Date of Exit Trigger			
Other Exit Information											

<u>Table 7.11</u>: Data summary of key details for Case 9.



<u>Figure 7.9</u>: Display of key exit details for Case 9 (LK190) onto a generic timeline.

organisations like the interviewee's one to fulfil a contract. The interviewee's company was attractive because of its relatively high operating margin[81] and the in-house skills it would bring to the overall organisation.

Similar to Case Eight (JI180), the owner continued on as an employee of the merged group. As a result, the due diligence processes were not overly onerous and the contracts of sale were not as stringent[82] as would be the case of a departing owner. A major condition of the sale was the need for all employees to maintain their pre-buyout roles and for the business to remain operating as a business unit. This case provides an example of stakeholder aspirations beyond just the buyout price.

7.4.10 Case 10 – HG200

Having bought this business from the receiver, in six short years the owners had become so successful that by 1996, they represented 70 percent of the business of their major supplier. The major issue facing all suppliers in the after-market car exhaust business was that the overall market was shrinking at five per cent annually[83]. In January 1996 the interviewee was informed by his major supplier that they would shortly become competitors, which resulted in the interviewee's company ceasing to place any new orders with the supplier. However, due to the significance of the interviewee's business to the supplier, this action precipitated several offers[84] to

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81 Made a net profit of 16.3 percent compared to the acquirer's 2.5 percent.

82 No lawyers used to check contracts on seller / interviewee's side.

83 New cars came with stainless steel exhaust which lasted the lifetime of the car so the market was only older cars with mild steel exhausts.

84 Initial offer was below owners' expectations.

buy, eventuating in an acceptance (acceptance exit decision) in June 1996, and finally a settlement in October of that year. As part of this exit the interviewee was required to stay on for five more years and manage an expanded (national) version of the business.

In this case there is no evidence of direct or formal preparations for a future sale of the business even though the interviewee was aware as early as 1994 (exit trigger – see Figure 7.10) that operating profitably in a shrinking market would become increasingly more demanding. However, when this opportunity presented itself the interviewee engaged a tier-one consulting/accounting firm to value the business and proactively seek an alternative buyer to the supplier. The result of this process was used as leverage in negotiations to enhance the buyout price through competitive tension.

After the negotiations were finalised, the actual date of exit was delayed several months because the buyer was unable to raise enough funds necessary to settle the sale (i.e. barrier to exit). This 'barrier' was overcome by the seller offering vendor terms, which was only possible because the interviewee was continuing as the CEO of the acquired business. Table 7.12 summarises the key exit details associated with this case.

7.4.11 Case 11 – FE210

A combination of a demanding work regime including long days and nights, limited sleep, and unsupportive staff caused this interviewee to suddenly decide to exit his business (June 2001). After less than

CASE 10	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	HG200	Distributor	1982	10 / 96	12	No	6	5	10% Respondent, 3 x 10% Siblings, 60% Father	Pty Ltd	Car exhaust repairers	Replacement mufflers and exhaust parts for older style or niche cars

Reasons for sale	Made an acceptable offer by a major supplier
Role of Interviewee	Managing Director
Partners' Roles	
Role Prior to this Business	Worked for three years in the business prior to owning it. Purchased it off receiver.
Years of Prior SME Business Experience	0
Current Occupation	Owner / Manager of another SME
Sold Business Prior	No
Number of staff	6-10
Location	Victoria
Miscellaneous Information	At time of exit the business represents 70% of supplier's business and because supplier signals intent to distribute their own product respondent's company 'forces' manufacturer to make a bid for them by suddenly ceasing to purchase products. The total market for this company's products was reducing by 5% annually.
Date of Exit Decision (1)	02 / 96
Date of Exit Decision (2)	06 / 96
Date of Actual Exit	10 / 96
Match to Pre-Exit Expectations	100%
Influences on Exit Decision with Weighting	20% industry trends, 20% lack of optimism, 60% strategic decision
Buyer Classification	Reactive* – External Known / Supplier
Time Taken for Exit Decision	4 months
Others Involved in Exit Decision	No
Single or Staged Exit Decision	Staged
Steps After Exit Decision	Valuation, bidding competition, & contracts
Other Parties Involved in Exit Preparation	Arthur Anderson accountants for business valuation and bidding competition
Influence of Optimism	Evident
Start Exit Preparation	02 / 96
End Exit Preparation	06 / 96
Start Exit Implementation	04 / 96
End Exit Implementation	07 / 96
Start Exit Contemplation	Not evident
Transition to Realism	Not evident
Advisors Used in Exit	Mgt Accnt, Lawyer
Evidence of Pre-Conditions to Exit	Not evident
Evidence of Barriers to Exit	Delay in settlement because of buyer finance
Evidence of Other Stakeholder Aspirations	Evident, supplier feels he must buy the business.
Evidence of Exit Trigger	Multiple factors evident
Date of Exit Trigger	1994
Other Exit Information	*This exit is a combination of reactive and proactive. It is reactive because the buyer feels he has no choice but to bid for the business but the seller seeks a second bid to strengthen his bargaining position and to put a valuation on the business. The power remains with the seller like it is in a reactive sale. Eventually the buyer is unable to raise the agreed finance to complete the sale so the seller offers vendor finance because he has to stay on for two years as CEO. This condition also further leveraged the sale price. Evidence of stakeholder aspirations is that the supplier has to buy the business because it represents 70% of the company's business.

Table 7.12: Data summary of key details for Case 10.

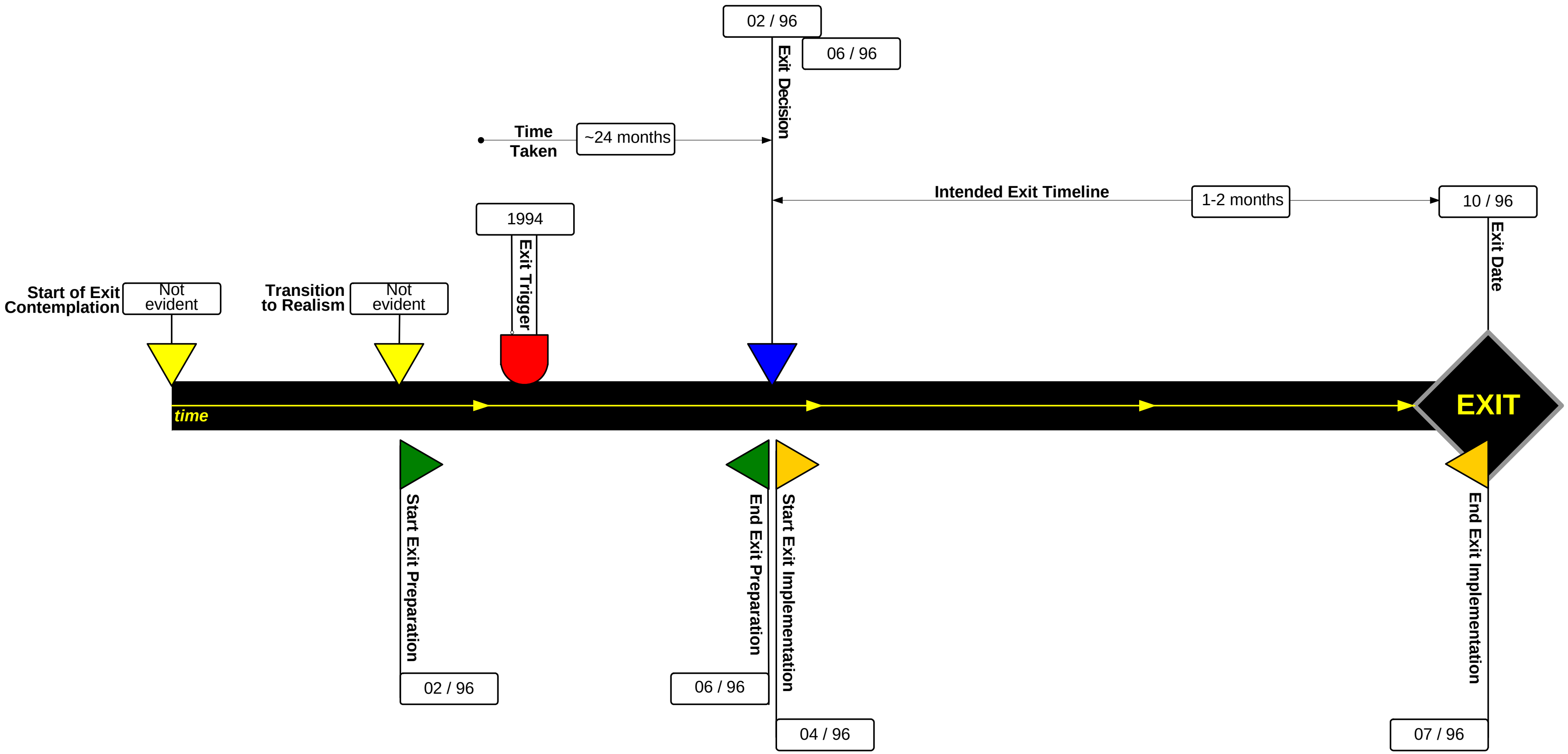


Figure 7.10: Display of key exit details for Case 10 (HG200) onto a generic timeline.

one month of preparation, the interviewee began the process of proactively seeking a buyer for the business. At first an external buyer was identified, but when negotiations stalled, a member of staff was given an opportunity to purchase the business. Negotiations concluded with that staff member in February 2002 (acceptance decision), but the actual exit was delayed until July 2002 (see Figure 7.11).

The reason for exiting was stated as 100 percent based on a frustration with 'unappreciative' staff despite having very flexible and generous working conditions. This decision was made even though the owner remained totally optimistic for the future, and had not contemplated selling it for another five years[85]. What differentiated this case was that it was the only one with a single stated influence for exit, and the only one where the owner was less than 70 percent happy with the exit (50 percent satisfied) - refer to Table 7.13. Like the previous case, there were delays in settlement because the buyer had difficulty in securing funds for the purchase.

7.4.12 Case 12 – DC220

When presented with a sudden and unexpected opportunity, this interviewee decided on the spot to make an unplanned exit from her business (November 2004). This opportunity arose when a friend asked the interviewee for a personal opinion on the purchase of a business similar to hers. After an inspection, the point was made that if the buyer was willing to pay the price expected for the

85 It was previously making a large loss shortly after buying the business, so exiting had been contemplated then.

CASE 11	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	FE210	Re-seller	1975	07 / 02	12	No	5	1	100% Respondent	Pty Ltd	Commercial buildings	Sale, installation and maintenance of lighting requirements for commercial buildings & offices

Reasons for sale	Decided suddenly to sell after HR issues	Role of Interviewee	Managing Director	Partners' Roles	

Role Prior to this Business	Senior tax investigator	Years of Prior SME Business Experience	6	Current Occupation	Semi-retired	Sold Business Prior	No	Number of staff	6-10	Location	Victoria		

Miscellaneous Information	Owned and operated a business for six years prior to operating this one. In the first six months contemplated selling because business was losing significant money but after that no contemplation of exiting.

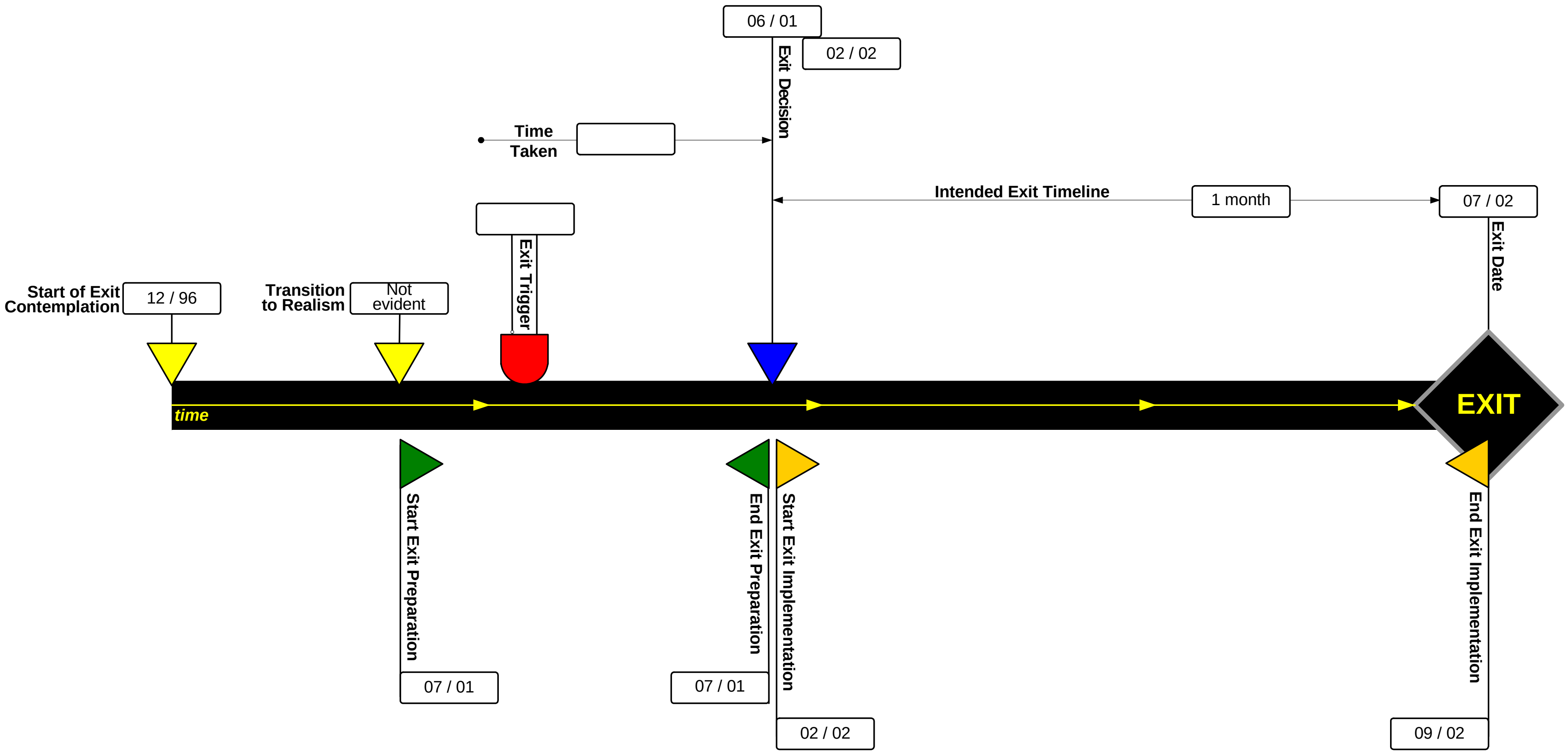
Date of Exit Decision (1)	06 / 01	Date of Exit Decision (2)	02 / 02	Date of Actual Exit	07 / 02	Match to Pre-Exit Expectations	50%	Influences on Exit Decision with Weighting	100% HR issues*	Buyer Classification	Proactive – Internal Known / Staff
Time Taken for Exit Decision	8 months	Others Involved in Exit Decision	Wife	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Contact bus. broker, refer to accountant & then lawyer	Other Parties Involved in Exit Preparation	Business broker for list of potential buyers	Influence of Optimism	Not a factor

Start Exit Preparation	07 / 01	End Exit Preparation	07 / 01	Start Exit Implementation	02 / 02	End Exit Implementation	01 / 03	Start Exit Contemplation	1996	Transition to Realism	Not evident	Advisors Used in Exit: Accountant, Business broker, Lawyer

Evidence of Pre-Conditions to Exit	Not evident	Evidence of Barriers to Exit	Difficulty in raising the finance to settle the sale	Evidence of Other Stakeholder Aspirations	Evident, business sold to staff member because of health issues	Evidence of Exit Trigger	Evidence of HR and energy & enthusiasm factors	Date of Exit Trigger	

Other Exit Information	* owner states that the reason for leaving is 100% HR based. When I look at his sudden decision and the activities that lead up to the decision to exit I conclude that energy and enthusiasm play a significant part in that decision. Just prior to the decision he works night and day for 3 days with about 10 hours sleep. To support this he is only 50% happy with the outcome; this is by far the lowest so it shows a bit of a rushed decision and his generous nature towards employees.

Table 7.13: Data summary of key details for Case 11.



<u>Figure 7.11</u>: Display of key exit details for Case 11 (FE210) onto a generic timeline.

prospective business, he could have hers for the same amount. The offer was accepted and after a short delay, settlement took place in May of 2005 (see Table 7.14 overpage).

The interviewee was a serial café owner, and after only a short time of operation (three years) her health had deteriorated (20 percent of the exit decision weighting). Furthermore, managing staff had become an ever increasing frustration (30 percent of the exit decision). So when an opportunity (50 percent weighting) to earn 63 percent more than she paid for it three years prior and save $30,000 in agents fees[86], the interviewee made a sudden decision to sell, despite being optimistic about the future of the business. Like many of the previous cases, settlement was delayed due to the buyer's difficulty in raising finance. As part of the settlement, the owner was required to work on for six months as the manager.

7.5 Overview of Exits

In summarising the twelve exit scenarios of Australian SMEs' Table 7.15 shows that the number of cases where the sale type was reactive was almost equal to the cases that were proactive. However, in the case of DC220 (see Section 7.4.12) where the owner had seized on an opportunity, it

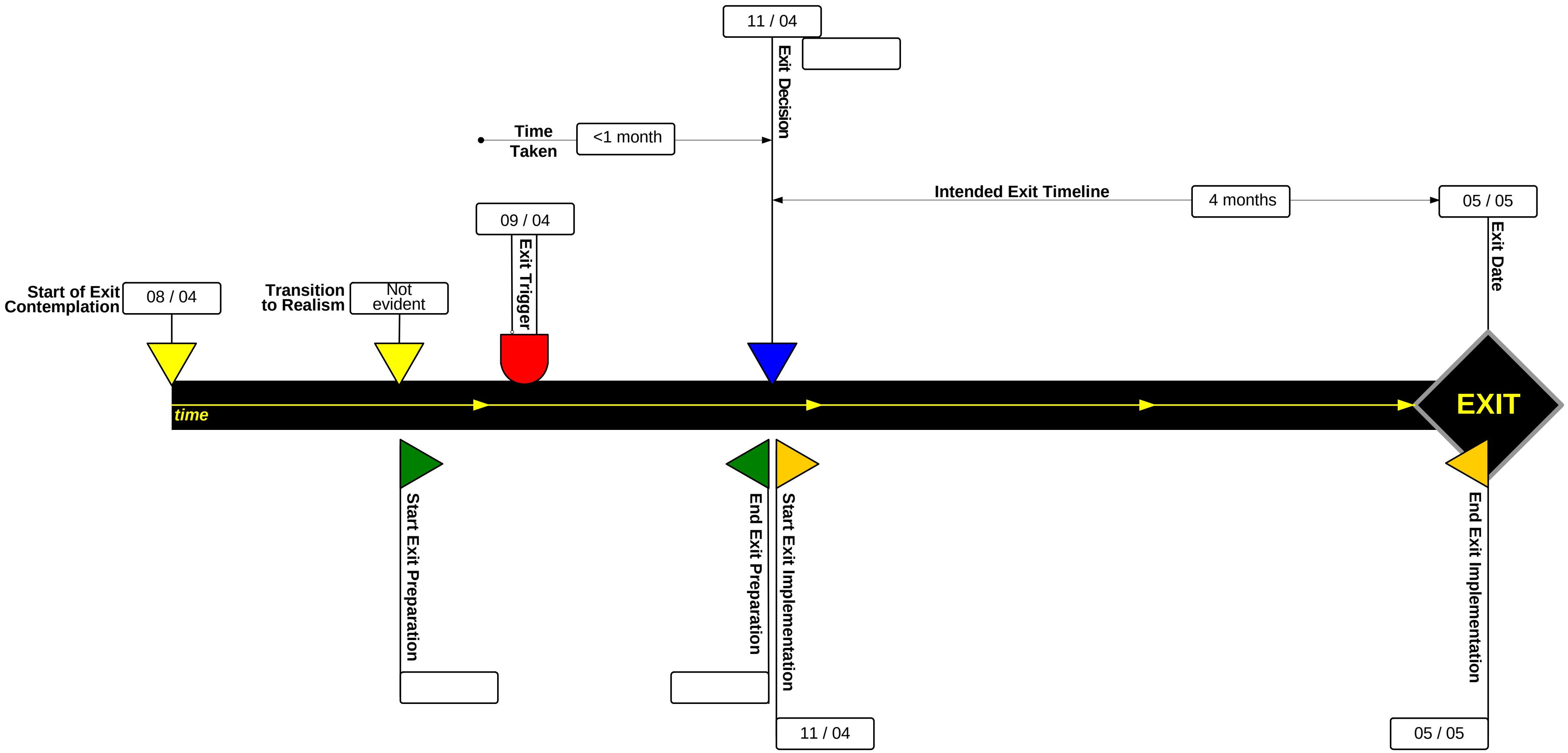
	Reactive	Proactive
External	5.5	4.5
Internal	1	1

Table 7.15: Sale type versus buyer type

86 Agent fees associated with selling it in the future.

CASE 12	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products
	DC220	Cafe	1995	05 / 05	10	No	3	1	100% Respondent	Bus Name	Cinema patrons, uni	Light meals, refreshments, lunch, coffee
Reasons for sale	Took advantage of an opportunity which was too good to refuse.	Role of Interviewee	Owner / Manager	Partners' Roles								
Role Prior to this Business	Café owner / operator	Years of Prior SME Business Experience	8	Current Occupation	Café owner / operator	Sold Business Prior	Yes	Number of staff	6-10	Location	Victoria	
Miscellaneous Information												
Date of Exit Decision (1)	11 / 04	Date of Exit Decision (2)		Date of Actual Exit	05 / 05	Match to Pre-Exit Expectations	90 - 95%	Influences on Exit Decision with Weighting	50% offer, 20% health issues, 30% HR issues	Buyer Classification	Reactive / Proactive – External Known / Other	
Time Taken for Exit Decision	<1 month	Others Involved in Exit Decision	No	Single or Staged Exit Decision	Single	Steps After Exit Decision	Await for contract from buyer	Other Parties Involved in Exit Preparation	None	Influence of Optimism	Not a factor	
Start Exit Preparation		End Exit Preparation		Start Exit Implementation	11 / 04	End Exit Implementation	05 / 05	Start Exit Contemplation	Fleetingly 08 / 04	Transition to Realism	Not evident	Advisors Used in Exit
Evidence of Pre-Conditions to Exit	Not evident	Evidence of Barriers to Exit	Evident, buyer has difficulty with finance	Evidence of Other Stakeholder Aspirations	Not evident	Evidence of Exit Trigger	Mild evidence, general comment that staff were troublesome	Date of Exit Trigger	09 / 04			
Other Exit Information	Buyer is a personal friend who is an SMB owner and lawyer. Asks seller for an opinion about another business and she takes advantage of the situation and says that he could buy her business for that sort of dollars. This is neither a reactive or proactive situation, it's simply an opportunity which the seller is able to take advantage of. She is an experienced business operator and she is able to make a quick decision to take advantage (63% better than she paid for it three years prior) of the opportunity.											

Table 7.14: Data summary of key details for Case 12.



<u>Figure 7.12</u>: Display of key exit details for Case 12 (DC220) onto a generic timeline.

was unclear whether this was an example of a proactive or reactive sale[87]. It was by definition a proactive sale but had the negotiation characteristics of a reactive sale. There was one example each of a reactive-internal (Case ZY110) and proactive-internal (Case FE210) sale. A possible explanation for these two is related to the size of the businesses studied (a single owner and owner/manager).

In all but one case (TS140) the owners knew their acquirers. There were three cases (VU130, RQ150, JI180) where competitors acquired the business and two cases (LK190, XW120) where customers were the buyers. In all five cases (VU130, RQ150, JI180, LK190, XW120) the acquisition was made by much larger organisations than those acquired. There is also an example where the major supplier was a 'forced' buyer (HG200).

As highlighted in the exit feature summary in Table 7.16, the notion of an exit trigger fulfilment as a pre-requisite for an exit decision was supported in half the cases, and only weakly in another three. The effect of optimism was also unpersuasive as only five cases indicated any such influence. In Section 6.6 the concept of multiple or a succession of exit decisions was introduced: of the twelve cases only four reported a single exit decision and these were usually associated with reactive sale types, although not exclusively.

Surprisingly, the contemplation of a future exit was not universal, with four cases (NM160, VU130, JI180, HG200) reporting no evidence of consideration, and several others (ZY110, LK190) only mildly so; and of the cases that did, only three cases (XW120, TS140, PO170) reported a

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87 Tabled as 0.5 reactive and 0.5 proactive.

transition from a romanticising phase to realism. Another concept not well supported was the notion of a precondition to exit where less than half of the cases reported this requirement. Most cases were associated with proactive sale types.

Barriers to exit in the form of due diligence requirements was apparent in six cases (XW120, RQ150, PO170, JI180, LK190, HG200) but difficulties with raising finance in three cases (DC220, FE210, HG200), also caused delays to exits (and a barrier to the exit). Requiring suitable ongoing employment for staff members was the most frequent form of stakeholder aspirations. In several cases (XW120, NM160, VU130, RQ150, LK190) there was a demonstrated link between stakeholder aspirations and barriers to exit with several cases (owners) stating that the exit would not proceed without this being fulfilled.

7.6 Summary

This chapter has profiled the case studies obtained for this research. Section 7.2 summarised the types of data acquired; how it was collected and its structure for analysis. Section 7.3 then provided a demographic overview of the cases and their participants with the aim of informing the reader of the study's balance in representation of exits in the Australian SME community. Following this, Section 7.4 provided a highlighted description of each case, a reduction of data in each case into a summarised table format, and a display of key exit details in a common timeline display. Finally, Section 7.5 framed key exit features to identify how certain exits should be clustered to explain the processes undertaken by them (Miles & Huberman 1994).

Case Identification	Date Exited[1]	Years of Ownership	Sale Type	Buyer Type	Buyer Identification	Exit Trigger	Optimism Factor	Exit Decision	Exit Preparation	Exit Contemplation	Transition to Realism	Barriers to Exit	Preconditions to Exit	Stakeholder Aspirations
ZY110	04 / 97	7	Reactive	Internal	Partner	Evident	Yes	Multiple	Not Evident	Evident	Not Evident	Not Evident	Not Evident	Not Evident
XW120	07 / 06	11	Proactive	External	Customer	Mild	Yes	Multiple	Evident	Evident	Not Evident	Evident	Evident	Evident
NM160	11 / 96	12	Proactive	External	Known Other	Strategic	No	Multiple	Not Evident	Not Evident	Not Evident	Not Evident	Evident	Evident
VU130	07 / 04	14	Reactive	External	Competitor	Evident	No	Single	Not Evident	Not Evident	Not Evident	Not Evident	Not Evident	Evident
TS140	02 / 04	4	Proactive	External	Unknown	Evident	No	Multiple	Evident	Evident	Evident	Not Evident	Evident	Not Evident
RQ150	08 / 04	16	Reactive	External	Known Other	Evident	Yes	Multiple	Evident	Evident	Not Evident	Evident	Evident	Evident
PO170	08 / 04	11	Proactive	External	Competitor	Evident	Yes	Multiple	Evident	Evident	Evident	Evident	Evident	Evident
JI180	10 / 02	12	Reactive	External	Competitor	Evident	No	Single	Not Evident	Not Evident	Not Evident	Evident	Not Evident	Not Evident
LK190	03 / 01	9	Reactive	External	Customer	Not Evident	No	Multiple	Evident	Evident	Not Evident	Evident	Not Evident	Evident
HG200	10 / 96	6	Reactive	External	Supplier	Evident	Yes	Multiple	Evident	Not Evident	Not Evident	Evident	Not Evident	Evident
FE210	07 / 02	5	Proactive	Internal	Staff	Not Evident	No	Multiple	Evident	Evident	Not Evident	Evident	Not Evident	Evident
DC220	05 / 05	3	Neither	External	Known Other	Mild	No	Single	Not Evident	Evident	Not Evident	Evident	Not Evident	Not Evident

Table 7.16: Summary of key exit features for each case.

Notes: *1. Date owner exited.*
2. 'Buyer Identification' classifies if buyer was known or unknown to seller.
3. 'Optimism Factor' refers to whether a lack of optimism was a factor in the decision to sell.

The analysis of these results and a discussion of the findings of this study are contained in Chapters 8 and 9 that follow.

Part C

Chapter 8

ANALYSIS, FINDINGS & DISCUSSION

8.1 Introduction

Following the presentation of the case studies in the previous chapter, this chapter analyses them and discusses the findings of the study. The first section (Section 8.2) focuses on the foundation of the study, adaptations made as a result of the Pilot Study, and reports on the researcher's own biases and expectations. This is followed by a short evaluation of the cases where data was categorised to differentiate between 'occurrences' and 'relevance' (Section 8.3).

With a foundation established and data categorised, Section 8.4 describes the two main approaches used to analyse the data. The first approach is a content analysis (Glasser & Strauss 1967, Miles & Huberman 1994), used to organise and reduce the data to identify key elements in the exit process. This is followed by a 'clean-sheet' approach and thematic analysis (Ezzy 2002, Richards 2005, Kelle 1995, Fielding & Lee 1998, Bazeley 2007) to search for unanticipated revelations and more subtle explanations. The next section presents the study findings, highlighting support for the proposed research model and its associated research propositions, and concludes with an explanation of unanticipated elements. This is followed by a discussion on the significance of the study's findings and conclusion according to the research propositions.

8.2 Foundation of the Analysis

Chapter 4 (Research Framework) developed an initial framework for organisational change (Joyce & Wood 2003) into the proposed research framework for this study. The proposed research framework (see Figure 8.1) and the research propositions (see Table 8.1) provide the basis for an empirical examination of the SME exit process.

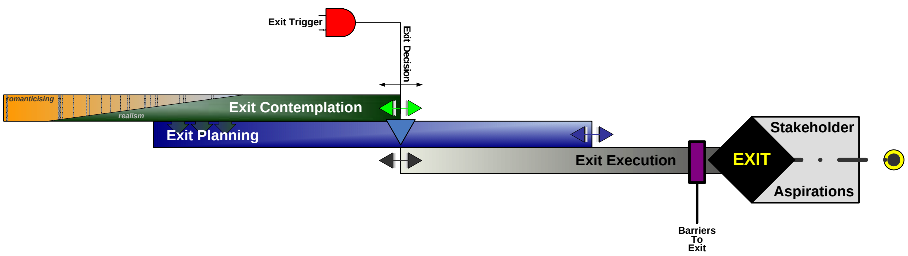


Figure 8.1: A schematic representation of the research model of the SME exit process. Time is represented unscaled from left to right.

Item		Propositions
Exit Process	P1	The overall exit process consists of three (3) distinct stages: *exit contemplation* is the first stage, this is followed by an *exit planning* stage and finally the plans are executed in an *exit execution* stage.
Exit Contemplation	P2	The earliest start point of the *exit contemplation* stage is prior to starting the business. It ends when the *exit decision* is made.
	P3	*Exit contemplation* consists of two (2) distinct phases and is the start of the exit process. The two (2) distinct phases are romanticising and realism.
Romanticising & Realism	P4	Romanticising is where owners contemplate unconstrained optimal exit outcomes and after a period of time this progresses into a realism phase.
	P5	Romanticising eventually reverts to a realism stage where optimal possibilities convert into more realistic scenarios.
Exit Planning	P6	*Exit planning* stage begins with the *realism phase* of *exit contemplation.* It ends at a point prior to *exit*. *Exit planning* generally occurs prior to *exit execution* but these stages may overlap.
Exit Execution	P7	*Exit execution* stage begins at the *exit decision* and ends at the *exit*. *Exit execution* is where exit plans and operational activities are executed.
Exit Trigger	P8	An *exit trigger* indicates an owner's penchant to exit and is a precondition for an *exit decision*.
	P9	There are five factors which can fulfil an *exit trigger.* Four (4) tangible factors (*financial, timing, crisis, risk*) and one (1) subjective factor (*optimism*). A trigger for a voluntary exit is established by one (1) or more tangible factor(s) in combination with the subjective factor or by the subjective factor singularly.
Exit Decision	P10	The *exit decision* signifies the start of the *exit execution* stage. A precondition to a decision to exit the business is that conditions for an *exit trigger* must first be fulfilled.

Table 8.1: The research propositions.

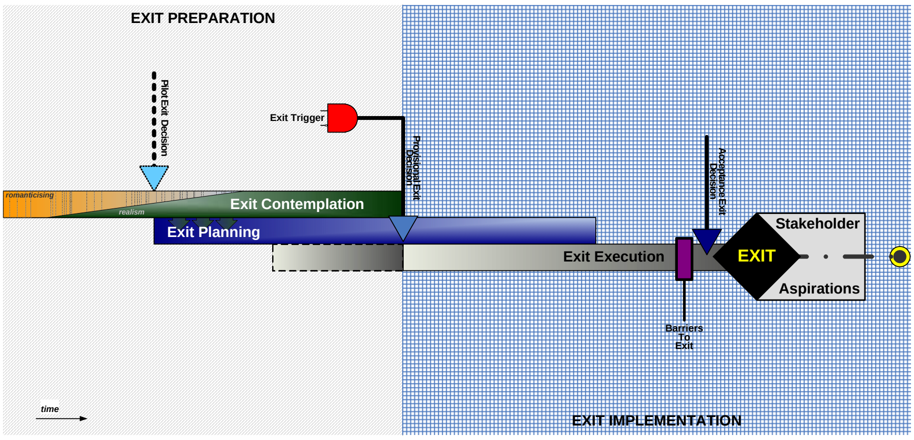
8.2.1 Revised Research Framework

Richards (2005) and Veal (2005) view qualitative research as a dynamic process where theory often emerges from the data (emergent themes) and how a research model 'grows with the data'. Others like Ezzy (2002), Miles and Huberman (1994), and Gibbs (2007), contend that analysis during the collection process strengthens theory development and sharpens the interpretations of the cases being studied. This study began with the proposed research framework outlined in the previous section and the Pilot Study[90], described in Chapter 6. This revealed a number of weaknesses which required this framework to be adapted in the following manner which included:

Exit Decision	Being able to account for a multi-tiered exit decision. The tiers being a pilot exit decision, a provisional exit decision, and an acceptance exit decisions;
Exit Trigger	The addition of a strategic decision dimension to the exit trigger factors;
Exit Preparation	An adoption of broader context for planning activities which is referred to as exit preparation and accounts for deliberate and inadvertent preparation and comprises of both the exit planning (formal and informal) and exit execution activities. This involved an adaptation to the process so that both planning and execution may occur prior to the provisional exit decision; and
Exit Implementation	An adaptation to the post-provisional exit decision process being referred to as exit implementation and to include both planning and execution activities.

90 Three sequential cases with adaptations after each case.

At the conclusion of Chapter 6 an adapted research framework was developed which accounted for the abovementioned shortfalls. Analyses of the case data (presented in Chapter 7) are undertaken using this adapted framework (see Figure 8.2).



<u>Figure 8.2:</u> The adapted research framework for the SME exit process.

8.2.2 Researcher Expectations and Bias

Analyses are not conducted with a 'clean sheet' or an empty mind. The researcher's own exit experience is fundamental to interpreting actions and responses of business owners who successfully exited their businesses. Richards (2005), who argues that 'good research design' takes into account what is already known and incorporates ways that this knowledge can be used and tested. Richards (2005) directs the researcher to 'declare' upfront those biases and expectations to maximise their usefulness and to ensure the testing of those ideas. A summary of this researcher's declared expectations and by inference, biases, for this study are as follows:

Optimism: It is anticipated that the level of optimism by the owner (main shareholder) will be central to the decision to exit. Optimism is characterised as a combination of general optimism for the economy, optimism for the specific business, and optimism in the form of industry trends.

To make a decision to exit the business the researcher contends that there must be a lack of optimism otherwise an owner will conclude that continuation of the business will be more rewarding than exiting.

Exit Trigger: An exit trigger is a pre-condition to a decision to exit. For the owner to make a decision to exit conditions for an exit trigger need to be fulfilled before a decision to exit is made.

A trigger has five factors associated with it: financial, timing, risk, crisis, and optimism. A trigger can occur in one of two ways: when one or more of financial, timing, risk, and crisis events occur with a lack of optimism; or singularly as a lack of optimism.

Exit Contemplation: The first step in the exit process is exit contemplation and this is directly linked with what aspirations the owner (and other stakeholders) has for the business. These two concepts (contemplation and aspirations) underpin the ongoing business strategy and is the ultimate goal of the business owner. The key assumption here is that businesses are a means to achieving a particular outcome and are not choice of lifestyle whilst in business.

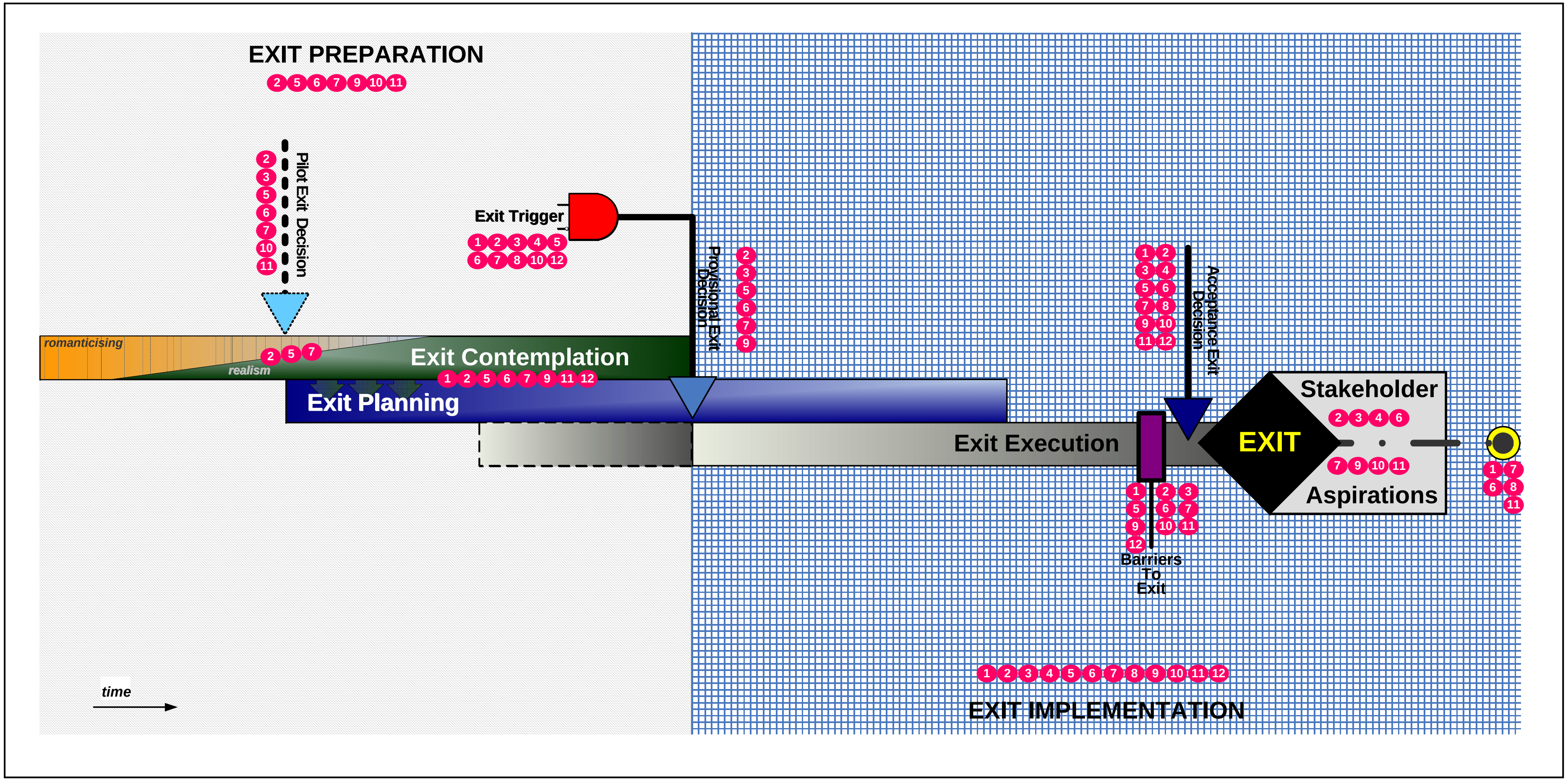
Business owners ‘romanticise’ about what may be possible in an optimum harvest of their business but this eventually gives way to a more realistic view of what can be achieved. This does not preclude the possibility of a reoccurrence of romanticising when the business achieves success or when optimum outcomes are achieved by other like business owners.

Exit Planning: Owners of SMEs rarely undertake formal planning activities (business or exit) associated with their business.

8.3 Evaluation of the Case Data

The reporting of the case data relative to the adapted research framework is defined in Figure 8.3 and Table 8.2 following. A feature of qualitative data is that not all cases or occurrences are of equal relevance. Miles and Huberman (1994) refer to some cases which provide ‘rich’ or ‘thick’ descriptions and offer a more comprehensive investigation of the issues being studied. Figure 8.3 provides a display of which cases support the various elements of the research model whilst Table 8.2 is a ‘data accounting summary’ (Miles and Huberman 1994) which supplements the display by scaling this support: from none (‘blank’), some (✓), to thick (✓🗐).

The best supported elements were exit barriers (ten reports from twelve cases and exit triggers (eleven reports from twelve cases). In



<u>Figure 8.3</u>: Cluster display of the cases against the adapted research framework. The numbers 2 refer to the relative cases identified in Table 8.2

Case Identification		Exit Contemplation	Transition to Realism	Exit Trigger	Strategic	Opportunity	Reactive vs Proactive	Exit Decision Single / Multiple	Time for Exit Decision	Time Taken to Exit	Exit Preparation	Barriers to Exit	Stakeholder Aspirations
1	ZY110	✓		✓		✓	Reactive	Single	< 1 month	1 month		✓	
2	XW120	✓	✓	✓	✓		Proactive	Multiple	28 months	3 months	✓🗐	✓🗐	✓🗐
3	NM160			✓🗐	✓		Proactive	Multiple	3 months	3 months		✓	✓🗐
4	VU130			✓🗐		✓	Reactive	Single	< 1 month	2 months			✓🗐
5	TS140	✓🗐	✓🗐	✓🗐	✓		Proactive	Multiple	< 1 month	5 months	✓🗐	✓🗐	
6	RQ150	✓🗐		✓🗐		✓	Reactive	Multiple	4 months	1 months	✓🗐	✓🗐	✓🗐
7	PO170	✓🗐	✓🗐	✓🗐	✓		Proactive	Multiple	5 months	4 months	✓🗐	✓🗐	✓🗐
8	JI180			✓🗐		✓	Reactive	Single	< 1 month	2 months			
9	LK190	✓				✓	Reactive	Multiple	5 months	1 month	✓	✓🗐	✓🗐
10	HG200			✓🗐		✓	Reactive	Multiple	4 months	4 months	✓🗐	✓🗐	✓🗐
11	FE210	✓		✓🗐			Proactive	Multiple	8 months	5 months	✓🗐	✓🗐	✓
12	DC220	✓		✓		✓	Reactive	Single	< 1 month	6 months		✓🗐	

Table 8.2: Cross case data accounting summary showing where data is evident (✓) with exit process element and where there is rich data it is indicated by ✓🗐 symbol. This does not apply to the 'strategic' or 'opportunity' categories where a (✓) indicates what classification of exit the case falls under.

exit triggers eleven cases reported fulfilment of a trigger condition prior to making their decision to exit. Of the eleven cases, eight provided rich descriptions of those conditions. Of the eight cases that contemplated an exit, only three identified a transition from a romanticising stage to a realism stage. The Analysis (see Section 8.4) that follows discusses in detail the individual cases and their degree of support for the specific elements of the adapted research model.

8.4 Analysis of the Data

Data in this study was analysed using a dual analysis strategy (see Figure 8.4). Based on the principles prescribed by Glasser and Strauss (1967), Eisenhardt (1989), Yin (2003a and 2003b), and Miles and Huberman (1994), the first strategy was to use a content based analysis in order to reach theoretical understandings. In this approach the data was reduced, organised, and displayed within-case and cross-case displays (Miles & Huberman 1994), to determine the level of support between the research framework and the empirical data. When this process was completed, the data was then re-ordered in a range of conceptual 'frames' to explain what did not match, and to better explain the key elements of the overall process.

To ensure that no meaning was 'lost' in the content analysis process, a second strategy was used to revisit the interview transcripts with a clean sheet and undertake a thematic analysis (Ezzy 2002, Richards 2005, Kelle 1995, Fielding & Lee 1998, Bazeley 2007) using NVivo™ 8 (a CAQDAS tool – see details in

Section 5.10.1). In this approach the guiding theme was to ask "so what does this reveal?" This required the employment of a systematic regime in which the key principles were consistency and flexibility. Here. consistency required that the criteria for coding be uniformly applied when categorising the interview transcripts and other data sources, and flexibility when a unit of text represented more than one concept or revelations that did not fit into the defined research framework.

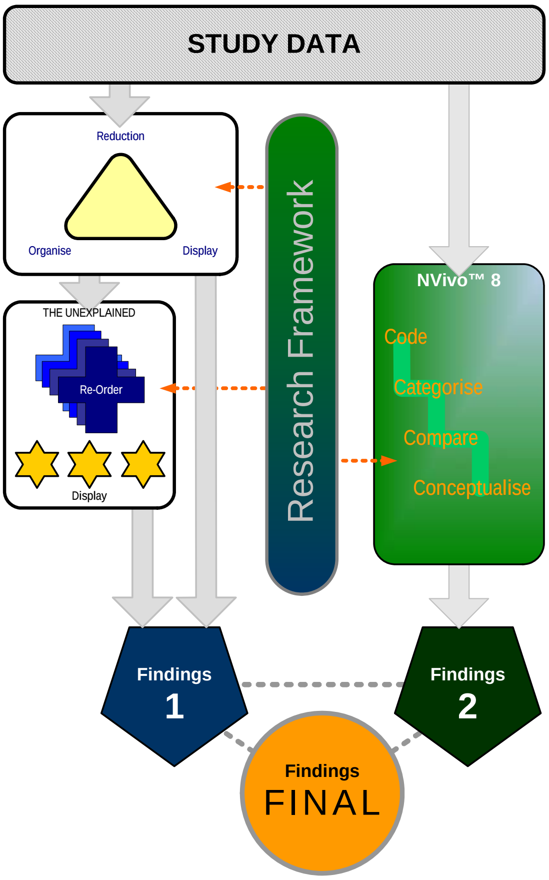


Figure 8.4: Dual data analysis strategy of reduction-organise-display and re-order, and CAQADS using NVivo 8.

8.4.1 Content Analysis

The content analysis of data began by investigating the alignment of empirical data with the research framework, using within-case displays (Miles & Huberman 1994, pp. 90 - 141). Case data was then reduced into a summarised format (see sample in Figure 8.5), where each summary (see Tables 7.3 to 7.14) was assigned a series of predefined categories as a form of 'accounting scheme' (Miles & Huberman 1994) based on the research framework. Where there was concurrence of data, the details were recorded (Ezzy 2002) to assist in defining key elements and milestones of the exit process.

Date of Exit Decision (1)	02 / 97	Date of Exit Decision (2)	03 / 97	Date of Actual Exit	04 / 97 07 / 97	Match to Pre-Exit Expectations	No Expectations	Influences on Exit Decision with Weighting	30% offer, 40% industry trends / optimism 20% energy/ enthusiasm, 10% lack of optimism	Buyer Classification	Reactive - Internal Known / Other	
Time Taken for Exit Decision	< 1 Month	Others Involved in Exit Decision	Family	Single or Staged Exit Decision	Staged	Steps After Exit Decision	Appoint accountant	Other Parties Involved in Exit Planning	Minimal, accountant assistance in deal structuring	Influence of Optimism	Significant, 10% stated + 40% due to poor industry trend	
Start Exit Preparation		End Exit Preparation		Start Exit Implementation	03 / 97	End Exit Implementation	07 / 97	Start Exit Contemplation	10 / 94	Transition to Realism	Not evident	Advisors Used in Exit Accountant
Evidence of Pre-Conditions to Exit	Not Evident	Evidence of Barriers to Exit	Yes, supplier agreements continued.	Evidence of Other Stakeholder Aspirations	Need to consult family prior to making exit decision	Evidence of Exit Trigger	Some but not strong. Anecdotal, accepted offer but was unsure how much business was worth.	Date of Exit Trigger	07 / 96			

Figure 8.5: Sample representation of the data reduction from Case 1.

Details from each case were then displayed onto an unscaled timeline display to further define the levels of support relative to the research framework (see sample Figure 8.6, adapted from Figures 7.1 to 7.12).

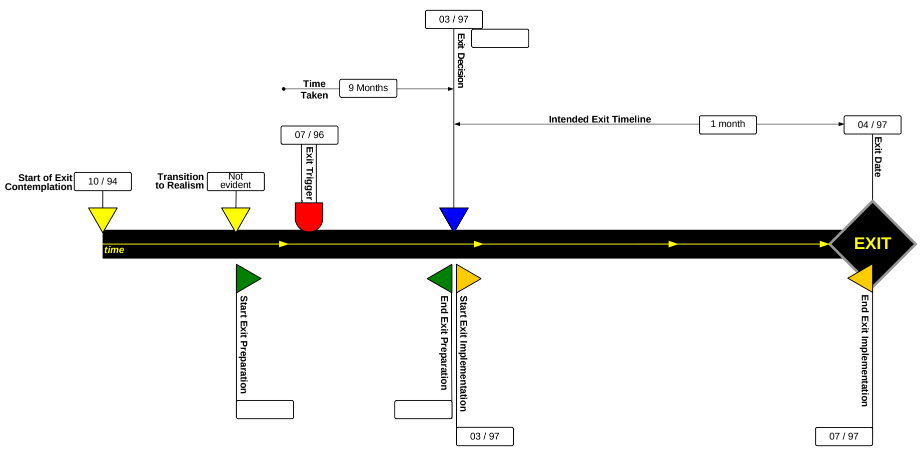


Figure 8.6: Sample representation of display from Case 1 unscaled timeline.

The next stage of analysis was to re-cast the data using the same categories in a series of cross-case displays (Miles & Huberman 1994, pp. 172 - 205) to investigate evolving or unconsidered themes. Table 8.3 provides a summary of the displays used for analysis.

Display Name	Comment	Refer To
Case backgrounds	Identifies if backgrounds impact exit process.	Table 7.2
Key exit details	Summary of case details in an exit matrix.	Table 7.16
Cluster display	Cluster display of cases against the adapted research model.	Figure 8.3
Case support	Identifies level of support of cases against the adapted research model.	Table 8.2
Event matrix	Identifies occurrences of key events.	Table 8.8

Table 8.3: Summary of cross-case displays used for analysis.

In an attempt to explain both matching and unmatching data, data elements were reframed in a range of cross-case matrices. These matrices range from key aspects of the businesses backgrounds (size and length of operation) to buyer and industry specifics (buyer size, expansion, consolidation). Table 8.4 provides a summary of these cross-case displays.

As an initial analysis of three cases (TS140, RQ150, PO170) identified them as 'emblematic' of the exit process, a vignette of case TS140 was compiled (see Appendix 8B) to provide a more detailed description and add contextual richness to the data (Miles & Huberman 1994). This was also useful in clarifing this researcher's perspective on the overall process (Erickson 1986).

Display Name	Comment	Refer
Offer & buyer size	Matrix of buy offer and buyer size versus critical exit issues.	Table 8 - APPD1*
Size & length of operation	Matrix of business size and length of operation versus critical exit issues.	Table 8 – APPD2*
Trigger factors	Matrix of influences on the exit decision.	Table 8.6
Consolidation and expansion	Matrix of exit preparation versus industry consolidation and buyer expansion.	Table 8 – APPD3*

Table 8.4: Summary of cross case displays used for non-matching or alternative explanations. * see Appendix 8E - Supplementary Analysis Tables.

8.4.2 Thematic Analysis

As previously explained in Section 5.10.1, each interview transcript was imported into NVivo™ for data management involving four discrete stages designed to reveal increasing levels of detail. These stages involved: coding, categorising, applying comparison and reflexivity, and conceptualising. Following steps prescribed by Glaser (1992) and Strauss and Corbin (1998), this process is performed according to the following steps:

open coding	To break down the data and assign a label to any significant constructs;
categorising	Of concepts that apply to a group of constructs;
constant comparison	To establish data connections between categories; and
conceptualisation	Where labels are given to groups of categories that have common connecting properties.

In this analysis, three types of codes (Miles & Huberman 1994) were employed including: descriptive (preparation, implementation), interpretive (barriers to exit, stakeholder aspirations), and pattern (reactive/proactive sale, inadvertent preparation). By continually re-examining 'evolved' categories and the supporting data, the researcher was able to discover new insights, make new connections, and explore issues outside the research framework. This process of re-examining categories was accompanied by reflexivity and regular unfettered notations into a research diary (see Appendix 8A) as a basis for developing theoretical sensitivity. Like the content analysis discussed in Section 8.4.1, the labels for the initial categories of the thematic analysis were a provisional start list drawn from the study's research framework (Miles & Huberman 1994, Ezzy 2002). These categories, mainly in the form of tree nodes (exit contemplation, exit aspirations, exit decision, exit preparation, and exit implementation) were aligned to the research propositions and questions contained in the Interview Guide. Categories were then re-organised in order to put key texts into multiple categories. As coding proceeded, it became necessary to add several free standing nodes (business expansion, buyer's characteristics, entrepreneur's characteristics, and seller's expectations). Due to the free flowing nature of some of the interviews, coding was categorised according to both the information provided and the context of the question.

This process of breaking down the levels of detail including categorisation and revisitation of categories (Lincoln & Guba 1985, Glaser 1992, Ezzy 2002, Kelle 1995), was repeated several times to provide finer levels of attention to detail (see Figure 8.7).

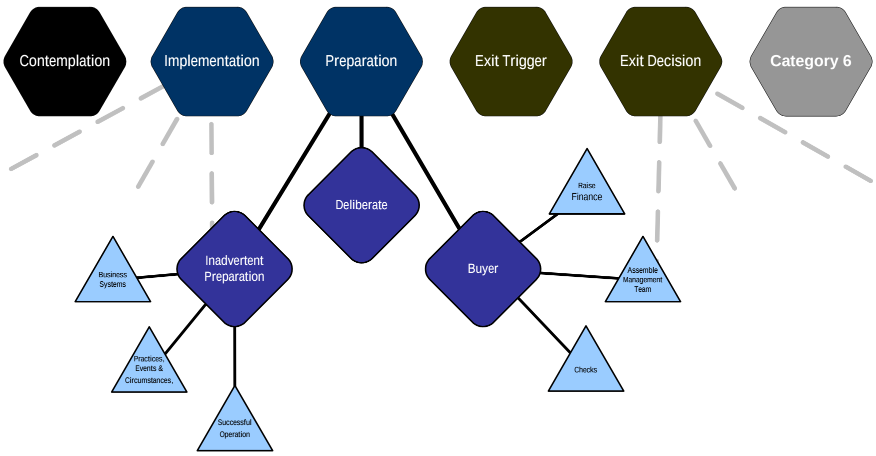


Figure 8.7: **Categorising the data, adapted from Kelle (1995).**

8.5 Findings on the SME Exit Process

This section presents the research findings, beginning with the central issues of the exit decision and the exit trigger in the overall exit process. Following this, findings on the logical path from contemplation, preparation, and finally to implementation, are discussed.

8.5.1 Exit Decision

In the first version of the proposed research model (Chapter 4) the exit decision was envisaged to be a single decision that signified the start of the exit execution stage. This is the period when an owner begins to commit significant resources and time to exit activities. However, although this model of the exit decision was found to be applicable to one third of the cases (all reactive sales), the model was unable to accurately account for the exit decision of the other cases as the decision to exit involved a series of decisions made over an extended time.

The initial findings of the Pilot Study (Chapter 6) identified that an exit decision consisted of more complex dimensions than originally conceived. In some situations it could be (but not always) two-tiered involving an initial 'provisional' exit decision followed by an 'acceptance' exit decision. Here, a provisional exit decision is defined as a verdict by the owner to exit - subject to terms and conditions required by the buyer or seller. An example of this is Case LK190 where the buyer made an unsolicited 'indicative' and conditional[91] offer to buy the business, and the seller indicated that the offer was 'conditionally' acceptable depending on the impact of the specified conditions and details in the Contract of Sale. This is characteristic of a provisional exit decision in that this decision allowed the exit/sale process to advance[92], and negotiations to be undertaken. A feature of this decision was that it involved two parties (the seller and the buyer). However, this was not applicable to situations where the owner receives their asking price without engaging in negotiation[93]. Examples of this are Cases VU130 and DC220 (see Section 7.4.4 and 7.4.12). Furthermore, there appears to be a generic condition inferring that exit decisions are subject to the buyer actually settling for the business on the agreed settlement date. Although this might be viewed as obvious, in the cases it was the most significant impediment to exiting.

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91 Subject to financial and capability due diligence.

92 Agreement on the steps in the process, agreement on who will negotiate, timelines, terms and conditions to be negotiated, contracts to be drawn up, etc.

93 They receive their asking price.

The provisional exit decision is associated with a point in the process (see Figure 8.8) when the owner becomes committed to exiting and begins to commit substantial resources[94] and time to the exit. This is consistent with the placement of the original exit decision in the preliminary research framework (see Figure 8.1). At this stage the provisional exit decision signifies the end of the exit contemplation stage because thought and deliberation have been transformed into action. It also marks the end of the exit preparation stage and the start of the exit implementation stage in the overall exit process.

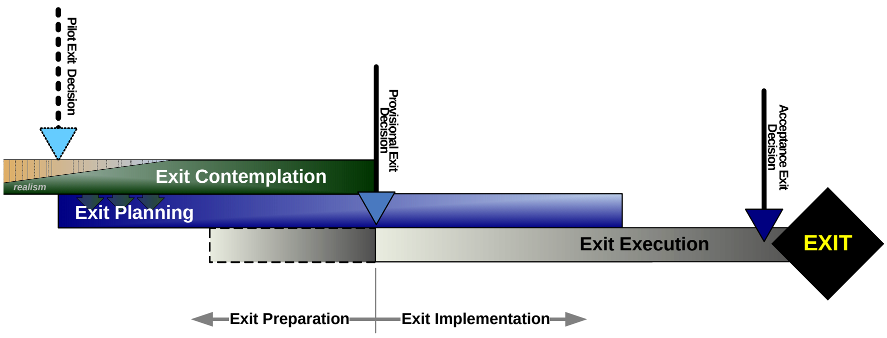

Figure 8.8: Typical positions of the exit decisions in the overall process.

94 Engages legal representatives, accountants, corporate advisors, prepares information for buyer, resolves any outstanding issues which could impact the exit (disputes, contracts etc.). Resources required are often considerable and involve amounts in the $xx,000 and often up to $xxx,000.

For the cases studied, all sales had an acceptance exit decision which was the final decision to exit the business. It occurred just prior to the exit point/settlement (see Figure 8.8). The period from decision to actual exit was often short, typically one to two months but, this was sometimes prolonged (up to 5 months in the case of TS140) because of requirements[95] by the buyer or seller. In cases where there was is a single exit decision such as an acceptance exit decision only (cases ZY110, VU130, JI180, DC220), the timeline from decision (acceptance) to exit was substantially shorter – an average of 2.8 months for single decisions, versus 12.2 months for multiple decisions {provisional + acceptance} (see Appendix 8C for a Summary of Exit Timelines). Single decisions and short timelines often correlated with reactive sales, but no evidence was found to suggest that having a single decision would reduce the exit timeline. However, findings show that whilst single decisions are indicative of reactive sales, not all reactive sales (seven cases) are single decisions (four cases) - see Table 8.2. Section 8.6 provides a further examination of the concepts of reactive sales versus proactive sales.

In Chapter 6 (Pilot Study) the preliminary analysis of data from Case NM160 suggested a two-tiered exit decision model with a strategic dimension added to the exit trigger. This configuration accounted for a 'strategic decision' made by the owners to sell the business just three months prior to the provisional exit decision[96]. Overall, this 'model' was able to account for all cases except those in which there was a strategic plan to exit (Cases TS140, PO170 and XW120). In

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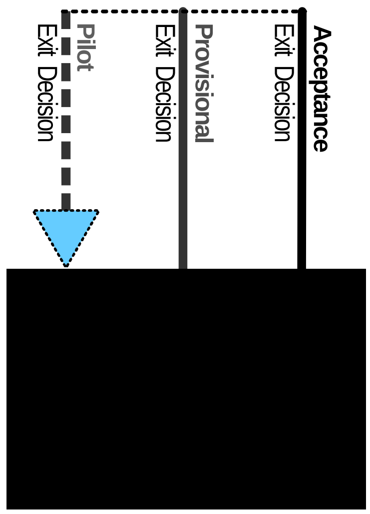
95 Raising capital, putting together a suitable management team, training.

96 After having received a conditional offer from the eventual buyer.

the cases of TS140 and PO170, the owners made a clear decision to exit at a future date. This decision, while not firm or definitive, belied the characterisation of the exit trigger as indicative of receptiveness and approachability to exit, or a possible pre-condition to a decision.

When the proposed model of the exit decision (see Chapter 6) was further modified to include a preceding (third) tier (characterised as a ‘resolve to exit’) prior to the provisional exit decision, this multi-tiered model (see Figure 8.9) was able to account for the three cases (TS140, PO170, and NM160) in which a strategic decision was made on a future exit. This also better modelled the process of Case XW120 (see Section 7.4.2) in which a future exit was always part of the business plan. In addition, this variation simplified the exit trigger by removing the earlier adaptation of the strategic dimension to the exit trigger (from the Pilot Study).



<u>Figure 8.9:</u> A model of the exit decision process.

The preliminary decision to exit was categorised as a pilot exit decision because it: a) did not apply in all cases; and b) could guide the strategic direction of the business. A pilot exit decision is characterised as a strategic decision undertaken by the owners, which then leads to a future exit agenda[97]. Unlike a provisional exit decision, the pilot decision involves only one party - the owners. Sometimes this occurred at or near the start of ownership (Cases XW120 & TS140) but also represented a latter milestone where exit contemplation was resolved into action. The decision was sometimes accompanied by a set of conditions which acted as markers or guides to future strategic settings.

[NM160] *We'd been through a strategic planning workshop where we'd really all sat down and really mapped out where we wanted to see this business go. I think that probably was an identifiable point to say – yes, it probably all stemmed from that…*

In three cases there was evidence of multiple pilot exit decisions. These are examples of exit agendas being re-energised or re-strategised after earlier (e.g. business strategy from inception) efforts fail to materialise and as a result, need adjustment. The presence of a pilot exit decision may diminish or even eliminate the impact or need for an exit trigger because of the specific conditions identified in that agenda. For example, in Case TS140 an exit was scheduled after three years of ownership (see Section 7.4.5).

Table 8.5 shows that a pilot exit decision was generally followed by a provisional exit decision (four out seven cases), but in situations where the seller received their asking price such as occurred when

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97 A decision and/or proposed process to exit.

Case Identification		Exit Decision Single / Multiple	Pilot Exit Decision	Provisional Exit Decision	Acceptance Exit Decision
1	ZY110	Single			✓
2	XW120	Multiple	✓✓	✓	✓
3	NM160	Multiple	✓	✓	✓
4	VU130	Single			✓
5	TS140	Multiple	✓✓		✓
6	RQ150	Multiple	✓	✓	✓
7	PO170	Multiple	✓✓	✓	✓
8	JI180	Single			✓
9	LK190	Multiple		✓	✓
10	HG200	Multiple	✓		✓
11	FE210	Multiple	✓		✓
12	DC220	Single			✓

Table 8.5: Summary of exit decisions shown by the cases.
✓✓ indicates multiple pilot decisions.

there was no negotiations on price, a provisional decision was either bypassed (cases HG200 and FE210) or the provisional acceptance 'transferred' to the buyer. In these cases the pilot decision was immediately followed by exit planning and execution activities. One pilot exit decision often defined the start to exit preparation activities (see Figure 8.8 – in this diagram this stage is referred to as 'exit planning' but this is subsequently redefined as 'exit preparation').

8.5.2 Exit Trigger

In Chapter 4, an exit trigger was defined as a set of events or circumstances which resulted in the owner having a penchant to exit. The exit trigger was perceived to be a prologue to the exit decision and identified the owner's receptivity to making that decision. Here it was asserted that a decision to exit would not occur unless conditions for an exit trigger were first fulfilled. The trigger consisted of four tangible factors (financial, timing, crisis, and risk) and one subjective factor (lack of optimism). For a trigger to be fulfilled it required the presence of the subjective factor alone or in combination with one or more of the tangible factors.

In Chapter 6 (Pilot Study), the exit trigger concept was developed and adaptations were made to the model to reflect the early case responses. Using these changes to interpret the factors (and their weightings) that influenced decisions to exit in this study, Table 8.6 provides a cross-case summary display of exit influences.

The reported findings on the exit trigger have been generated by combining direct weightings indicated by the interviewees, and their interpretation of the events that led to their exit decision. Table 8.6 is a cross-case display that shows both the interviewee responses and their weightings[98], and the added researcher interpretation '✓' of the decision prologue where it differed from response to the question relating to exit decision influences (question 4B – see Appendix 6D).

The research model (Chapter 4) forecasted that all owners would report a high weighting of trigger factors in their decision to exit. For the trigger to be present, it was anticipated that a lack of optimism would be prominent in all cases. This was not supported by the case data where lack of optimism was a factor in just four cases (see Table 8.6), and only substantial in Case RQ150 (70 percent

98 Case NM160 did not give a weighting to his responses.

Case Identification		Financial		Timing	Crisis & Lifestyle					Risk	Strategic	Optimism	Exit Satisfaction
		Offer	Economic Factors	Anniversary	Family	Health	Enthusiasm & Energy	Business Internal	Business External	Risk	Strategic	Lack of Optimism	
1	ZY110	✓ (30%)					✓ (20%)		✓ (40%)			✓ (10%)	80-100%
2	XW120		✓+		✓+	✓+				✓+	✓		70%
3	NM160		✓✓ (85%)		✓ (10%)		✓ (5%)				✓		75%
4	VU130	✓ (20%)			✓ (40%)			✓✓ (40%)					100%
5	TS140			✓ (15%)			✓ (50%)	✓ (20%)			✓ (15%)		100%
6	RQ150	✓ (30%)		✓					✓ (40%)		✓	✓ (30%)	90-95%
7	PO170		✓				✓ (25%)	✓ (20%)	✓ (25%)		✓ (20%)	✓ (10%)	80%
8	JI180	✓ (50%)	✓ (25%)					✓	✓ (25%)				80%
9	LK190	✓ (80%)				✓ (10%)	✓ (10%)						80-100%
10	HG200								✓ (20%)		✓ (60%)	✓ (20%)	100%
11	FE210						✓	✓ (100%)					50%
12	DC220	✓ (50%)				✓ (20%)		✓ (30%)					90-95%

Table 8.6: Influences on exit decision. (✓) as indicated directly by the interviewee. (✓✓) indicates when further support was provided by interviewee. + respondent did not allocate a percentage influence. (✓) refers to 'interpretations' added by the researcher from the interview transcripts.

weighting[99]). Categorisation (thematic analysis) of cases reporting optimism (lack of) as a factor in the decision to exit showed that these cases were often associated with consolidating markets/industries.

Based on the case data it is clear that the original conception of the exit trigger and the impact of optimism is limited in its application and too constricted in its definition. However, if the relationship of all the factors is adjusted from optimism 'and' any of the other four factors[100] to optimism 'or' financial 'or' risk 'or' …[101] to encompass a less restrictive characterisation, eleven cases qualify as having exit trigger conditions present before deciding to exit (as shown in Table 8.2). Contrary to the research framework, both the content and thematic analyses identified that a lack of optimism, whilst important, was not central to the exit decision, because many of the interviewees were optimistic about their future. This was further supported by only one case (XW120) directly identifying risk as a factor in their exit decision.

From the summary of factors influencing the exit decision (Table 8.6), it has been concluded that 'the offer' was a prominent factor. However, the offer relates more to the exit decision rather than the circumstances that led up to that decision. Whilst some factors occurred as anticipated, there was an unexpectedly high incidence of 'human resources' (HR) issues (see 'Business Internal' in Table 8.6) being stated as the reason for exiting. This was a major issue for four business owners, with one interviewee (Case FE210) basing

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99 30% for optimism directly and 40% for negative industry trends.

100 TF (financial, timing, crisis, risk) AND SF (lack of optimism).

101 Financial or timing or crisis or risk or lack of optimism.

his entire exit decision on this issue[102]. As expected, 'enthusiasm and energy' was rated by owners as a key reason for leaving, with one owner (Case TS140) using his energy and enthusiasm levels as the benchmark on when to get out.

> *[TS140]* *It's the three year point where we start to feel we're losing the enthusiasm we need to keep pushing the business forward…*
>
> *When we reach that mental point where it's time to go coupled with the fact that we already know from past experience…..We stuck to the original plan which was to start selling after three years…*

The reasons associated with each exit vary considerably and are a combination of the owner's characteristics, the business' circumstances, and attractiveness of the exit opportunity. In the original model of the exit trigger (Section 4.3.1), receptivity to an exit was established because of generally pessimistic factors (financial issues, crises, etc.) and a lack of optimism by owners.

In an attempt to better explain what the data reveals, a number of reconfigurations of the trigger model were undertaken. Firstly, the strategic factor was set aside because it had been accommodated by the pilot exit decision (Section 8.5.1). The next step was to de-emphasise the importance of optimism so that it became one of five factors rather than the 'essential' factor (as previously discussed). In the thematic analyses, data on timing alluded to categories of positive and negative factors that impact on the trigger to exit. An example of this was 'lifestyle' which was initially categorised under 'crisis' because it referred to extreme work regimes and limited

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[102] This was the only case where a single factor (HR) involved in the decision to exit.

family life. Subsequent cases highlighted lifestyle in a desirable or aspirational context (being able to spend more time with the family, extended holidays), resulting in a re-think of how this is portrayed. In general the 'pessimism' version of the trigger model has been able to account for most of the data in most of the cases (eleven out of the twelve cases). However, at the conclusion of the thematic analysis, a dimension of positive factors referred to as 'opportunities' was added, and negative factors categorised as 'challenges' (see Table 8.7). This is referred to as the 'OC model' of the exit trigger.

As a result, although the original factors of timing, risk, and financial remain unchanged from the research model, they are now grouped with a redefined 'optimism', and categorised as 'challenges'. Furthermore, in the pilot study lifestyle issues were combined to form 'crisis & lifestyle', but the thematic analyses suggest that 'lifestyle' be detached from the 'crisis' category because the data on underlying issues of family and enthusiasm are not in the context of catastrophes or calamities. The thematic analysis identified the major themes for this factor as 'energy and enthusiasm', 'family', and 'personal'. Here 'energy and enthusiasm' were substantial factors for half the cases, with one (TS140) rating it as the main reason for selling (see Table 8.6).

Identifying the positive factors involved in an exit trigger was a more subtle exercise than identifying pessimistic factors[103]. They were implicit in the description of events revealed by the interviewees, and revealed through several iterations of the thematic analyses.

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103 Which are defined clearly stated in the influences for the exit decision and their weighting.

OPPORTUNITIES		CHALLENGES	
Lifestyle	Personal	Timing	Age
			Industry Trends
			Time in Business
		Lifestyle	Energy & Enthusiasm
	Family		Personal
			Family
		Risk	Personal
			Business
Timing	Event	Optimism	Business Internal
			Business External
			Personal
	Problem Resolution	Crisis	Family
			Personal
			Business
	Industry Trends	Financial	Profit
			Cash Flow
			Capital Requirements
			Stakeholder Requirements

Table 8.7: The 'OC Model' of exit trigger factors consisting of factors categorised as opportunities and challenges.

However, two categories of factors associated with opportunities; 'lifestyle' and 'timing', emerged. Lifestyle as a trigger factor refers to the lifestyle aspirations owners may desire. Examples of this could be expressed in terms of retirement, owning a luxury car, philanthropy pursuits, time to travel, and education for children. This study proposes that if these could be achieved more quickly through an exit, the receptiveness to exit[104] would be enhanced. This reveals a link between exit contemplation and stakeholder aspirations – 'what the family wants' or 'what I will do for the family'. For example, although one case (LK190) reported no evidence of pessimistic trigger factors an analysis of the owner's response to expectations and lifestyle revealed:

> *[LK190]* *First up it solves your future, so you have that nice warm feeling* ..

Based on the 'opportunity - lifestyle' adaptation, this case now offered support for the revised OC model of the exit trigger.

As timing was a crucial element in achieving a positive exit decision, an examination was undertaken to determine if this also impacted on the exit trigger. Using a starting framework based on opportunity, the thematic analyses revealed that if significant or long-standing problems can be resolved by exiting, this also 'encourages' the exit decision. Cases VU130 and JI180 are examples of support for this concept. At the outset they give partial support to the exit trigger (challenge category factors) in the original model, but their owners showed evidence of conflicting behaviours by expressing optimism for the future with scant or no exit contemplation, but still selling their businesses. Whilst this result was partly explained by the attractive offers received, the timing of the offer was critical. Case VU130 had not previously contemplated exiting, but had a long-standing and difficult HR problem which was not easily resolvable. When a competitor re-issued a previously made offer to buy his business, the owner accepted the timely offer because it solved his problem.

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104 The definition for an *exit trigger.*

[VU130] So suddenly there's this offer, as you say …., killing two birds ..

So it's all sort of building up a little bit and the offer is the bit that puts it over the line.

In the case of JI180 the business required a significant capital investment to maintain competitiveness, and like for case VU130, the timing of the offer resolved the issue.

[JI180] Now I had no inclination to sell at that time but there were a number of things going on. First of all I put a new software programme in and buy (sic) a lot of new equipment, trailers and things like that. Now we'd been a cash flow company up until that date and it would have meant going to the bank and getting quite a bit of money to put this stuff in. So I was a bit dubious about doing that …

The definition of timing as a trigger factor can be further expanded to also include helpful industry trends (as opposed to 'negative' industry trends under 'challenges') and significant events that are opportunistic for the business. An owner might use these circumstances as leverage to attract an acceptable price for exiting, or as an attraction for a new owner. An example of this might be a fire at a competitor's manufacturing facility, a helpful change in demographics of a key market, or new use for a product.

To summarise, the exit trigger has two types of factors that influence an owner's receptivity to an exit. These are opportunities which refer to positive factors, and challenges which refer to pessimistic factors (see Table 8.7 and Figure 8.10). A factor may operate singularly (e.g. lack of optimism), or more typically as a combination of factors (sequentially or simultaneously), as demonstrated by the example of Case JI180 above. Generally, challenges are likely to influence owners, but occasionally the arrival of a well-timed offer can be persuasive when personal aspirations become realisable. The exit trigger is a prologue and pre-condition to an exit decision. That is, the decision to exit will not occur unless conditions fulfilling the trigger are first fulfilled.

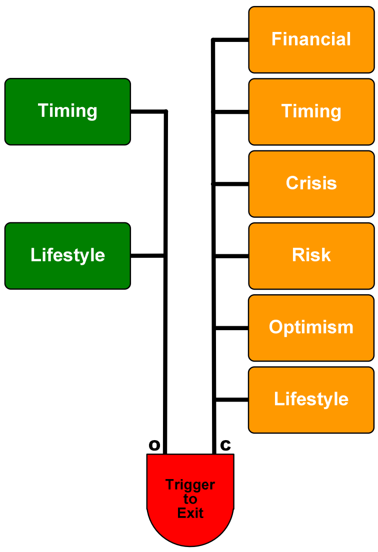

Figure 8.10: The 'OC' model of the *exit trigger.*

8.5.3 Exit Contemplation

In Chapter 4 (Research Framework), exit contemplation, was defined as a process in which the owner considered, deliberated, and romanticised on issues (when, how, who, and how much) in relation to harvesting their business. This ranged from a simple 'what is this business worth' or 'one day I will sell', to a more dynamic consideration which accounts for the future prospects and requirements of the business, the future needs of the owner(s) or key stakeholders, and the current and future operating environment (business and economic). When developing the research model it was suggested that exit contemplation was either a continual process at the forefront of the owner's regular decision making processes, or an ad-hoc thought on optimal scenario outcomes. Due to the nature of this study (successful exits), this researcher anticipated that all owners would reveal some level of exit contemplation.

However, contrary to what was expected, this research found that only eight of the twelve owners had contemplated exiting, and three had 'romanticised' about optimal harvest outcomes (see Table 8.8). Of the owners who did contemplate exiting, some (ZY110, LK190, FE210, DC220) had given it a slight thought without much detail or planning, whilst the remainder (XW120, TS140, RQ150, PO170), had detailed thoughts on what they wanted and how they might exit (see Table 8.2). This generally coincided with owners strategising their exits, the exceptions being Case RQ150 who exited differently to his plans, and Case NM160 who had made a strategic decision to exit. Based on these results it is difficult to establish solid support for the concept of all owners exhibiting exit contemplation without further exploration. Therefore, the next step in gaining a better understanding of this topic was to explore for other factors relating to individual owners, and determining traits or group characteristics that could help describe their reported behaviour.

In Chapter 2 the literature on entrepreneurs identified links between individual entrepreneurial characteristics and motivations to the size, growth, and structure of organisations. Smith's (1967) seminal work on entrepreneurs refers to them as ‘craftsman’ at one extreme and ‘opportunistic’ at the other. ‘Craftsman’ are categorised as paternalistic and autocratic with goals of independence, autonomy, and production of a quality offering. Financial gain and growth are not the key motivations of ‘craftsman’ and operating their own business is symbolic of their success. The ‘opportunistic’ entrepreneur on the other hand is well educated, engages in long-term planning, and is able to delegate to managers. He or she will have a well rounded formal education and management experience, and is risk-orientated with growth being the major goal for their organisation (Smith 1967).

Kuratko *et al.* (1997) identifies that some entrepreneurs are not just motivated by extrinsic goals (personal wealth, income opportunities etc.), but also by intrinsic goals such as recognition, excitement and a sense of accomplishment. Porter and Lawler’s (1968) motivational model suggests that entrepreneurs are also motivated by the act of entrepreneurship through starting and building organisations and taking advantage of opportunities. Combining these features together, it can be concluded that some business owners are reluctant sellers because their business plays a more significant role than just financial gain. Such owners derive their financial well being, their community status and overall satisfaction from being business owners and operating businesses, so selling their businesses is a distant priority. Without over-generalising entrepreneurial characteristics in the context of this study, it is deduced that ‘craftsman’ style owners are less likely to want to sell than ‘opportunistic’ ones.

Case Identification		Exit Contemplation	Transition to Realism	Exit Trigger	Reactive vs Proactive	Internal vs External	Known vs Unknown	Exit Decision Single / Multiple	Exit Preparation	Barriers to Exit	Stakeholder Aspirations
1	ZY110	✓		✓	Reactive	Internal	Known	Single			
2	XW120	✓	✓	✓	Proactive	External	Known	Multiple	✓	✓	✓
3	NM160			✓	Proactive	External	Unknown	Multiple		✓	✓
4	VU130			✓	Reactive	External	Known	Single			✓
5	TS140	✓	✓	✓	Proactive	External	Unknown	Multiple	✓		
6	RQ150	✓		✓	Reactive	External	Known	Multiple	✓	✓	✓
7	PO170	✓	✓	✓	Proactive	External	Known	Multiple	✓	✓	✓
8	JI180			✓	Reactive	External	Known	Single			
9	LK190	✓			Reactive	External	Known	Multiple	✓	✓	✓
10	HG200			✓	Reactive	External	Known	Multiple	✓	✓	✓
11	FE210	✓		✓	Proactive	Internal	Known	Multiple	✓	✓	✓
12	DC220	✓		✓	Reactive	External	Known	Single		✓	

Table 8.8: Cross-case event matrix.

Using the demographic data collected on the business owners (education level, number of staff, previous business experience, and what they did after the exit) with a thematic analyses of responses to identify management philosophies (single manager versus management structure), an attempt was made to 'classify' owners according to Smith's (1967) entrepreneurial topography on a seven-point continuum scale. A 'one' rating referred to as 'craftsman' (as described by Smith), 'seven' referred to as 'opportunistic' (as described by Smith), and 'four' referred to approximately equal characteristics of both types of entrepreneurs.

A number of characteristics were considered when the business owners were rated in relation to the type of entrepreneur they fitted. Focus was then directed to the management structure of the business being sold. Here, being overly owner-centric or being the only manager pointed towards 'craftsman' characteristics (after taking into account size of the business), whilst the existence of a management team and line management was more indicative of owners who went back or attempted to go back into the same or similar businesses. These were deemed to be indicative of 'craftsman' characteristics, and owners who worked or started a new business unrelated to the previous one were categorised as 'opportunistic'. Focus was also directed towards the owner's comments on products and customers. Here 'craftsman' focus on the product they deliver and their customer's satisfaction, while 'opportunistic' focus on overall growth and profit. The results of these categorisations are displayed in Table 8.9.

Case Identification		Exit Contemplation	Transition to Realism	Education Level	Number of Staff	Back into Business	Craftsman vs Opportunistic
1	ZY110	(✓)		Post Grad	11-20	✓	2
2	XW120	✓	✓	Post Grad	11-20		6
3	NM160			Post Grad	21-49	✓	3
4	VU130			Post Grad	6-10	✓	2
5	TS140	✓	✓	Undergrad	21-49	✓	7
6	RQ150	✓		Undergrad	11-20		2
7	PO170	✓	✓	Post Grad	50+		6
8	JI180			Year 12	21-49		4
9	LK190	(✓)		Year 11	21-49		3
10	HG200			Year 11	6-10	✓	2
11	FE210	(✓)		Year 11	6-10		2
12	DC220	(✓)		Year 12	11-20	✓	5

Table 8.9: Cross-case entrepreneur classification and motivations display. The (✓) indicates where there was only slight consideration.

Of the twelve cases analysed, seven were owned by 'craftsman' style entrepreneurs, four by 'opportunistic', and one considered neutral. In the eight cases where there was either no contemplation of an exit or only slight consideration ('✓' versus '✓'), six were owned by 'craftsman' styled owners, one was neutral, and one 'opportunistic'. Where there was contemplation of an exit, three were 'opportunistic' and one a 'craftsman'. The one case (Case RQ150) of 'craftsman' who contemplated exiting can be partly explained by the fact that the owner was approaching retirement age. These findings suggest that the process of exit contemplation is undertaken mainly by 'opportunistic' type entrepreneurs. Case

TS140 is an archetype of ‘opportunistic’ entrepreneurs who are never anchored to an industry or business type, and focuses on growing the ‘current’ business opportunity. As an ‘opportunistic’ who did not contemplate an exit, Case DC220 could be viewed as an exception. This could be due to the business being owned for just three years so her sudden acceptance of a buyer’s offer could only be classified as archetype opportunism (see Section 7.4.12).

This finding brings to the fore the issue of ‘owner’s entrepreneurial characteristics’ and whether these play a role in what exit process is undertaken. This study concludes that the owner’s characteristics are a significant factor, and the research model (to date) is only indicative of the process likely to be undertaken by ‘opportunistic’ owners. As these characteristics (craftsman - opportunistic) indicate whether owners are likely to undergo the complete exit process or an abbreviated version, Figure 8.11 is a proposed adaptation to the current model.

‘Craftsmen’ style owners appear to be reluctant sellers (see comment from RQ150 who is a ‘craftsman’) who are intrinsically micro-focussed and do not spend much time or effort contemplating selling their business.

> *[RQ150]* *I wasn’t particularly happy to put the business on the market. … The big problem with the business was the structure was very flat line. There was me, there was all of them…..*

When ‘craftsman’ exit, it is likely to be sudden (a reactive sale), occurring because the timing suits the owner. There is minimal preparation, and implementation usually begins shortly after the initial exit decision (provisional). In some cases this may even be a single decision as was the case for ZY110, DC220, JI180, and VU130. For illustrative purposes this model (Figure 8.11) shows the two extremes of the exit process, and it is assumed that there is a continuum between these extremes.

Finally, the concept of exit contemplation transitioning from a state of romanticising to realism was supported by only three cases (XW120, TS140, VU170). In the context of the preceding discussion on exit contemplation, this study concludes that 'opportunistic' entrepreneurs tended to romanticise, case DC220 again being the exception. This supports the description of opportunistics who strive for growth and focus on long-term planning.

8.5.4 Exit Preparation

The issue of exit preparation is expressed in the context of formal planning activities (Hawkey 2005, Knight & Whittaker 2002, McKaskill 2006), contingency options (Schaper & Volery 2004) and long range timelines (Fischbach 2005, Hawkey 2005, Timmons & Spinelli 2004). The Pilot Study (Chapter 6) revealed little or no support for formal planning activities by exiting SMEs, and when there was activity, determining the details of planning (formal or informal) from execution was intricate. When there was preparation activity not always done solely because of the exit it was referred to as 'inadvertent preparation'. As a result, an adaptation to the research model was made during the pilot phase which grouped all activities (formal planning, informal planning, execution activities etc.) prior to the provisional exit decision, and referred to the set of activities as 'exit preparation'. Activities following the provisional exit

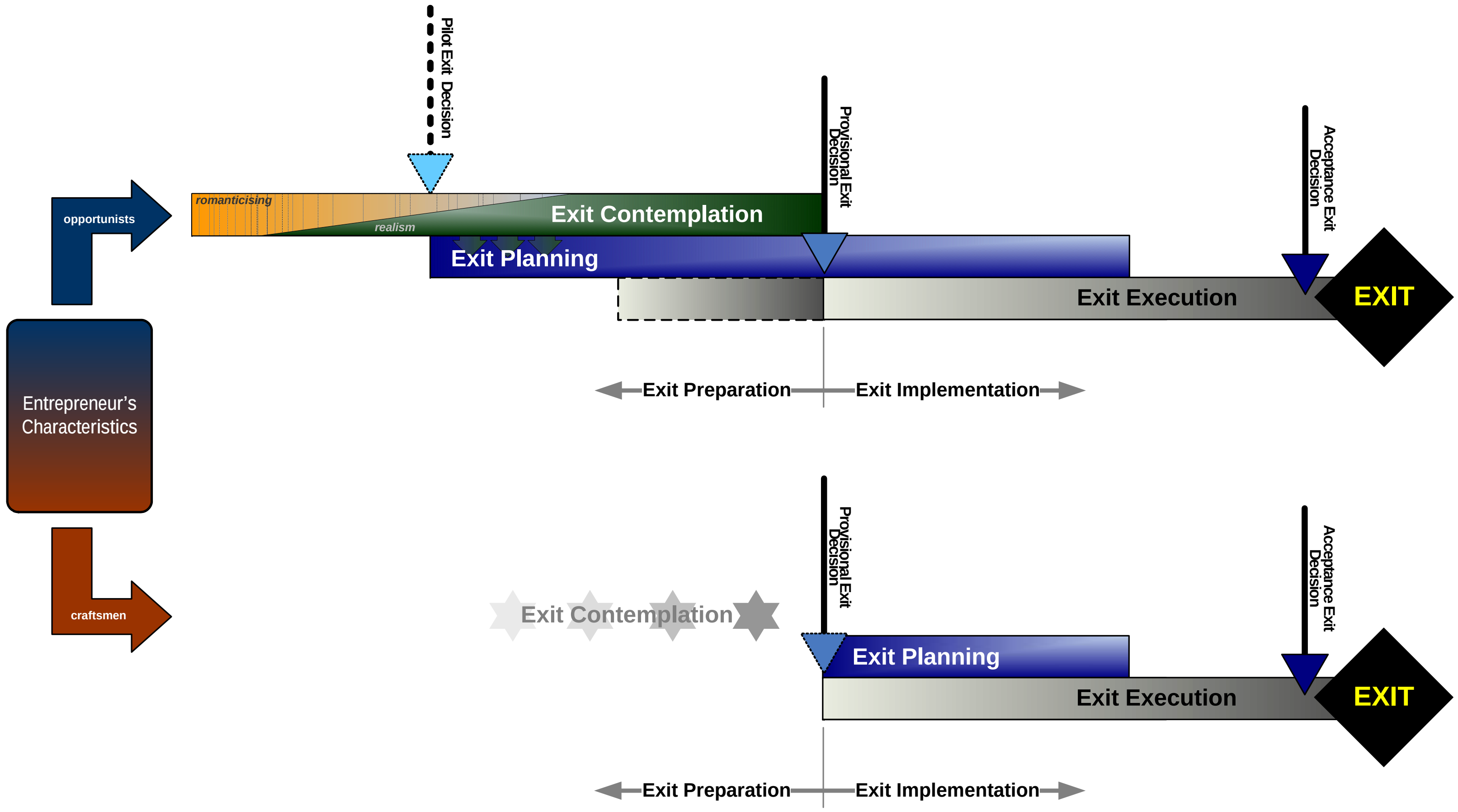

Figure 8.11: Entrepreneur's characteristics determines if a full or abbreviated exit process is undertaken by owners.

decision are referred to as 'exit implementation' (see Figures 8.3 and 8.8).

Based on the thematic analyses of this study it is concluded that preparation for exit should be examined in several contexts; deliberate preparation, inadvertent preparation, and buyer preparation. The original concept used in the research model involved only 'deliberate preparation' which refers to any activities (planning or execution) directly related to exiting. An example of these might be the preparation of a three year business plan for a potential buyer. Inadvertent preparation refers to activities that aid the exit process or enhance the prospects of being sold but are not done for the purposes of exiting. Examples of these are signing on a new supplier agency, or adopting internationally recognised systems or standards (AS 8000, IAS38, etc.). Finally, the main preparations for some exits are done by the buyer; this is usually the case in reactive sales. Buyer preparation involves developing the business case for acquisition (a form of business plan), forward sales or budget forecasts, and background checks (on the owners, organisation).

The research model (Figure 8.2) has been based on the literature of exit planning (Fischbach 2005, Molod & Sattler 2005, Basi & Renwick 2005, Brown 2005, Hawkey 2005, Knight & Whittaker 2002, McKaskill 2006, Schaper & Volery 2004). This model categorised exit execution activities prior to the provisional exit decision (see Section 6.8.1), as exit preparation. Earlier in Figure 8.3 and Table 8.2 exit preparation referred to the original interpretation of preparation which was 'deliberate exit preparation'.

Up to this point all referrals to the activity of exit preparation have been in the context of deliberate exit preparation.

Deliberate Preparation

Legge and Hindle (2004) define a 'plan' as a schematic description and a course of action. Using this definition not one of the twelve business exits studied had formal exit plans, but seven of them (see Table 8.2) showed evidence of deliberate preparation prior to exiting. Preparation was more evident when owners proactively sought buyers, rather than the reverse. This usually took the form of documentary information for buyers (Information Memorandums, financial reports, taxation records, budgets and forecasts, etc.). Cases which included reactive sales (HG200, RQ150, LK190) also prepared for their exits, but generally their preparation was less extensive and more directed to the needs of the buyer.

The content analyses of Cases PO170 and HG200 revealed that the highest levels of exit preparation (deliberate) were also the only exits to extensively engage[105] external consultants (corporate advisor/merchant bank) to assist with their exits. Further to the appointment of an advisor, PO170's preparation activities involved a purpose built financial model of the proposed business roll-up[106], an Information Memorandum[107] for buyers, a top line due diligence process to verify the sales of partners in the roll-up, listing[108] and approaching potential buyers, identifying and negotiating with parties interested in financing a potential sale, and 'normalising' reported

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105 As opposed to getting single pieces of one-off advice from consultants.

106 Secondary data.

107 Secondary data.

108 Secondary data.

EBIT of owner related items. HG200's preparation involved a valuation process of the business, and then identifying an interested 'bidder' to use as 'leverage' in negotiations with the eventual buyer of the business. The actual activities themselves were not as important as when they occurred. Some of these including due diligence and normalising EBIT occurred after the provisional exit decision and were then categorised as exit implementation. Exit preparation activities varied according to the business and according to the requirements of assisting parties.

The above findings show a general positive association between the amount and complexity of the preparation required for exiting, the size of the business, and the value (sale price) involved. Whilst there are many common requirements, smaller valued sales require, and can financially justify less preparation. Examples of this are Case TS140, who after getting advice from an external consultant prepared their own 'buyer's information kit' and prepared and placed advertisements in national newspapers, and Case FE210 who used a broker to provide a short list of potential buyers but then undertook all other exit preparations himself. In both these cases the financial cost of preparation was less than $15,000[109], whereas for Case HG200 the preparation fees disclosed were approximately $50,000[110] and for Case PO170 the fees were approximately $84,000[111]. In a follow-up interview with the owners, the first two example sale values were in the $x00,000s and the last two $x,000,000+.

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109 As confirmed by owners.

110 Interview data - $20,000 for business valuation and $30,000 for locating a second bidder by external consultant.

111 Secondary data - modelling $23,000, due diligence $32,000, and corporate advisor retainer $30,000.

In the literature a strong emphasis has been placed on early planning, typically three to five years, with some recommending even ten years in advance (Fischbach 2005, Hawkey 2005, Timmons & Spinelli 2004). While there was little evidence in this study of formal planning, those cases that did plan were generally prepared well in advance of buyers appearing. In the case of XW120 who formed their business with a built-in future intention of exiting, preparation took the form of regular management meetings in which product development (consulting services) and business strategies were tailored to potential buyers of the business they had identified.

[XW120] *We chased after [target buyer], like you wouldn't believe for a global deployment and it just about ran our business into the ground, took us – we built the entire solution just as a – pretending it was a prototype for them, it took us over six months, we stopped every other business, we were flying around the world trying to impress them…*

…. We certainly planned tactical meetings. Who would be there at times, what information we would supply, how we would answer some questions. Certainly answers to questions about what expectations we had. All those sorts of things.

…We would keep that bubbling in the background as a management issue... Well there's more, as emails are flying around. That's the easiest way to do it. So that would always be every week, every two weeks. We'd be talking about keeping the issues alive and where to next. What's the next step etc. ….

For RQ150, exit preparation occurred many years in advance of the specific exit date or prospective buyer. With a pending retirement (five to ten years) the owner began his exit preparation by 'operationalising' the management of the business through the Standards Australia quality accreditation process (ISO 9000). This was done so that acquired experiences and practices necessary to operate the business were documented for succeeding managers.

> *[RQ150] You could virtually run the company from the documents…. I think there's a certain devaluation of the value of your business if you haven't got the proper systems and procedures in place, yes. I found that very pertinent very, very early on.*
>
> *…The thing was that the business itself was never on the market but it was always there prepared for sale.*

In two cases (PO170, RQ150), earlier attempts at an exit also prepared their businesses for actual exits. Case PO170 aborted an exit via an initial public offering (IPO) in early 2003, and the changes made for the IPO (a restructured management team with an additional Chief Financial Officer and identified partners to participate in the IPO which were subsequently used in the 'roll-up') shortened the timeline for the eventual exit and enhanced the sale's prospects. In the year preceding the actual exit, the owner of RQ150 made several unsuccessful attempts to merge with competitors to refresh the business and reduce his personal workload. During that time he upgraded his management information systems to implement an e-commerce front-end, and to provide better management reporting. Both these changes aided the saleability of the business to the eventual buyer.

Inadvertent Preparation

The act of operating a successful business could be inferred as 'unplanned exit preparation'. 'Preparation'[112] can be defined as 'any proceeding, experience, or the like considered as a mode of

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112 Meaning of 'preparation' at *Dictionary.Com,* viewed 26 January, 2009. < http://dictionary.reference.com/browse/preparation>.

preparing for the future'. The thematic analyses identified many circumstances and practices that contribute to a successful exit. These 'occurrences' were not often conducted with an exit in mind, but nonetheless were highlighted by owners as being critical to the success of their exit. At the end of the thematic analyses these occurrences were categorised as 'inadvertent exit preparation', and assembled into two main groups: 'business systems'; and 'practices, circumstances, and incidents'.

There are some internal management systems which make some businesses better prepared to sell than others. Knight and Whittaker (2002) highlight the need to have readily available management reports (sales budgets, profit and loss reports, cash flow forecasts, trade debtor reports, trade creditors, inventory reports, etc.), systems for managing contracts (employees, suppliers, customers etc.) and intellectual property. Owners are able to implement these systems and prepare information for buyers upon request. However, delays in responding to requests or not being able to readily demonstrate in-house systems that show the business is professionally managed, is likely to undermine the buyer's confidence, reduce the buyer's price, or both (McKaskill 2006, Hawkey 2005).

From the above findings, the first facet of inadvertent preparation is therefore defined as any implementation, development or use of a business system that will enhance the confidence of potential buyers. Table 8.10 lists some practical examples of this. Case PO170 provides an example of this type of preparation. It implemented a much larger and more expansive 'backoffice' system

Management Area	System	Outputs
Financial	Accounting System	Budget Forecast Cash Flow Forecast Income Statement Balance Sheet Aged Debtors Reports Aged Creditors Reports Sales Reports Customer Reports Purchase Reports Inventory Reports
Human Resources	Contracts	Employee Contract Workers Compensation Insurance Award Coverage
Intellectual Property	Intellectual Property	Registration
Sales	Customer Database	Customer Details Sales History Contracts
Suppliers	Suppliers	Contracts Other Arrangements Operational Procedures

Table 8.10: Types of systems that could either enhance attractiveness to a buyer, or when absent, be a detractor.

(Great Plains SQL) than was required to operate the business, because it was industry standard and had a well recognised system. The preparation was well received by the acquirer who was five times larger and was about to upgrade to that system.

Implementations of business specific systems are not the only examples of inadvertent preparation. An unexpected outcome from the cross-case event matrix (Table 8.8) and thematic analysis was that in ten out of the twelve cases the acquirer was known to the business owner. Of these the significant relationships were: two were purchased by customers (XW120, JI180), one by a staff member (FE210), one by a partner (ZY110), and four (HG200, VU130, RQ150, PO170) trade related (i.e. supplier, competitor, colleague). When significant incidents or events are categorised in the thematic analysis, it can be concluded that in some instances key practices or interactions that occur during the normal course of business are significant, because they can impact or influence the ultimate buyer of the business.

The unexpected outcomes described above are characterised as the second facet of inadvertent preparation. They are defined as any business or personal practice, circumstance, or incident that contributes to a favourable seller's outcome is a form of unintentional exit preparation. A simple example of this might be the practice of paying creditors on time, thus enhancing the reputation of the business so when a potential buyer checks supplier references they receive positive feedback.

Some specific examples of this from the case data are: Case FE210 who had a 'generous' management philosophy towards staff, particularly towards one member with an illness, and eventually sold out to that staff member.

[FE210] *I had a chap that worked with me who was quite ill. He had <medical condition – details removed>. I treated him like a partner, even though he wasn't a partner. He was all – he was quite ill and he might have – might work two days a week, but I was paying him for five. He might come out on jobs with me and he'd be too sick and he'd be finished up sleeping in the car. … I treated him like a partner and I offered the business to him. When I knew I was going to sell it, I offered it to him, asking him would he like – does he want to buy it. He said no….*

… I told the chap that was working with me that I'd sold it. He then came back to me and said I've got to buy the business, I have to buy this business.

…Then I rang – I mentioned to the chap that was working for me and said now if you want to buy it, this is the price. If you want to buy it, it's – you can have it. He said yes, I want it.

Through this management philosophy the owner established a strong relationship with the buyer and unintentionally prepared the groundwork for that employee to become the next owner of the business. The owner received his asking price for the business and ensured a smooth transition for the business with a change in ownership.

In another example, Case LK190's close and effective working relationship with one of its customers highlighted that the business was a complimentary fit with the customer/buyer, and both would benefit from skills that each did not possess.

[LK190] *… They saw the cheques that were coming to us every month and thought boy, why are we paying these fellas so much …*

….we were making them look good. They had a fairly small Telco operation, just half a dozen sort of project managers and that sort of stuff and we were their arms and legs basically…

Successful project completions between LK190's organisation and its customer/buyer demonstrated its capabilities to the buyer. So when the buy decision was made, LK190 and his team's capabilities were well established and proven to the buyer. This knowledge reduced the due diligence period and resulted in a streamlined exit (minimal legal paperwork and short timeline). By conducting themselves in an effective manner, LK190's organisation implicitly completed activities that were required during the exit implementation phase of the exit process, thus proving capabilities to the acquirer.

HG200 managed his business using tightly adhered to principles. An incident two years prior to selling significantly impacted the exit negotiations when the buyer (who was HG200's main supplier and to whom HG200 represented 70 percent of the supplier's business) was surprised by an incident occurring with the interviewee:

[HG200] *… Stan believed me and I believed him. That was one good thing about our relationship, we trusted each other…*

…what I'm trying to demonstrate was just to give you an example of the trust we had with one another because what I did was back in '92 or…yeah it would have been '92 or '93 I said to him look Stan I need to get some more volume..

So at the end of the first year - and it worked great - I got my volumes up and it was fantastic. But at the end of the first year I knew that I had to adjust and I went through and I've taken $36,850 too much okay? So I just intercomed [sic] and said do a cheque to [name of buyer] for $36,183.50 and type up this because I had my handwritten work and I said type that up and so she typed it up…Stan do you follow me…and I never thought I was doing anything special..

..He said [name of interviewee] this cheque do you really want me to bank that? I said what do you mean? I was searching for some other…he said that cheque is for…if I understand it rightly you believe that cheque is adjusting because you think you've ripped me off on the rebate and I said no. I said I haven't ripped you off, it's just that the way it worked … He said I don't feel like banking that cheque. He said I never expected that from you - never ever expected that. I said bank it Stan that was the agreement - that was the agreement for me - bank it

…He reminded me of that twice in later years. He said that there was absolute proof to me that you people are absolutely rock solid you know..

The outcome of this incident is that when negotiating the sale of the business several years later with the buyer, the interviewee's (HG200) integrity[113] assisted in the negotiation of the sale.

[HG200] *He was crushed - he was totally crushed. He said but where are you going to get your mufflers from? He said you have a pre-existing…I said Stan I had [name of supplier1] and his son here two weeks ago. I've picked up about a third of your range from them. I said I went with [name of supplier2] from [manufacturer1] a week and a half ago and he's offering ex-stock prices that are on par or less than yours on about another 20 per cent of the range and I said the rest of them I'm getting out of Queensland from [manufacturer2]. He said [name of interviewee] I need to speak to you, I need to speak to you. My business is dependent on your business*

.. So he came across I think the following day …I don't think he believed me and I showed him. I said look Stan here is the list. Here is your order sheet and those sheets which they'd sent me I'd actually gone through after all my pricing had been totalled and I went through and allocated a supplier to everyone and I showed him. I said that is your product range and that's who it's been allocated to and I said orders have been placed. He said [name of interviewee] I'm going to have to buy your business..

It might be argued that these types of incidents are not preparation but in fact a set of circumstances that serendipitously aid an exit. If the reverse had occurred and the buyer came into the sale with a high degree of scepticism to HG200's integrity – what would this have done to a potential sale? Clearly, establishing a favourable

113 As perceived by the buyer.

business and personal reputation is sound preparation for an exit. Therefore, it is concluded that circumstances, practices, or incidents between the business/owner and a known entity (competitor, supplier, customer etc.), however they occur, can aid an exit. So by definition, this is referred to as the second facet of inadvertent preparation.

Buyer Preparation

To this point the developing model of the exit process has been able to account for cases both with deliberate preparation and unintentional preparation. However, the developed model was not able to account for two cases (ZY110, VU130) of purely reactive sales, where owners had no intention of selling. Furthermore there were no pre-exit circumstances or events in the data that could be interpreted as inadvertent preparation. From this it is concluded that in some reactive sales, exit preparation (i.e. prior to an exit decision) is undertaken by the buyer.

All data for this study was collected from selling owners, so this could explain the absence of information on preparation for these cases. In the case of ZY110, a supplementary enquiry to the buyer[114] (business partner of owner) revealed that preparation took the form of establishing a meaningful relationship with the organisation's bank manager and providing regular management reports[115] to key stakeholders (key suppliers and the bank manager). This preparation began several years prior to the offer to buy. In three other reactive cases (RQ150, JI180, LK190) an interpretation

114 With the approval of ZY110.

115 Profit & Loss forecasts and Cashflow forecasts.

of the exit timeline and activity by the buyer alludes to some form of preparation[116] by the buyer to enable a quick execution of the exit. This was somewhat confirmed by the buyer of RQ150 (Case PO170) who had identified RQ150 as a potential partner in a planned but unsuccessful IPO.

There are two remaining cases which does not conform with the proposed model for exit preparation. Firstly, Case NM160 in which all activities occurred post the provisional exit decision and by definition are referred to as exit implementation, and secondly, Case DC220 in which the buyer was a former (life) partner of the owner. This situation was interpreted as inadvertent preparation because the credibility of information provided by the owner was well established in the eyes of the buyer. Table 8.11 provides a summary of how the data on exit preparation was finally categorised.

Case	Identification	Deliberate	Inadvertent	Buyer
1	ZY110			✓
2	XW120		✓	
3	NM160			
4	VU130			✓
5	TS140	✓		
6	RQ150	✓	✓	✓
7	PO170	✓	✓	
8	JI180		✓	✓
9	LK190	✓		✓
10	HG200	✓	✓	
11	FE210	✓	✓	
12	DC220		✓	

<u>Table 8.11</u>: Summary of evidence on *exit preparation* data.

116 Reference checks with suppliers, customers, competitors and checks on shareholding structure and mortgages etc.

In summary, exit preparation consists of three forms of preparation: deliberate, inadvertent, and buyer. Firstly, deliberate preparation refers to any activities (planning or execution) which directly relate to exiting. Secondly, inadvertent preparation refers to activities that aid the exit process or enhance the prospects of being sold, but are not done for the purposes of exiting. Thirdly, the main preparation for some exits is done by the buyer and not the seller, with buyer preparation involving developing the business case for acquisition, forward sales or budget forecasts, and background checks. Table 8.12 provides a synopsis of the characteristics of each type of exit preparation.

Type of Preparation	Details	
Deliberate	Planning (formal & informal) and Execution	
	Prior Exit Attempts	
Inadvertent	Business Systems	Financial Systems
		Management Systems
		Information Management Systems
		Intellectual Property
		Legal
		Human Resources
	Practices, Circumstances, Incidents	Internal
		External
		Personal
	Successful Business Operation	
Buyer	Background checks, reference checks, forecasts, raising finance, preparing a management team	
	Planning (formal & informal) and Execution	

<u>Table 8.12</u>: Summary of the types of *exit preparation*.

8.5.5 Exit Implementation

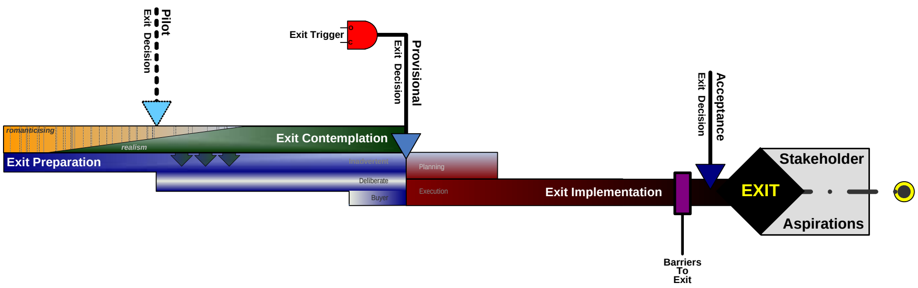
During the Pilot Study (Chapter 6), adaptations were made to the research model with regard to the part of the exit process referred to as exit execution. In Chapter 4 (Research Framework) this was originally defined as the stage between the exit decision and the final exit (Research Proposition P7) in which plans and operational activities relating to the exit were executed (see Figure 8.1). As a result of changes to the modelling of the exit decision (Section 8.5.1) and a redefining of activities pre and post the provisional exit decision, the exit execution stage was changed to exit implementation (see Figures 8.8 and 8.12). Similar to its predecessor, exit implementation is defined as the stage after the 'redefined' provisional exit decision, where plans and operational activities relating to the exit are executed.

Although defining or categorising the specific activities related to each exit was beyond the scope of this study, activities related to the exit were incontrovertible and generally well supported in the literature (Timmons & Spinelli 2004, Schaper & Volvery 2004, Hawkey 2005, Fischbach 2005, Molod & Sattler 2005, Basi & Renwick 2005, Brown 2005, Knight & Whittaker 2002, McKaskill 2006). A cursory analysis of the data shows that both planning and execution activities were present in all exits, despite the frequent difficulty of distinguishing between them. Exit planning in this stage was done by both the owner (deliberate exit planning) and buyer (buyer exit planning), but how much and to what extent, often depended on whether it were a reactive or proactive sale.

Overall, implementation activities varied according to the owners' and buyers' specific requirements. Short implementation periods usually referred to fewer requirements, but the reasons for longer settlements ranged from significant buyer requirements such as due diligence and supply of detailed information (Cases XW120, RQ150, PO170), exit barriers[117] (Hawkey 2005, McKaskill 2006), to simply long settlement requirements by the buyer or seller (Cases TS140, ZY110).

8.6 Discussion of Findings

A logical starting point for this discussion is to review the study's findings relative to the research propositions. Table 8.13 provides an initial summary of the study's progress relative to the ten research propositions presented in Chapter 4. The original research model from Chapter 4 (see Figure 4.2) has now been developed into a provisional model based on the study's results (see Figure 8.12).



<u>Figure 8.12</u>: A schematic representation of the provisional model of the SME exit process. Time is represented unscaled from left to right.

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117 A typical *exit barrier* was the inability of the buyer to raise funds for settlement as in Cases HG200, FE210, DC220.

On reflection, a progression was anticipated as evolving from the basic conceptual model which became more detailed and specific in its description. This did not mean that the results were either predictable or without surprise and consternation. Table 8.13 provides a summary conclusion of the study's findings relative to the ten research propositions showing that overall, this study has found full agreement with two propositions, partial agreement with seven propositions, and minor agreement with one. These results occurred because the research model was unwittingly based on a proactive exit process. Therefore the following sections discuss the key findings accounting for an alternative reactive exit process introduced in Section 6.3.

8.6.1 Exit Decision

In the literature on decision theory, Dearlove (1998), Gilligan *et al.* (1983) and Rapport (1989) refer to decisions as choices on future options and courses of action. Simon (1960) categorised decisions like exit decisions as 'non-programmed' which were novel, unstructured, strategic, and required when situations are unique or complex and organisationally unforseen. The findings of this study has determined that the decision to exit was not singular, but a series of interlinked decisions including pilot, provisional, and acceptance (see Figure 8.9) – which varied according to the exit scenario (i.e. reactive versus proactive).

In concurrence with the literature, pilot exit decisions are strategic choices made by the owners on their business's future. When this is made early in the business lifecycle, the pilot decision underpins future business plans and preferences (see discussion on exit

Item		Propositions	Findings
Exit Process	P1	The overall exit process consists of three distinct stages: exit contemplation, exit planning, and exit execution.	In its most complex format the exit process consists of three distinct stages: exit contemplation, exit preparation, and exit implementation. Some exits omit stages or partially undertake the activities of a stage but all exits involve an exit execution stage. CONCLUSION: Partial Agreement
Exit Contemplation	P2	The earliest start point of the exit contemplation stage is prior to starting the business. It ends when the exit decision is made.	For 'opportunistic' entrepreneurs exit contemplation often transpires from the commencement of ownership and concludes with a pilot or provisional exit decision. For 'craftsman' entrepreneurs exit contemplation is transitory or often absent from the exit process and when it is present, it occurs capriciously prior to an exit decision. CONCLUSION: Partial Agreement
	P3	Exit contemplation consists of two distinct phases: romanticising and realism.	Not all SME business owners contemplate exiting. In the main 'opportunistic' style owners contemplate exiting and their contemplation undergoes two distinct phases: romanticising and realism. CONCLUSION: Partial Agreement
Romanticising & Realism	P4	Romanticising is where owners contemplate unconstrained optimal exit outcomes and after a period of time this progresses into a realism phase.	Exit contemplation undertaken by 'opportunistic' style owners undergo a transitioning from romanticising to realism. CONCLUSION: Partial Agreement Exit contemplation undertaken by 'craftsman' style owners is transitory if at all, and when present, it commences as realism and does not undergo this transition. CONCLUSION: Agreement
	P5	Romanticising eventually reverts to a realism stage where optimal possibilities convert into more realistic scenarios.	
Exit Planning	P6	Exit planning stage begins with the realism phase of exit contemplation. It ends at a point prior to exit. Exit planning generally occurs prior to exit execution but these stages may overlap.	Exit planning is redefined as exit preparation and refers to all activities (planning [formal or informal] & execution) prior to the provisional exit decision. There are three forms of exit preparation: deliberate, inadvertent and buyer. Exit preparation ceases with the provisional exit decision but can also terminate with the acceptance decision when there is only one exit decision undertaken. In instances where there is no provisional decision, a pilot exit decision can also define the conclusion of exit preparation. CONCLUSION: Minor Agreement – Concepts Redefined

Table 8.13: Summary of the research propositions and the study's concluded findings (cont'd over page).

Item		Propositions	Findings
Exit Execution	P7	Exit execution stage begins at the exit decision and ends at the exit. Exit execution is where exit plans and operational activities are executed.	Exit execution stage is redefined as exit implementation and refers to all activities (planning [buyer or seller] & execution) following the provisional exit decision. It commences at the provisional exit decision and concludes when exit execution activities cease. In cases where there is no provisional exit decision the commencement may be defined by either the pilot or acceptance exit decisions. CONCLUSION: Partial Agreement – Concepts Redefined
Exit Trigger	P8	An exit trigger indicates an owner's penchant to exiting and is a precondition for an exit decision.	The presence of an exit trigger is indicative of an owner's receptivity to an exit decision. There may be multiple triggers prior to an exit decision and the fulfilment of a trigger may recede and re-emerge when trigger factors change. CONCLUSION: Agreement
	P9	There are five factors which can fulfil an exit trigger. Four (4) tangible factors (financial, timing, crisis, risk) and one (1) subjective factor (optimism). A trigger for a voluntary exit is established by one (1) or more tangible factor(s) in combination with the subjective factor or by the subjective factor singularly.	There are two groups of factors that influence the exit trigger. These groups are: opportunities (lifestyle, timing) which refer to positive factors, and challenges (timing, lifestyle, risk, optimism, crisis, financial) which refer to pessimistic factors. A factor may operate singularly or typically as a combination of factors. Generally, challenges are likely to be the more prevalent factors influencing owners. CONCLUSION: Partial Agreement – Concepts Redefined and Added.
Exit Decision	P10	The exit decision signifies the start of the exit execution stage. A precondition to a decision to exit the business is that conditions for an exit trigger must first be fulfilled.	There may be as many as three key decisions involved in exiting a business: acceptance, provisional, and pilot. All exits require an acceptance exit decision which is the final decision before exiting. A provisional exit decision is defined as a verdict by the owner to exit subject to an acceptable outcome of negotiations and defines the point where exit contemplation and exit preparation stages, in the majority of exits, cease, and where the exit implementation stage commences. A provisional exit decision is undertaken with two parties involved, the seller and the buyer. A pilot exit decision is defined as a resolve to exit and a strategic decision undertaken by the owners which articulates a future exit agenda. Some exits may bypass a provisional exit decision and or pilot exit decision. CONCLUSION: Partial Agreement – Concepts Redefined and Added.

Table 8.13 (cont'd): Summary of the research propositions and the study's concluded findings.

preparation in Section 8.6.3). Hawkey (2005), McKaskill (2006),King (2002), and Leonetti (2008) refer to owners having an exit objective, and a pilot exit decision is symbolic of this. However, while this initial pilot decision starts activities of contemplation and even deliberate preparation, its predictive nature often does not correlate to a specific exit timeline. Subsequent pilot decisions, especially when associated with an exit trigger, usually resolve into specific actions by the owner and with more immediate and defined timelines. Cases XW120 and PO170 are examples where owners have made multiple pilot decisions, one for strategic intent and another for initiating action. In addition, pilot decisions are associated with proactive exits, and relate exclusively to owners or internal stakeholders.

In contrast, provisional and acceptance exit decisions involve external parties (the buyers). They occur together in reactive exits when the exit process involves more than one decision (i.e. negotiations occur). However, some reactive exits bypass a provisional decision when buyers[118] make acceptable offers to owners without making these offers 'subject to conditions'[119]. In these cases, the sole decision is the acceptance decision (in response to the offer) - see Table 8.5 for a summary of decisions in the cases studied. Case HG200 is the exception, being a reactive exit with pilot and acceptance decisions. However, this study concludes that these circumstances are unique because the seller reacted to an offer to buy (pilot decision) which did not involve an acceptable price, so initiated a process to determine one.

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118 An alternative view may be that the buyer makes the provisional decision.

119 Offers may be subject to due diligence or confirmation of information supplied.

Decisions for proactive exits fall into two categories: sales that do not match seller's requirements (i.e. negotiations are required) and sales that match seller's requirements (i.e. no negotiations required)[120]. In situations when the seller does not receive an offer that matches their requirements (price plus conditions), the exit process involves all three categories of exit decisions: pilot (single or multiple), to get preparation underway; a provisional decision where the buyer makes a conditional offer subject to a successful due diligence process; and finally, acceptance on confirmation of that offer (by the buyer), or acceptance of a modified[121] or counter offer. When the seller's requirements are met then the exit process is able to bypass the provisional decision and include only pilot and acceptance decisions (examples of this were TS140 and FE210). Table 8.14 contains a summary of decisions associated with buyer offers.

Exit Scenario	Situation	Pilot	Provisional	Acceptance
Reactive	Acceptable offer			✓
	Conditional offer with negotiations		✓	✓
Proactive	Acceptable offer, matches seller's requirement	✓		✓
	Negotiated offer, does not match seller's requirements	✓	✓	✓

Table 8.14: Summary of decisions involved according to buyers offer.

120 This refers only to negotiations required to make the exit decision. Negotiations are generally required throughout the exit process particularly during the implementation stage.

121 Offer may be modified because the due diligence process identifies issues or does not confirm verbal information conveyed during negotiations.

Unlike pilot exit decisions, provisional and acceptance decisions tend to be 'unstrategic' by comparison because they are consequential in the exit process, depending on the decisions that immediately precede and follow them (e.g. decisions on potential buyers and exit options). However, they are momentous, major milestones in ownership, and for the business. These decisions can be: made in an intense environment (stressful, tight timelines, external stakeholders e.g. advisors[122]); require the owner to account for many inputs and consequential outcomes; undertaken when circumstances are very dynamic; and more usually, made without prior experience. This is indicated by Simon (1960) who argues that decisions that are non-programmed and undertaken in circumstances requiring custom responses, and require creativity, experience[123], and judgement.

8.6.2 Exit Trigger

Unlike the immediacy of provisional and acceptance exit decisions, exit triggers are about reflective choices between the immediate and the future. In the literature on decision making, Bazerman and Moore (2009) refers to a tension when choosing between long and short term interests (i.e. what one wants to do versus what one should do). Here business owners generally undertake ownership with a long-term aim of building the business and achieving objectives of financial reward and/or desired lifestyle. Sometimes this aim includes a harvest objective, but for many SMEs this is often only a wishful thought without a plan or strategy (as evidenced

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122 Many advisors get paid based on the successful completion of the transaction (Hawkey 2005).

123 Management experience as opposed to exit experience.

by only one quarter of the cases undertaking detailed exit contemplation).

SME management often involves the complexities of balancing short-term business needs and difficulties with achieving long-term objectives. In the main, an exit trigger occurs when short-term interests are or become predominant in the owner's decision-making processes. They can occur for a multitude of reasons. Firstly, the owner may have achieved some or all of their long term objectives such as becoming financially secure (Leonetti 2008 refers to this as 'financial readiness') meaning that their attention is directed towards managing risk[124]. Alternatively, they may realise that their long-term goals are too difficult to achieve (i.e. they give up on them, are unwilling to continue to make lifestyle or family sacrifices, or due to industry developments) or they re-consider them. Alternatively, owners may realise that the business's needs have surpassed their capacity (e.g. energy, management capability, resources, or ideas) or desire (e.g. lifestyle or family requirements), or that an exit can resolve[125] short term difficult or unresolvable management issues.

In some instances an exit assists, or is part of, the owner's long-term plans. This study found that some owners became receptive to exiting when they were able to achieve their long-term financial and lifestyle goals by harvesting their businesses. This resulted in the addition of an 'opportunity' dimension which was a major change to the construct of the exit trigger because it de-emphasised the importance of the factor 'lack of optimism'[126], and encompassed

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124 Business harvesting can sometimes be a risk mitigation strategy.

125 For the departing owner.

126 Logically became an 'OR' function rather than an 'AND' function.

harvesting as the way owners achieved this long-term objective. Specifically, the immediate opportunity (for an exit) triggered receptivity because that 'distant' objective could then be achieved. In these instances, the trade-off between what one wants to do versus what one should do still applies. Owners still trade-off long term attributes (perceived esteem from business ownership, employment, being ones own boss, lifestyle choices) for short-term gain (usually monetary, but there may be other benefits).

In conclusion, the concept that 'an exit trigger as a precondition to exit' was generally supported by the cases studied (eleven out of twelve cases), but this did not concur with the context proposed in the original research framework (see Chapter 4). This pre-condition concept is further supported by Leonetti (2008) who refers to a state of 'exit readiness', which supports the view of a trigger being a state of mind. The concluded representation of the exit trigger (see Figure 8.11) clearly models the behaviour of the owners studied.

8.6.3 Exit Preparation

The original research framework of this study was developed from a model for organisational change proposed by Joyce and Woods (2003). However, this framework evolved through the conceptual phase of this study into a layered process of three overlapping stages; exit contemplation, exit planning, and exit execution (see Figure 4.7, Chapter 4). Results from the Pilot Study revealed that what were initially considered stages in the process could actually be categorised as activity layers (planning and execution). These could be grouped into two distinct parts, one prior to the provisional exit decision and one post-decision. Figure 6.5 (Chapter 6) shows that the prior phase is referred to as 'exit preparation', and post-decision as ‘exit implementation’. This two-part concept was further supported during analysis of the remaining cases (see Chapters 7 and 8). Subsequently the study findings resulted in a redefinition of the stage referred to as ‘planning’ to be re-labelled ‘preparation’ and similarly ‘execution’ re-labelled to ‘implementation’. Activities such as ‘planning’ and ‘execution’ were categorised as activity layers in the ‘implementation’ stage. In addition, activities/layers of inadvertent and deliberate preparation were added to the ‘preparation’ stage.

In the literature on planning, Bratman (1987) defined the combination of intention and deliberation as a plan. This rudimentary concept highlighted the possibility that exit contemplation is not a separate stage, but an activity within the exit preparation stage. The contemplation stage evolving from the researchers own experiences was also supported in the literature by Brown and Harvey (2006) who referred to a stage of anticipating change, and Paton and McCalman (2000) and Ahmed and Simintiras (1996), who referred to a vision stage prior to planning. Here, vision infers intention, and intention and contemplation (synonymous with ‘deliberation’) are according to Bratman’s (1987) definition, planning. This presents the possibility for integrating the deliberation stage into exit preparation. Firstly, this solution would provide alignment with the literature by Bratman (1987) and Joyce and Woods (2003), and secondly, as it is mainly present in proactive exits, redefinition to an activity rather than a stage provides a more universal model of the exit process (i.e. the revised preparation stage can account for proactive and reactive exits, whereas a separate contemplation stage does not generally apply to reactive exits). As a result, it is concluded that when present, exit contemplation is an activity which forms part of the exit preparation stage. This redefines exit preparation as now consisting of three types of activities (represented as layers): exit contemplation which transitions from romanticising to realism; deliberate preparation which refers to any intentional activities directed towards preparing the business for an exit; and inadvertent preparation which refers to activities that aid the exit process or enhance the prospects of exiting but are not done for that purpose. The developed model for this study (see Figure 8.14), despite the enhanced levels of detail, now support the original Joyce's and Woods's (2003) model. However, the concluded SME exit process differs from Joyce and Woods, primarily in the position and number of the exit decisions.

In considering whether exit planning and exit preparation, particularly deliberate preparation, are the same or different, this study has rejected adoption of the term 'planning' as prescribed in the literature (Hawkey 2005, Leonetti 2008, Fischbach 2005) on two fronts. Firstly, in the SME context and from the results of this study, there is no evidence of formal planning (written exit or business plans with an exit strategy), and at best, planning was either informally recommended actions or activities (by external advisors), or actions conceived by the owner[127]. Secondly, the planning literature (Coultard *et al*. 1996, Mintzberg 1994) refers to planning as specific, interlinked, and sequential steps of action. Activities associated with inadvertent preparation from this study were often isolated (i.e. one-offs), spasmodic or opportune, and were often dual or multi-purposed (i.e. done for more than one reason). Overall, evidence of preparation in this study was associated with activities

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[127] Source of information not stated and where there was no specific exit advisor assisting.

and events that contributed towards a possible exit by reducing potential barriers and/or enhancing exit opportunities (e.g. preparing potential buyers). Respondents referred to specific events or activities rather than to steps, plans or processes, as significant to their exits. Therefore, the term preparation was considered to be more descriptive of what was actually occurring. However, while relevant to the SME exit process, the findings on buyer preparation from Section 8.5.4 have been set aside because they are considered to fall beyond the scope of this study.

8.6.4 Exit Contemplation

Although exit contemplation was not viewed as a separate stage in the exit process but as an activity layer within exit preparation, this does not diminish its importance as an exit activity. The findings of the study (see Section 8.5.3) conclude that not all business owners contemplate exiting. Exit contemplation was undertaken mainly by 'opportunistic' type entrepreneurs while 'craftsmen' style owners (Smith 1967) who were reluctant sellers and had not spent much time or effort in contemplating selling. Therefore, the provisional model of the exit process represented in Figure 8.12 refers to the all-embracing process undertaken typically by 'opportunistic' owners. In contrast, 'craftsman' type owners undergo an abbreviated version with minimal contemplation and preparation. It has also been deduced that 'romanticising' and 'realism' phases of exit contemplation are undertaken primarily by 'opportunistic' owners/entrepreneurs.

8.6.5 Exit Implementation

As previously highlighted in Section 8.6.1, the exit process has evolved from the three stage model of contemplation, planning, and execution proposed in the research framework (Chapter 4) to a two stage model of preparation and implementation, as a result of the study's findings. Activities related to exit implementation are incontrovertible and generally well supported in the literature (Timmons & Spinelli 2004, Schaper & Volvery 2004, Hawkey 2005, Fischbach 2005, Molod & Sattler 2005, Basi & Renwick 2005, Brown 2005, Knight & Whittaker 2002, McKaskill 2006). However, the study found that differentiating planning and execution activities present in each exit was often difficult to achieve. In Section 8.6.1 the issue of planning versus preparation prior to the exit decision (provisional or pilot) was addressed. It is concluded that activities after this decision milestone (usually a provisional exit decision) is intentional, and generally related to specific and sequential steps of action rather than inadvertent actions or isolated or opportune events. Examples of this were cases TS140, PO170, and HG200. As a result, these activities support the description of planning in the literature by Bratman (1987), Hoch (2007), and Mintzberg (1994). Planning was therefore considered as the apt description for activities in the implementation stage.

Despite the uniform emphasis on 'having a plan' in the literature (Fischbach 2005, Molod & Sattler 2005, Basi & Renwick 2005, Brown 2005, Hawkey 2005, Knight & Whittaker 2002, Leonetti 2008, Coulthard *et al*. 1996, McKaskill 2006, Schaper & Volery 2004), none of the cases studied had a formal exit plan or business plan with an articulated exit strategy. Does this mean that exiting is not as complex as some authors would lead us to believe? This possibility is rejected on three fronts. Firstly, authors such as McKaskill (2006), Coulthard *et al*. (1996), and Leonetti (2008), refer to exiting as a complex process that is beyond the normal management experience of a business owner. Secondly, this complexity concurs with the researcher's own experience, and thirdly, Bratman (1987) advises that the ability to plan is what enables human beings to accomplish complex goals that would otherwise be unachievable. When all the 'preparation' activities after the provisional exit decision were redefined as 'planning', six cases were identified as having undertaken activities which could be categorised as planning in the implementation stage. The remaining cases did not show evidence of a lack of planning, but showed that planning and execution could not be separated due to the lack of detail recalled by the respondents.

Furthermore, to accomplish the goal of exiting it is concluded that planning is an activity that can straddle the exit decision (directly evidenced by four cases – see Appendix 8D). This leaves four remaining cases where although exits occur, show no data to support either planning or deliberate preparation. These were the result of 'reactive' exits where business owners were presented with a sudden opportunity to exit and had either not contemplated selling (i.e. there was no exit goal, therefore no plan was required), or had not begun any preparation for the exit. As a result, refinement of the proposed exit process is that the provisional model (Figure 8.12) describes the process undertaken in proactive exits where an exit is the objective of the owner. Whereas in cases where there is no plan to exit and a reactive exit occurs, there is minimal preparation and planning may not be required.

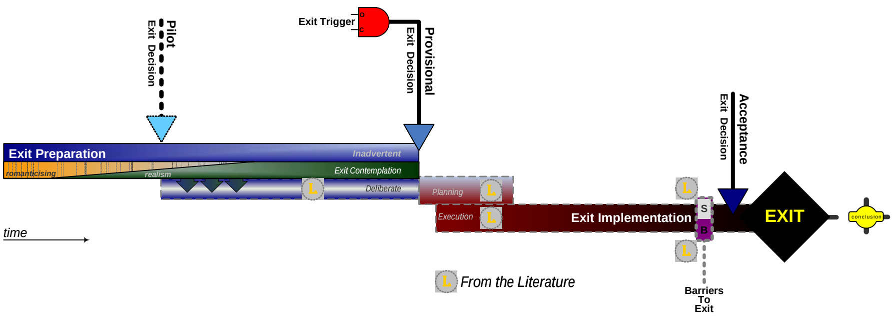
Delineating preparation from planning also defines a point in the commitment of resources to exiting. Results from this study showed that in the preparation stage, significant contributions were made towards exit preparation, but did not usually require major resource commitments. In general they were done as a matter of course in operating the business. Examples of this were backoffice accounting systems, quality systems, and product development. Planning on the other hand usually occurred when owners had made a commitment to exiting after an exit timeline was established. In two of the three cases where there was clear evidence of planning that was clearly discernable from execution activities, planning coincided with the engagement of specialist transactional advisors.

Finally, the emphasis on planning in the literature draws attention to the question of success. Would the owners, particularly those involved in reactive exits, have achieved even better results with more detailed preparation and planning? Although it is speculated that better preparation and planning could have achieved superior results, SME management and ownership generally has a short term planning focus, is time poor, lacks resources, and lacks knowledge on exiting (Hawkey 2005, Schaper & Volery 2004, McKaskill 2006, Knight & Whittaker 2002, Bracker & Pearson 1986). Therefore this study defines a successful SME exit as one where owners successfully complete a voluntary business harvest in line with ‘what does happen’ versus what the literature suggests as ‘what should happen’. The Australian experience is that at less than two percent (ABS 1997), voluntary exits are rare events, so achievement of a successful exit is as significant as the debate on whether the result was optimal. The counter argument, which is equally valid, is that because voluntary exits are so rare, it is important to make their harvest optimal.

8.6.6 Literature Support for the Findings

In the main, literature on SME exits relates to "what to do" and management "issues to be addressed". Therefore, one of the challenges with this literature was to identify how it applied to the overall exit process in this study. In doing this, an initial topography of the SME exit process was made to position both the extant literature and the resultant findings. An explicit display of the literature and an interpretation of how it integrates with the findings of this study are shown in Figure 8.13. The literature is indicated by the dashed border and symbols. The most contentious issue in this interpretation is the separation of the planning function (Hawkey 2005, Knight & Whittaker 2002, McKaskill 2006, Schaper & Volery 2004) by the provisional exit decision into the preparation (deliberate preparation) and implementation (planning) stages.

In the period prior to the provisional exit decision, planning has also evolved from a two dimensional process described in the literature as formal and time based, to being a multi-faceted timeline



<u>Figure 8.13</u>: A display of how the literature is interpreted and integrates with the findings of this study.

(informal/formal, deliberate/inadvertent/buyer, specific timeline/ unspecified), and to encompass both planning and execution activity (preparation). Post the provisional exit decision, as described in the literature, planning is also an activity within the implementation stage.

A major outcome of this study has been the identification and articulation of milestones in the major stages of the exit process as follows:

Start of Ownership	Usually the start of inadvertent exit preparation and when accompanied by a pilot exit decision, it is also the beginning of the exit contemplation stage.
Exit Trigger	Overall[128] an exit trigger is a precondition to an exit decision (pilot, provisional, acceptance).
Pilot Exit Decision	The start of exit contemplation stage and / or the start of deliberate exit preparation. A pilot exit decision involves only one party - the owner/seller.
Provisional Exit Decision	The end of exit contemplation stage and the end of exit preparation (inadvertent, deliberate, buyer) stage. Usually the start of the exit implementation (planning & execution) stage. A provisional exit decision involves two parties – the owner/seller and the buyer.
Acceptance Decision	Acceptance of the buyer's offer.
End of Ownership / Exit	Settlement of the contract of sale.
Conclusion	Point where all matters relating to the exit ends.

As discussed in Hawkey (2005) and McKaskill (2006), eight cases revealed evidence of 'barriers' – see Table 8.2. These occurrences

128 Only one case (LK-190) showed no exit trigger present when the re-interpreted version of the trigger was applied to the case data from the findings.

were due to either a due diligence requirement or a funding difficulty by the buyer. In indentifying barriers, Schaper and Volery (2004) refer to stakeholder aspirations in undertaking an integrated approach to exit planning. Table 8.2 showed that eight cases revealed the presence of non-owner stakeholder aspirations. Although exploring possible linkages into the preparation process was beyond the scope of this study, stakeholder aspirations were found to be a potential barrier to exit because their presence often required buyer fulfilment before the exit could be concluded. Therefore, although the Research Framework in Chapter 4 positioned stakeholder aspirations at the end of the exit process, it is now concluded that there are two types of barriers to exiting: buyer requirements and stakeholder (owner plus others[129]) requirements. This results in a simplification of the exit process in Figure 8.12; where stakeholder aspirations at the process conclusion are removed and a stakeholder dimension in barriers to exit are added (see Figure 8.14).

8.7 Summary of Findings

The purpose of this research has been to design a model that describes the processes that owners of SMEs undertake to successfully exit their businesses and the critical milestones and considerations they undertake in that process. Although this study began with a 'model' consisting of a three stage exit process (exit contemplation, exit planning, and exit execution), it has concluded with two types of exit scenarios; reactive and proactive. Analyses of twelve case studies showed that reactive exits occur where owners

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129 Other stakeholders could be family, suppliers, employees or the community.

respond to unsolicited offers from buyers, and proactive scenarios where owners prepare their businesses for an exit, identify potential buyers, and then exit. Reactive exits typically provide a truncated version of the exit process of proactive exits.

This study found that the SME exit process consists of two major stages; preparation and implementation. Preparation consists of activities such as contemplation and inadvertent and deliberate preparation, and ends with an exit decision (pilot or provisional). However, rather than the solitary decision suggested in Chapter 4, three types of exit decisions (pilot, provisional, acceptance, see Section 8.5.1 and 8.6.1) were identified. In reactive exits, preparation consisted mainly of activities directly associated with exiting which characteristically involved two exit decisions (provisional and acceptance). In contrast, proactive exits were found to typically have long periods of contemplation, specific activities directed to the exit objective, and up to four exit decisions (pilot x 2, provisional, and acceptance).

Major milestones in the process have been identified as: exit decisions, exit triggers, and overcoming barriers to exit. Owners were found to make pilot exit decisions and then undertake activities associated with exiting. These decisions, along with provisional exit decisions, generally defined the start or endpoint of both stages and key activities within stages. The formation of an exit trigger was often an antecedent to an exit decision (see Section 8.5.2 and8.6.2). In reactive exits this was a provisional exit decision, and in proactive exits it was a pilot decision. See Figure 8.14 which illustrates these milestones.

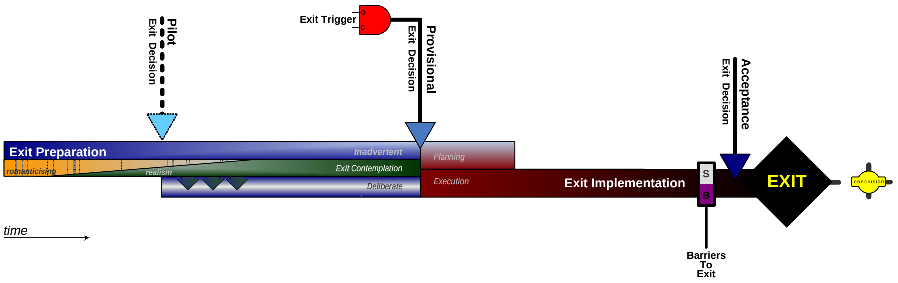

Figure 8.14: A schematic representation of the concluded model of the SME exit process. Time is represented unscaled from left to right.

In concluding this study, data from selected cases are represented in schematic formats, showing the process of how findings have evolved to create a model for the SME exit process. Of the cases selected (XW120, VU130, TS140, VU170, LK190), three are proactive exits with a higher degree of preparation, and two are reactive, exhibiting no exit contemplation and only inadvertent exit preparation.

8.7.1 Model Corroboration

In modelling the exit processes of the three selected proactive cases, Figure 8.15, Figure 8.16, and Figure 8.17 are presented. Figures 8.18 and 8.19 describe the reactive exits. For purposes of clarity, each case is displayed on its own time scale (horizontal axis[130]) to provide a clear illustration of the process. However,

130 There is no vertical scaling.

although there are similarities, no two exits are identical. One of the most noticeable features in these displays is that the exit process can be either an interrupted or a non-continuous process, as illustrated by the exits of TS140 and LK190 (see Figure 8.16 and Figure 8.19). In TS140's case there is a break after the provisional exit decision which identifies where the owners paused for a month after their initial exit decision (provisional) before undertaking the exit planning. This was followed by another break after the acceptance decision where there was a long settlement at the buyer's request, requiring no further activity. In LK190's case all exit implementation activities were completed whilst awaiting settlement of the sale.

As previously highlighted, the major difference between the proactive and reactive exits is that owners in proactive exits had contemplated selling from an early stage of ownership, whereas owners in reactive exits had undertaken no prior preparation (deliberate). In addition, all proactive cases required three or more exit decisions.

In all twelve cases analysed in this study, a supposition was made that they had exhibited inadvertent preparation, because all had been successful businesses and all successfully exited. However, a differentiation has been made between proactive and reactive[131] cases, because owners who contemplate exiting have a higher probability of orientating business decisions with a future owner in mind[132]. Examples of this include planning systems with extra

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131 See shading applied to 'inadvertent preparation'.

132 See summary of Case XW120 in Section 7.4.2.

capacity (e.g. MIS systems[133] or telephone systems) and implementing standards beyond what is required by regulation[134] (e.g. having annual report audited). However, the contemplation of exiting could also result in 'a minimal deployment approach' because it is acknowledged that new owners may employ their own systems or practices and overlook those from the acquired business. This would result in the exiting owners implementing the bare necessities to operate the business. In contrast, owners in reactive (craftsman entrepreneurs[135]) sales were found to be more likely to focus on specific business' needs, and disregard how considerations of how the business might suit a new owner and enhance future business valuations. To indicate these inadvertent exit preparations, an 'opaqueness' has been added in Figures 8.18 and 8.19.

A feature of the exit displayed in Case XW120 (Figure 8.15) is the use of two pilot exit decisions, one at the start of the business (a strategic decision for the future), and another which ends the exit contemplation stage and defines when deliberate preparation has begun. Prior to this point, differentiating between inadvertent and deliberate exit preparation was almost indistinguishable because the owner had been preparing the business for an exit from its inception. The period after the second pilot decision was defined when the owner got serious about exiting. However, a shortfall of this model is that it does not indicate the quantity of activity undertaken. Even though this case offers an example of a proactive exit, there was a

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133 See summary of Case PO170 in Section 7.4.7.

134 See summary of Case RQ150 in Section 7.4.6.

135 See findings from Section 8.5.3 that 'craftsman entrepreneurs' are involved in *reactive* exits and 'opportunistic entrepreneurs' are involved in *proactive* exits.

defined period of buyer preparation prior to an offer and provisional exit decision being made in June 2005.

Another proactive exit occurred in Case TS140 (Figure 8.16) where there was three clearly defined exit decisions. However, this case displays an unusual exit trigger (HR issues) which occurred after the provisional exit decision, becoming the impetus to begin implementing exit activities. This supports the notion that the presence of a pilot exit decision may diminish the impact of an exit trigger as a decision precondition. Another unusual feature in this case is that in the first one and half years when the owners romanticised about their exit options, undertaking deliberate exit preparation occurred in the form of product development (unique frappe and drink combinations[136]) and direct product sourcing. When they realised that their nominated exit was beyond their resources (cash flow), exit preparation took the form of establishing a solid, well operated and profitable business, meaning that deliberate and inadvertent preparations had become indistinguishable.

Case PO170 is an example of an exit which closely fitted the concluded model (Figure 8.17). Here, deliberate preparations began when the owners began to realise their exit options, and like XW120, had two pilot exit decisions. However, in this case the second pilot decision clearly defined the start of a deliberate exit preparation which eventuated in a buyer offer and a provisional exit decision (November 2003). Both pilot decisions were strategic decisions (i.e. without a trigger), but the provisional exit decision

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136 This was their intellectual property which was documented as part of their Contract of Sale.

occurred after the conditions for an exit trigger were fulfilled in October 2003.

In contrast to the three previous cases (XW120, TS140, PO170), VU130's exit (Figure 8.18) displays a less complex process. With implementation was completed in just two months and with no owner preparation, so it is concluded that all preparations for this exit were completed by the buyer prior to making an offer to buy[137]. The only decision required from the owner (acceptance) was predicated on the fulfilment of exit trigger conditions containing both opportunity (timing) and challenge (lifestyle & optimism) factors. Similarly, the final example of Case LK190 (Figure 8.19) reveals a very short implementation period when the buyer undertook all the preparation and planning for the exit. Typical of a 'craftsman' style entrepreneur reactive exit, the exit contemplation in this case was only a fleeting thought prior to exiting.

In using the above five examples which typified the full range of SME exits, the concluded model has been able to effectively portray the full spectrum of exit processes (stages and major milestones). Appendix 8D shows the exit displays of all twelve cases in this study. The model's generalisability, its limitations, and management implications are further discussed in the final chapter (Chapter 9) of this dissertation.

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137 Buyer was a large retail chain who had made many similar purchases prior to this sale. It is assumed that the buyer had a 'pro forma' process for completing these transactions efficiently.

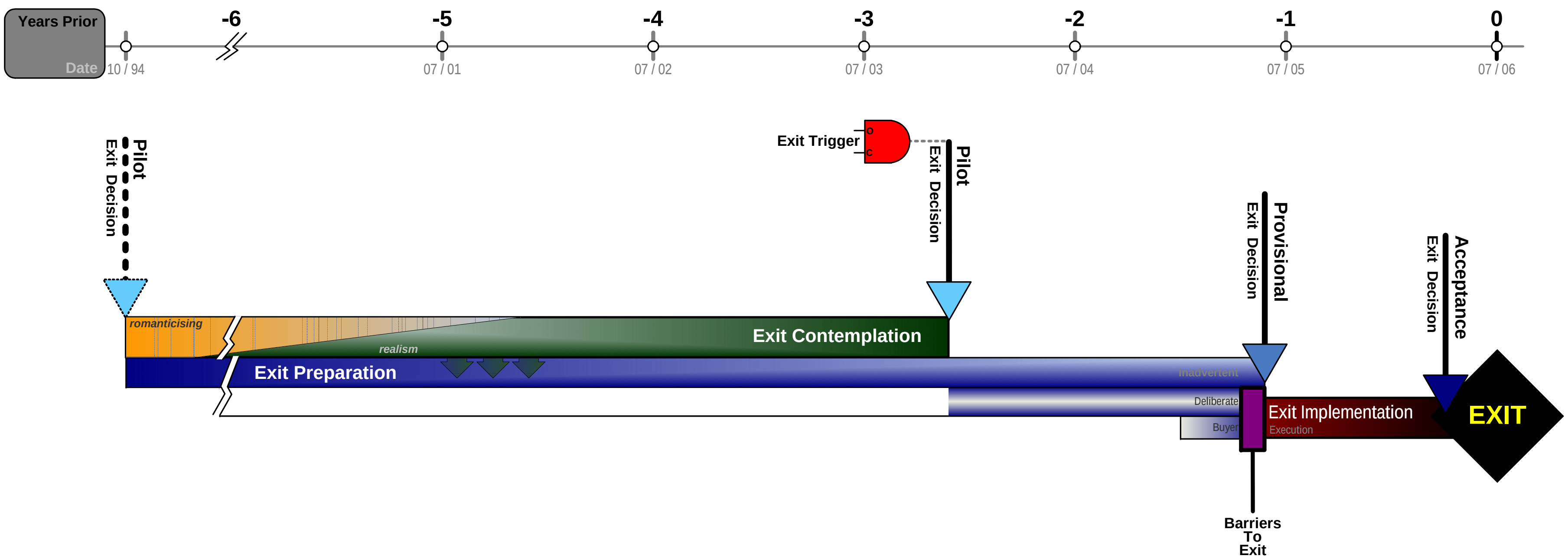

Figure 8.15: A schematic representation of the exit process of XW120 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

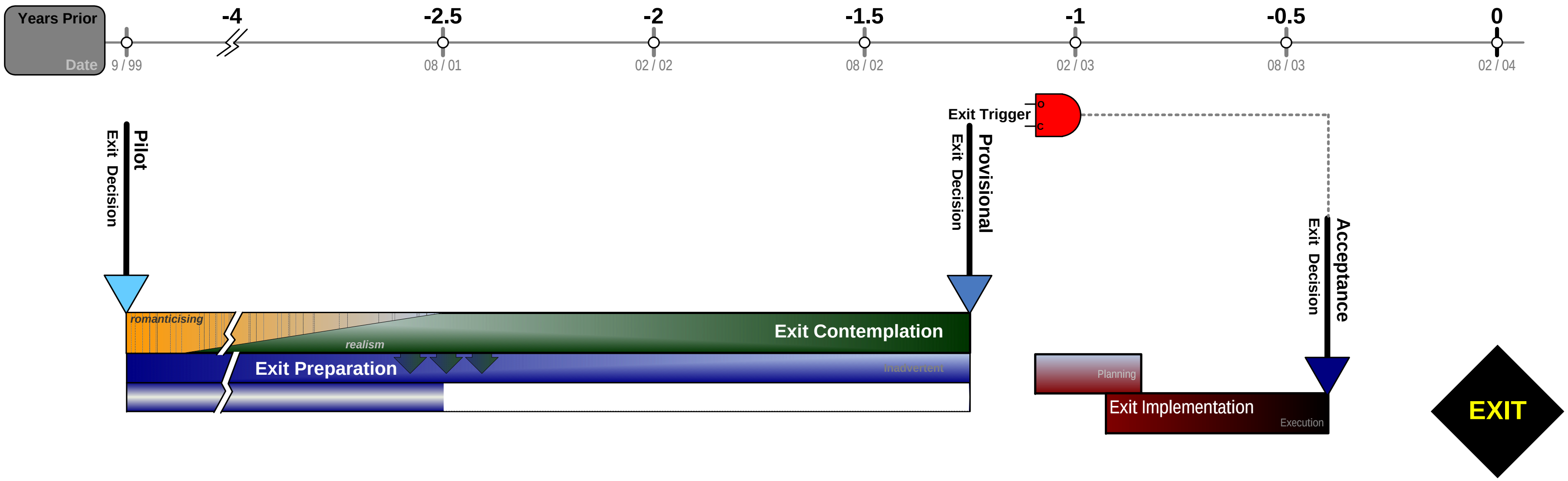

Figure 8.16: A schematic representation of the exit process of TS140 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

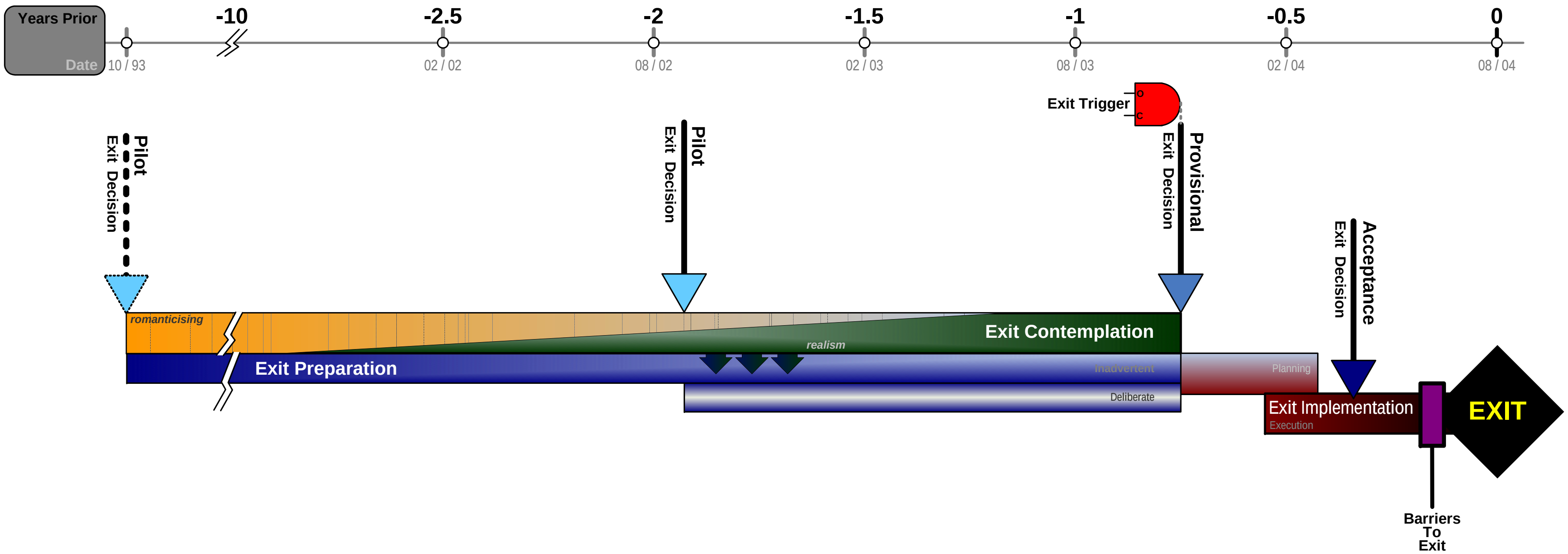

Figure 8.17: A schematic representation of the exit process of PO170 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

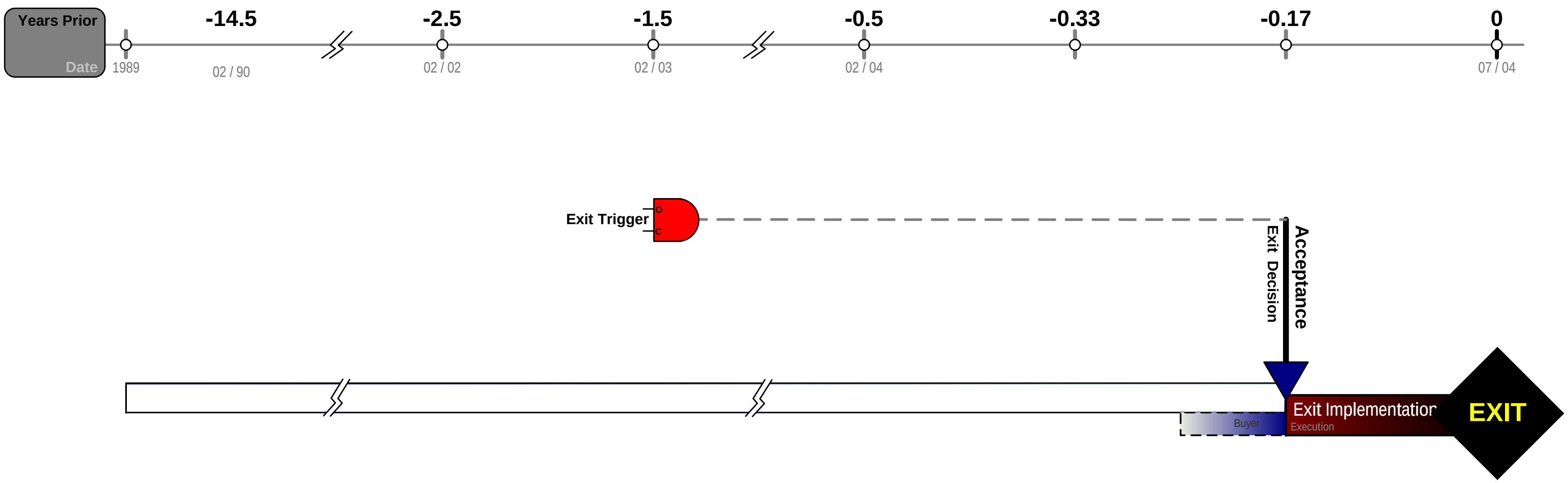

Figure 8.18: A schematic representation of the exit process of VU130 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

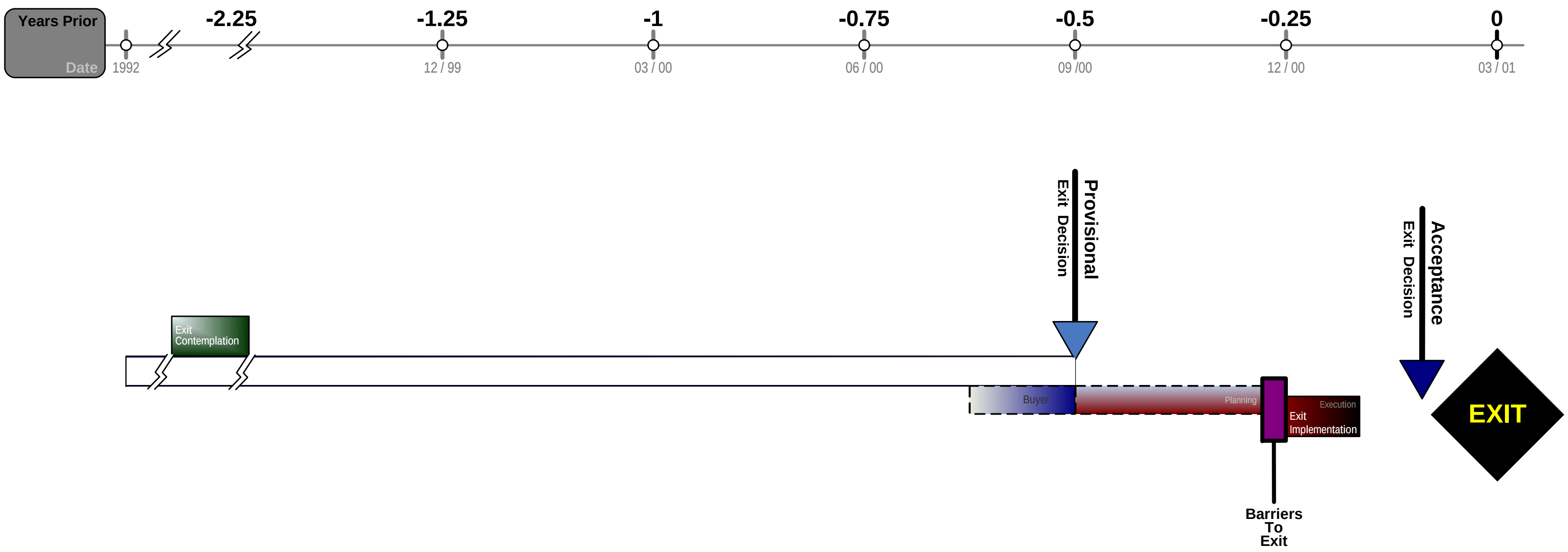

Figure 8.19: A schematic representation of the exit process of LK190 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

8.8 Summary

In order to present and discuss the findings of this study on exit processes of small to medium enterprises in Australia, an initial research model (Figure 8.1) was proposed and adapted. Following this, two methods were outlined for analysing the case data; content and thematic. Firstly, the content based method was used to reduce and display (Glasser & Strauss 1967, Miles & Huberman 1994) data to identify key elements and milestones in the exit process. This was followed by a thematic analysis (Ezzy 2002, Richards 2005, Kelle 1995, Fielding & Lee 1998, Bazeley 2007) to search for unanticipated revelations and more subtle explanations.

Exit preparation was derived from the original concept of exit planning, and consisted of two forms: deliberate and inadvertent. Deliberate preparation referred to all activities (planning or execution) which directly related to exiting and inadvertent preparation referred to activities that aided the exit process or enhanced the prospects of a sale but were not done for exiting purposes.

In Section 8.5, the findings revealed that the exit decision was not a single decision as originally conceived, but instead, up to three distinct decisions: a pilot exit decision; a provisional exit decision; and an acceptance exit decision. The first, a pilot exit decision, was characterised as a strategic decision undertaken by the owners, articulating a future exit agenda. The second decision was a provisional exit decision which identified the point where owners became committed to exiting and where they began to commit substantial resources and time to an exit. Lastly, the acceptance exit decision identified the point where a final decision to exit the business was made. All exits contained an acceptance exit decision, but only some had pilot and provisional exit decisions.

As a prologue to the exit decision (usually the provisional decision) and identifying the owner's receptivity to making an exit decision, the exit trigger was found to be influenced by two groups of factors: opportunities (positive factors) and challenges (pessimistic factors). These factors can operate either singularly, or more typically as a combination. However, overall challenges are likely to be more prevalent factors than opportunities.

The analysis undertaken in this chapter found that 'owner's characteristics' (Smith 1967, 'opportunistic' versus 'craftsman') impacts the exit process. Exit contemplation was mainly undertaken by 'opportunistic', whereas 'craftsman' was more likely to be reluctant sellers who did not spend much time or effort in contemplating selling their businesses. In cases where it did occur it was likely to be a reactive sale where the timeline was very short and occurred because the timing suited the owner.

A summary of this study's conclusions and recommendations are contained in the following final chapter (Chapter 9) of this thesis.

Part C

Chapter 9

SUMMARY & CONCLUSIONS

9.1 Introduction

The purpose of this research has been to conduct an exploratory investigation into the exit processes of Australian SMEs in order to provide rich and deep insights into the activities and major decisions that SME owner/managers undertake when exiting from their businesses. In concluding this study, this chapter aims to reaffirm the research objectives, and summarise the major findings in relation to these objectives.

The structure of this final chapter presents what has been accomplished and develops conclusions about the study's key findings, leading to the concluded conceptual model of the SME exit process. Following this, attention is directed towards the study's implications for theory and management practice, the limitations of the research, and the directions for future research on the topic.

9.2 Summary of the Study

This study has provided an empirical characterisation of Australian SME exits and identified major milestones and processes associated with successful business exits. The specific aims were to identify: the key processes which owners of SMEs undertake to execute a successful exit; investigation of the major milestones and timing in that process; and major factors that influence this process. The professional practice questions which this study was designed to answer were:

1. *What process does the owner of an SME undertake to successfully exit their business?*
2. *What are the critical milestones and considerations when undertaking that process?*

To begin this thesis, Chapter 1 provided an outline of the intended study to provide the reader with an introduction to the topic based on the field of study. It also provided the context and overview for the investigation covering the research problem. Chapters 2 and 3 provided the context for SMEs in Australia outlining the major issues in literature relating to SME ownership, management, and operation.

Chapter 3 provided an outline of the major issues relating to business exits, beginning with an overview of some of the theories related to decision making and planning, and then highlighting some of the extant literature on business exits in Australia. Following this was a discussion on the importance of timing in an exit and how this impacts on the exit processes and strategies adopted.

Chapter 4 developed a suitable research framework for this study and provided a discourse on the development of a theoretical paradigm with the aim of providing a foundation for the research methodology used. The chapter began with Joyce's and Woods's (2003) model on organisational change, with adaptations for Pettigrew and Whipp (1991) and Paton and McCalman (2000). The final research framework for the study has been presented in the schematic display of the exit process in Figure 4.12.

Having defined a suitable research framework for this study, Chapter 5 presented and justified both the research paradigm and strategy used to achieve the research objectives. Figure 5.9 provided a diagrammatic display of how the study was conducted.

After determining the research methodology, Chapter 6 outlined the pilot study process undertaken to improve the instrument Interview Guide used for data collection. The pilot study consisted of three cases (case ID: ZY110, XW120, NM160) in a sequential cognitive process (Miles & Huberman 1994). It began with the initial Interview Guide (version JUL08-1.1) and ended with the fourth iteration and final version, (version SEP08-2.2) which was used as the main instrument for the data collection of this study.

Chapter 7 reported the cases for this study in a demographic summary of cases and participants. Key exit features were used to identify how certain exits should be clustered to explain the processes undertaken by them (Miles & Huberman 1994). Finally, this chapter provided a highlighted description of each case, a reduction of data from each case into table format, and a display of key exit details on a common timeline display.

Chapter 8 presented the study's findings, beginning by establishing a foundation for the study's analysis. A content based method was used to reduce and display (Glasser & Strauss 1967, Miles & Huberman 1994) data to identify key elements and milestones in the exit process. This was followed by a thematic analysis (Ezzy 2002, Richards 2005, Kelle 1995, Fielding & Lee 1998, Bazeley 2007) to search for unanticipated revelations and more subtle explanations. This chapter revealed that the exit decision is not a single decision as originally conceived, but instead, up to three distinct decisions: a pilot exit decision, a provisional exit decision, and an acceptance exit decision. The exit trigger which was conceived to be a prologue to the exit decision was found to be influenced by two groups of factors: opportunities which refer to positive factors, and challenges which refer to pessimistic (negative) factors (see Table 8.7 and Figure 8.10).

Findings associated with exit contemplation brought to the fore the issue of 'owner's characteristics' (Smith 1967) and the role they play in the exit process. These characteristics (craftsman - opportunistic) indicated whether owners were likely to undergo the complete exit or an abbreviated or truncated version. It was concluded that exit contemplation was undertaken mainly by 'opportunistic' type owners, while 'craftsmen' style owners were reluctant sellers who had not spent much time or effort contemplating selling their businesses.

Exit preparation was found to consist of three forms of activity: deliberate, inadvertent, and buyer: deliberate preparation refers to all activities (planning or execution) which directly relate to exiting; inadvertent preparation refers to activities that aid the exit process or enhance the prospects of being sold but not done for the purpose of exiting; and finally, some preparation for an exit which is done by the buyer and not the seller. Chapter 8 concluded that the SME exit process is represented schematically as shown in Figure 8.14.

9.3 Implications

Before concluding this study, attention is directed to identifying the contribution made to the body of knowledge and its implications for management practice.

9.3.1 Implications for Theory

The theoretical implications of this research are first and foremost that it presents an initial framework for the SME exit process, providing 'a topography' to describe what occurs when owners exit their business. This topography provides a framework underpinning and locating the extant literature to offer a basis for subsequent research in this area to build upon. The roots of this framework originate from a parent theory based on a model for organisational change by Joyce and Woods (2003) with adaptations from Paton's and McCalman's (2000) transition model for change, Bratman's (1987) theory of rational intention, and theories associated with non-programmed strategic decisions (Bridge & Dodds 1975, Ansoff 1987, Simon 1960) – refer Chapter 3. At the beginning, this study proposed modifications to Joyce's and Woods's model, but the study's findings were found to support the original *decision–plan–execute–result* model of Joyce and Woods (2003), with the adaptation that business exits often involve multiple strategic decisions (pilot, provisional, acceptance).

In addition, this framework extends the Joyce's and Woods's (2003) model by applying a hierarchical dimension to the decisions associated with ownership change. However, unlike the original model, the initial decision (for change) was found to be not necessarily the most significant one in the overall process. Furthermore, the added construct of an exit trigger as an indicator of receptivity to making an affirmative exit decision, augments the Joyce's and Woods's model.

9.3.2 Conceptual Model of the Exit Process

From this study, a conceptual model of the exit process can now be established. It has been concluded that there are five (two major and three minor) factors which moderate the SME exit process: owner's characteristics, sale type, exit decisions, timing, and barriers to exit. Two major factors have been found to form the main determinants of the exit process: foremost is the 'characteristics of the owner/manager' (craftsman or opportunistic), followed by 'sale type' (proactive or reactive). Craftsmen style owners are typically involved in reactive exits with prominent trigger factors, one or two exit decisions (provisional and acceptance), little exit contemplation, limited deliberate preparation, and short implementation stages. Opportunistic style owners typify the complete exit process described in Figure 8.14, with: an extended period of contemplation which transitions from stages of romanticising to realism; up to four exit decisions (pilot x 2, provisional, acceptance); clear evidence of planning, and execution activities. Whilst reactive exits were generally associated with craftsman styled owners, this was not exclusively the case. Similarly, proactive exits were generally associated with opportunist owners, but not always. Therefore, this precludes the use of only owner characteristics as the main determinant of a likely exit process (see Figure 9.1).

The third factor in this model is 'timing', which affects the exit process at several levels. At the most fundamental level, Hawkey (2005) argued that when and how one exits is determined by why they were exiting. This results in the exit process adapting to the available time. In a more conventional sense, having sufficient time to exit provides a greater array of exit options, with some taking longer to implement and execute than others. McKaskill (2006) took this further by recommending owners to take the initiative and control their timing by undertaking a strategic sale (see Section 3.7.2 Potential Buyers) rather than a transaction sale. Leonetti (2008) and Timmons and Spinelli (2004) frame timing in terms of market and economic cycles and as strategic windows. Conceptually, this results in a model where timing affects process (see ① in Figure 9.1) and process affects timing (see ② in Figure 9.1).

The next factor which directly influences the exit process is 'barriers to exit', which impact the exit process by lengthening the implementation stage (Hawkey 2005, McKaskill 2006). As discussed previously in Chapter 8, these barriers consist of two dimensions: buyer requirements and stakeholder aspirations (Schaper & Volery 2004). Stakeholder aspirations refer to the owner's and other stakeholder's requirements (expressed in terms of finance, lifestyle, activity, or contribution) from the exit.

The fifth factor which directly impacts on the exit process is 'exit decisions'. These decisions (pilot, provisional, acceptance) act as milestones in delineating stages of the process or defining the start or end of key activities. An exit decision in turn is influenced by the presence of an exit trigger (see ③ in Figure 9.1). As previously highlighted in Chapters 4 and 8, the presence of an exit trigger is an indicator of the owner's receptivity to an exit; this study found that this receptivity can be influenced by a buyer's offer. Overall, buyers

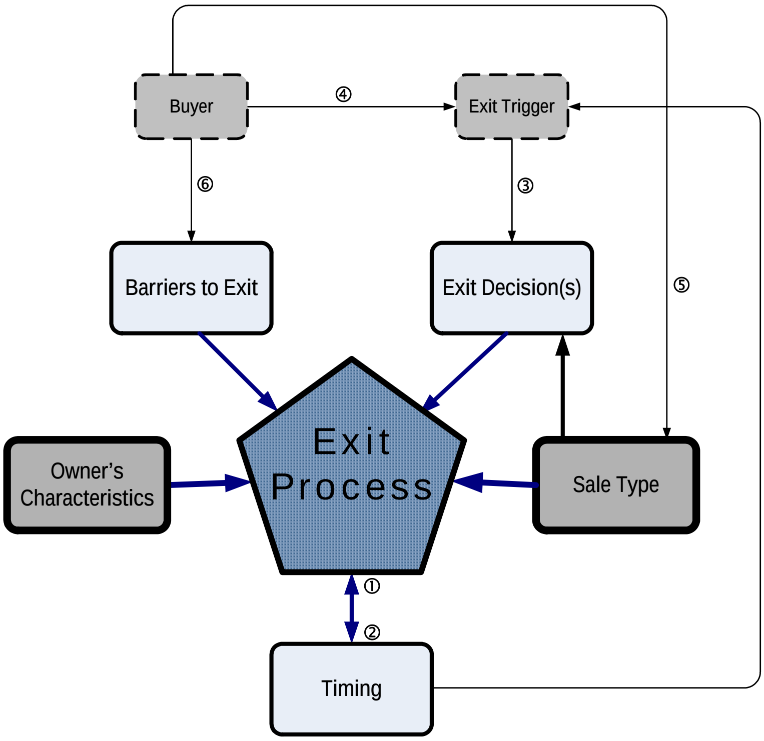

Figure 9.1: **A conceptual model of the SME exit process. Encircled numbers are references referred to in the text.**

indirectly influence the exit process in three dimensions: firstly, a buyer's offer establishes an 'opportunity' trigger (see ④ in Figure 9.1); secondly. the role of that offer creates a reactive exit scenario (see ⑤ in Figure 9.1); and thirdly, the influence of buyer requirements which can act as an impediment or barrier to exiting (see Section 3.10 and ⑥ in Figure 9.1).

By virtue of its design, timing and owner's characteristics (excluding entrepreneurial types) are factors influencing the exit trigger. The resulting conceptual model of the SME exit process has been presented in Figure 9.1.

9.3.3 Methodological Contribution

Scholars in the field of business research (Boddewyn & Lyer 1999, Parkhe 1993, White 2002) have argued that this research relies too much on secondary data and/or questionnaire responses, and called for rich analytical case studies. In response to this observation, this study has made a contribution to business research by providing rich analytical case studies as the basis for a template for further qualitative research in an SME context. Here, an in-depth multiple case study approach has enabled the researcher to bring together the collective knowledge and experiences of exiting owner/managers from twelve SMEs. With the aid of an interview protocol, the case methodology facilitated a collection of rich data via in-depth interviews. This protocol proved flexible enough to collect the study data efficiently, whilst still maintaining control over the interview process. Although a retrospective case study approach can sometimes be criticised because process identification is best revealed through conducting a real-time or longitudinal study, this research has reaffirmed the value of a case methodology in this type of research.

9.3.4 Implications for Management Practice

This study found SME exits fall into two major categories: they are reactive, where the owner responds to an unsolicited offer from a potential buyer; or they are proactive, where the owner seeks suitable buyers for the business. In this study no attempt has been made to identify which scenario produces the better outcome, but the literature on strategic buyers (McKaskill 2006, Schaper & Volery 2004, Molod & Satler 2005, Brown 2005) emphasises the significant financial benefits to sellers in identifying and transacting sales with a strategic buyer as opposed to financial ones (see Section 3.9.2). The process of identifying a potential buyer infers ‘proactiveness’ by the seller, but this does not account for buyer-seller disequilibrium which financially benefits a reactive sale situation, particularly in the case of reluctant sellers. On the other hand, proactive exits encourage scenarios which result in competitive bidding and potentially superior outcomes. This contrasts with reactive sales which generally involve a single buyer.

Reactive exits are simpler (have little contemplation, less preparation, and fewer decisions), and are quicker to implement than proactive exits. The results of this study show that exit decisions in reactive exits took less than one month, and often transactions were completed within two months. By comparison, the average time for exit decisions in proactive cases was nine months, taking significantly longer to transact. The implication for management is that reactive exits are less expensive to transact and less disruptive to the business, and because of their quick transaction time, pose lower overall risk (exposure of sale to competitors, customers, suppliers, and financial risk). Does this mean that SME owners should simply wait for potential buyers to approach them? Not necessarily, but this reinforces the commonly expressed belief that risk and potential reward are positively related.

In proactive exits where owners strategise and consider their exit options, literature emphasises the need for planning (Hawkey 2005, Knight & Whittaker 2002, Leonetti 2008, Coulthard *et al*. 1996, and

McKaskill 2006). The findings of this study however, found that planning played a minor role in SME exits. Certain activities, events, and planned actions all contributed to preparing the business for exit. This study found that sometimes these were planned, especially in complex exits, but more often they were inadvertent, spasmodic, and even opportune. The major management implication for exiting owners from this study is that exit preparation, not planning, is the key to achieving a successful exit. Preparation may encompass an exit plan, but owners with an exit objective can also undertake activities that contribute or build towards the business's saleability by removing possible exit barriers and enhancing the business brand, potential, and profitability. For SME owners, it is about adding an exit dimension to their management decision processes. This requires their consideration of "does this enhance or hinder a future exit?" and taking this into account when considering courses of future action or non action. A practical example of this is tax planning. For example, declaring minimal profits to reduce tax payments could also reduce the amount received for the business in an exit.

The benefit of an exit objective (i.e. intent), characterised by a pilot exit decision, is that it forces owners to continually look into the future and forecast how current activities and decisions might impact on a future exit. The case data has highlighted many instances where owners specifically recalled seemingly unrelated activities (to an exit) that were significant to them in achieving their exit objective. Examples of this were: hiring key management personnel; developing key product lines; and implementing scalable back-office systems.

In this study, most owners (eleven out of twelve cases) previously knew the buyers of their businesses, indicating that managing and nurturing the owner's reputation and relationship with key stakeholders (suppliers, competitors, partners, staff, and customers) is a significant form of inadvertent exit preparation. While running a successful business and enhancing personal reputation could be classified as 'sound business practices' that owners should do as a matter of course, this study has concluded that these good practices will both increase the owners' chances of exiting, and achieve their financial objectives.

Finally, for buyers of SMEs, this study concludes that in cases of craftsman style owners, exiting is often not a financial decision. Timing of an offer in resolving insurmountable or difficult issues (characterised by an exit trigger emerging) could be as important as achieving particular financial objectives. This requires potential buyers to understand the type of entrepreneur he or she may be dealing with, and to be both persistent and aware of circumstances that may influence that owner's decision to exit. Craftsman style owners are more interested in the achievement and satisfaction of the service or product they provide, rather than financial returns. When this satisfaction wanes because of complexity, lifestyle, or longevity, this study found that buyers can find opportune times for successful exit offers.

9.4 Limitations and Recommendations for Further Research

This study has provided insights into the SME exit process by identifying the major stages and key activities associated with SME owners exiting their businesses. Despite being one of the earliest studies on the topic with scope for articulating original knowledge, this study, like all empirical investigations, has its limitations.

Firstly, a recall of details from owners whose exits have occurred up to ten years earlier can have a tendency to primarily recall positive details (interviewee response bias and retrospective bias), and failing to recall setbacks or details of activities that failed or did not proceed according to expectations (referred to as a 'halo' effect). Consequently, the concluded process may be portrayed as trouble-free and linear, and not accurately describe what actually occurred. To overcome this limitation, a further study testing the concluded model (see Figure 8.14) with owners of more recent (within two years) exits, is recommended. Design of this study should be directed towards investigating a cross-section of exit related activities and decisions at regular time intervals (as opposed to just the successful ones), to provide enhanced levels of detail.

Another limitation of this study is that it only surveyed selling owners. In the case of craftsman style entrepreneurs involved in reactive exits, it was found that many of them did no exit preparation. An explanation for this was that although some preparation was undertaken by buyers, such investigation activity fell beyond the scope of this study. Therefore, to gain a more insightful understanding of the exit process it would be beneficial to conduct further research taking a dyadic approach which identifies and integrates the buyer's activities into the overall exit process. It is anticipated here that buyer activities in reactive exits would be similar to seller activities in proactive scenarios. Examples of this could include negotiation and transition arrangements with suppliers, and preparation of contracts of sale. This study could include buyers in both reactive and proactive sales, but in this case it is anticipated that the reactive buyers would be more active and show higher levels of planning. Their exit preparation is envisaged to be in the form of establishing a relationship with the owner (a buyer version of exit contemplation) to improve the owner's receptiveness of potential future offers. It is hypothesised that net activities will be similar in both types of exits; in reactive exits some of the key activities would be undertaken by the buyer, and in proactive exits they would primarily be done by the seller/owner. This study could be further enhanced by an analysis of comparative costs and resources associated with the respective exit activities.

A further limitation of this study involves the characteristics of the sample in which the twelve cases used were purposively selected, which presented an inherent problem of generalisability of the findings (Eisenhardt 1989, Yin 2003a). However, in this study analytical generalisation as opposed to statistical generalisation was applied, with the rigor of the findings coming from the replication of cases (Eisenhardt 1989, Yin 2003a), aiming to generate rather than test theory, with wider generalisation never being its intended purpose. Nevertheless, although it is possible and likely that this sample is representative of successful SME exits, generalisability of the findings could be implied, and a positivist approach investigating the five primary factors identified in the conceptual model (see

Figure 8.14) utilised to test the study's findings, and further enhance its generalisability.

Seven further topics are recommended for future research. The first is investigation of the concept categorised as 'exit pre-conditions'. Here it would be hypothesised that this concept consists of factors that act as pre-determinants to possible exit options and the exit process. Support for this concept comes from the literature by Barrow (2009) which refers to factors of the owner's 'exit readiness' and 'financial readiness'. One example of this includes a benchmark turnover or level of profitability; where a low turnover might limit potential buyers who are interested in the business. The second topic derives from comments made by two interviewee respondents about their irreversible commitment to the exit once the process got underway. This suggests the possibility of a 'point-of-no-return' in the exit process associated with financial (wasted resources), personal (emotionally decoupled from the business), and business factors (distracted management). An investigation identifying this point and its associated factors and consequences would be valuable because they form a major milestone in the process. It is hypothesised that passing this point without exiting may result in business failure or a forced exit.

It is hypothesised that 'time in business' forms an inherent exit trigger for SME business owners, and as such, causes owners to be receptive to exiting. The demanding work regime of SME ownership and exhaustion of new ideas eventually results in some owners questioning their ability to contribute to their business's future. A study into factors that result in this condition, variances within business characteristics (number of owners, size of business,

business type) and the ownership longevity/cycle would provide a valuable contribution to knowledge of this aspect of the exit decision.

As knowledge gained through this study has provided a reflective insight into the psyche of SME owners and their strategic decision making processes, further research into a model of risk, reward, and desire, and how they interact with exit contemplation, aspirations, and preparation, could also shed further light on the SME exit process.

Differentiating between small and medium business owners would also be insightful. It is hypothesised that medium sized businesses are more likely to plan and use advisors, as evidenced by two cases, so further research may reveal that small businesses may undertake an abridged process of medium businesses. This would provide four possible processes: reactive process for small and medium businesses and the proactive process for both business types. It is suggested that organisation size be part of the investigation in the positivist study to further enhance the generalisability of this study's findings.

It is hypothesised that exit contemplation, the exit trigger, and barriers to exit (specifically stakeholder aspirations) are interlinked and fluid. The underlying assumption to be further tested here is that the exit requirements of owners are not static but dynamic and linked to the environment, operating factors, length of ownership, and business success.

Finally, with the extant literature emphasis on exit strategies, an investigation on the relationship between proactive exits, exit strategies, and other major factors would be valuable. To provide a comprehensive analysis this requires a two step study: one to investigate factors associated with success and then a subsequent study investigating factors associated with failed attempts to exit.

9.5 Study Conclusions

One of the major benefits arising from this study is that it lays a foundation in which considerable practitioner knowledge can now be framed, allowing this knowledge to be contrasted with non-exit literature, debated, and in time, extended. In contrast to the literature which provides pockets of relevant and important knowledge, the concluded process has instigated an integration of this knowledge and provided practitioners with a 'language' and location to position their 'how to' advice in a holistic way.

As one of the first empirical studies on the topic, a major consequence of this study will be to enable stimulation of the course of future research. Enhancing knowledge on this aspect of the SME lifecycle is important because it can reduce enterprise mortality (voluntary closures) and encourage its continuance and longevity. This will reduce the wastage of resources and organisational experience that is lost when a SME business enterprise ceases.

Furthermore, increasing the level of voluntary exits is economically significant to the Australian economy. As a result, the potential consequence of this research is far reaching if it results in more SME owners voluntarily exiting because of their enhanced awareness. It is estimated that if an additional 0.2 percent (0.002) of Australian SMEs (approximately 4,000 businesses) undertook voluntary exits this would contribute almost five billion dollars of economic activity[140] to the Australian economy[141]. More importantly, increased business harvesting should result in increased entrepreneurial activity because it frees and resources successful entrepreneurs to undertake new opportunities (Timmons & Spinelli 2004). Meanwhile the acquired SME businesses are absorbed into larger businesses or taken over and operated by less entrepreneurial owners.

Given the commercial importance of SME activity in the Australian and most other economies, this research has provided scholarly insight into a significant but unfortunately too infrequent event in Australian business ownership[142]. It is hoped that the 'topography' that this research has provided will encourage further studies into this neglected and under-researched topic.

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140 Based on the methodology used by Bickerdyke *et al*. (2000) and data from *A Portrait of Australian Business* (IC and DIST, 1997) which attributes average value add of $176K and $5,784K for small and larger businesses, respectively.

141 Using the same calculation method used as Con Foo (2006).

142 Approximately 1.6 percent – see Section 3.3

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Successful Exit Processes of SMEs in Australia

By: Harry Rodney Ernest CON FOO (MEI, MBus)
Student ID: 3004889

Appendices

May 2010

Submitted in fulfilment of the requirements for the degree
Doctor of Business Administration

Graduate School of Business
Faculty of Business & Law
VICTORIA UNIVERSITY

Appendices

The following appendices are numbered according to their relevant chapters. For example in ‘Appendix 5A’ the ‘5’ refers to Chapter 5 which this appendix belongs to. The ‘A’ refers to the first appendix of that chapter followed by ‘B’, ‘C’, and so on. The alphabetic labelling is restarted with each relevant chapter. In addition, the page numbering is specific to the appendices and begins at APP-1.

Appendix 5A – List of Sources for Potential Interviews

Business Advisors

Business Brokers

Others

Appendix 5B – Sample of Request for Interview

VICTORIA UNIVERSITY OF TECHNOLOGY

<Business Owner>
<Company name>
<Address>

19 July 2008

Dear <Business Owner>,

RE: STUDY ON EXIT PROCESSES OF AUSTRALIAN SMEs

You had previously stated your interest in participating in a study on the exit / harvest processes of Australian small medium enterprises (SME) being undertaken by the Victoria University Graduate School of Business, Australia. As the next step in that process I am writing to you to request an interview on your own personal exit experience. The data collected from this interview will assist us to understand the dynamics and key factors associated with business harvest

The aim of this study is to develop a generalised framework which can account for critical aspects of the exit / harvest process. To develop this we need the knowledge and experience of owners like yourself who have successfully harvested their business. This study will offer you an opportunity to impart your experience and help us identify critical elements and processes associated with a successful business harvest. For us to collate information on your business harvest we would like to conduct a 90 minute interview of your experience.

I have enclosed a copy of the questions we would like to explore with you. Could you please take the time to read these questions and prepare responses (mental or written notes). Our discussions need not be limited to just these questions and we are happy to explore other aspects of your experience during the interview. During the interview we will make a record of your responses.

Please note that your participation is entirely voluntary and that you may withdraw your consent at anytime. We assure that the information provided will be strictly confidential, and used for only academic purpose. The content of your interview will be analysed at Victoria University. **All your responses and any information provided by you will be treated as confidential and results will be handled so that no individual's responses or specific organisations can be identified.** This study has been approved by the Human Ethic Committee at Victoria University.

The study will not be possible without the generous help of people such as yourself. Since your cooperation is important for completing the study, we will contact you again in the next week to arrange a suitable time and venue for an interview.

If you have any questions regarding the research and/or findings, please write or call: Rodney Con Foo, Victoria University, PO Box 14428, Melbourne VIC, 8001, Phone +61 (417) 388 288; Email: rodney_confoo@keatsbury.com.

I look forward to speaking with you next week.

Yours sincerely,

Rodney Con Foo
Researcher

Appendix 5C – Interview Procedure

1. Review questions prior to interview, make notes, complete where possible, highlight areas where details might be important (as learned from previous interviews).
2. Conduct interview.
3. Reflect on interview within 4 hours.
4. Write up reflection notes within 24 hours.
5. Listen to recording of interview and note on interview guide in different colour within 48 hours.
6. Review any secondary data.
7. Transcribe interview.
8. Review transcription with notes, secondary data, and proposition matrix.

Appendix 5D – Copy of Invitation to Participate

DRAFT OF COVER LETTER
<Business Owner>
<Company name>
<Address>

Date

Dear <Business Owner>,

RE: STUDY ON EXIT PROCESSES OF AUSTRALIAN SMEs

We would like to invite you to participate in a study on the exit (sale / harvest) processes of Australian small medium enterprises (SME) being undertaken by the Victoria Graduate School of Business, Australia. The research is being conducted as part of a doctoral thesis and proposes a framework which identifies key factors associated with successfully harvesting Australian SMEs.

An important stage in the life of a SME is the planned voluntary exit of the owner(s) due to acquisition or merger. This event is sometimes referred to as business harvest. Successful voluntary exits occurs in less than 10% SMEs but this exit is a significant event for many owners as it represents a windfall capital gain for their equity and may represent the only opportunity for a business owner to access the rewards of many years of hard work. It is therefore vital to understand the dynamics and key factors associated with business harvest. The aim of this study is to develop a generalised framework which can account for critical aspects of the exit / harvest process. To develop this we need the knowledge and experience of owners like yourself who have successfully harvested their business. This study will offer you an opportunity to impart your experience and help us identify critical elements and processes associated with a successful business harvest. For us to collate information on your business harvest we would like to conduct a 60 to 75 minute interview of your experience.

We have enclosed a copy of the questions we would like to explore with you. Could you please take the time to read these questions and prepare responses (mental or written notes). Our discussions need not be limited to just these questions and we are happy to explore other aspects of your experience during the interview. During the interview we will make a record of your responses.

Please note that your participation is entirely voluntary and that you may withdraw your consent at anytime. We assure that the information provided will be strictly confidential, and used for only academic purpose. The content of your interview will be analysed at Victoria University. **All your responses and any information provided by you will be treated as confidential and results will be handled so that no individual's responses or specific organisations can be identified.**

This study has been approved by the Human Ethic Committee at Victoria University. Please retain this form for your own records and if during or after the study, you have any questions regarding the research and/or findings, please write or call: (Harry) Rodney Con Foo, Victoria University, Melbourne, VIC 8001, Australia; Phone +61 (417) 388 288; Fax +61 (3) 9919 1350; Email: harry.confoo@research.vu.edu.au.

The study will not be possible without the generous help of people such as yourself. Since your cooperation is important for completing the study, we will contact you again in the next week to ascertain your interest and if applicable, arrange a suitable time and venue for an interview. As a token of appreciation of your co-operation, you will receive a summary of our findings in due course. Any queries about your participation in this project may be directed to the Principal Researcher, Prof Sardar Islam (Phone 03 9919 1338 Email sardar.islam@vu.edu.au). If you have any queries or complaints about the way you have been treated , you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne VIC, 8001, Phone (03) 9919 4781.

Thank you for considering our request.

Yours sincerely,

Appendix 5E – Copy of Interview Guide & Questions

Commercial-in-Confidence

Interview Guide

Successful sell processes of SMEs in Australia

Date of Interview: ______________ Participant Code: [ ]

Interviewer: Rodney Con Foo

Telephone: 0417 388 288, Email: rodney_confoo@keatsbury.com

Version JUL08-1.1

A. INTRODUCTION

Before you start, this large pile of paper with lots of questions probably looks a bit daunting and overwhelming! As someone who has successfully sold their business the hardest thing I need you to do is recall the details of what happened. I understand that it may have occurred quite a few years ago but your input is valuable to this study because less than 4 in 100 small medium business owners get to achieve what you did and as you would know, there was a lot of satisfaction in achieving that outcome.

The focus of the study is to try and follow the process you undertook when selling your business. Not just the mechanical steps of calling the financial advisors, legal advisors, and brokers but how you came to making the decision to get out, the planning, and even before that, the consideration (when and what form). Based on my own sell experience as an SME owner, I have put together a broad model of how I think the process goes but this is not the appropriate time to share it with you because it may influence some of your responses. I will however, share the final results with you if you are interested in the study's outcome.

The questions that follow are grouped into the following manner (see diagram below). The order may seem odd but I have attempted to tackle the easily identifiable concepts and milestones first and then delve into 'newer' or less developed concepts and linkages later.

B. INSTRUCTIONS

1. Please read through the questions and answer or make notes in the spaces provided. I will ask you <u>all</u> the questions verbally and record your responses during the interview.
2. Please circle the correct response in the 'yes' 'no' boxes.
3. This interview structure is attempting to cover a spectrum of possible outcomes so in many cases the question relating to a situation may not apply. You should not read anything into a question or feel compelled to respond. If it does not apply, feel free to have no response.
4. This interview guide is not a questionnaire but merely provides a framework for the interview.
5. If you feel that a pertinent area of your sell has not been covered or covered adequately, feel free to tell me about this at an appropriate time.

Please feel free to contact me (my details are on the front page) if you have any queries or concerns on any matter.

Participant Code

C. MEANINGS & ABBREVIATIONS

Term	Meaning
Sell / Harvest / Exit	Receiving a payment in exchange for the goodwill and assets of the business.
Anniversary	A nominated date which is of importance to the shareholders.
Decide to Sell	The decision to put the business up for sale for a nominated price.
Planning	Intended activities associated with achieving a sale of the business.
SME	Small Medium Enterprise – organisation with 1-199 employees.
Offer	Refers to receiving an acceptable offer from a party to buy the business.
Economic Factors	Refers to the general economic climate (including some or all of: local, national or international).
Anniversary	Refers to any matter related to a nominated date or with reference to time i.e. a nominated retirement date, a birthday, a length of time in business.
Family Related	Refers to any matter relating to family issues i.e. partnership separation; providing financial support for children, parents etc. associated with stakeholders.
Health Issues	Refers to any health matters related to business stakeholders.
Industry Trends	Refers to business prospects / potential in relation to industry developments.
Enthusiasm & Energy	Refers to the enthusiasm and energy levels of the owners.
Finance	Refers to any financial matters to the operation of the business e.g. cash flow, profitability, ROI, etc.
Capital	Refers to the capital related matters associated with the business e.g. start-up capital, asset backing, capital equipment purchases, ROE, etc.
Internal Business	Refers to matters relating to business operation e.g. human resources, risks, systems etc.
Lack of Optimism	Refers to stakeholders' level of optimism relating to the business future.
Contract Related	Refers to matters of contracts with customers or suppliers.
Other	Refers to any other matters not already covered.

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BACKGROUND - Organisation

Q1a) Can you tell me a little about your business?					
1b) When did it start?			1c) How long did you operate the business?		
1d) Did you start it?	Yes / No	1e) If No, who started it and when?			
		1f) If no, when did you start in the business?			
1g) What did the business do?					
1h) Which industry?					
1i) Who were the target customers?					
1j) What types of products and services did you sell?					
1k) What was the shareholding structure?					
1l) How was the business structured?	Business Name	Partnership	Private Company	Public Company	Other
1m) Did the structure change prior to sale?	Yes / No If Yes, explain before / after	1n) If Yes, was the change related to selling the business? Yes No	1o) Details		
1p) When did you sell the business?					
Notes			Reflections		

Participant Code

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BACKGROUND – Owner(s)

Q2a) Can you tell me a little about yourself and the other (if any) owners.			
2b) What was your role in the business?			
2c) Did you have any business partners?	Yes No	2d) If, yes, what was their role(s)?	
2e) What is your educational background?	Year 12 Undergraduate ____________ Postgraduate ____________ Others ____________		
2f) Partner(s) educational background?	Year 12 Undergraduate ____________ Postgraduate ____________ Others ____________		
2g) Partner(s) educational background? (if more than 1 partner)	Year 12 Undergraduate ____________ Postgraduate ____________ Others ____________		
2h) Partner(s) educational background? (if more than 2 partners)	Year 12 Undergraduate ____________ Postgraduate ____________ Others ____________		
2i) What did you do prior to the business?		2j) How Long for?	
2k) What was your business experience prior to the one you sold?		2l) Total years in business?	
2m) What are you doing now?			
2n) Had you sold a business prior to the one we are discussing?	Yes No	If, yes, pls give details.	
Notes		Reflections	

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SELL BACKGROUND - Timeline

Definitions:
Decide to Sell – date (mm/yy) when you made the decision to sell i.e. and shortly after or simultaneously called your legal representatives, called a business broker, advertised the business for sale.
Sell – date (mm/yy) when you received payment (if several, date of majority) for the business.

Notes:
1. Feel free to make a note of any significant milestones or when decisions were made on the above timeline.

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THE SELL – What Happened

Q3a) Can you tell me about the details of when and how you sold the business? Chronologically what happened? Who was involved and when did they become involved? Were there any significant events / milestones?			
3b) Starting with the sale date, did you stay on in any capacity after the sale date?	Yes No	3c) If yes, please give details.	
		3d) If yes, what was the last date of active involvement in the business?	
3e) Did you cope with life post-sale? Can you reflect and comment on that?	Yes No		
3f) If you had your time again, what would you have done differently and why?			
3g) How closely did the outcomes (not just $, lifestyle, aspirations etc) of the sale match your pre-sale expectations?	____%		

Notes	Reflections

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THE SALE – What Happened (cont'd)

3h) Can you tell me details about those expectations without revealing $ amounts?			
3i) How long did you have these expectations and did they change over time?		3j) If they did change, what caused them to change or what was behind the changes?	
3k) How often would you review these expectations?		3l) Did you consult others about these expectations? If so, how, and how often?	
3m) Were they based on any assumptions or specific needs or requirements?			
3n) Did you ever feel that these expectations would or could limit you or even restrict you from selling the business? If yes, can you provide some details or examples?	Yes No		
3o) Did you have any expectations for the business, the staff, or the customers? If yes, can you provide some details?			
3p) Were they fulfilled?	Yes No	3q) If yes, please provide some details.	
3r) Are there any other aspects of the actual sale you think is important?			
Notes		Reflections	

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THE SELL DECISION – The Circumstances, How You Came to This Conclusion

Q4a) Can you tell me about the details when you decided to sell?												
4b) What influenced your decision to sell? (Indicate all factors – see page 1 for *Meanings*) Can you provide the details on these influences?	Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Contract Related	Other
4c) Could you weight the influences (Total = 100%)	Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Contract Related	Other
4d) How firm or fluid was the decision to sell i.e. how committed to sell were you?												

Notes	Reflections

Participant Code

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THE SELL DECISION – The Circumstances, How You Came to This Conclusion (cont'd)

4e) At the time you decided to sell, tell me how optimistic you felt; in general, for the business, the industry, and personally.			
4f) What was the period of time which you made the decision to sell?			
4g) Was it one decision or multiple or a series of decisions?			
4h) Was there a process or criteria which you undertook to make this decision?			
4i) Did you make this decision alone?	Yes No	If No, who else was involved or did you consult?	
4j) Was there a single event or a series of events that contributed to you making this decision?			
4k) When internally (within the business) was it known that the business was to be sold?		4l) When [earliest date] externally (customers, suppliers, competitors) was it known that the business was to be sold?	
4m) Are there any other aspects of the sell decision you feel that we haven't covered or are important?			
Notes		Reflections	

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AFTER THE DECISION – What Followed

5a) What steps or actions occurred once you had made the decision (what followed)? Please provide some details of the timing involved.		
5b) What was the planned timeline once the decision to go was made?		
5c) Were there any delays or extensions to this timeline?	Yes No	If Yes, please provide details?
5d) Were there any other parties (internal and external) involved in helping you plan or actually do steps to sell the business?	Yes No	If Yes, please provide details of whom and their roles?
5e) Did the progress ever stall or stop as a result of those assisting parties?	Yes No	If Yes, please provide details?
5f) Did the buyer or potential buyers make requests or apply conditions that stalled or stopped the sale process?	Yes No	If Yes, please provide details?
5g) Are there any other aspects of the post-decision period you feel that we haven't covered or are important?		

Notes	Reflections

Participant Code

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PLANNING THE SALE

6a) Can you tell me what planning (if any) you did for the sale of the business?			
6b) Start date of planning (mm/yy).		6c) End date of planning (mm/yy).	
6d) Were there other parties (internal and external) involved in the planning?	Yes No	If Yes, please provide details of who are their roles?	
6e) When was did you start putting into action what you had planned (earliest mm/yy)?		6f) What would you say was the last date (latest mm/yy)?	
6g) Are there any other aspects with regards to planning that you feel we haven't covered or are important?			

Notes	Reflections

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CONTEMPLATING SELLING

7a) Before you made the decision to sell, had you contemplated selling? If Yes, can you tell me the details about this?	Yes No	
7b) What was the earliest date when you thought about selling (mm/yy).		
7c) Did these thoughts change or evolve over time? If they did, can you provide me with some details on the changes?	Yes No	
7d) Did these thoughts eventually have any relation to what you wanted from the sale of the business? If they did, can you provide me with some details?	Yes No	
7e) Are there any other aspects with regards to this topic that you feel we haven't covered or are important?		

Notes	Reflections

Participant Code

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SPECIFIC FOCUS

8a) If you haven't already indicated, can you advise which of the following advisors were used in the sale of your business? Please also indicate the date (mm/yy) that you engaged them for the sale of the business.	Advisor	Financial / Accountant	Legal	Business Broker	Merchant Bank / Corporate Advisor	Other (Please indicate)
	Date Engaged mm/yy					
8b) Please indicate when the advisors were no longer required / disengaged (mm/yy).	Date Disen-gaged mm/yy					
8c) When you were contemplating selling, what was the best or optimum case scenario you had contemplated?						Approximately when did this occur (mm/yy)?
8d) Can you tell me more about the other options you may have contemplated?						
8e) When you were contemplating selling, when did you settle on the actual option you sold on?						Approximately when did this occur (mm/yy)?
8f) Was there more than one sell option you had considered before making the decision to sell.						

Notes	Reflections

Participant Code

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SPECIFIC FOCUS (cont'd)

8g) Before making the decision to sell, did you seek any advice or do any research about what you would need to do prior to putting the business up for sale? If so, can you provide some details of the advice or research?	Yes No	
8h) Were you aware of any things that had to be done with regards to the business before actually selling it? If so, can you provide some details of that?	Yes No	
8i) Was there any time delay between making the decision to sell and doing the things necessary to sell? If so, can you explain the delay?	Yes No	
8j) After the sale process had begun were there any situations where an advisor or buyer required matters settled, information provided, or transactions completed before they would proceed any further. If so, can you provide details on those situations?	Yes No	
8k) When you considered what you wanted from the sale of the business, did you have to account for other people's needs or requirements e.g. partner (wife or husband), parents, children, family, charity etc.? If so, can you provide some details on these needs?	Yes No	

Notes	Reflections

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SPECIFIC FOCUS (cont'd)

9a) Answer this question only if you answered 'YES' to 7a. You have indicated that you had contemplated selling prior to making the decision, had you made any plans (formal or informal)? Can you provide some details of the plans you made or were formulating?	Yes No		Date when you started making these plans (mm/yy).
10a) Was there a point in time where you were receptive to selling if someone made you an offer but not willing to go through with officially putting the business up for sale? If so, can you provide some details when this occurred and what were the circumstances behind coming to that mindset?	Yes No		Date when you started to feel receptive (mm/yy).
11a) Were there any times you felt "I am going to sell out" but before you do something about it you changed your mind because circumstances changed? If so, can you provide some details when this occurred, how often, and what were the circumstances behind this?	Yes No		
12a) Had you established a condition or set of conditions where you would be willing seller of the business? If so, can you tell me about these and how they came about.			

Notes	Reflections

Participant Code

Appendix 5F – Case Study Protocol

<table>
<tr><th>Elements</th><th>Details</th></tr>
<tr><td>Overview</td><td>This research thesis is submitted as a requirement of the researcher’s Doctor of Business Administration (DBA) degree at Victoria University (VUT) in Melbourne, Australia. This study is an exploratory case analysis of the process undertaken by Australian SMEs who have successfully exited their business.

Twelve cases were purposefully chosen to investigate the research problem:
What process does the owner of an SME undertake to successfully exit their business and what are the critical milestones and considerations when undertaking that process?

Ethical considerations are essential in a study of this nature and for this reason, the names of the participants and their organisations will be disguised to preserve their confidentiality.</td></tr>
<tr><td>Field Procedures</td><td>Data for this study is to be primarily collected through semi-structured interviews at the participant’s place of business or a mutually agreed private site. The time for each interview is approximately two hours and will be conducted by the researcher. With participant’s permission, each interview will be electronically recorded, transcribed, and securely stored. All interviews will be conducted in the period 21 July to 31 August, 2008. All data collected will be entered into a secure research database.

The field procedure for data collection is as follows:
a) ascertain level of interest or confirm interest of prospective case via third party contact or directly on the telephone,
b) arrange a suitable time and venue to conduct the interview,
c) one week prior to interview post / fax / email the following, information to the participant:
i. an outline to the study ,
ii. regarding informed consent,
iii. the planned agenda,
iv. the study questions,
v. a request to electronically record the interview,
vi. and a request for any secondary data,
d) 24 hours prior to interview a confirmation of appointment via email, text message or call,</td></tr>
</table>

Elements	Details
Field Procedures (cont'd)	e) At the start of the interview remind the participant of their rights, the confidentiality of the information, the publication of the results, make a request to record interview, advise who can access data, and have participant sign a letter of consent, f) Allocate an identification code for the participant and their organisation for the purposes of anonymity, g) Conduct the interview and collect any supporting secondary data, h) Immediately after the interview reflect on what was said, how it was said, and note any cues which may be relevant to the study, i) Make a written transcription of the interview, j) Upon completion of the three pilot interviews review outcomes and where necessary adjust instrument, k) Complete remaining interviews, transcribe and collect any secondary data, l) Check transcription by sending transcriptions back to interviewee for verification, m) Import and code data in NVivo, n) Analyse results from NVivo, o) Have a research colleague conduct a secondary analysis of data, p) Analyse any secondary data supplied, q) Compare and reconcile all findings, r) Record details of data collection in the research database, s) Secure data collected, t) Write to all participants to thanks them for their participation.
Field Resources	The following resources will be required to conduct the data collection: • Outline of intended study (2 copies), • Informed consent form with permission to record interview (2 copies), • Copy of the proposed agenda, • Copy of research questions, • Pens, pencil, pad, • Voice recorder, • Folder for notes and any secondary data collected, • Pro Forma for recording reflections and thoughts post-interview, • Business cards.

Elements	Details		
Data Related Timeline	**Activity**	**Start**	**Finish**
	Identify prospective interviewees	21 Jul	25 Jul
	Make initial contact to prospects	28 Jul	31 Jul
	Identify suitable prospects for pilot cases	30 Jul	31 Jul
	Arrange interview time for pilot prospects	31 Jul	1 Aug
	Send advance material to pilot interviews	4 Aug	4 Aug
	Conduct pilot interviews and make notes	11 Aug	12 Aug
	Transcribe pilot interviews	12 Aug	15 Aug
	Adjust instrument	15 Aug	16 Aug
	Send advance material to interviews	18 Aug	18 Aug
	Conduct main interviews and make notes	25 Aug	29 Aug
	Transcribe interviews	1 Sep	8 Sep
	Verify transcriptions	2 Sep	8 Sep
	Import into NVivo	9 Sep	11 Sep
	Conduct content & thematic analysis of interview data	12 Sep	19 Sep
	Analyse secondary data	12 Sep	19 Sep
	Compare and reconcile findings	19 Sep	30 Sep

Elements	Details	
Research Issues	The research issues that this study is attempting to resolve are identified through the *research propositions.* They are:	
	P1	The overall exit process consists of activities which can be categorised into three (3) distinct stages: *exit contemplation* is the first stage, this is followed by an *exit planning* stage and finally the plans are executed in an *exit execution* stage.
	P2	The earliest start point of the exit contemplation stage is prior to starting the business. It ends when the exit decision is made.
	P3	Exit contemplation consists of two distinct phases: romanticising and realism.
	P4	Romanticising is where owners contemplate unconstrained optimal exit outcomes and after a period of time this progresses into a realism phase.
	P5	Romanticising eventually reverts to a realism stage where optimal possibilities convert into more realistic scenarios.
	P6	Exit planning stage begins with the realism phase of exit contemplation. It ends at a point prior to exit. Exit planning generally occurs prior to exit execution but these stages may overlap.

Elements	Details	
Research Issues (cont'd)	P7	Exit execution stage begins at the exit decision and ends at the exit. Exit execution is where exit plans and operational activities are executed.
	P8	An exit trigger indicates an owner's penchant to exiting and is a precondition for an exit decision.
	P9	There are five factors which can fulfil an exit trigger. Four (4) tangible factors (financial, timing, crisis, risk) and one (1) subjective factor (optimism). A trigger for a voluntary exit is established by one (1) or more tangible factor(s) in combination with the subjective factor or by the subjective factor singularly.
	P10	The exit decision signifies the start of the exit execution stage. A precondition to a decision to exit the business is that conditions for an exit trigger must first be fulfilled.
Study Report Guide	This study will be reported in the following manner: Chapter 1 – Introduction to the study; Chapter 2 – Review of literature on small business; Chapter 3 – Review of literature on business exits; Chapter 4 – Posing of the research issues through a proposed research framework; Chapter 5 – A description of the research design, data collection procedures and intended analyses methods; Chapter 6 – Pilot study to review data collection and analysis methods; Chapter 7 – A presentation of the case data collected; Chapter 8 – Analysis and discussion of the findings; Chapter 9 – The study's conclusions.	

Planned Timeline for Data Collection:

Task	July		August					September				
	4	5	1	2	3	4	5	1	2	3	4	5
Identify prospective interviewees												
Make initial contact to prospects												
Identify suitable prospects for pilot cases												
Arrange interview time for pilot prospects												
Send advance material to pilot interviews												
Conduct pilot interviews and make notes												
Transcribe pilot interviews												
Adjust instrument												
Send advance material to interviews												
Conduct main interviews and make notes												
Transcribe interviews												
Verify transcriptions												
Import into NVivo												
Conduct analysis of interview data												
Analyse secondary data												
Compare and reconcile findings												

Appendix 6A – Initial Interview Guide & Questions (Version JUL08-1.1)

Commercial-in-Confidence

VICTORIA UNIVERSITY OF TECHNOLOGY

Interview Guide

Successful sell processes of SMEs in Australia

Date of Interview: ______________ Participant Code:

Interviewer: Rodney Con Foo

Telephone: 0417 388 288, Email: rodney_confoo@keatsbury.com

Version JUL08-1.1

A. INTRODUCTION

Before you start, this large pile of paper with lots of questions probably looks a bit daunting and overwhelming! As someone who has successfully sold their business the hardest thing I need you to do is recall the details of what happened. I understand that it may have occurred quite a few years ago but your input is valuable to this study because less than 4 in 100 small medium business owners get to achieve what you did and as you would know, there was a lot of satisfaction in achieving that outcome.

The focus of the study is to try and follow the process you undertook when selling your business. Not just the mechanical steps of calling the financial advisors, legal advisors, and brokers but how you came to making the decision to get out, the planning, and even before that, the consideration (when and what form). Based on my own sell experience as an SME owner, I have put together a broad model of how I think the process goes but this is not the appropriate time to share it with you because it may influence some of your responses. I will however, share the final results with you if you are interested in the study's outcome.

The questions that follow are grouped into the following manner (see diagram below). The order may seem odd but I have attempted to tackle the easily identifiable concepts and milestones first and then delve into 'newer' or less developed concepts and linkages later.

B. INSTRUCTIONS

1. Please read through the questions and answer or make notes in the spaces provided. I will ask you <u>all</u> the questions verbally and record your responses during the interview.
2. Please circle the correct response in the 'yes' 'no' boxes.
3. This interview structure is attempting to cover a spectrum of possible outcomes so in many cases the question relating to a situation may not apply. You should not read anything into a question or feel compelled to respond. If it does not apply, feel free to have no response.
4. This interview guide is not a questionnaire but merely provides a framework for the interview.
5. If you feel that a pertinent area of your sell has not been covered or covered adequately, feel free to tell me about this at an appropriate time.

Please feel free to contact me (my details are on the front page) if you have any queries or concerns on any matter.

Participant Code

C. MEANINGS & ABBREVIATIONS

Term	Meaning
Sell / Harvest / Exit	Receiving a payment in exchange for the goodwill and assets of the business.
Anniversary	A nominated date which is of importance to the shareholders.
Decide to Sell	The decision to put the business up for sale for a nominated price.
Planning	Intended activities associated with achieving a sale of the business.
SME	Small Medium Enterprise – organisation with 1-199 employees.
Offer	Refers to receiving an acceptable offer from a party to buy the business.
Economic Factors	Refers to the general economic climate (including some or all of: local, national or international).
Anniversary	Refers to any matter related to a nominated date or with reference to time i.e. a nominated retirement date, a birthday, a length of time in business.
Family Related	Refers to any matter relating to family issues i.e. partnership separation; providing financial support for children, parents etc. associated with stakeholders.
Health Issues	Refers to any health matters related to business stakeholders.
Industry Trends	Refers to business prospects / potential in relation to industry developments.
Enthusiasm & Energy	Refers to the enthusiasm and energy levels of the owners.
Finance	Refers to any financial matters to the operation of the business e.g. cash flow, profitability, ROI, etc.
Capital	Refers to the capital related matters associated with the business e.g. start-up capital, asset backing, capital equipment purchases, ROE, etc.
Internal Business	Refers to matters relating to business operation e.g. human resources, risks, systems etc.
Lack of Optimism	Refers to stakeholders' level of optimism relating to the business future.
Contract Related	Refers to matters of contracts with customers or suppliers.
Other	Refers to any other matters not already covered.

Participant Code

BACKGROUND - Organisation

Q1a) Can you tell me a little about your business?					
1b) When did it start?		1c) How long did you operate the business?			
1d) Did you start it?	Yes / No	1e) If No, who started it and when?			
		1f) If no, when did you start in the business?			
1g) What did the business do?					
1h) Which industry?					
1i) Who were the target customers?					
1j) What types of products and services did you sell?					
1k) What was the shareholding structure?					
1l) How was the business structured?	Business Name	Partnership	Private Company	Public Company	Other
1m) Did the structure change prior to sale?	Yes / No If Yes, explain before / after	1n) If Yes, was the change related to selling the business? Yes No	1o) Details		
1p) When did you sell the business?					
Notes			Reflections		

Participant Code

VICTORIA UNIVERSITY

BACKGROUND – Owner(s)

Q2a) Can you tell me a little about yourself and the other (if any) owners.			
2b) What was your role in the business?			
2c) Did you have any business partners?	Yes No	2d) If, yes, what was their role(s)?	
2e) What is your educational background?	Year 12 Undergraduate ____________ Postgraduate ____________ Others ____________		
2f) Partner(s) educational background?	Year 12 Undergraduate ____________ Postgraduate ____________ Others ____________		
2g) Partner(s) educational background? (if more than 1 partner)	Year 12 Undergraduate ____________ Postgraduate ____________ Others ____________		
2h) Partner(s) educational background? (if more than 2 partners)	Year 12 Undergraduate ____________ Postgraduate ____________ Others ____________		
2i) What did you do prior to the business?		2j) How Long for?	
2k) What was your business experience prior to the one you sold?		2l) Total years in business?	
2m) What are you doing now?			
2n) Had you sold a business prior to the one we are discussing?	Yes No	If, yes, pls give details.	

Notes	Reflections

Participant Code

SELL BACKGROUND - Timeline

Definitions:
Decide to Sell – date (mm/yy) when you made the decision to sell i.e. and shortly after or simultaneously called your legal representatives, called a business broker, advertised the business for sale.
Sell – date (mm/yy) when you received payment (if several, date of majority) for the business.

Notes:
1. Feel free to make a note of any significant milestones or when decisions were made on the above timeline.

Participant Code

VICTORIA UNIVERSITY

THE SELL – What Happened

Q3a) Can you tell me about the details of when and how you sold the business? Chronologically what happened? Who was involved and when did they become involved? Were there any significant events / milestones?			
3b) Starting with the sale date, did you stay on in any capacity after the sale date?	Yes No	3c) If yes, please give details.	
		3d) If yes, what was the last date of active involvement in the business?	
3e) Did you cope with life post-sale? Can you reflect and comment on that?	Yes No		
3f) If you had your time again, what would you have done differently and why?			
3g) How closely did the outcomes (not just $, lifestyle, aspirations etc) of the sale match your pre-sale expectations?	____%		

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

THE SALE – What Happened (cont'd)

3h) Can you tell me details about those expectations without revealing $ amounts?			
3i) How long did you have these expectations and did they change over time?		3j) If they did change, what caused them to change or what was behind the changes?	
3k) How often would you review these expectations?		3l) Did you consult others about these expectations? If so, how, and how often?	
3m) Were they based on any assumptions or specific needs or requirements?			
3n) Did you ever feel that these expectations would or could limit you or even restrict you from selling the business? If yes, can you provide some details or examples?	Yes No		
3o) Did you have any expectations for the business, the staff, or the customers? If yes, can you provide some details?			
3p) Were they fulfilled?	Yes No	3q) If yes, please provide some details.	
3r) Are there any other aspects of the actual sale you think is important?			
Notes		Reflections	

Participant Code

VICTORIA UNIVERSITY

THE SELL DECISION – The Circumstances, How You Came to This Conclusion

Q4a) Can you tell me about the details when you decided to sell?												
4b) What influenced your decision to sell? (Indicate all factors – see page 1 for *Meanings*) Can you provide the details on these influences?	Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Contract Related	Other
4c) Could you weight the influences (Total = 100%)	Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Contract Related	Other
4d) How firm or fluid was the decision to sell i.e. how committed to sell were you?												

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

THE SELL DECISION – The Circumstances, How You Came to This Conclusion (cont'd)

4e) At the time you decided to sell, tell me how optimistic you felt; in general, for the business, the industry, and personally.			
4f) What was the period of time which you made the decision to sell?			
4g) Was it one decision or multiple or a series of decisions?			
4h) Was there a process or criteria which you undertook to make this decision?			
4i) Did you make this decision alone?	Yes No	If No, who else was involved or did you consult?	
4j) Was there a single event or a series of events that contributed to you making this decision?			
4k) When internally (within the business) was it known that the business was to be sold?		4l) When [earliest date] externally (customers, suppliers, competitors) was it known that the business was to be sold?	
4m) Are there any other aspects of the sell decision you feel that we haven't covered or are important?			

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

AFTER THE DECISION – What Followed

5a) What steps or actions occurred once you had made the decision (what followed)? Please provide some details of the timing involved.		
5b) What was the planned timeline once the decision to go was made?		
5c) Were there any delays or extensions to this timeline?	Yes No	If Yes, please provide details?
5d) Were there any other parties (internal and external) involved in helping you plan or actually do steps to sell the business?	Yes No	If Yes, please provide details of whom and their roles?
5e) Did the progress ever stall or stop as a result of those assisting parties?	Yes No	If Yes, please provide details?
5f) Did the buyer or potential buyers make requests or apply conditions that stalled or stopped the sale process?	Yes No	If Yes, please provide details?
5g) Are there any other aspects of the post-decision period you feel that we haven't covered or are important?		

Notes	Reflections

Participant Code

PLANNING THE SALE

6a) Can you tell me what planning (if any) you did for the sale of the business?			
6b) Start date of planning (mm/yy).		6c) End date of planning (mm/yy).	
6d) Were there other parties (internal and external) involved in the planning?	Yes No	If Yes, please provide details of who are their roles?	
6e) When was did you start putting into action what you had planned (earliest mm/yy)?		6f) What would you say was the last date (latest mm/yy)?	
6g) Are there any other aspects with regards to planning that you feel we haven't covered or are important?			

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

CONTEMPLATING SELLING

7a) Before you made the decision to sell, had you contemplated selling? If Yes, can you tell me the details about this?	Yes No	
7b) What was the earliest date when you thought about selling (mm/yy).		
7c) Did these thoughts change or evolve over time? If they did, can you provide me with some details on the changes?	Yes No	
7d) Did these thoughts eventually have any relation to what you wanted from the sale of the business? If they did, can you provide me with some details?	Yes No	
7e) Are there any other aspects with regards to this topic that you feel we haven't covered or are important?		

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

SPECIFIC FOCUS

8a) If you haven't already indicated, can you advise which of the following advisors were used in the sale of your business? Please also indicate the date (mm/yy) that you engaged them for the sale of the business.	Advisor	Financial / Accountant	Legal	Business Broker	Merchant Bank / Corporate Advisor	Other (Please indicate)
	Date Engaged mm/yy					
8b) Please indicate when the advisors were no longer required / disengaged (mm/yy).	Date Disen-gaged mm/yy					

8c) When you were contemplating selling, what was the best or optimum case scenario you had contemplated?		Approximately when did this occur (mm/yy)?
8d) Can you tell me more about the other options you may have contemplated?		
8e) When you were contemplating selling, when did you settle on the actual option you sold on?		Approximately when did this occur (mm/yy)?
8f) Was there more than one sell option you had considered before making the decision to sell.		

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

SPECIFIC FOCUS (cont'd)

8g) Before making the decision to sell, did you seek any advice or do any research about what you would need to do prior to putting the business up for sale? If so, can you provide some details of the advice or research?	Yes No	
8h) Were you aware of any things that had to be done with regards to the business before actually selling it? If so, can you provide some details of that?	Yes No	
8i) Was there any time delay between making the decision to sell and doing the things necessary to sell? If so, can you explain the delay?	Yes No	
8j) After the sale process had begun were there any situations where an advisor or buyer required matters settled, information provided, or transactions completed before they would proceed any further. If so, can you provide details on those situations?	Yes No	
8k) When you considered what you wanted from the sale of the business, did you have to account for other people's needs or requirements e.g. partner (wife or husband), parents, children, family, charity etc.? If so, can you provide some details on these needs?	Yes No	

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

SPECIFIC FOCUS (cont'd)

9a) Answer this question only if you answered 'YES' to 7a. You have indicated that you had contemplated selling prior to making the decision, had you made any plans (formal or informal)? Can you provide some details of the plans you made or were formulating?	Yes No		Date when you started making these plans (mm/yy).
10a) Was there a point in time where you were receptive to selling if someone made you an offer but not willing to go through with officially putting the business up for sale? If so, can you provide some details when this occurred and what were the circumstances behind coming to that mindset?	Yes No		Date when you started to feel receptive (mm/yy).
11a) Were there any times you felt "I am going to sell out" but before you do something about it you changed your mind because circumstances changed? If so, can you provide some details when this occurred, how often, and what were the circumstances behind this?	Yes No		
12a) Had you established a condition or set of conditions where you would be willing seller of the business? If so, can you tell me about these and how they came about.			

Notes	Reflections

Participant Code

Appendix 6B – First Revision of the Interview Guide & Questions (Version SEP08-1.1)

Commercial-in-Confidence

Interview Guide

Successful sell processes of SMEs in Australia

Date of Interview: ______________ Participant Code: [ ]

Interviewer: Rodney Con Foo

Telephone: 0417 388 288, Email: rodney_confoo@keatsbury.com

Version SEP08-1.1

VICTORIA UNIVERSITY

A. INTRODUCTION

Before you start, this large pile of paper with lots of questions probably looks a bit daunting and overwhelming! As someone who has successfully sold their business the hardest thing I need you to do is recall the details of what happened. I understand that it may have occurred quite a few years ago but your input is valuable to this study because less than 4 in 100 small medium business owners get to achieve what you did and as you would know, there was a lot of satisfaction in achieving that outcome.

The focus of the study is to try and follow the process you undertook when selling your business. Not just the mechanical steps of calling the financial advisors, legal advisors, and brokers but how you came to making the decision to get out, the planning, and even before that, the consideration (when and what form). Based on my own sell experience as an SME owner, I have put together a broad model of how I think the process goes but this is not the appropriate time to share it with you because it may influence some of your responses. I will however, share the final results with you if you are interested in the study's outcome.

The questions that follow are grouped into the following manner (see diagram below). The order may seem odd but I have attempted to tackle the easily identifiable concepts and milestones first and then delve into 'newer' or less developed concepts and linkages later.

B. INSTRUCTIONS

1. Please read through the questions and answer or make notes in the spaces provided. I will ask you <u>all</u> the questions verbally and record your responses during the interview.
2. Please circle the correct response in the 'yes' 'no' boxes.
3. This interview structure is attempting to cover a spectrum of possible outcomes so in many cases the question relating to a situation may not apply. You should not read anything into a question or feel compelled to respond. If it does not apply, feel free to have no response.
4. This interview guide is not a questionnaire but merely provides a framework for the interview.
5. If you feel that a pertinent area of your sell has not been covered or covered adequately, feel free to tell me about this at an appropriate time.

Please feel free to contact me (my details are on the front page) if you have any queries or concerns on any matter.

Participant Code

C. MEANINGS & ABBREVIATIONS

Term	Meaning
Sell / Harvest / Exit	Receiving a payment in exchange for the goodwill and assets of the business.
Anniversary	A nominated date which is of importance to the shareholders.
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Planning	Intended activities associated with achieving a sale of the business.
SME	Small Medium Enterprise – organisation with 1-199 employees.
Offer	Refers to receiving an acceptable offer from a party to buy the business.
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Anniversary	Refers to any matter related to a nominated date or with reference to time i.e. a nominated retirement date, a birthday, a length of time in business.
Family Related	Refers to any matter relating to family issues i.e. partnership separation; providing financial support for children, parents etc. associated with stakeholders.
Health Issues	Refers to any health matters related to business stakeholders.
Industry Trends	Refers to business prospects / potential in relation to industry developments.
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Internal Business	Refers to matters relating to business operation e.g. human resources, risks, systems etc.
Lack of Optimism	Refers to stakeholders' level of optimism relating to the business future.
Contract Related	Refers to matters of contracts with customers or suppliers.
Other	Refers to any other matters not already covered.

Participant Code

BACKGROUND - Organisation

Q1a) Can you tell me a little about your business?					
1b) When did it start?		1c) How long did you operate the business?			
1d) Did you start it?	Yes / No	1e) If No, who started it and when?			
		1f) If no, when did you start in the business?			
1g) What did the business do?					
1h) Which industry?					
1i) Who were the target customers?					
1j) What types of products and services did you sell?					
1k) What was the shareholding structure?					
1l) How was the business structured?	Business Name	Partnership	Private Company	Public Company	Other
1m) Did the structure change prior to sale?	Yes / No If Yes, explain before / after	1n) If Yes, was the change related to selling the business? Yes No	1o) Details		
1p) When did you sell the business?					
Notes			Reflections		

Participant Code

VICTORIA UNIVERSITY

BACKGROUND – Owner(s)

Q2a) Can you tell me a little about yourself and the other (if any) owners.			
2b) What was your role in the business?			
2c) Did you have any business partners?	Yes No	2d) If, yes, what was their role(s)?	
2e) What is your educational background?	Year 12 Undergraduate ______ Postgraduate ______ Others ______		
2f) Partner(s) educational background?	Year 12 Undergraduate ______ Postgraduate ______ Others ______		
2g) Partner(s) educational background? (if more than 1 partner)	Year 12 Undergraduate ______ Postgraduate ______ Others ______		
2h) Partner(s) educational background? (if more than 2 partners)	Year 12 Undergraduate ______ Postgraduate ______ Others ______		
2i) What did you do prior to the business?		2j) How Long for?	
2k) What was your business experience prior to the one you sold?		2l) Total years in business?	
2m) What are you doing now?			
2n) Had you sold a business prior to the one we are discussing?	Yes No	If, yes, pls give details.	

Notes	Reflections

Participant Code

SELL BACKGROUND - Timeline

Definitions:
Decide to Sell – date (mm/yy) when you made the decision to sell i.e. and shortly after or simultaneously called your legal representatives, called a business broker, advertised the business for sale.
Sell – date (mm/yy) when you received payment (if several, date of majority) for the business.

Notes:
1. Feel free to make a note of any significant milestones or when decisions were made on the above timeline.

Participant Code

VICTORIA UNIVERSITY

THE SELL – What Happened

Q3a) Can you tell me about the details of when and how you sold the business? Chronologically what happened? Who was involved and when did they become involved? Were there any significant events / milestones? **Who bought the business? Tell me about them …….**			
3b) Starting with the sale date, did you stay on in any capacity after the sale date?	Yes No	3c) If yes, please give details.	
		3d) If yes, what was the last date of active involvement in the business?	
3e) Did you cope with life post-sale? Can you reflect and comment on that?	Yes No		
3f) If you had your time again, what would you have done differently and why?			
3g) How closely did the outcomes (not just $, lifestyle, aspirations etc) of the sale match your pre-sale expectations?	____%		

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

THE SALE – What Happened (cont'd)

3h) Can you tell me details about those expectations without revealing $ amounts?			
3i) How long did you have these expectations and did they change over time?		3j) If they did change, what caused them to change or what was behind the changes?	
3k) How often would you review these expectations?		3l) Did you consult others about these expectations? If so, how, and how often?	
3m) Were they based on any assumptions or specific needs or requirements?			
3n) Did you ever feel that these expectations would or could limit you or even restrict you from selling the business? If yes, can you provide some details or examples?	Yes No		
3o) Did you have any expectations for the business, the staff, or the customers? If yes, can you provide some details?			
3p) Were they fulfilled?	Yes No	3q) If yes, please provide some details.	
3r) Are there any other aspects of the actual sale you think is important?			
Notes		Reflections	

Participant Code

THE SELL DECISION – The Circumstances, How You Came to This Conclusion

Q4a) Can you tell me about the details when you decided to sell?

Was it proactive situation or a reactive one i.e. did you seek a buyer or did the buyer seek you?

4b) What influenced your decision to sell? (Indicate all factors – see page 1 for *Meanings*)

Can you provide the details on these influences?

Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Contract Related	Other

4c) Could you weight the influences (Total = 100%)

Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Contract Related	Other

4d) How firm or fluid was the decision to sell i.e. how committed to sell were you?

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

THE SELL DECISION – The Circumstances, How You Came to This Conclusion (cont'd)

4e) At the time you decided to sell, tell me how optimistic you felt; in general, for the business, the industry, and personally.			
4f) What was the period of time which you made the decision to sell?			
4g) Was it one decision or multiple or a series of decisions? Were there any steps involved?			
4h) Was there a process or criteria which you undertook to make this decision?			
4i) Did you make this decision alone?	Yes No	If No, who else was involved or did you consult?	
4j) Were there any events that contributed to you making this decision? If so, can you elaborate …..			
4k) When internally (within the business) was it known that the business was to be sold?		4l) When [earliest date] externally (customers, suppliers, competitors) was it known that the business was to be sold?	
4m) Are there any other aspects of the sell decision you feel that we haven't covered or are important?			

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

AFTER THE DECISION – What Followed

5a) What steps or actions occurred once you had made the decision (what followed)? Please provide some details of the timing involved.		
5b) What was the planned timeline once the decision to go was made?		
5c) Were there any delays or extensions to this timeline?	Yes No	If Yes, please provide details?
5d) Were there any other parties (internal and external) involved in helping you plan or actually do steps to sell the business?	Yes No	If Yes, please provide details of whom and their roles?
5e) Did the progress ever stall or stop as a result of those assisting parties?	Yes No	If Yes, please provide details?
5f) Did the buyer or potential buyers make requests or apply conditions that stalled or stopped the sale process?	Yes No	If Yes, please provide details?
5g) Are there any other aspects of the post-decision period you feel that we haven't covered or are important?		

Notes	Reflections

Participant Code

PLANNING THE SALE

6a) Can you tell me what planning (if any) you did for the sale of the business? Was formal or informal?			
6b) Start date of planning (mm/yy).		6c) End date of planning (mm/yy).	
6d) Were there other parties (internal and external) involved in the planning?	Yes No	If Yes, please provide details of who are their roles?	
6e) When was did you start putting into action what you had planned (earliest mm/yy)?		6f) What would you say was the last date (latest mm/yy)?	
6g) Are there any other aspects with regards to planning that you feel we haven't covered or are important?			

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

CONTEMPLATING SELLING

7a) Before you made the decision to sell, had you contemplated selling? If Yes, can you tell me the details about this …….	Yes No	
7b) What was the earliest date when you thought about selling (mm/yy).		
7c) Did these thoughts change or evolve over time? If they did, can you provide me with some details on the changes …….	Yes No	
7d) Did these thoughts eventually have any relation to what you wanted from the sale of the business? If they did, can you provide me with some details?	Yes No	
7e) Are there any other aspects with regards to this topic that you feel we haven't covered or are important?		

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

SPECIFIC FOCUS

8a) If you haven't already indicated, can you advise which of the following advisors were used in the sale of your business? Please also indicate the date (mm/yy) that you engaged them for the sale of the business.	Advisor	Financial / Accountant	Legal	Business Broker	Merchant Bank / Corporate Advisor	Other (Please indicate)
	Date Engaged mm/yy					
8b) Please indicate when the advisors were no longer required / disengaged (mm/yy).	Date Disen-gaged mm/yy					

8c) When you were contemplating selling, what was the best or optimum case scenario you had contemplated?		Approximately when did this occur (mm/yy)?
8d) Can you tell me more about the other options you may have contemplated?		
8e) When you were contemplating selling, when did you settle on the actual option you sold on?		Approximately when did this occur (mm/yy)?
8f) Was there more than one sell option you had considered before making the decision to sell.		

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

SPECIFIC FOCUS (cont'd)

8g) Before making the decision to sell, did you seek any advice or do any research about what you would need to do prior to putting the business up for sale? If so, can you provide some details of the advice or research?	Yes No	
8h) Were you aware of any things that had to be done with regards to the business before actually selling it? If so, can you provide some details of that?	Yes No	
8i) Was there any time delay between making the decision to sell and doing the things necessary to sell? If so, can you explain the delay?	Yes No	
8j) After the sale process had begun were there any situations where an advisor or buyer required matters settled, information provided, or transactions completed before they would proceed any further. If so, can you provide details on those situations?	Yes No	
8k) When you considered what you wanted from the sale of the business, did you have to account for other people's needs or requirements e.g. partner (wife or husband), parents, children, family, charity etc.? If so, can you provide some details on these needs?	Yes No	

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

SPECIFIC FOCUS (cont'd)

9a) Answer this question only if you answered 'YES' to 7a (Exit contemplation). You have indicated that you had contemplated selling prior to making the decision, had you made any plans (formal or informal)? Can you provide some details of those plans	Yes No		Date when you started making these plans (mm/yy).
10a) Was there a point in time where you were receptive to selling if someone made you an offer but not willing to go through with officially putting the business up for sale? If so, can you provide some details when this occurred and what were the circumstances behind coming to that mindset?	Yes No		Date when you started to feel receptive (mm/yy).
11a) Were there any times you felt "I am going to sell out" but before you do something about it you changed your mind because circumstances changed? If so, can you provide some details when this occurred, how often, and what were the circumstances behind this?	Yes No		
12a) Had you established a condition or set of conditions where you would be willing seller of the business? If so, can you tell me about these and how they came about.			

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

Field Notes

Where	
Physical setting	
Who was present	
Interactions that took place	
Interpretations of data	
What do things mean	
Social interactions	
Insights	
Others	

Participant Code

Appendix 6C – Second Revision of the Interview Guide & Questions (Version SEP08-2.1)

Commercial-in-Confidence

Interview Guide

Successful sell processes of SMEs in Australia

Date of Interview: ______________ Participant Code: [ ]

Interviewer: Rodney Con Foo

Telephone: 0417 388 288, Email: rodney_confoo@keatsbury.com

Version SEP08-2.1

A. INTRODUCTION

Before you start, this large pile of paper with lots of questions probably looks a bit daunting and overwhelming! As someone who has successfully sold their business the hardest thing I need you to do is recall the details of what happened. I understand that it may have occurred quite a few years ago but your input is valuable to this study because less than 4 in 100 small medium business owners get to achieve what you did and as you would know, there was a lot of satisfaction in achieving that outcome.

The focus of the study is to try and follow the process you undertook when selling your business. Not just the mechanical steps of calling the financial advisors, legal advisors, and brokers but how you came to making the decision to get out, the planning, and even before that, the consideration (when and what form). Based on my own sell experience as an SME owner, I have put together a broad model of how I think the process goes but this is not the appropriate time to share it with you because it may influence some of your responses. I will however, share the final results with you if you are interested in the study's outcome.

The questions that follow are grouped into the following manner (see diagram below). The order may seem odd but I have attempted to tackle the easily identifiable concepts and milestones first and then delve into 'newer' or less developed concepts and linkages later.

B. INSTRUCTIONS

1. Please read through the questions and answer or make notes in the spaces provided. I will ask you <u>all</u> the questions verbally and record your responses during the interview.
2. Please circle the correct response in the 'yes' 'no' boxes.
3. This interview structure is attempting to cover a spectrum of possible outcomes so in many cases the question relating to a situation may not apply. You should not read anything into a question or feel compelled to respond. If it does not apply, feel free to have no response.
4. This interview guide is not a questionnaire but merely provides a framework for the interview.
5. If you feel that a pertinent area of your sell has not been covered or covered adequately, feel free to tell me about this at an appropriate time.

Please feel free to contact me (my details are on the front page) if you have any queries or concerns on any matter.

Participant Code

VICTORIA UNIVERSITY

C. MEANINGS & ABBREVIATIONS

Term	Meaning
Sell / Harvest / Exit	Receiving a payment in exchange for the goodwill and assets of the business.
Anniversary	A nominated date which is of importance to the shareholders.
Decide to Sell	The decision to put the business up for sale for a nominated price.
Planning	Intended activities associated with achieving a sale of the business.
SME	Small Medium Enterprise – organisation with 1-199 employees.
Offer	Refers to receiving an acceptable offer from a party to buy the business.
Economic Factors	Refers to the general economic climate (including some or all of: local, national or international).
Anniversary	Refers to any matter related to a nominated date or with reference to time i.e. a nominated retirement date, a birthday, a length of time in business.
Family Related	Refers to any matter relating to family issues i.e. partnership separation; providing financial support for children, parents etc. associated with stakeholders.
Health Issues	Refers to any health matters related to business stakeholders.
Industry Trends	Refers to business prospects / potential in relation to industry developments.
Enthusiasm & Energy	Refers to the enthusiasm and energy levels of the owners.
Finance	Refers to any financial matters to the operation of the business e.g. cash flow, profitability, ROI, etc.
Capital	Refers to the capital related matters associated with the business e.g. start-up capital, asset backing, capital equipment purchases, ROE, etc.
Internal Business	Refers to matters relating to business operation e.g. human resources, risks, systems etc.
Lack of Optimism	Refers to stakeholders' level of optimism relating to the business future.
Contract Related	Refers to matters of contracts with customers or suppliers.
Other	Refers to any other matters not already covered.

VICTORIA UNIVERSITY

BACKGROUND - Organisation

Q1a) To start with, can you tell me a little about your business?					
1b) When did it start?		1c) How long did you operate the business?			
1d) Did you start it?	Yes / No	1e) If No, who started it and when?			
		1f) If no, when did you start in the business?			
1g) What did the business do?					
1h) Which industry?					
1i) Who were the target customers?					
1j) What types of products and services did you sell?					
1k) What was the shareholding structure?					
1l) How was the business structured?	Business Name	Partnership	Private Company	Public Company	Other
1m) Did the structure change prior to sale?	Yes / No If Yes, explain before / after	1n) If Yes, was the change related to selling the business? Yes No	1o) Details		
1p) When did you sell the business?					
Notes		Reflections			

Participant Code

VICTORIA UNIVERSITY

BACKGROUND – Owner(s)

Q2a) For the background of the study, can you tell me a little about yourself and the other (if any) owners.			
2b) What was your role in the business?			
2c) Did you have any business partners?	Yes No	2d) If, yes, what was their role(s)?	
2e) What is your educational background?	Year 12 Undergraduate ________ Postgraduate ________ Others ________		
2f) Partner(s) educational background?	Year 12 Undergraduate ________ Postgraduate ________ Others ________		
2g) Partner(s) educational background? (if more than 1 partner)	Year 12 Undergraduate ________ Postgraduate ________ Others ________		
2h) Partner(s) educational background? (if more than 2 partners)	Year 12 Undergraduate ________ Postgraduate ________ Others ________		
2i) What did you do prior to the business?		2j) How Long for?	
2k) What was your business experience prior to the one you sold?		2l) Total years in business?	
2m) What are you doing now?			

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

SELL BACKGROUND - Timeline

Definitions:
Decide to Sell – dates (mm/yy) when you made the decision to sell i.e. and shortly after or simultaneously called your legal representatives, called a business broker, advertised the business for sale.
Sell – date (mm/yy) when you received payment (if several, date of majority) for the business.

Notes:
1. Feel free to make a note of any significant milestones or when decisions were made on the above timeline.

Participant Code

VICTORIA UNIVERSITY

THE SELL – What Happened

Q3a) No focussing on the sale, can you tell me about the details of when and how you sold the business? Chronologically what happened? Who was involved and when did they become involved? Were there any significant events / milestones? **Who bought the business? Tell me about them ....**		
[redacted]		
3f) If you had your time again, what would you have done differently and why?		
3g) How closely did the outcomes (not just $, lifestyle, aspirations etc) of the sale match your pre-sale expectations?	____%	

Notes	Reflections

Participant Code

THE SALE – What Happened (cont'd)

3h) Can you tell me details about those expectations without revealing $ amounts?		
3i) How long did you have these expectations and did they change over time?		[redacted]
[redacted]		[redacted]
	[redacted]	
[redacted]		
3r) Are there any other aspects of the actual sale you think is important?		

Notes	Reflections

Participant Code

THE SELL DECISION – The Circumstances, How You Came to This Conclusion

Q4a) Now that you have told me, what happened …. Can you tell me about the details when you decided to sell? **Was it proactive situation or a reactive one i.e. did you seek a buyer or did the buyer seek you?**												
4b) What influenced your decision to sell? (Indicate all factors – see page 1 for *Meanings*) Can you provide the details on these influences?	Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Contract Related	Other
4c) Could you weight the influences (Total = 100%)	Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Contract Related	Other

Notes	Reflections

Participant Code

THE SELL DECISION – The Circumstances, How You Came to This Conclusion (cont'd)

4e) At the time you decided to sell, tell me how optimistic you felt; in general, for the business, the industry, and personally.		
4f) What was the period of time which you made the decision to sell?		
4g) Was it one decision or multiple or a series of decisions? Were there any steps involved?		
[redacted]		
4i) Did you make this decision alone?	Yes No	If No, who else was involved or did you consult?
4j) Were there any events that contributed to you making this decision? If so, can you elaborate …..		
[redacted]		
4m) Are there any other aspects of the sell decision you feel that we haven't covered or are important?		

Notes	Reflections

Participant Code

AFTER THE DECISION – What Followed

5a) After you decided to sell, can you tell me what steps or actions occurred once you had made the decision (what followed)? Please provide some details of the timing involved.		
5b) What was the planned timeline once the decision to go was made?		
[redacted]		
5d) Were there any other parties (internal and external) involved in helping you plan or actually do steps to sell the business?	Yes No	If Yes, please provide details of whom and their roles?
5e) Did the progress ever stall or stop as a result of those assisting parties?	Yes No	If Yes, please provide details?
5f) Did the buyer or potential buyers make requests or apply conditions that stalled or stopped the sale process?	Yes No	If Yes, please provide details?
[redacted]		

Notes	Reflections

PLANNING THE SALE

6a) Can you tell me what planning (if any) you did for the sale of the business? Was formal or informal?			
6b) Start date of planning (mm/yy).		6c) End date of planning (mm/yy).	
6d) Were there other parties (internal and external) involved in the planning?	Yes No	If Yes, please provide details of who are their roles?	
6e) When was did you start putting into action what you had planned (earliest mm/yy)?		6f) What would you say was the last date (latest mm/yy)?	

Notes	Reflections

Participant Code

CONTEMPLATING SELLING

7a) Before you made the decision to sell, had you contemplated selling prior to this? …. can you tell me the details about this …….	Yes No	
7b) Wen did you first think about selling (mm/yy).		
7c) Did these thoughts change or evolve over time? ….. can you provide me with some details on the changes …….	Yes No	
7d) Did these thoughts eventually have any relation to what actually happened? …. can you provide me with some details…	Yes No	

Notes	Reflections

VICTORIA UNIVERSITY

SPECIFIC FOCUS

8a) If you haven't already indicated, can you advise which of the following advisors were used in the sale of your business? Please also indicate the date (mm/yy) that you engaged them for the sale of the business.	Advisor	Financial / Accountant	Legal	Business Broker	Merchant Bank / Corporate Advisor	Other (Please indicate)
	Date Engaged mm/yy					
8b) Please indicate when the advisors were no longer required / disengaged (mm/yy).	Date Disen-gaged mm/yy					
8c) When you were contemplating selling, what was the best or optimum case scenario you had contemplated?						Approximately when did this occur (mm/yy)?
8d) Can you tell me more about the other options you may have contemplated?						
8e) When you were contemplating selling, when did you settle on the actual option you sold on?						Approximately when did this occur (mm/yy)?
8f) At the end, was there more than one sell option available to you.						

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

SPECIFIC FOCUS (cont'd)

[redacted]

8i) Was there any time delay between making the decision to sell and doing the things necessary to sell? If so, can you tell me more about this …	Yes No	
8j) After the sale process had begun were there any situations where an advisor or buyer required matters settled, information provided, or transactions completed before they would proceed any further. If so, can you tell me more about this …	Yes No	
8k) When you considered what you wanted from the sale of the business, did you have to account for other people's needs or requirements e.g. partner (wife or husband), parents, children, family, charity etc.? If so, can you tell me more about this …	Yes No	

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

SPECIFIC FOCUS (cont'd)

[redacted]

12a) Had you established a condition or set of conditions where you would be willing seller of the business? If so, can you tell me about these and how they came about.	

Notes	Reflections

Participant Code

VICTORIA UNIVERSITY

Field Notes

Where	
Physical setting	
Who was present	
Interactions that took place	
Interpretations of data	
What do things mean	
Social interactions	
Insights	
Others	

Participant Code

Appendix 6D – Final Version of the Interview Guide & Questions (Version SEP08-2.2)

Commercial-in-Confidence

VICTORIA UNIVERSITY OF TECHNOLOGY

Interview Guide

Successful sell processes of SMEs in Australia

Date of Interview: ______________ Participant Code:

Interviewer: Rodney Con Foo

Telephone: 0417 388 288, Email: rodney_confoo@keatsbury.com

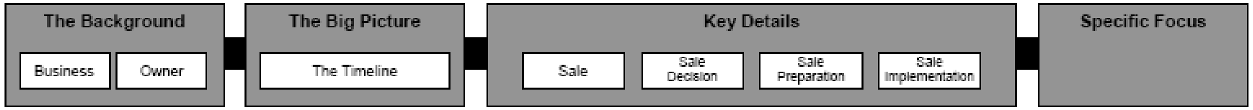
Version SEP08-2.2

A. INTRODUCTION

Before you start, this large pile of paper with lots of questions probably looks a bit daunting and overwhelming! As someone who has successfully sold their business the hardest thing I need you to do is recall the details of what happened. I understand that it may have occurred quite a few years ago but your input is valuable to this study because less than 4 in 100 small medium business owners get to achieve what you did and as you would know, there was a lot of satisfaction in achieving that outcome.

The focus of the study is to try and follow the process you undertook when selling your business. Not just the mechanical steps of calling the financial advisors, legal advisors, and brokers but how you came to making the decision to get out, the planning, and even before that, the consideration (when and what form). Based on my own sell experience as an SME owner, I have put together a broad model of how I think the process goes but this is not the appropriate time to share it with you because it may influence some of your responses. I will however, share the final results with you if you are interested in the study's outcome.

The questions that follow are grouped into the following manner (see diagram below). The order may seem odd but I have attempted to tackle the easily identifiable concepts and milestones first and then delve into 'newer' or less developed concepts and linkages later.



B. INSTRUCTIONS

1. Please read through the questions and answer or make notes in the spaces provided. I will ask you <u>all</u> the questions verbally and record your responses during the interview.
2. Please circle the correct response in the 'yes' 'no' boxes.
3. This interview structure is attempting to cover a spectrum of possible outcomes so in many cases the question relating to a situation may not apply. You should not read anything into a question or feel compelled to respond. If it does not apply, feel free to have no response.
4. This interview guide is not a questionnaire but merely provides a framework for the interview.
5. If you feel that a pertinent area of your sell has not been covered or covered adequately, feel free to tell me about this at an appropriate time.

Please feel free to contact me (my details are on the front page) if you have any queries or concerns on any matter.

Participant Code RQ150

VICTORIA UNIVERSITY

C. MEANINGS & ABBREVIATIONS

Term	Meaning
Sell / Harvest / Exit	Receiving a payment in exchange for the goodwill and assets of the business.
Anniversary	A nominated date which is of importance to the shareholders.
Decide to Sell	The decision to put the business up for sale for a nominated price.
Planning	Intended activities associated with achieving a sale of the business.
SME	Small Medium Enterprise – organisation with 1-199 employees.
Offer	Refers to receiving an acceptable offer from a party to buy the business.
Economic Factors	Refers to the general economic climate (including some or all of: local, national or international).
Anniversary	Refers to any matter related to a nominated date or with reference to time i.e. a nominated retirement date, a birthday, a length of time in business.
Family Related	Refers to any matter relating to family issues i.e. partnership separation; providing financial support for children, parents etc. associated with stakeholders.
Health Issues	Refers to any health matters related to business stakeholders.
Industry Trends	Refers to business prospects / potential in relation to industry developments.
Enthusiasm & Energy	Refers to the enthusiasm and energy levels of the owners.
Finance	Refers to any financial matters to the operation of the business e.g. cash flow, profitability, ROI, etc.
Capital	Refers to the capital related matters associated with the business e.g. start-up capital, asset backing, capital equipment purchases, ROE, etc.
Internal Business	Refers to matters relating to business operation e.g. human resources, risks, systems etc.
Lack of Optimism	Refers to stakeholders' level of optimism relating to the business future.
Contract Related	Refers to matters of contracts with customers or suppliers.
Other	Refers to any other matters not already covered.

Participant Code RQ150

VICTORIA UNIVERSITY

BACKGROUND - Organisation

Q1a) To start with, can you tell me a little about your business?					
1b) When did it start?			1c) How long did you operate the business?		
1d) Did you start it?	Yes / No	1e) If No, who started it and when?			
		1f) If no, when did you start in the business?			
1g) What did the business do?					
1h) Which industry?					
1i) Who were the target customers?					
1j) What types of products and services did you sell?					
1k) What was the shareholding structure?					
1l) How was the business structured?	Business Name	Partnership	Private Company	Public Company	Other
1m) Did the structure change prior to sale?	Yes / No If Yes, explain before / after	1n) If Yes, was the change related to selling the business? Yes No	1o) Details		
1p) When did you sell the business?					
Notes			Reflections		

Participant Code	RQ150

VICTORIA UNIVERSITY

BACKGROUND – Owner(s)

Q2a) For the background of the study, can you tell me a little about yourself and the other (if any) owners.				
2b) What was your role in the business?				
2c) Did you have any business partners?	Yes No	2d) If, yes, what was their role(s)?		
2e) What is your educational background?	Year 12 Undergraduate ____ Postgraduate ____ Others ____			
2f) Partner(s) educational background?	Year 12 Undergraduate ____ Postgraduate ____ Others ____			
2g) Partner(s) educational background? (if more than 1 partner)	Year 12 Undergraduate ____ Postgraduate ____ Others ____			
2h) Partner(s) educational background? (if more than 2 partners)	Year 12 Undergraduate ____ Postgraduate ____ Others ____			
2i) What did you do prior to the business?		2j) How Long for?		
2k) What was your business experience prior to the one you sold?		2l) Total years in business?		
2m) What are you doing now?				

Notes	Reflections

Participant Code RQ150

SALE BACKGROUND - Timeline

Definitions:
Decide to Sell – dates (mm/yy) when you made the decision to sell i.e. and shortly after or simultaneously called your legal representatives, called a business broker, advertised the business for sale.
Sell – date (mm/yy) when you received payment (if several, date of majority) for the business.

Notes:
1. Feel free to make a note of any significant milestones or when decisions were made on the above timeline.

Participant Code RQ150

VICTORIA UNIVERSITY

THE SALE – What Happened

Q3a) Now focussing on the sale, can you tell me about the details of when and how you sold the business? Chronologically what happened? Who was involved and when did they become involved? Were there any significant events / milestones? **Who bought the business? Tell me about them …….**		
3b) Is there anything you would have done differently if you had your time again? Why?		
3c) How closely did the outcomes (not just $, lifestyle, aspirations etc) of the sale match your pre-sale expectations? Can you tell me a little about those expectations	_____%	

Notes	Reflections

Participant Code	RQ150

THE SELL DECISION – The Circumstances, How You Came to This Conclusion

Q4a) Now that you have told me, what happened …. Can you tell me about the details when you decided to sell? **Was it proactive situation or a reactive one i.e. did you seek a buyer or did the buyer seek you?** **Was the buyer internal or external?**												
4b) What influenced your decision to sell? (Indicate all factors – see page 1 for *Meanings*) Can you provide the details on these influences?	Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Strategic Decision	Other
4c) Could you weight the influences (Total = 100%)	Offer	Economic Factors	Anniv-ersary	Family Related	Health Issues	Industry Trends	Enthusiasm & Energy	Finance Capital	Internal Business	Lack of Optimism	Contract Related	Other

Notes	Reflections

Participant Code RQ150

VICTORIA UNIVERSITY

THE SALE DECISION – The Circumstances, How You Came to This Conclusion (cont'd)

4d) At the time you decided to sell, tell me how optimistic you felt; in general, for the business, the industry, and personally.	
4e) What was the period of time which you made the decision to sell? Was it a single decision or a multiple or series of decisions? Were there any steps involved?	
4f) Who else was involved in making the decision to sell?	
4g) Were there any events that contributed to you making this decision? If so, can you elaborate …..	

Notes	Reflections

Participant Code RQ150

VICTORIA UNIVERSITY

SALE PREPARATION

5a) Can you tell me what preparation (if any) you did before making the decision to sell? Was formal or informal?			
5b) Start date of planning (mm/yy).		5c) End date of planning (mm/yy).	
5d) Were there other parties (internal and external) who helped you in the preparation?			
5e) how long had you been thinking about selling? Did this change over time? Can you tell me a little about your thoughts and any influences regarding selling?			

Notes	Reflections

Participant Code RQ150

SALE IMPLEMENTATION

6a) After you decided to sell, can you tell me what steps or actions occurred once you had made the decision (what followed)? Please provide some details of the timing involved.	
6b) What was the planned timeline once the decision to go was made? Were there any delays? If so, what was behind the delays?	
6c) Were there any other parties (internal and external) involved in helping you sell the business? Can you tell me who and little about their roles?	

Notes	Reflections

Participant Code RQ150

VICTORIA UNIVERSITY

SPECIFIC FOCUS

7a) If you haven't already indicated, can you advise which of the following advisors were used in the sale of your business? Please also indicate the date (mm/yy) that you engaged them for the sale of the business.	Advisor	Financial / Accountant	Legal	Business Broker	Merchant Bank / Corporate Advisor	Other (Please indicate)
	Date Engaged mm/yy					
7b) Please indicate when the advisors were no longer required / disengaged (mm/yy).	Date Disen-gaged mm/yy					
7c) When you considered what you wanted from the sale of the business, did you have to account for other people's needs or requirements e.g. partner (wife or husband), parents, children, family, charity etc.? If so, can you tell me more about this …						

Notes	Reflections

Participant Code RQ150

Field Notes

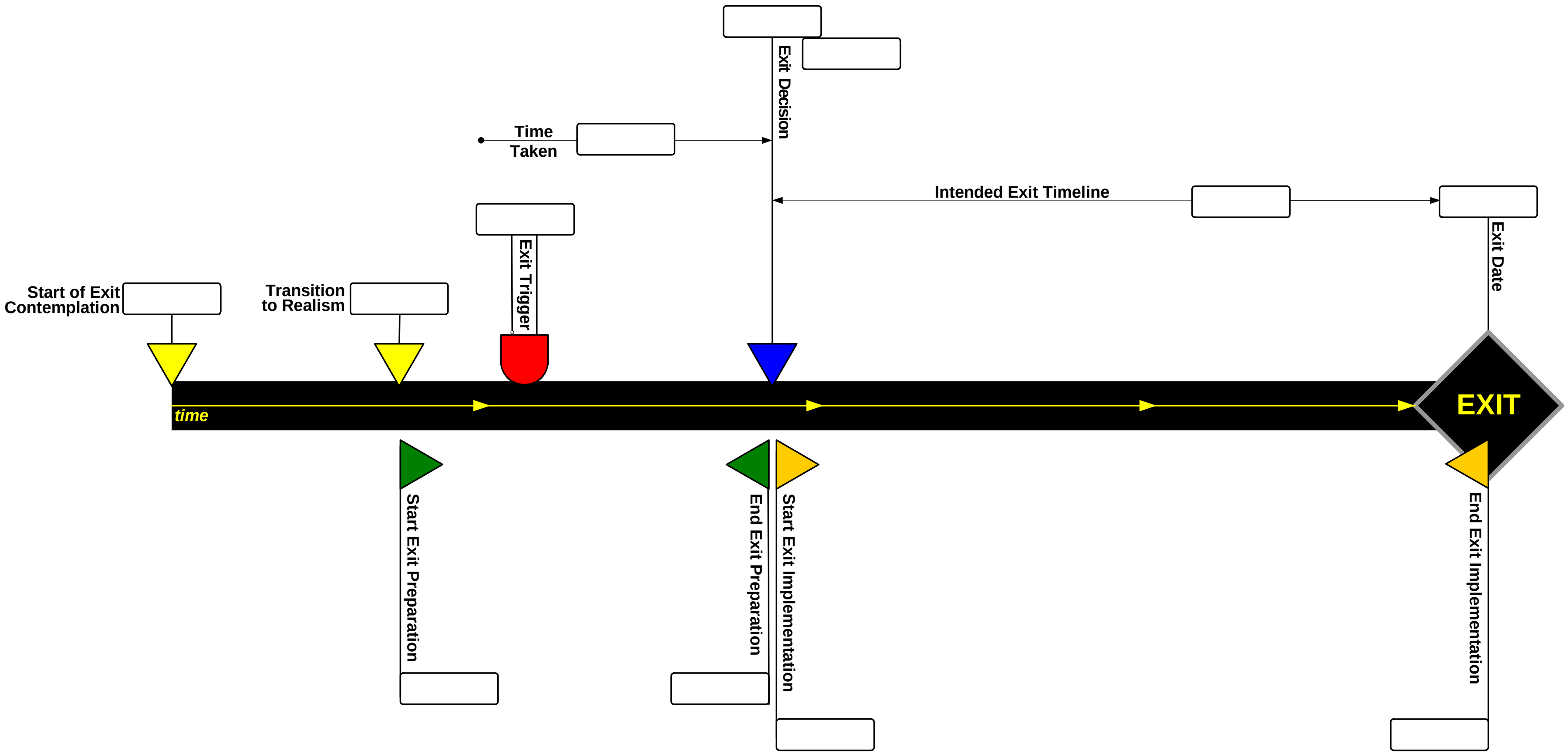
Where	
Physical setting	
Who was present	
Interactions that took place	
Interpretations of data	
What do things mean	
Social interactions	
Insights	
Others	

Participant Code	RQ150

Appendix 6E – Final Version of the Data Display & Generic Timeline

CASE	Participant Code	Business Type	Start Date	End date	Total Years of Operation	Original Owner	Years of Ownership	Number of Shareholders	Shareholding	Structure	Target Customers	Types of Products	
Reasons for sale		Role of Interviewee		Partners' Roles									
Role Prior to this Business		Years of Prior SME Business Experience		Current Occupation		Sold Business Prior		Number of staff		Location			
Miscellaneous Information													
Date of Exit Decision (1)		Date of Exit Decision (2)		Date of Actual Exit		Match to Pre-Exit Expectations		Influences on Exit Decision with Weighting		Buyer Classification			
Time Taken for Exit Decision		Others Involved in Exit Decision		Single or Staged Exit Decision		Steps After Exit Decision		Other Parties Involved in Exit Planning		Influence of Optimism			
Start Exit Preparation		End Exit Preparation		Start Exit Implementation		End Exit Implementation		Start Exit Contemplation		Transition to Realism		Advisors Used in Exit	Accountant
Evidence of Pre-Conditions to Exit		Evidence of Barriers to Exit		Evidence of Other Stakeholder Aspirations		Evidence of Exit Trigger		Date of Exit Trigger					
Other Exit Information													

<u>Table Sample:</u> Data summary of key details for Case X.



<u>Figure Sample</u>: Display of key exit details for Case X onto a generic timeline.

Appendix 7A – Transcript Sample (Case NM160)

Interviewer:
I'm here with [Resp160]. The business that we're talking about, what year was it that you actually – we're talking about when it was sold.

Resp160:
It was sold I think it was 1996.

Interviewer:
1996. Can you tell me a little bit about the business and what it did?

Resp160:
It was a multi-disciplined engineering business that worked in about a 50/50 split between the minerals processing sector and the food sector. The food sector was dominated by work in the sugar industry.

Interviewer:
When did you start that business?

Resp160:
The company that ultimately – it went through a couple of different company names and people coming in and different things, but that really started effectively about two years after graduation. That would be about 1984.

Interviewer:
1984. You operated from '84 to '96, so 12 years?

Resp160:
Yes.

Interviewer:
You were one of the original owners?

Resp160:
I was one of the original two and ultimately there were more involved.

Interviewer:
You told me what it did, so it's engineering. Typically who were your target customers?

Resp160:
The mineral processing side of the business was really anybody with minerals processing work to do, so the other Comalcos of the world.

Interviewer:
So the large mining companies?

Resp160:
Large and also junior people trying to get projects up. Often the projects would have some sort of a twist in them that made them somehow a bit more difficult, not run of the mill type stuff.
The sugar business, we really started with one specialised piece of equipment which we developed, which was a continuous sugar centrifuge. Then ultimately we built more and more know-how about other bits in the sugar factory, our own design. Ultimately we moved to building complete sugar factories.

Interviewer:
So your target customers were people that had sugar cane and they were going up the line? Or were they companies that already had sugar mills and they wanted to get new sugar mills?

Resp160:
In the early days selling machines, we were selling equipment to existing sugar producers, but then complete factories were really to emerging sugar producing nations. We did a lot of work in Vietnam.

Interviewer:
When you talk about mining companies, was it mainly Queensland based or was it any particular geographic focus?

Resp160:
It was primarily Australian, and there was a bias to Queensland just because we were here. But we did do work with groups all over Australia.

Interviewer:
The shareholding of the company just prior to when you sold it, and you just sort of – don't mention names, but can you mention the percentage of shares that you had and then what other parties had?

Resp160:
Sure, there were five partners at that stage, each with a 20 per cent holding.

Interviewer:
Okay, 20 per cent each. Did you change the structure at all prior to sale?

Resp160:
Probably about 18 months or so before sale, yes. We brought in an extra couple of partners and...

Interviewer:
Oh okay, so it's just addition of partners, but you didn't do a restructure just prior to sale for any particular purposes?

Resp160:
No.

Interviewer:
You sold the business, can you remember roughly what month in '96?

Resp160:
I think it would have been probably about November I think.

Interviewer:
So November '96. What was your role in the business?

Resp160:
I was primarily responsible for technical development in the company. So bringing on new products, IP. On the sugar side of things, we were basically competing head to head with Chinese and Indian suppliers of equipment. They could supply a lot of equipment that were designs that were known from the past. We really had to be lean and mean and smarter...

Interviewer:
So innovation?

Resp160:
Yes a lot of innovation and a lot of first of type stuff going out there.

Interviewer:
Your education background, year 12. You're a chemical engineer?

Resp160:
Yes.

Interviewer:
Post-grad?

Resp160:
I've recently done a post-grad, but at the time of this I hadn't.

Interviewer:
What is it?

Resp160:
So I've done a masters.

Interviewer:
You have a Masters of Engineering. Your partners, they'd obviously done year 12. Were they all engineers?

Resp160:
Yes, so there was myself and another guy were process engineers. There was a civil engineer, there was a sugar technologist.

Interviewer:
Was it food technology or sugar technology?

Resp160:
He did a sort of cadetship thing through CSR. I think he would have actually ended up with a formal engineering degree I believe. Sorry, there was one more, a chemical engineer.

Interviewer:
By three chemical engineers. That's fine. Prior to starting the business, you were an engineer weren't you? Were you working for someone else just after you graduated?

Resp160:
After graduation I worked for Queensland University for an odd assignment for about 18 months in totally.

Interviewer:
UQ for a couple of years. Prior to that had you had any other core business experience?

Resp160:
None.

Interviewer:
Now you're doing a similar business?

Resp160:
Yes very similar. Not as multi-disciplined as it was.

Interviewer:
It's more focussed?

Resp160:
Yes.

Interviewer:
While I'm here, I should just try and understand, when you decided to sell, you sold you said in November of '96. Can you remember what was the day you decided to sell? Just roughly the month?

Resp160:
It would have been about the start of that year, so I'd say January.

Interviewer:
So January '96?

Resp160:
Yes.

Interviewer:
Was it a single, one off decision, or was it a series of decisions?

Resp160:
The directors kicked it around for a while, so it sort of emerged.

Interviewer:
Was it part of the plan all the time? You brought in partners 18 months prior.

Resp160:
It was part of a plan to grow our business that we really needed - to get in to do bigger things, we needed to bring in a big partner. It was really part of a strategy.

Interviewer:
Did you seek them or did they seek you?

Resp160:
We sought them.

Interviewer:
How were you out there dating people when you were looking for people?

Resp160:
Not long, I mean around the world there were basically three candidates. It was pretty clear cut for us. A German company, a French company and an English company. So they were your three potential partners and it was up to us to really pick who we wanted to court most.

Interviewer:
You made the decision to sell in January '96. Was there a due diligence deal structuring, and then a final decision?

Resp160:
Yes.

Interviewer:
Do you know when you made the last, 'that's it' we've done the deal?

Resp160:
Things were getting very finalised around August of that year.

Interviewer:
That's good. Because we've noticed that with others, they like to make a provisional decision, we're going to sell, but the final decision is not made until the deal has been finalised.
Now focussing on the sale, you've told me chronologically what happened. Who was involved, when did they become involved. Were there any major milestones you can recall from the process? You've got good recollection of dates which is good. Any other major points in time that you think at this particular time, that sort of signified something?

Resp160:
I wasn't the person doing the negotiations, the negotiations like I say were pretty time consuming. One of the guys had his eye well off the business while that was going on.

Interviewer:
You eventually sold to the French company and you guys approached them. They were an engineering business as well?

Resp160:
Yes.

Interviewer:
If you had your time again, would you have done anything differently?

Resp160:
Well I wouldn't deal with the French.
[Laughter]

Interviewer:
Were there cultural issues?

Resp160:
Absolutely. Look, things were okay, but I think theirs is quite a different way of doing business.

Interviewer:
And that became a problem later on?

Resp160:
Oh yes.

Interviewer:
When the deal finally got consummated in November '96, you've got a month or two to reflect, how closely did the outcomes, and I'm not just talking dollars, but all your expectations that you had prior, how close did they come to your expectations?

Resp160:
It wasn't too bad.

Interviewer:
I'm just trying to tag a number on it.

Resp160:
I'd say 75 per cent of expectations were met.

Interviewer:
That was more than 50 and at that stage, a couple of months after, you're pretty happy with the whole thing?

Resp160:
Yes.

Interviewer:
From an expectations point of view, without talking about dollars – well the question I'll ask you, were there any expectations other than dollars?

Resp160:
Oh yes. It was really seen as a mechanism of growing the area around the world that the company could operate in. Basically breathe new life into the French company which had become a bit old and tired. Really we were seen as a rejuvenating force to come in and spark them up.

Interviewer:
So it was a growth opportunity for yourselves and for them?

Resp160:
Yes.

Interviewer:
Did you have any expectations from a lifestyle, for a home, family, anything non-related to just work?

Resp160:
Well I guess financial security was a fair motivator for me, because we'd always run a business model ever since we started way back

as a relatively recent graduate, that we'd basically only pay ourselves 60 per cent of whatever we brought in the door. So for all those years, our pays, our take home pay each month, you never knew A) if there was going to be any or B) how big it might be. It made it very difficult to plan your life.
Heading towards the sale and afterwards, you're on a fixed monthly salary, you knew exactly how things were going to work out.
Financial security, you get to put some money to one side, so you're not concerned about how you...

Interviewer:
So that was one of the great awards in the whole process, the financial security?

Resp160:
Absolutely.

Interviewer:
As you were in the business prior to selling it, was that an expectation that changed over time or was it just something that you get to the end – did you have a view of what you wanted if you ever sold the business?

Resp160:
Is that me personally or collectively for all the directors?

Interviewer:
Well you can differentiate them if you like.

Resp160:
I wasn't so front and centre of the selling process itself. I mean I was happy for it to go along. I remember towards the end of things, I just wanted it finished because it was becoming a huge distraction. In fact the absolute dollar amount at the end of the day wasn't that particularly critical, it was to get it finished so we could get focus back on the massive work load that was trying to be finished within the company at the time.

Interviewer:
This is quite a common theme there. People in the exit process, you get to a point where, you say it's distracting, others because they've just had a gutful of it and they just want it to happen and get out. While it's not part of this study, it's certainly been front and centre for me, I call it the point of no return. Where you're almost too far down the chute to stop it. It has to come to closure and finish.

Resp160:
And it's terribly distracting for people working in the company.

Interviewer:
Yes, because they don't know who they're going to work for and don't know if they've got a job.

Resp160:
Not only that, but in an organisation that's always run a very open doors policy, suddenly there's a whole myriad of meetings going on behind closed doors.

Interviewer:
It's disruptive from that point of view.

Resp160:
Yes and a lot of uncertainty flying around.

Interviewer:
You told me what happened. With the decision to sell, you guys proactively sought the buyer. Can you remember, what were the sort of things that were contributing to the decision to sell? I'm just trying to understand, was it industry trends and you saw opportunities? You mentioned financial security, so you've got family related, economic factors, a link there.

Resp160:
You want me to grab the highest priority one?

Interviewer:
Yes.

Resp160:
I think it was the finance and capital. The ability to do bigger jobs. So it's tied up with we wanted to move into a next league.

Interviewer:
So to grow the business.

Resp160:
Yes.

Interviewer:
Any others? You're obviously very positive about things, so optimism or lack of it wasn't an issue.

Resp160:
No.

Interviewer:
Finance, capital?

Resp160:
Enthusiasm and energy. The opportunity to grow and do bigger and better things, that was a positive driver. Then there's security.

Interviewer:
Family and economic factors. If you had to put a number out of 100 weighting those factors, have a go at it.

Resp160:
I'd say 75 and five and these ones comprising 20. So let's just split them equally.

Interviewer:
You felt very optimistic at the time of selling? Sometimes, and I think I mentioned it to you yesterday, sometimes there's what they call the 10 year factor. Round about 10 years, after 10 years, you've tried everything, you've run out of ideas or you've tried everything that you wanted to try. Sometimes you see a plateauing of the business with the owner. That's been the case in the two other pilots that I've done. You see this 10 year factor come into play with that rejuvenation. Sometimes it's an exit point.
In your case, you guys are wanting to grow the business again.

Resp160:
We did, and part of the aspect was that the minerals side of our business was – I called them glorious one offs. If it was a boring job, [inaudible] it would find its way to another engineering company. It wouldn't find its way to our door.
If there was a real technical challenge, something you really had to get in and understand and do something rather elegant with, they'd find their way to our door. So we'd do those sort of jobs. But you'll never get to repeat them again. It's a one off for one client. Absolute one offs.
The sugar side of the business had the prospect of being more repeat type business. We wanted to move that to where we were cranking these out. An analogous company at that stage in Australia was Minproc. They were cranking out gold plants. All these little players want a gold plant, you just get a standard Minproc gold plant. They change capacity, this and that, but basically they crank out the same kit.
They get this wonderful economy of repeat business with the same style of business and therefore you've got a competitive advantage. We wanted that in sugar, and the only way we could see that was to crank out complete factories. We needed the financial wherewithal to be able to do that.

Okay, it was about the 10 year mark and it was sort of where we were plateaued out, but really it was a decision, if we're going to take it to the next level, we need a sale. Hit a sale process so we can do that.

Interviewer:
So optimism was good. How long did it take you guys to decide to sell?

Resp160:
About three months.

Interviewer:
You mentioned it was basically two decisions. We're going to sell and then the final decision, or were there more decisions involved do you think?

Resp160:
No, I'm talking about the decision was really right at the first start of that process. We are going to sell, it's just about a matter of getting the right deal. So pick the right partner that you're going to...

Interviewer:
And that was January '96 you made the decision, we're going to sell. In January '96 you'd already determined it was the French company?

Resp160:
No, that was the decision that we were going to sell.

Interviewer:
We're going to sell, we've just got to find who it is?

Resp160:
Yes.

Interviewer:
By August you'd found it, negotiated and...

Resp160:
No, by just a couple of months later we'd identified who it was that we were going to sell to, and by August the negotiations were largely complete. By the time Ts were crossed and Is dotted, money changes hands, that was November.

Interviewer:
There were a couple of decisions in there as I can understand it. You didn't make the decision alone. Were all five partners?

Resp160:
Absolutely.

Interviewer:
Was there any significant event in '96 or '95 that contributed towards that decision to sell? Did you miss out on a big project?

Resp160:
We'd been through a strategic planning workshop where we'd really all sat down and really mapped out where we wanted to see this business go. I think that probably was an identifiable point to say – yes, it probably all stemmed from that.

Interviewer:
That occurred in '95?

Resp160:
I think that would be right, yes.

Interviewer:
Do you think there are any other points we may not have highlighted with the decision to sell? That we've covered most of the bases?

Resp160:
I think that's it.

Interviewer:
After you decided to sell, I'm just trying to understand the steps. The first step was to locate or get a shortlist of buyers?

Resp160:
Yes.

Interviewer:
Were there any other steps or plans that you put in place?

Resp160:
I'm sure there was the preparation of descriptions of the business and that sort of thing. So there were a round of preliminary discussions that went on. There's three obvious buyers, the MD jumps on a plane and goes to visit all three.

Interviewer:
Start the sale process.

Resp160:
The business is up for sale, this is a bit of background, are you interested or not?

Interviewer:
When you made the decision in January, was there any specific timeline? Did you have within 12 months, three or four months?

Resp160:
Yes, we were at that stage already eyeing off contracts in Vietnam. We knew at what stage we were going to need a big brother on board if we were going to be able to do those.

Interviewer:
Roughly, what was the time line?

Resp160:
For those contracts?

Interviewer:
That you made the decision that you had to execute your sale?

Resp160:
By January we'd decided we were going...

Interviewer:
You were going to sell. Did you say we've got to sell it by this date? That this has got to happen in this timeline?

Resp160:
We had hoped to conclude that process by midway through the year.

Interviewer:
So six months and it ended up being 11 months?

Resp160:
That's right.

Interviewer:
Were there any other parties involved in planning the sale? Did you use any external people?

Resp160:
There was some legal input and there was some getting in place some of the agreements between some of the companies within the group that were sold, to make sure that the roles and responsibilities of different groups were tidied up. So there was a bit of housekeeping if you like. Legal housekeeping let's call it.

Interviewer:
They're necessary steps. They were things that you did or your advisors required you to do?

Resp160:
They were just things we did.

Interviewer:
You wanted to do anyway. You knew that you had to do housekeeping.

Resp160:
Yes.

Interviewer:
So internal tidy up. When you identified the French company to buy you, did they impose any 'you've got to do this before we buy you'? Were there any requirements or special conditions that they put on yourselves?

Resp160:
As part of the sales agreement, there was employment contracts and some of those things that came.

Interviewer:
But they didn't say you've got to implement this system in before we buy you, or you've got to – there was something you had to do? There were no preconditions?

Resp160:
No, not before. Some of the things they flagged that afterwards that they want to see results reported according to the way they want results reported and that sort of thing, but they didn't insist that happen before...

Interviewer:
So nothing that slowed that up, that they imposed upon you that slowed up the sales process?

Resp160:
They had their financial people crawling over the business and that sort of thing...

Interviewer:
Due diligence.

Resp160:
Yes.

Interviewer:
Was planning for the sale, was there any formal document?

Resp160:
A sales document?

Interviewer:
No, was there a planning document? Did you do an exit plan? A business plan, a modified business plan?

Resp160:
I'm trying to remember back, I think there would have been a business plan in place at the time. I'm sure there was.

Interviewer:
Was it formal or informal?

Resp160:
Formal.

Interviewer:
So it was written up?

Resp160:
The actual for the sales process itself though, that was really just one guy was tasked with it, and he just used to keep referring back to the directors.

Interviewer:
So it's informal. How often would you meet to go through these sorts of issues?

Resp160:
Every couple of weeks.

Interviewer:
A management meeting?

Resp160:
That's right, and it was basically just carried forward by this is what's going on, this is the action item, this is who's got to prepare it.

Interviewer:
Did the planning only start when you made the decision to sell, or was it operating? Were you starting to do some planning prior to that?

Resp160:
No, most of that planning was really when the sales process was underway.

Interviewer:
So once you made the decision, then it started. Was there any definitive time when the planning finished and you're just doing things? To identify you were no longer planning, you were just

executing, or was it all planning and doing as far as the exit's concerned?

Resp160:
The doing part, I'd characterise as dragging on from August to all the way through November. That was the cranking the handle, when's this going to end type stuff.

Interviewer:
Was there no more planning after August?

Resp160:
No, it was all...

Interviewer:
So planning from January to August. Were you doing things before August as far as the sale was concerned? You were looking for the buyer prior to August weren't you.

Resp160:
The buyer was identified very early in the peace. It was only a couple of months and we had shortlisted. We had decided that it was the French company that we were going to go with.

Interviewer:
And they were interested straight away once you identified them?

Resp160:
Yes. All three companies that we approached were interested. Part of our decision of who to go with was where we saw that group and our company heading in the future. It was really based on A) their attitudes and what the upside was, the sort of synergy.

Interviewer:
They had an office here in Brisbane?

Resp160:
No they didn't.

Interviewer:
Before you actually made the decision to sell, had you contemplated on selling before that?

Resp160:
Well I guess yes.

Interviewer:
I'm just trying to identify, was it an end goal or was it an end goal that evolved over time? Some people go into business and say right

from day one, I'm starting this restaurant and I'm going to build the customers up, or the turnover to X, and when it hits X, I'm selling.

Resp160:
There was no premeditated exit strategy like that.

Interviewer:
It wasn't right at the word go?

Resp160:
No. It really evolved from this strategic planning session of where do we want to take this company to, and then it was hell, if you want to do that, you're going to have to bring in a whole lot of bucks and financial capital to do that. We needed to sell a chunk of the business to make that happen.

Interviewer:
So that was in '95?

Resp160:
Yes.

Interviewer:
You guys acted pretty quickly. You contemplated selling six to 12 months prior, but you acted on it, it was part of the business plan, and then you sold it. Basically within 24 months, 18 months, you'd executed the plan.

Resp160:
Yes.

Interviewer:
That was in '95. It was a once off really. They didn't change, that was part of the strategic plan. It happened exactly like you thought it would?

Resp160:
It took longer than we thought it would.

Interviewer:
The advisors that you used to do your exit, which advisors did you use? Legal, accounting, business brokers, merchant bankers?

Resp160:
We didn't use any merchant bankers. Largely it was just ourselves really.

Interviewer:
You must have had lawyers draw up contracts or go through contracts?

Resp160:
Yes.

Interviewer:
Do you know roughly when you got your lawyers involved?

Resp160:
Quite late in the peace.

Interviewer:
August ’96?

Resp160:
It would have been a bit before August. I guess July.

Interviewer:
That’s the start, were they finished at the end or did they take longer after settlement? Are they still involved?

Resp160:
No. No they weren’t involved after settlement.

Interviewer:
So it’s really November ’96.

Resp160:
They finished, yes.

Interviewer:
No accountants?

Resp160:
Our accountant was involved.

Interviewer:
Did he help you with pricing or business valuations?

Resp160:
Yes. It’s a she. To some extent, but I think...

Interviewer:
You guys roughly had it worked out?

Resp160:
Yes, we had it worked out.

Interviewer:
She might have helped you with structuring, maybe the deal for tax purposes?

Resp160:
She couldn't justify how much we were asking for on normal accounting principles.

Interviewer:
When would she have been involved?

Resp160:
I don't know how you'd characterise that. She was the normal company accountant.

Interviewer:
Do you know, like formally you'd say we're thinking of dah, dah, dah?

Resp160:
Yes.

Interviewer:
I can remember when it happened with my business, I remember I said I'm going to do this, dah, dah, dah, and I think I can get this much for the business. The response from my accountant was, "it's really nice to fantasise about those sorts of numbers Rod." This is real, but "do you think you should really be distracted from the business by going off on fantasy trips like this?" Seriously. I was quite put back by that comment. When it happened, it was like oh, you really did do it.

Resp160:
Our accountant's been growing with us and I think she keeps one eye on what we do as a measure of what can be done.

Interviewer:
Would it be fair to say that she was involved, she'd finished in say November '96, regarding the sale, let's just say she would have been just a bit earlier than the legal people? Or a bit later?

Resp160:
No, much earlier than that. When we first were tossing around the idea of selling, she would have been involved. That would have been late '95.

Interviewer:
I think the appointment of advisors gives you some indication of the planning or when you're really starting to plan.

Resp160:
I think it's too strong to say that was a time of appointment of an advisor. You kick off, you're sounding things out, you're tossing it

around. I don't think we ever really went to an accounting advisor. If it was a separate person you went to, that's clear. But this was really just a continuation of...

Interviewer:
She's around, what do you think of this? We're thinking of doing this, dah, dah, dah, what are the issues we have to take on board.

Resp160:
That's right, or any words of wisdom. Make sure you look out for A, B, C and D.

Interviewer:
Now you've told me that it was part of the strategy, there was not a lot of contemplating, it was just the core strategy you set up in '95, that's what you executed through to '96.

Resp160:
Yes.

Interviewer:
You told me a little bit about the delay, there was the due diligence that they wanted you to do. Let them in. They just came in and did the due diligence. Did they ask you, we've done the due diligence and we want you to do dah, dah, dah?

Resp160:
No. There were lots of interviews and understanding how different people saw the business going and where we saw opportunities and all that sort of stuff, but they didn't come in and say before we buy, we want you to do X, Y and Z.

Interviewer:
When you were making the decision to sell, other than the five partners, from your perspective, were there other people you had to consult? Were there other people's aspirations that you might have had to take on board? For instance partners? Family partners, life partners? Did you have to go home and consult?

Resp160:
You always have to go home and consult.

Interviewer:
So family partner, that's fine. Any other stakeholders in your decision?

Resp160:
No.

Interviewer:
You yourself, were there any preconditions? I'll give you an example, one of the pilots that I had, one of his conditions was the amount of time he had to stay on in the business, and if it went, or the restraint of trade conditions. If it exceeded a particular point, all deals were off. That was one of his preconditions for exit.
Did you have anything thinking along those lines?

Resp160:
No, but I guess in the context that it was in the first instance a sell down of a portion of business, and I guess your interests and your new partner were well aligned. There wasn't a requirement for so much of that sort of stuff.

Interviewer:
It was really about making sure you had alignment.

Resp160:
Yes.

Interviewer:
That's it.

Appendix 7B – Field Summary Notes Sample (Case DC220)

Where	Powelett Street, Heidelberg, VIC
Physical setting	Dining room table, meals area next to kitchen
Who was present	Interviewee, interviewer, friends x 2 (1 is business confident of interviewee, other is wife of confident and also friend of interviewee)
Interactions that took place	Normal social chatter. First time I have met this respondent, arranged by mutual contact.
Interpretations of the data	This case pushes model a little. It is neither reactive nor proactive or alternatively it is both simultaneously. HR issues are the trigger. No exit preparation. Once again buyer is known to seller.
What do things mean	This confirms thoughts that generally seller will know buyer. This could mean that exit preparation could be done inadvertently i.e. build up trust.
Social interactions	Offered coffee / tea and chocolate biscuits.
Insights	Individual is optimistic of the future. On the spur of the moment she sells because she spots a good opportunity, very entrepreneurial! Exit contemplation is brief (just before).
Others	Ask her how did she know it was a good price / offer? Aspirations / contemplation?

Appendix 7C – Reflections Post Interview Sample (Case RQ150)

Situation	External buyout (roll-up) Was proactive in seeking an exit but situation was reactive with a party known by the owner Overall this business exit occurred with 4 other businesses. Owner not quite ready to exit but saw this as a significant opportunity to get out earlier than possibly planned. A little confusing because exit options being explored 12 months prior.
Planning	Some degree of planning occurs in 2000 with ISO documentation. Systems utilised anticipating growth and with new owner in mind. No formal plans evident.
Aspirations	Strong aspirations for staff and customers. Looks like they had achieved financial goals so aspirations were other than financial. Lifestyle (not working 60 hours a week) was important factor.
Contemplation	Contemplation of exit in 2000 when ISO manual being drawn up. Wants it done so someone coming in can run the business according to the ISO. Mentions 10 year factor as well.
Decision to sell	Actual exit is last of 3 attempts to exit business. 1st in June 2003, 2nd in late 2003 and final exit starts in early 2004. Trigger is almost strategic in 2000 but a combination of circumstances in 03 final complete trigger. I see several provisional decisions to exit (searching options) and final one in July 04.
Individual	The individual is 50 when he owns the business and 57 when he exits. He is a little too young to retire but is tempted by circumstances and the opportunity to get out early. He is the main stakeholder. He is very open and happy to articulate his thoughts + more ….. Sometimes more detail than I need because I think he wants me to see the situation as more 'considered' than possibly it is. I think he is trying to interpret or pre-empt my thoughts on his actions. His actions are very considered and noble.
Buyer situation	Proactively sought buy seller along with 4 other businesses in a roll-up. Similar line of business but not in geographic location. Ideal consolidation of businesses and talents. Large public company.

Appendix 7D – Self Debrief Post Interview Sample (Case HG200)

Feeling before interview	Interview is conducted in country town which requires me a drive of 3 hours to and from the interview. Plenty of time to focus on what I want to ask.
How did it go?	Long interview with excellent recall of detail. Interview goes for 1 hour 45 minutes.
Did any new concepts come up?	The exit goes well for the interviewee. In this case I see that a lot of what happens prior to the exit decision affects what happens during and after the exit. This causes me to think that there is no evidence of planning or deliberate preparation but the good outcome is either serendipity or a series of fortuitous circumstances. One way to describe what happens may be to view it as 'unintentional exit preparation'. Events occur where the buyer is 'prepped' to effect what eventually happens. Like some other cases this identifies that the buyer is likely to be already known to the seller.
Did any concepts seem redundant?	This case reinforces the previous thoughts that a reactive situation where planning is less evident. There are activities where preparation occurs e.g. appointment of Arthur Anderson for valuations but this occurs after the decision to exit … is this preparation or implementation?
Feeling after	This is a rich and detailed case. Owner is 100% satisfied with the outcome. He refers to it as a 'strategic decision' but I am not sure if it's a combination of the 'offer' and a strategic decision to get out.
How did the interviewee respond	Respondent is very open and relaxed. His recall of details is very good considering the time elapsed. The length of the interview is evidence of the respondent's openness. He was keen to get a summary of the study results.
Any surprises	No.
Possible actions	None at this stage.

Appendix 8A – Research Diary

30/09/2008 10:30 AM
Instead of viewing the planning phase as a separate distinct phase it could be viewed as a layer or activity in a broader described 'exit preparation' phase. This is able to account for exit planning not happening in many cases.

Rather than having 'preconditions to exit' this could also be accommodated in the layering view of 'exit preparation'. Some cases do it inadvertently i.e. run a good profitable business first and foremost, look after their staff, customers and suppliers.

Lack of optimism is a not a factor in some exits but in many exits the exit can be viewed as a problem resolver.

7/10/2008 9:39 AM
Had 2 cases last night where HR was the major trigger for the exit. I will need to review the emphasis of HR as a trigger factor. Also 1 of the cases the exit is an opportunity seized by the owner in an instance. Two points here; 1 I am not sure if timing rightly describes the 'opportunity', maybe this has to stand alone because it's so significant. Secondly, it's not proactive (even though she asks the buyer) nor is it reactive. Maybe this should be a third category, 'opportunity'. The major point here is that the seller is not in the 'box seat' reacting to an offer nor are they on the back foot proactively selling the business. It's an instantaneous opportunity where the power for negotiations is neutral.

7/10/2008 3:30 PM
May be the barriers to exit should include what the buyer can deliver vs promised to deliver. Have seen several cases where the settlement is delayed because finance was harder to obtain than first anticipated. In some cases this requires the owner to supply vendor finance (see car parts). This probably demonstrates that aspirations are linked to barriers to exit but is a different perspective to what was originally envisaged.

11/10/2008 12:44 PM
With last case collected the proposition that there has to be "a lack of optimism" is wrong. The individual is very optimistic about the future and the business. He has contemplated an exit i.e. values, so when the offer comes in he is able to make a quick decision.

In another case the offer was so good (DC220) it was a “no brainer”. Offer was close to double what she paid for it 3 years prior so she was able to do the deal virtually on the spot. She had valued the business herself at $50K less and saved 25-30K of agents fees. Despite this I think the owner makes a conscious effort to determine the business’s value so the exit option is always in play. She is a serial entrepreneur (5 businesses) and always in the same types of businesses. Maybe the model / process has to be adjusted for ‘entrepreneurial characteristics’ or ‘entrepreneurial scenario’? Maybe we can classify these types as “exit ready”.

11/10/2008 1:46 PM
Apply a 2 x 2 matrix Int & Ext versus Proactive and Reactive

	Reactive	Proactive
External	No planning / preparation DD Quick	Preparation DD Long process
Internal	No planning / preparation No DD Quick execution	No DD Probably requires vendor finance

Table the number of cases that apply and put in characteristics of cases in each box

13/10/2008 11:41 AM
FE210 case is an example of internal / proactive. Also another example of barrier to exit is the buyer not having finance available and in place.

13/10/2008 12:05 PM
In the case where the seller seizes an opportunity, this may be neither reactive or proactive. Another interpretation is that it is both; this approach will then fit into the 2 x 2 matrix.

13/10/2008 1:52 PM
Added male / female attributes to cases. Noticed only 1 in 12 were female. Probably reflects statistics for SME business ownership in general.

13/10/2008 5:06 PM
Previous attempts at an exit could be viewed as ‘inadvertent / unintentional’ preparation for an exit.

14/10/2008 8:07 AM
By referring to the entrepreneurial characteristics we can make the model more generic if we refer to it as 'exit agenda' – yes / no. It could then be applied to all businesses and not just SMEs.

After reading Richards last night I attempted to apply 'forced exits', businesses managed by non-owners (medium / large businesses). I think model will work especially 2 x 2 matrix and yes / no (point above) as inputs to determining process.

Not sure if these outputs are straying away from my original concept i.e. I am finding more than I intended to.

14/10/2008 8:32 AM
Make the PO170 case the roll-up rather than the single business because it is richer in detail and provides a sample at the larger end of SMBs.

14/10/2008 8:57 AM
Stakeholder aspirations are not coming up as a strong concept even in cases where the level of detail is strong. Maybe because in most of the cases the outcome is overwhelmingly good (multiple millions)? I anticipated that this would be more hard coded "I need $….. for my future". It is not something which is coming out strongly in the data and is one of the few areas detailed in the existing literature. Maybe it's in the line of questioning? In all cases the entrepreneurs seem to be able to make a relatively quick and simple decision that the offer meets their aspirations. Have I conceived this as more complicated than it is?

15/10/2008 10:10 AM
Is it counter intuitive for an entrepreneur to want to exit? He is a business builder at heart not a quitter? He prefers to take risks (build / expand) rather than mitigate risk and sell? Maybe that is why some do not contemplate selling? Is harvesting an evolved state of entrepreneurship versus the baseline to want to build or expand?

15/10/2008 11:52 AM
The decision to exit may be analogous to a safe lock or key accessing a lock. It requires several 'factors' (lock pins) to align. In the VU130 case the offer alone didn't open the way to exit but its timing with other issues does. This could be viewed as the owner seizing the opportunity a bit like the DC220 case but its not all about the offer.

16/10/2008 1:24 PM
Emailed co-supervisor re: entrepreneur's exit contemplation and he shares view on little 'e' and big 'E' entrepreneurs. Maybe on reflection this is a little hard. Spoke with VU130 directly and asked him why he didn't contemplate in the past and even now (owner of multiple businesses). He confirmed thought that his mindset is focused on building and expanding not selling. He only sold because the circumstances suited him at the time. He shares that he is aware of many others he knows who have a different mindset and that is always to build then sell. He agrees with me that this can be viewed as a risk mitigation strategy. This concurs with literature in 'entrepreneur's handbook' on exits.

16/10/2008 4:31 PM
Spoke with VU130 re his lack of exit contemplation. He confirms that the exit was a 1 off for him. Exit contemplation is not usually on his radar. He sees himself as a business builder and is always contemplating expansion. Selling is the opposite to how he normally thinks.

I suspect that the entrepreneurs can be categorised into 2 groups, exit agenda and no exit agenda. The ones with no agenda should not be viewed as lesser entrepreneurs, just different. That is probably a separate study for another time.

22/10/2008 9:35 AM
FE210 is probably a case where there is evidence of 2 exit decisions but it's not the normal provisional and final but a preliminary / pilot and final. In this case the trigger occurs almost simultaneously with the pilot decision because the owner has made the decision to get out before locating a buyer or potential buyers, i.e. the decision is made in isolation. Only after making that decision does he go about planning and executing the required exit activities. This is more in line with the Joyce Woods' model of the decision then the activity rather than the model proposed by me. I will refer to this approach as a 'pilot exit decision'.

This concept can also be used for those owners who have an exit agenda and an intention to exit somewhere in the future. It is not to be confused with an exit trigger because a definitive decision to exit has been made. The trigger refers more to a penchant and receptivity to making an affirmative decision to exit. Where a pilot decision has been made it may not be necessary to have a trigger for the provisional or final decisions.

from answers.com
1. To serve as the pilot of.
2. To steer or control the course of. See Synonyms at guide.
adj.
1. Serving as a tentative model for future experiment or development: a pilot project.
2. Serving or leading as guide.

28/10/2008 8:30 AM
Look up decision theory and see how this compares to the exit decision theory.

8/11/2008 10:34 AM
In the case of HG200 the supplier having to buy is evidence of stakeholder aspirations – he feels he has no choice. Refer interview notes.

24/11/2008 11:47 AM
Maybe exit preparation should refer to seller preparation and buyer preparation as separate and distinct. This maybe evident in reactive sales where the buyer does the preparation prior to making the offer.

24/11/2008 12:05 PM
In VU130 case give some thought to how attractive offer must have been and also personal circumstances e.g. speculate that finance may have suited personal cash requirements at the time.

Confluence used as a term for timing

1.
    a. A flowing together of two or more streams.
    b. The point of juncture of such streams.
    c. The combined stream formed by this juncture.
2. A gathering, flowing, or meeting together at one juncture or point: *"A confluence of negative events conspired to bring down bond prices"* (Michael Gonzalez).

25/11/2008 11:06 AM
Changed case 5 exit contemplation from 2003 to 2001 because you can't plan if you don't contemplate.

8/12/2008 11:15 AM
The timing of an exit is a good study subject. When large business is expanding in good times is probably a good exit point. Alternatively as an industry matures and new business gets harder to get then this is when smaller players should exit. Do a study on number of acquisitions by med / large firms in good times vs bad times. Probably need to look at IPOs as well.

8/12/2008 11:41 AM
One case calls cash cow an exit strategy, investigate this?? I am not sure this is. It is a harvest strategy but if it is an exit strategy this would be hard to measure.

8/01/2009 12:06 PM
Maybe the trigger factors can be grouped into opportunity and challenges.

22/11/2010 3:55 PM
Enquired with XW120 by text and he advised that buyer became interested in 2002 but they signed NDA in March 2005.

22/11/2010 3:55 PM
1. Make a comment in inadvertent preparation about business planning or link back in discussion to literature
2. Comment about deleting the term planning altogether stick to preparation and implementation.
3. Check data on HG200 results to ensure you've made comment on exit planning i.e. seeing suppliers etc.
4. Revisit pilot and provisional decision findings to ensure you put in the possibility of more than one decision.
5. Position of trigger – put an addition in where it can occur and conditions for trigger in then out and then etc. or put this in the discussion section.

22/11/2010 3:55 PM
Make a comment of a 'prepared business' versus a 'natural' business in the discussion.

Is it better to buy a business from a craftsman or an opportunist. Discuss the risks and what it might take +'s and –'s.

22/11/2010 3:55 PM
A form of preparation is to keep the business focus tight so to avoid potential conflicts – where are you going to fit this in?

19/02/2009 10:55 AM
Adjust text on pilots to include more than 1 pilot and adjust text on the exit trigger to define coming in and out.

23/02/2009 1:18 PM
Defined *provisional exit decision* as a decision involving 2 parties and a *pilot exit decision* as a decision involving 1 party only. Adjusted text accordingly.

24/02/2009 12:28 PM
Barriers to exit should be displayed as multiple barriers not just a single barrier. Discuss in last chapter.

Appendix 8B – Vignette of Case 5 (TS140)

1. The context	An example of the exit process from conception to execution.
2. Aims	To build up the business as an initial model for a possible franchise opportunity and then sell the whole lot.
3. Who was involved	Interviewee and his partner (business and spouse).
4. What happened as a result	Probably early on we were looking for opportunities to expand…. When you're in the more enthusiastic sort of phase…. I think the staff issues and just the reality of us getting tired of it all come the three years. We had specific issues about expansion. All the roasting is done in the store and it makes a lot of noise when it roasts. It's hard for us to roast, if we have to keep expanding and roasting more coffee we've got huge inconvenience issues with the customers in the store, we can't just roast all day. That held us back a little bit, that problem… Also in our case we don't [sic] have the cash flow. It's a bit too draining on us to try and expand and then further on when we've got the cash flow you think I'm tired of this anyway… We stuck to the original plan which was to start selling after three years but I suspect if we hadn't have had the staff problems we could've probably just delayed that for maybe six months or 12 months perhaps. It's all breezy and nice and easy when its – very easy just to leave things as they are…. It's the three year point where we start to feel we're losing the enthusiasm we need to keep pushing the business forward….. Enthusiasm number one. When we reach that mental point where it's time to go coupled with the fact we already know from past experience …. It's very easy to say well in three years we'll get out of this but when it's rolling along making a lot of money the temptation to stay in – it's much easier to stay and let the money roll in that to sell it and try something new….

5. What the impact was	We sold the business ourselves, we didn't use a broker. In hindsight we probably should have found a good broker, not a local one… We did all our own advertising in the Fin Review with you places like that and we picked up a lot of really top leads from entrepreneurs down in Melbourne that wanted to start a whole new chain. If we had a really good broker he probably would've put it all together for them and found a way to see how it could've been expanded into a chain whereas us doing it ourselves it's much more difficult to get that across, to get them to come and look…
6. Why this happened[1]	Because of our success with selling the previous business …
7. Future expectations[2]	If you have big plans for the business you need to grow it aggressively and quickly in the first 12 months while the enthusiasms high. At the three year mark we'd still be looking to sell…
8. What was learned	We remembered the mistake in the previous business of staying too long so we kept trying to tell ourselves we should start thinking about selling…

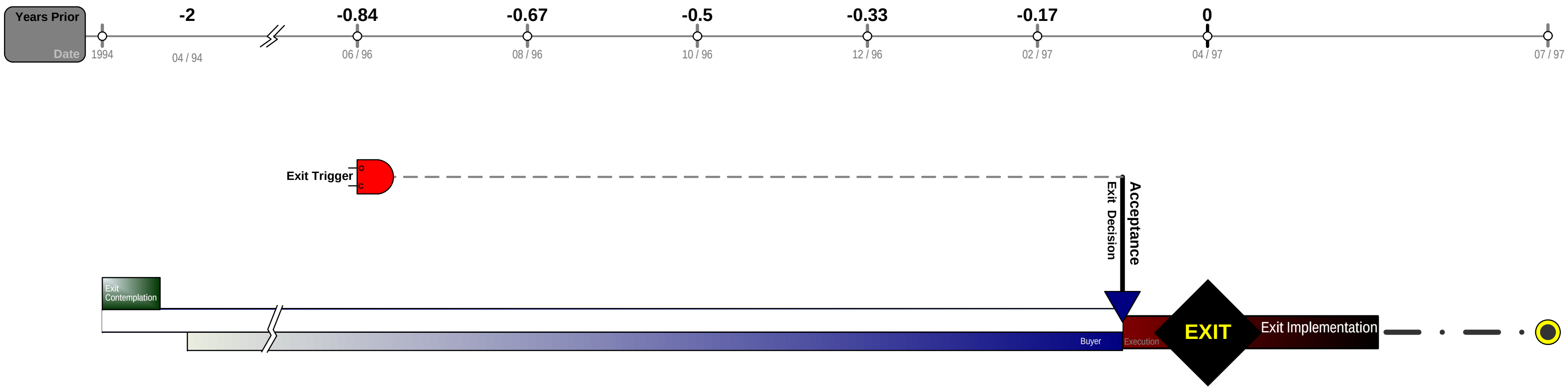
1 Comments from follow-up phone interview on 2nd February 2009.

2 Comments from follow-up phone interview on 2nd February 2009.

Appendix 8C – Summary of Exit Timelines

Case	Date of 1st Exit Decision	Date of Exit	Months	Single	Multiple
ZY110	Mar-97	Apr-97	1.0	1.0	
VU130	May-04	Jul-04	2.0	2.0	
XW120	Jan-04	Jul-06	30.4		30.4
TS140	Nov-02	Feb-04	15.2		15.2
RQ150	Mar-04	Aug-04	5.1		5.1
NM160	Jan-96	Nov-96	10.2		10.2
PO170	Nov-03	Aug-04	9.1		9.1
JI180	Aug-02	Oct-02	2.0	2.0	
LK190	Sep-00	Mar-01	6.0		6.0
HG200	Feb-96	Oct-96	8.1		8.1
FE210	Jun-01	Jul-02	13.2		13.2
DC220	Nov-04	May-05	6.0	6.0	
			Average	2.8	12.2

Appendix 8D – Exit Displays for All Cases



<u>Figure 8D.1</u>: A schematic representation of the exit process of ZY110 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

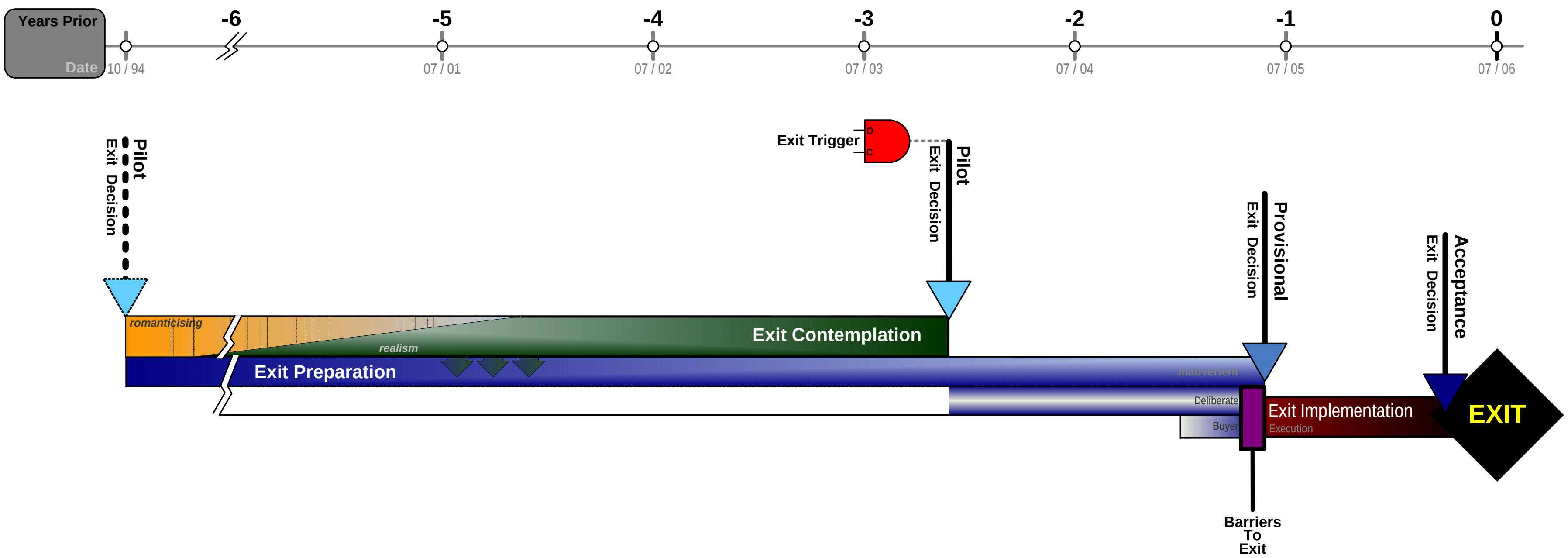
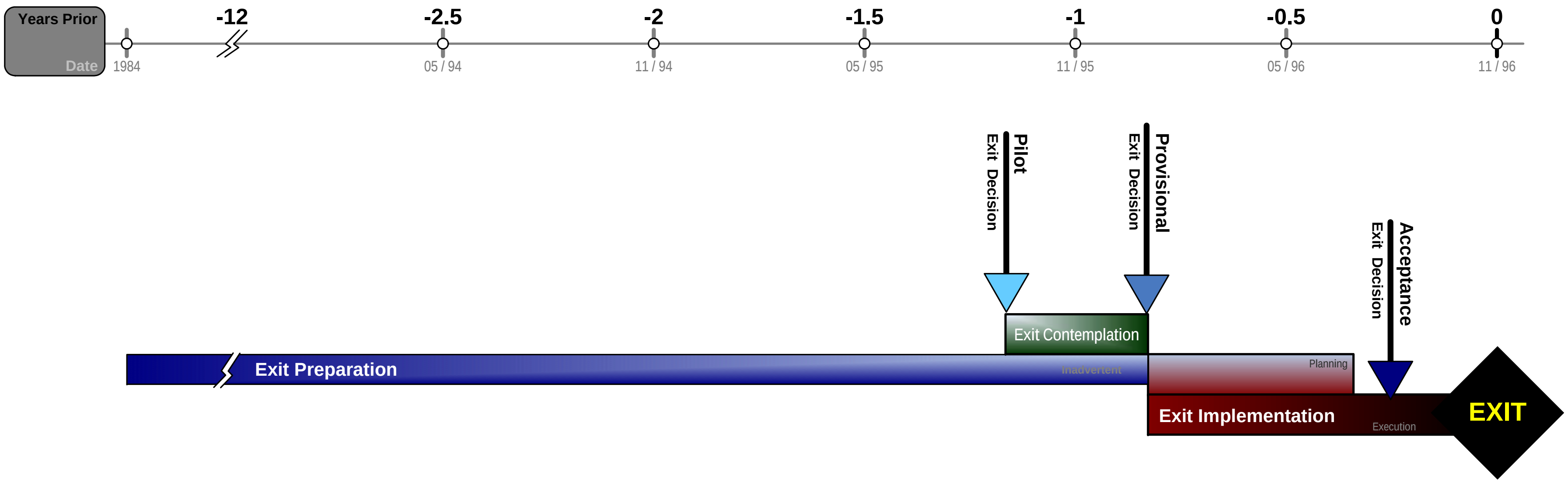


Figure 8D.2: A schematic representation of the exit process of XW120 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.



<u>Figure 8D.3</u>: A schematic representation of the exit process of NM160 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

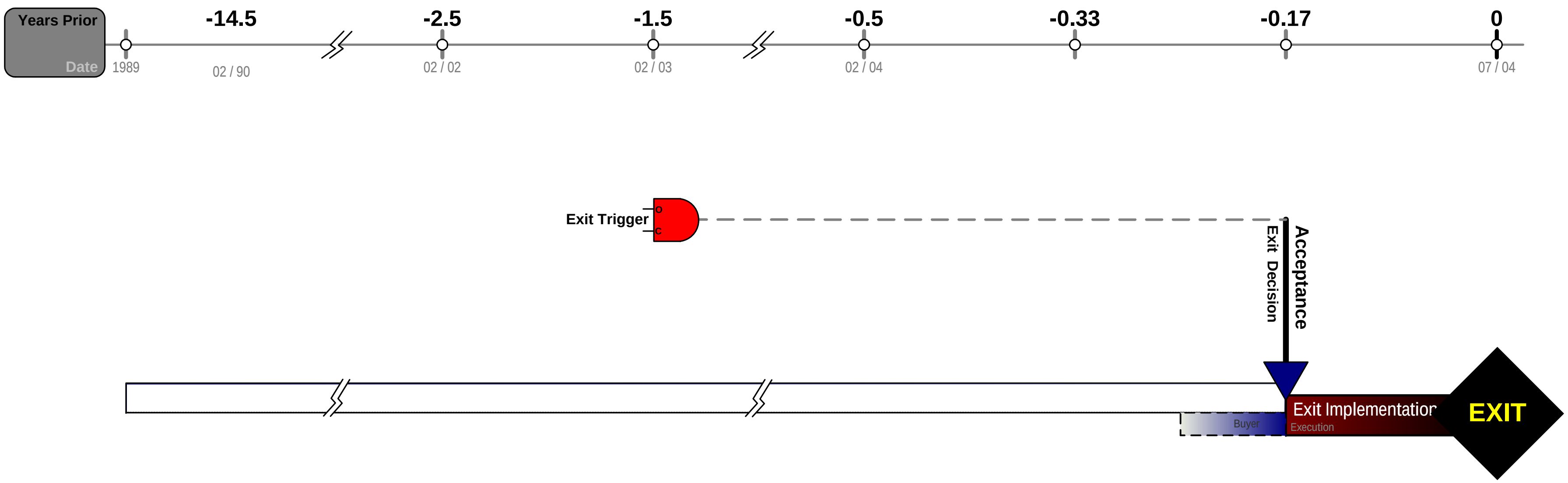


Figure 8D.4: A schematic representation of the exit process of VU130 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

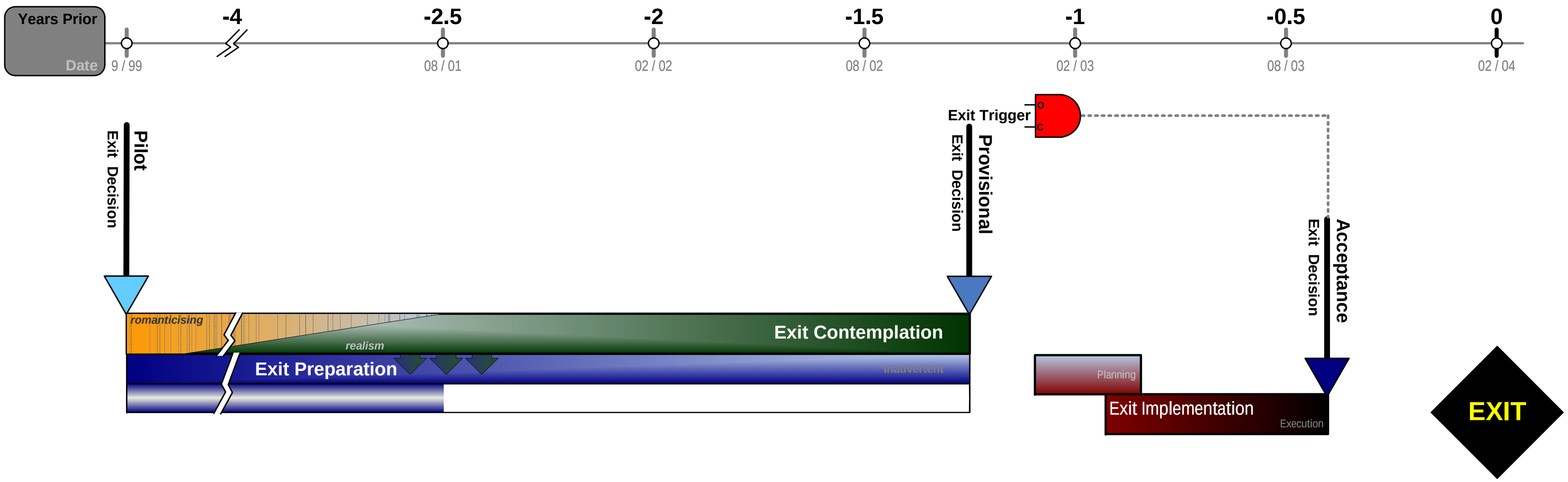
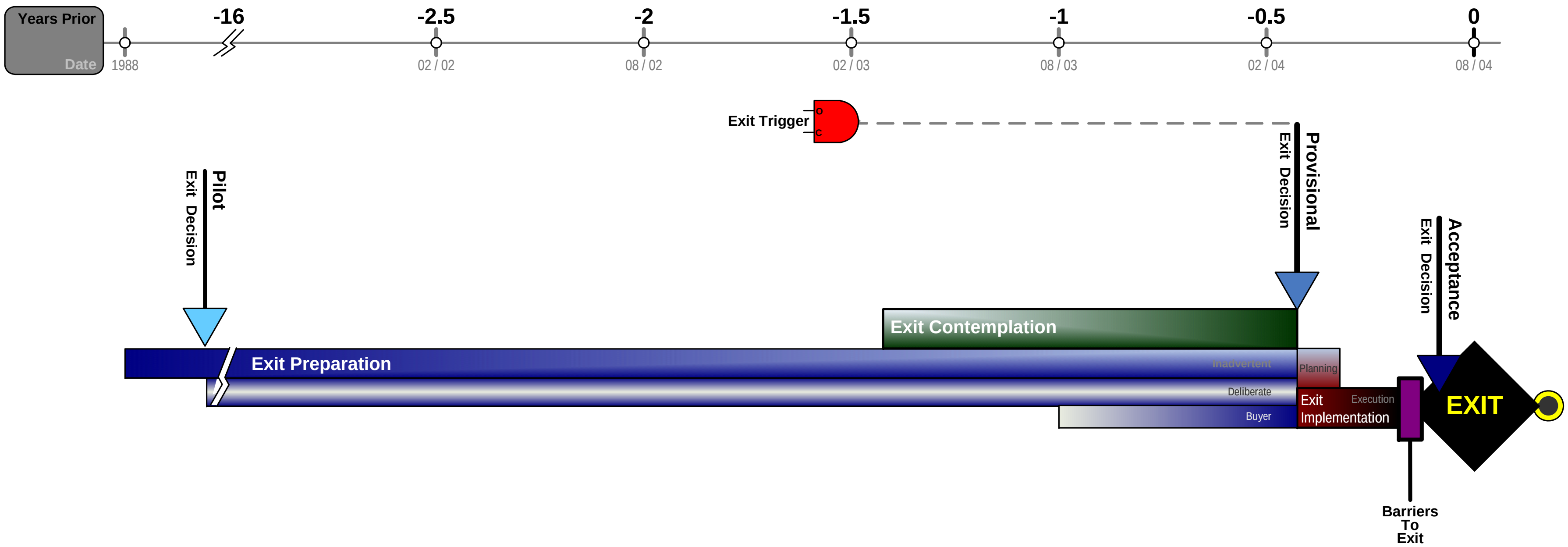
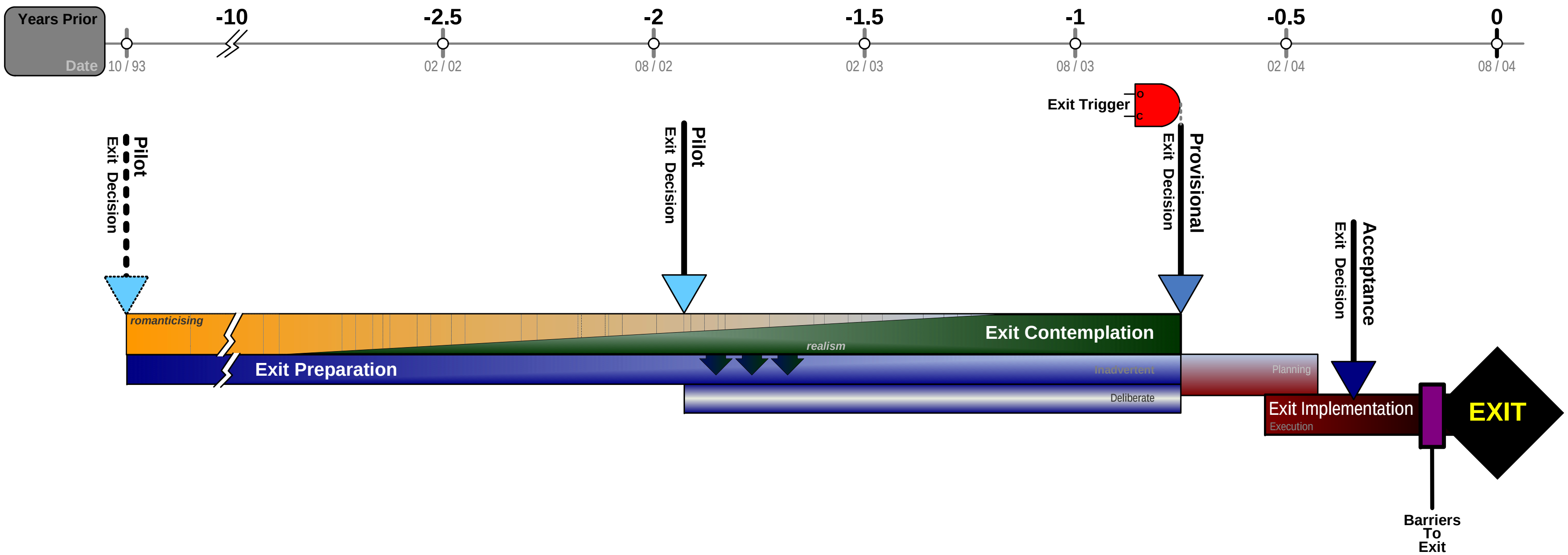


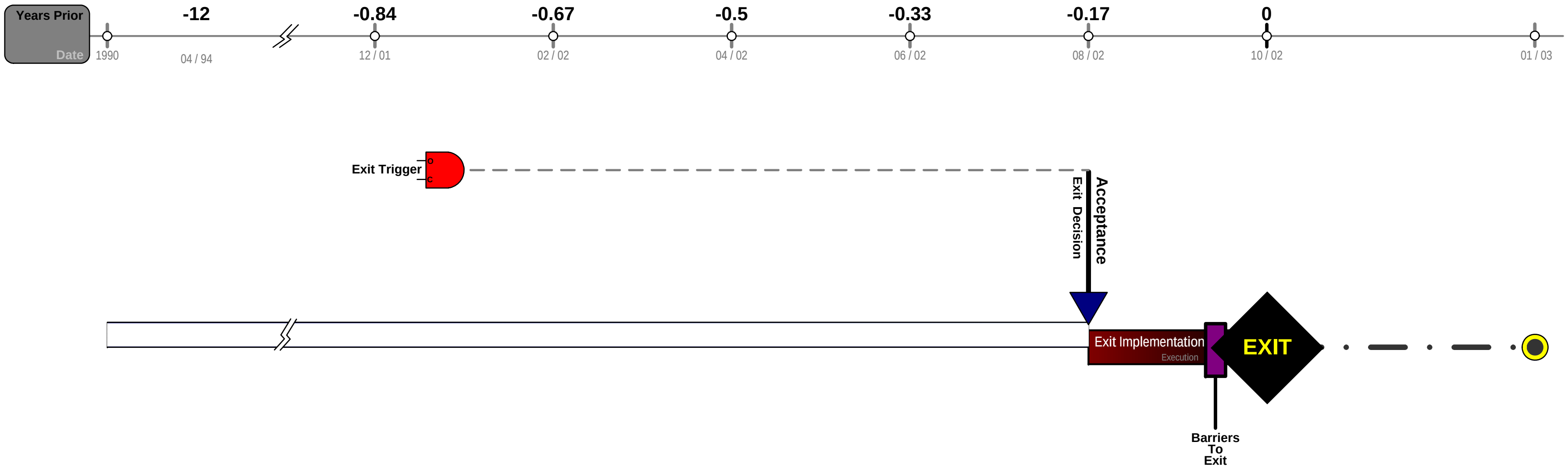
Figure 8D.5: A schematic representation of the exit process of TS140 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.



<u>Figure 8D.6</u>: A schematic representation of the exit process of RQ150 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.



<u>Figure 8D.7</u>: A schematic representation of the exit process of PO170 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.



<u>Figure 8D.8</u>: A schematic representation of the exit process of JI180 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

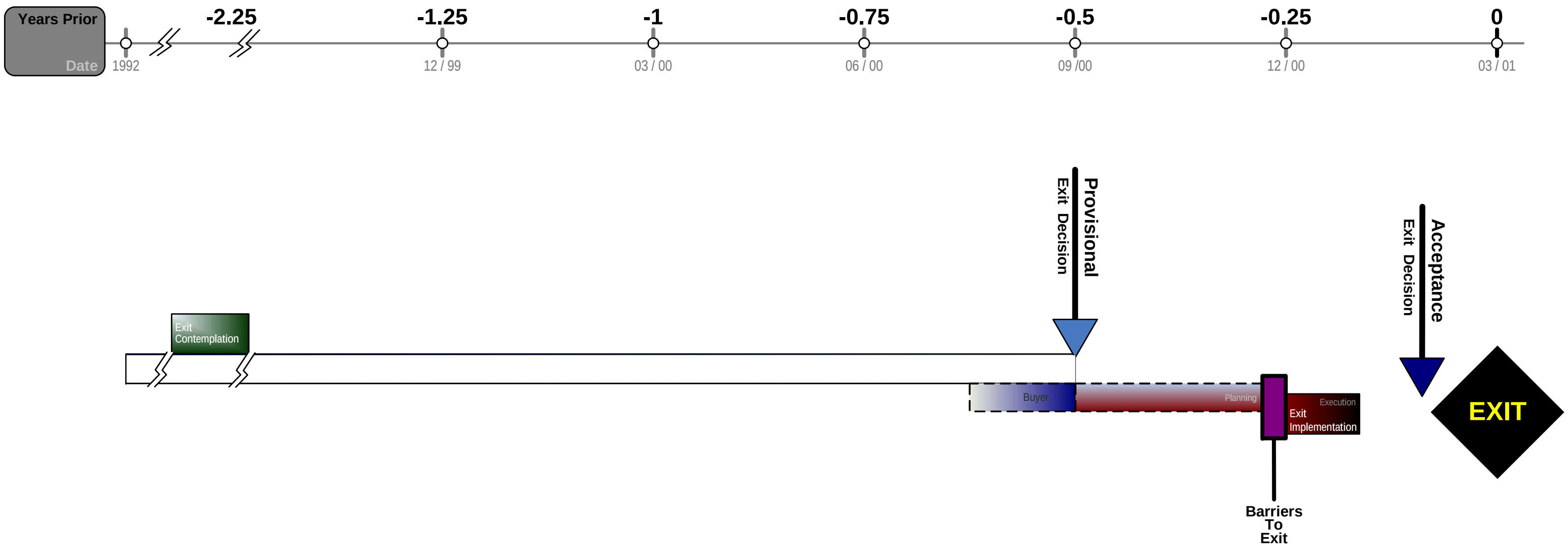


Figure 8D.9: A schematic representation of the exit process of LK190 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

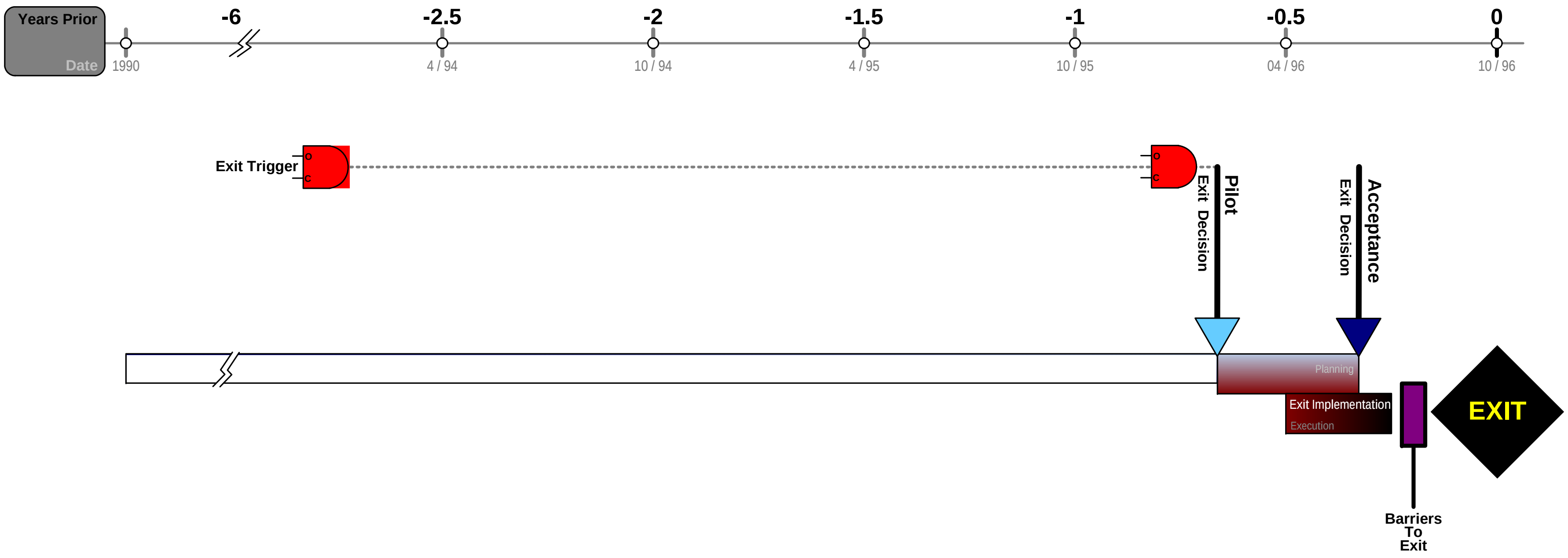
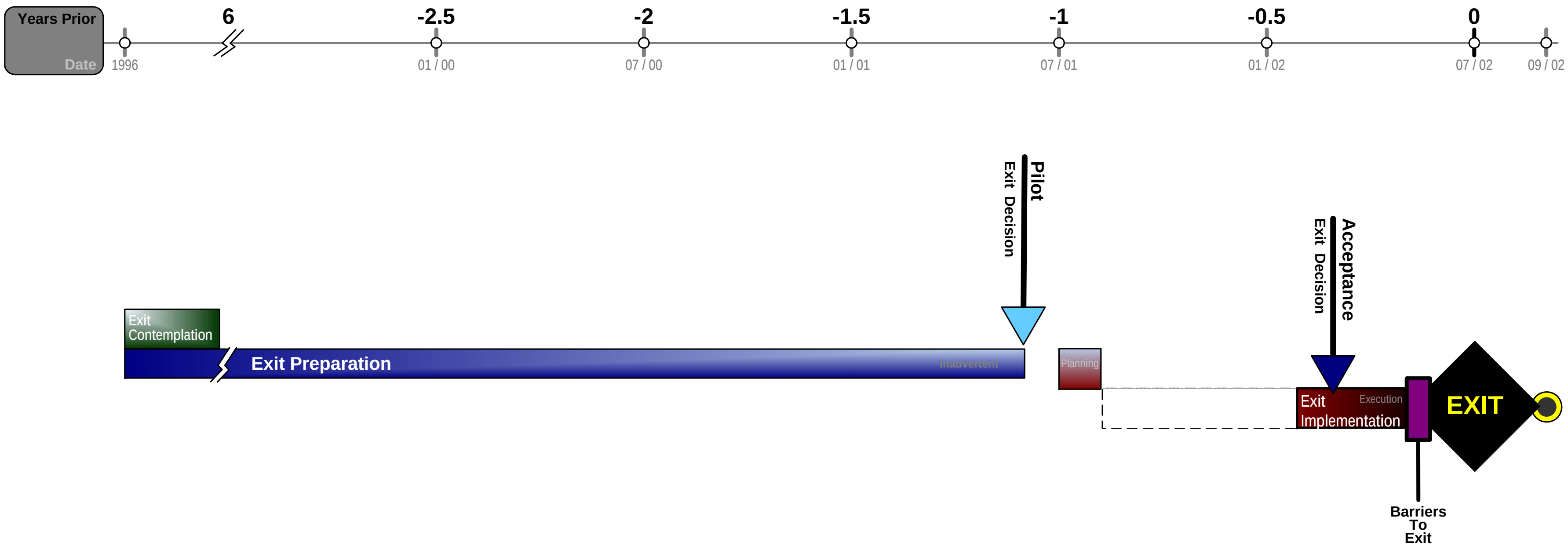
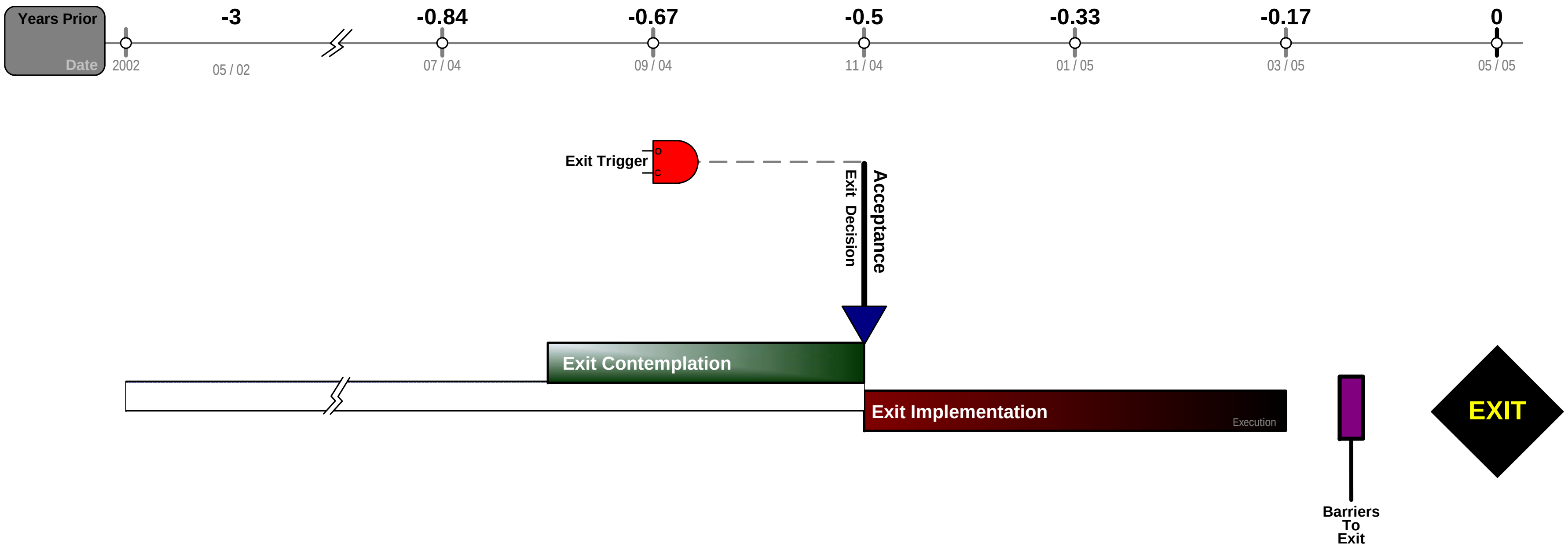


Figure 8D.10: A schematic representation of the exit process of HG200 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.



<u>Figure 8D.11</u>: A schematic representation of the exit process of FE210 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'. Gap (opaque) in implementation is an exit option that did not transact.



<u>Figure 8D.12</u>: A schematic representation of the exit process of DC220 using the concluded model. Time is represented in the horizontal scale from left to right. Exit date shown as the '0' point and periods prior shown as 'Years Prior'.

Case Identification		Reactive vs Proactive	Time Taken to Exit	Delays	Exit Decision Single / Multiple	Time for Exit Decision	Exit Preparation	Preconditions to Exit	Barriers to Exit	Stakeholder Aspirations	Buyer Size
1	ZY110	Reactive	1 month		Single	< 1 month					Small
2	XW120	Proactive	3 months	✓	Multiple	28 months	✓		✓	✓	Large
3	NM160	Proactive	3 months	✓	Multiple	3 months			✓	✓	Large
4	VU130	Reactive	2 months		Single	< 1 month				✓	Large
5	TS140	Proactive	5 months		Multiple	< 1 month	✓				Small
6	RQ150	Reactive	1 months	✓	Multiple	4 months	✓	✓	✓	✓	Large
7	PO170	Proactive	4 months	✓	Multiple	5 months	✓	✓	✓	✓	Large
8	JI180	Reactive	2 months		Single	< 1 month					Large
9	LK190	Reactive	1 month		Multiple	5 months	✓		✓	✓	Large
10	HG200	Reactive	4 months	✓	Multiple	4 months	✓		✓	✓	Medium
11	FE210	Proactive	5 months	✓	Multiple	8 months	✓		✓	✓	Small
12	DC220	Reactive	6 months	✓	Single	< 1 month			✓		Small

Table 8.APPD1: Buy offer and buyer size versus critical exit issues.

Case Identification		Reactive vs Proactive	Time Taken to Exit	Exit Decision Single / Multiple	Time for Exit Decision	First Business-	Prior Business Exp	Serial Entrepreneur	Number of Staff	Years in Business
1	ZY110	Reactive	1 month	Single	< 1 month		6-10	✓	11-20	6-10
2	XW120	Proactive	3 months	Multiple	28 months	✓			11-20	6-10
3	NM160	Proactive	3 months	Multiple	3 months	✓			21-49	11-15
4	VU130	Reactive	2 months	Single	< 1 month		1-5	✓	6-10	11-15
5	TS140	Proactive	5 months	Multiple	< 1 month		10+	✓	21-49	1-5
6	RQ150	Reactive	1 months	Multiple	4 months		6-10	✓	11-20	11-15
7	PO170	Proactive	4 months	Multiple	5 months		10+	✓	50+	11-15
8	JI180	Reactive	2 months	Single	< 1 month	✓			21-49	11-15
9	LK190	Reactive	1 month	Multiple	5 months	✓			21-49	6-10
10	HG200	Reactive	4 months	Multiple	4 months	✓			6-10	6-10
11	FE210	Proactive	5 months	Multiple	8 months		6-10	✓	6-10	6-10
12	DC220	Reactive	6 months	Single	< 1 month		6-10	✓	11-20	1-5

Table 8.APPD2 Business size and length of operation versus critical exit issues.

	Case Identification	Exit Preparation	Buyer Size	Offer	Strategic	Lack of Optimism	Consolidating Industry	Expansion to Buyer
1	ZY110		Small	✓ (30%)		✓ (10%)	✓	
2	XW120	✓	Large		✓			✓
3	NM160		Large		✓			✓
4	VU130		Large	✓ (20%)			✓	
5	TS140	✓	Small		✓ (15%)			
6	RQ150	✓	Large	✓ (30%)		✓ (30%)	✓	
7	PO170	✓	Large		✓ (20%)	✓ (10%)	✓	✓
8	JI180		Large	✓ (50%)			✓	✓
9	LK190	✓	Large	✓ (80%)			✓	✓
10	HG200	✓	Medium		✓ (60%)	✓ (20%)	✓	✓
11	FE210	✓	Small					
12	DC220		Small	✓ (50%)				

Table 8.APPD3: Exit preparation versus industry consolidation and buyer expansion.