The Entrepreneur, Age and the Exit.

An Exploratory Quantitative Study of SMEs in New Zealand

Ross Allen
A 115.737 MBA Research Report

Presented in partial fulfilment of the requirements of the degree of Master of Business Administration (MBA) at Massey University.

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Statement of Academic Integrity

I declare that this research report is entirely my own work. When ideas, quotations, data and diagrams of others have been used in the report, the work has been properly cited in the text.

Ross Allen

Date 21st of March 2016.
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“Give me six hours to chop down a tree and I will spend the first four sharpening the axe.”

Abraham Lincoln
Executive Summary.

Small to Medium sized enterprises (SMEs) are important to the way of life in New Zealand both for their economic impact on employment and productivity but also as a way of life.

Like many industrialised nations, New Zealand is experiencing a shift in the distribution of the age of the population. This is due to the ageing of the ‘baby boom’ generation. As with the broad population business owners are ageing.

Prior research present that this “shift in the demographic profile may have profound consequences for individuals and the country alike, in terms of firm survivability, firm market valuations, retirement conditions and employment statistics.” (Sawers & Whiting, 2010)

Therefore, it is critical for policymakers, business owners and researchers to understand how ready business owners are for their eventual exit and how to best support business owners as they prepare for the next stage in their entrepreneurial journey.

An exploratory study was conducted by utilising an online anonymous survey that was distributed to the wider business community; the results were then compared to those of the current literature.

The findings of this report show that there is a statistically significant correlation between the age of business owners and their exit timeframe. And, that the majority of respondents 38.4% (n. 61) indicated that they would prefer to exit within 5 years.

Although business owners are aware of the importance of succession planning there is a significant lack of both formal and informal succession planning across all age groups. This is shown by the research that presents of those who indicated that they would exit within 5 years, only 9.84% (n.6) have a written succession plan, and less than a quarter (24.6% n.15) have an informal succession plan.

This study identified that younger respondents are more likely to exit to start a new venture, while older respondents would exit to retire.

This research presents findings that show respondents have a preference for the sale of the business 63.4% (n. 92) as the most popular exit modality. However, entrepreneurs of different ages have different preferences for exit modalities but broadly have a preference for the sale of the business.

Furthermore, an examination of the data found that there was not statistically significant correlation between the age of respondents and the level of preparation.

Further findings failed to identify a relationship between the size of the firm, number of employees or revenue with business succession plans.
Acknowledgements

This paper represents the last submission in the MBA journey and as such, I would like to thank a number of people for being part of my journey.

First and foremost I would acknowledge the love, support and sacrifice of my partner Jules, Thank you for being there when I needed you and thank you for giving me a good shove in the right direction.

Really, just a great big thank you for everything!

I know the amount of work this has been for you juggling our young family, our home and my MBA. I know that really they should put both our names on the degree for how much work this has been.

Noah, my son. Now that I’m done studying I am looking forward to sharing the thirst for knowledge and having many adventures with you.

To the NZ7 Cohort, thank you for being the wonderful mix of people that you are! I am privileged to have worked with such a talented hard working group of individuals.

My parents, Helen and Stuart, thank you for being understanding and supportive when I needed to take the time to study.

Thank you to Vicki for listening to me ramble about baby boomers.

A big thank you to Bill, cheers for spotting my mistakes and when I got tired.

Shannon Granger, Thank you for making a speech that inspired this research and helping get the message out.

And finally, thank you to all the business leaders who took the time to share their knowledge.

Now on with the show…
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Introduction.

New Zealand is a nation of small businesses, SMEs makeup 97% of all enterprises in New Zealand and contributing 27% of the gross domestic product ($56,785m) or. The 487,600 SMEs in New Zealand employ 25.6% of New Zealand’s employed labour force providing over 599,800 jobs (New Zealand Ministry of Business Innovation & Employment, 2015; Statistics New Zealand, 2014, 2015a).

Like many industrialised nations, New Zealand is experiencing a shift in the distribution of the age of the population. Three key factors have influenced this shift:

- **Increased longevity**: The average life expectancy has increased for males from 68.19 in 1965 to 79.48 in 2012 and for females from 74.30 in 1965 to 83.19 in 2012 this means that the population is living significantly longer than previous generations. (Statistics New Zealand, Various)

- **Declining fertility**: Nationally the fertility rate fell from 4.24 in 1960 to 1.92 in 2014. This means that we are having fewer children, which means that the older proportion makes up a larger percentage of the population. (Statistics New Zealand, Various)

- **The ageing of “baby boom” generations**: New Zealand had one of the largest and the longest baby boom period. At its peak, the fertility rate of 4.2 was well ahead of anywhere else (Canada 3.9, United States 3.8, and Australia 3.6). This means that New Zealand has a larger proportion of the population in this age bracket (Bloom, Boersch-Supan, McGee, & Seike, 2011; Jackson, 2011).

As with the broad population business owners are ageing, data from the New Zealand Census found of those who are over 60 years of age account for over a quarter (23.3%) of employers (business owners) & self-employed. The number aged 60+ has increased by over 10% from 2006 levels (Statistics New Zealand, 2013).

It is not a case of if business owners will exit their business it is a case of when, “the story is not one of ‘if’ the boomers retire, but rather that even if some substantially delay that retirement, it will happen” (Jackson, 2011). This is supported by Sawers and Whiting (2010) who present that this shift in the demographic profile may have profound consequences for individuals and the country alike, in terms of firm survivability, firm market valuations, retirement conditions and employment statistics.

Therefore it is pertinent for researchers, policy makers and business owners to understand the impact that the succession planning can have, to understand how ready entrepreneurs are for their eventual exit and how to best support business owners as they prepare for the next stage in their entrepreneurial journey.

Problem statement

Small to Medium sized enterprises (SMEs) are important to the way of life in New Zealand both for their economic impact on employment and productivity but also as a way of life.

Like many industrialised nations, New Zealand is experiencing a shift in the distribution of the age of the population. As with the broad population business owners are ageing.

Prior research has identified that this shift in the demographic profile of business owners may have profound consequences for individuals and the country alike, in terms of firm survivability, firm market valuations, retirement conditions and employment statistics.

Therefore it is critical for policymakers, business owners and researchers to understand how ready business owners are for their eventual exit and how to best support business owners as they prepare for the next stage in their entrepreneurial journey.

Terms of Reference

Throughout this report, the terms “business owner”, and “entrepreneur” are used interchangeably.

Aim of the research

The aim of this research is to understand how prepared owners of SME are for their eventual exit from the business.

Objectives

The objective of this study is to:

Capture quantitative data through an exploratory study.

This will allow an evaluation of the following research questions through the lens of current literature.

- **Q1** - There is a positive relationship between the age of the business owner and the preparedness for a successful business exit. Older business owners are more likely to be prepared for their exit than younger business owners.

- **Q2** - There is a positive relationship between the age of the business owner and exit timeframe intentions. Older business owners are more likely to exit their businesses in the short term.

- **Q3** - There is a positive relationship between the size and age of the firm and formalised succession plans.

To evaluate the results of the research for both their relevance and robustness

To adapt the results into a discussion.
**Contribution to knowledge**

This research aims to contribute to the body of knowledge of succession and exit planning of SMEs in New Zealand in three ways.

Firstly, the research aims to develop insights into how the age of the business owner affects the level of preparation for exit.

Secondly, the research aims to understand the exit intention and motivation of entrepreneurs and how they change as they age.

Thirdly, the research aims to test the connection between the size of a firm and the level of succession planning that has taken place.

**Research approach**

An exploratory approach to the research was chosen. An anonymous online survey was used to measure responses. In total 179 respondents completed the survey.

**Thesis outline**

This report on the ageing population, SMEs and New Zealand is presented in seven chapters, namely:

Chapter one provides an introduction to the problem statement, outlines the aim of the research and the objectives of the study. It further defines the contribution to knowledge and provides a broad background to the research approach.

Chapter two provides pertinent background information to the research about SMEs and the ageing population.

Chapter three reviews the literature and presents a wider conceptual and theoretical understanding of the issues surrounding the research. Particularly surrounding: SMEs, the entrepreneurial exit and succession planning.

Chapter four presents the methodology used to conduct the research. Outlines the objectives of the research, the research process and the how the data will be collected. It also outlines the ethical considerations of the data collection process.

Chapter five presents the research results.

Chapter six discusses the results of the research in light of the literature review.

Chapter seven presents the conclusion and recommendations of this research
“Unless commitment is made, there are only promises and hopes; but no plans.”

Peter F. Drucker
The Background

The purpose of this chapter is to provide a background around SMEs in New Zealand and their importance to the economy both regionally and nationally. Furthermore this chapter will discuss the implications of the ageing population and examine the effects that this has on the changing demographics of SME ownership. This pertinent background information will provide a pathway to the literature review of SME succession planning and the effect that the ageing population will have on the successful transfer of business resources.

To achieve this purpose this chapter will; define SME and unpack the importance to the New Zealand economy. Identify the demographic shift that is increasing the median age.

Defining SME

It is widely adopted that in New Zealand context businesses with less than 19 fulltime employees are considered to be SMEs (Kirkwood & Harris, 2011; New Zealand Ministry of Economic Development, 2011) Therefore the purpose of this report will adopt that firms with 19 or less employees are SMEs.

Globally there is no universal definition for a Small to Medium sized enterprise (SME). In Australia firms with less than 199 employees are considered to be a SME, where as in the European Union define the as being “enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.” (Australian Bureau of Statistics, 2001; Kommission, 2015)

Within the New Zealand Context the SME is further categorised as ‘zero’ enterprise employing no staff and ‘micro’ employing 1-6 fulltime staff. (New Zealand Ministry of Business Innovation & Employment, 2014)

The Ministry of Economic Development identify that “Zero-employee enterprises are often structured and operated differently to businesses with employees.” And that “an employee count of zero is typically an indicator of enterprises with only a working-proprietor who is not receiving a salary or wage.” (New Zealand Ministry of Economic Development, 2011)

This review utilizes data sourced from Statistics New Zealand, who use a threshold for its economic and business measure. These ‘economically significant’ businesses must meet at least one of the following criteria,

- Annual expenses or sales subject to GST of more than $30,000
- Part of a group of enterprises
- Registered for GST and involved in agriculture or forestry
- Over $40,000 of income recorded in the IR10 annual tax return (New Zealand Ministry of Business Innovation & Employment, 2014)

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<th>Employee Count</th>
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Importance of SMEs to New Zealand

SMEs are important to the way of life in New Zealand both for their economic impact through employment and productivity but also as a way of life. New Zealand is a nation of small businesses with 487,600 SMEs employing over 599,800 employees which make up 25.6% of New Zealand’s employed labour force (Statistics New Zealand, 2014, 2015a).

SMEs make up 97% of all enterprises in New Zealand and are estimated to contribute $56,785m or 27% of the gross domestic product of (New Zealand Ministry of Business Innovation & Employment, 2015).

Population Ageing

Like many industrialized nations, New Zealand is experiencing a shift in the distribution of the age of the population. There has been an increase in both the numerical age of the population, being the absolute number of elderly people and Structural Ageing, an increase in the proportion of the elderly population to that of the younger population. (Jackson, 2011)

There are three key factors that have influenced this shift:

- Increased longevity: The average life expectancy has increased for males from 68.19 in 1965 to 79.48 in 2012 and for females from 74.30 in 1965 to 83.19 in 2012 this means that the population is living significantly longer than previous generations. (Statistics New Zealand, Various ) Globally population life expectancy has increased by two decades since 1950 (from 48 years in 1950–55 to 68 years in 2005-10). During the current half century, the UN Population Division projects global life expectancy to rise further to 76 years.
Declining fertility: Nationally the fertility rate fell from 4.24 in 1960 to 1.92 in 2014 (Statistics New Zealand, 2015b) At the same time globally the total fertility rate fell from 5 children per women in 1950 to roughly 2.5 in 2011 (figure 3-1), and is projected to drop further to about 2.2 by 2050. This has led to a structural ageing of the population as families have fewer children; ratio of the elderly population naturally increases. (Bloom et al., 2011; Jackson, 2011)

The ageing of “baby boom” generations: New Zealand had the of the largest and the longest baby boom period with at its peak the fertility rate of 4.2 was well ahead of anywhere else (Canada 3.9, United States 3.8, and Australia 3.6). The baby boom period lasted for 19-20 years (figure 3-1), this in contrast to Europe which had 3-4 year boomlets (Jackson, 2011). In New Zealand, the fertility rate only returned to its prewar level in 1975 (Statistics New Zealand, 2015b). Therefore the ageing of large cohorts of children born after World War II is leading to both a numerical and structural ageing of the New Zealand population (Bloom et al., 2011; Jackson, 2011)

Thus the population demographic is ageing this is due to increased longevity, declining fertility

Summary

This chapter has provided a foundation of background knowledge of SMEs and their importance to the New Zealand economy. It further unpacked the effect that an ageing population and the effect that that has on the New Zealand population demographics. This has provided a foundation on which the next chapter will review the literature focusing on the importance of succession planning and the impact that it has on the business and wider community.
Literature Review

The last chapter provided a definition of SMEs and explored their importance to the economy both regionally and nationally. Furthermore, this chapter discussed the implications of the ageing population and examine the effects that this has on the changing demographics of SME ownership.

The purpose of this chapter is to develop an understanding of contemporary research within the wider conceptual and theoretical frameworks as it relates to SME succession and the ageing population and the perspectives that the literature holds. It presents the opportunity to understand the importance of succession planning to the business owner, employees, the regional economy, and the New Zealand economy.

The literature review will define exit options available to SME owners. It will explore the effect that a lack of succession planning has on business transfer and identify the importance of business succession planning. It will report on the importance of a successful transfer from a national perspective. This will inform the design of the research.

Ageing Business owners

As with the ageing of the broad population, business owners are getting older (Weber & Schaper, 2004). Data from the New Zealand Census found of those who are over 60 years of age account for close to a quarter (23.3%) of employers & self-employed (Figure 4-1). Furthermore, those employers & self-employed aged over 55 increased by 12.4% from 2006 levels (Statistics New Zealand, 2013).

Kirkwood and Harris (2011) cite research by (Grant Thornton, 2006) found that the average age of business owners in New Zealand to be 56 in 2006. Comparatively, the median age of the population increased from 35.9 years in 2006 and reached 38.0 years in 2013.

Australia has experienced a similar shift, that the peak entrepreneurial activity shifted from the 35-44 year-old bracket to the 45-54 age group in 2002 (Weber & Schaper, 2004)

Furthermore, Weber and Schaper (2004) report that of Australian small business operators 31% were aged over 50 years of age. This is echoed by the findings of DeTienne and Cardon (2012) who identify that in the US as more than one-third (9.6 million) of US firms have at least one owner who is 50 years old or older. This is further exacerbated as 18% of household financial assets are invested private firms, founded in the 1950-60's and the entrepreneurs who founded these firms may be contemplating an exit soon. (DeTienne & Cardon, 2012)

In a survey of 4,311 Canadian business Bruce and Picard (2006) found retirement the primary reason for business owners to exit their business is, as indicated by 82% of respondents.

Similar research from Australia by the Australian Institute of Business Brokers (2014) identified that retirement was overwhelmingly the number one reason for business divestment, with 66% of respondents giving retirement as the reason for sale. The Australian Institute Business Brokers present that “this should come as no surprise as we are at the leading edge of Baby Boomer retirement outcomes.”

In a longitudinal study of 1300 New Zealand SMEs and owners that 34% of respondents intend to retire from their firm within five years. This figure jumps to 64% within the next ten years. (M Battisti & Massey, 2008; Sawers & Whiting, 2010) cited in (M Battisti & Massey, 2008).

Ownership succession was found by Martin, Martin, and Mabbett (2002) to be a primarily age-related event and directly connected with the entrepreneurs life journey. They argue “succession becomes a critical issue for owners-managers in their late 50s and 60s and needs to start being addressed by owners in their early 50s.” Therefore, researchers have noted that there is a connection between succession planning and the age business owners, the research holds owners who are in their late 50s are most vulnerable to succession failure (Ip & Jacobs, 2006; Martin et al., 2002; McCarthy, 1996).

Reports from the mainstream media reiterate the challenge with the ageing baby boomers and their impending exit from their business. The New York Times reports that “entrepreneurial baby boomers who spent the last few decades building businesses are starting to move on to the next phase of their careers: cashing out.” (Cowley, 2015) The New Zealand herald reports that there is “a wall of ageing company owners closing in on retirement, many still don’t have a clear exit strategy” (New Zealand Herald, 2014). The CBC in Canada present that this “could pose a significant risk for the Canadian economy as the country undergoes the biggest transfer of economic control in its history” (Canadian Press, 2012). The Australian press carries a similar sentiment with a BRW report identifying that “If you think of that baby-boomer group, by 2020 the bulk of them will be in the 70s. They should have already exited their business, so we still have this major bottleneck of owners who haven’t thought of succession” (Thomson, 2013) and the Sydney Morning Herald reports “They’re all trying to cash out and attract the same pool of buyers, resulting in massive downward pressure on price. It’s a sad outcome for many business owners,” (Courtenay, 2015)

This is pertinent because New Zealand, as presented has an ageing population. Both business owners and the country alike could be profoundly impacted in terms of retirement conditions, farms survivability, the labour market and economy by this shift in demographic profile (Sawers & Whiting, 2010). Like many countries New Zealand SME owners have a significant proportion of their wealth tied up in their businesses, this may impact on retirement incomes.
if the business gets into trouble (Goodchild, Sanderson, & Leung-Wai, 2003).

In conclusion, this section has shown that ageing of the broad population, business owners are getting older and previous research identified that business owners are looking to exit their business within the short term. This section also identified reports from mainstream media that identified that although this problem is widely known, business owners delay preparing for succession.

Therefore, as Jackson (2011) identifies “the story is not one of ‘if’ the boomers retire, but rather that even if some substantially delay that retirement, it will happen”. This is supported by Sawers and Whiting (2010) who present that this “shift in the demographic profile may have profound consequences for individuals and the country alike, in terms of firm survivability, firm market valuations, retirement conditions and employment statistics.” Therefore it is pertinent for researchers, policy makers and business owners to understand the impact that succession planning can have and conversely the potential for negative outcomes that comes with a lack of succession planning.

Entrepreneur, the organisation, and the exit.

As outlined in the previous sections, the research has identified New Zealand is a nation of SMEs and that there is a significant segment of ageing of business owners looking to exit their business. This section will build upon the previous section by defining and examining the entrepreneurial exit.

One thing is for certain, one way or another; all entrepreneurs will exit the firm that they created. As Minor so eloquently puts it “Finally, remember one inviolate truth: ever owner leaves his business. The question is, will you leave feet first on a stretcher, or will you sip champagne in victory?” (Minor, 2003) cited in (DeTienne & Cardon, 2012)

When examining entrepreneurial exit, the literature has examined both successful exits (Wright, Robbie, & Ennew, 1997) and those that were failures (Ucbasaran, Shepherd, Lockett, & Lyon, 2013). The research draws upon fields as diverse as; economics (Dunne, Roberts, & Samuelson, 1988), strategic management (Gimeno, Folta, Cooper, & Woo, 1997), finance (Zingales, 1998) and organisational psychology (DeTienne, Shepherd, & De Castro, 2008) and is strongly connected to the family business literature (Dyer & Handler, 1994; Salvato, Chirico, & Sharma, 2010) (Leroy & Meuleman, 2007).

As the entrepreneur and the business are separate entities they may exit together or independently. For example, if an owner passes the firm on to family or sells it, the owner exits while the business continues to exist under new ownership. Alternatively, if the owner liquidates the business, both the owner and the business will simultaneously exit. (Martina Battisti & Okamuro, 2010; Wennberg, Wiklund, DeTienne, & Cardon, 2010)

The entrepreneurial exit is defined by DeTienne (2010) as “the process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degree, from the primary ownership and decision-making structure of the firm.” This is supported by Goodchild et al. (2003) who find that the exit is the transfer of the business resources and or management from the business owner to a third party through, passing on, liquidation or sale. Therefore, succession is an important long-term strategic consideration for all businesses. Thus, succession in small business is worthy of significant attention.

Research has identified that people enter entrepreneurship and own and operate their businesses for numerous and varied reasons, Wennberg et al. (2010) cite research by (Carter, Gartner, Shaver, & Gatewood, 2003; Shane, 2003; Taylor, 1999) that these reasons include desire to exploit a perceived opportunity, seeking autonomy or self-realization, or a lack of alternative employment.

Therefore, as wide and varied are the reasons to enter entrepreneurship Wennberg et al. (2010) argue that is reasonable to assume that there are similarly various
reasons for people to exit entrepreneurship and that exit is a “multidimensional phenomenon”.

This “multidimensional phenomenon” - the entrepreneurial exit, may occur at any time during the entrepreneurial journey and presents that an entrepreneur could make an exit decision before the firm is even founded or conversely, the entrepreneur might not consider exit until late in his or her life (DeTienne, 2010).

The exit of the entrepreneur is as Brockhaus (1975) argues an important and often overlooked part of the entrepreneurial lifecycle. This is supported by DeTienne (2010) who quotes (Holmberg, 1991) “a central part of the new venture value creation efforts hinges on the ability to harvest that value at some point(s) in the future”

Therefore, as much as there may be a plethora of reasons for an entrepreneurial exit, Wennberg et al. (2010) present that the exit of the entrepreneur can be viewed as both a career choice and as liquidation of a financial asset. Furthermore, the entrepreneurial exit process can have a significant impact on the entrepreneur, firm, potential owners, competitive market and economies through the redistribution of wealth, labour and opportunities (DeTienne, 2010; Goodchild et al., 2003; Holmberg, 1991).

For the entrepreneur, the exit is not only a liquidity event that provides a mechanism to realise capital built up in the enterprise, which for a number of business owners this will provide funds for retirement. Building on Holmberg, DeTienne (2010) identifies the exit of an entrepreneur having “a significant effect on the entrepreneur, the firm, competitive market dynamics and economies through wealth redistribution”.

It may also have profound psychological implications for the founder as they relinquish ownership of the enterprise. This sense of psychological ownership is due to a strong sense of possessiveness and of being psychologically tied to the venture that they have created (DeTienne, 2010; Ip & Jacobs, 2006; Leroy & Meuleman, 2007; Sawers & Whiting, 2010).

Kirkwood and Harris (2011) found that 60% of the participants in their research into Dunedin New Zealand based SMEs were planning on exiting their business in the near future. They also cite research by Grant Thornton Accounting that asserts that 51% of SME owners expected their business ownership would change in 10 years (Grant Thornton, 2006).

This sentiment is echoed globally, research by MassMutual and Andersen (2007) of family-owned businesses in the United States identified that within 10 years, 40.3% of business owners expect to retire, and 45.5% of these of these owners are expecting to retire within in five years. This is supported by Barlow Research Associates Inc., cited by Simon (2015) who found that almost “one-third of owners of businesses with $100,000 to $10 million in annual sales anticipate a change in company ownership in the next five years”.

Further research from the United States, (Jusko, 2005) cited by Kirkwood and Harris (2011) found that of 364 CEOs of fast growing companies 60% intended to step down within 10 years and less than a quarter of these had given their succession any serious thought. Furthermore, Kirkwood and Harris (2011) cite Canadian research (Bruce & Picard, 2006) which found that from a sample of 4,311 SME business owners, 71% planned to either exit or transfer ownership within 10 years, yet only 7% had a formal succession plan.

Therefore from a “business development perspective, ownership succession is critical to the long-term nature of businesses ownership” (Goodchild et al., 2003b) and thus has implications relating to planning and preparation regardless of exit modality.

In conclusion, this section identified that; entrepreneurs exit businesses for a range wide and varied range of reasons and that the exit is “multidimensional phenomenon”. The entrepreneur and the firm are separate entities that may exist independently of each other. However, the firm may continue to exist without the entrepreneur. Ultimately the exit of the entrepreneur is inevitable. The research identifies that a significant proportion of entrepreneurs intend to exit their business within the short term, also it identifies that there is a lack of preparation for the exit.

Exit options

Ryan and Power (2012) identify “Understanding the factors which lead an owner-manager to choose a particular exit strategy may help us to improve the number of successful transfers, which in turn may increase the number of active firms in the economy, leading to economic and employment growth.”

Business owners face a significant choice when considering the exit options available to them. Martina Battisti and Okamura (2010) identify three broad exit modes – Selling, passing on and closing. Ip and Jacobs (2006) draw attention to research by Hawkey (2002), Sherman (2003) and Co-Operatives (2003) that outline nine forms of ownership transfers which fit within the modes presented Battisti et al.

Martin et al. (2002) present a model displaying the connection between succession and business health (figure 3-2) this model assumes that an unsuccessful succession is associated with insolvency. As many are involuntary and are categorised as a succession failure.

Conversely, Wennberg et al. (2010) combines existing theoretical models by Kyle, Ou-Yang, and Xiong (2006), Shefrin and Statman (1985) and Van Witteloostuijn (1998) to argue that rather than assume that a business exit equates with either a failure or success, that exits maybe be the result of either failure as well as success. As such define four exit routes: “exit by liquidation of high or low performing firms (harvest liquidation, distress liquidation) and exit by sale of high or low performing firms (harvest sale, distress sale.)”.
### Succession

- Family succession;
- Benevolent successions/disposals – when the owner gives the business to employees, or sells it to them under favourable conditions;

### Sale

- Trade Sale
- Management buy-ins and buy-outs
- Franchising and licensing – where the owner sells the right to use the business' trademarks and systems in return for fees and royalties but is no longer responsible for financing the business;
- Public listing on stock exchanges;
- Mergers with another company; and
- Divestment and contracting out – where large companies sell off subsidiaries, or contract a service out and allow the workforce to buy a part of the business or undertake the contract themselves;

### Closing

- Cessation of trading.
- Liquidation.

---

**Transition to new ownership achieved**

<table>
<thead>
<tr>
<th>Present business health</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable or growing</td>
<td>Successful succession</td>
<td>Succession failure</td>
</tr>
<tr>
<td>Ailing</td>
<td>Transformation and innovation</td>
<td>Business failure</td>
</tr>
</tbody>
</table>

*Above: Modes of Ownership transfer (Ip & Jacobs, 2006)*

*Below: Relationship between succession and business health (Martin et al., 2002)*
The majority of New Zealand SME owners have a preference for selling over other exit modes. However, research suggests that it is a minority that achieve this (Martina Battisti & Okamuro, 2010).

Van Teeffelen and Uhlaner (2013) present that for the economy, the choice of a sale rather than liquidation is best. This is "as a change in ownership creates an opportunity for renewal, enhancing the vitality and performance of firms and, consequently, economies." Therefore they argue, that "economies as a whole are likely to profit more from the sale of a business than from its liquidation." And, that "liquidations are more likely to have a negative impact on immediate suppliers and employees of the affected firms".

It is not just insolvent firms that are liquidated; business owners may liquidate a profitable firm even when a sale may provide a better financial return. Wennberg et al. (2010) present that valid reasons may include "a desire for expediency, ageing or obsolete technology, inability to recognise a strategic buyer or a capital-intensive firm with most of the value residing in marketable assets."

Van Teeffelen and Uhlaner (2013) Assert that due to the ageing business owner demographic and their imminent retirement identify that there is a growing number of firms that could be liquidated due to the retirement of their owners. Therefore, they argue that this as a major threat in many Western economies (including New Zealand) that has the "potential to wipe out entire sectors, thereby leading to a substantial destruction of employment, loss of revenue, and destruction of tangible and intangible capital."

In conclusion, business owners face a choice when deciding upon an exit modality, as there is a breadth of options available to choose from. The exit modality chosen impacts not only the business owner as a vehicle to release capital from the firm but also the stakeholders in the firm and the wider economy. Therefore, economies prefer sales over liquidations as economies are more likely to profit the sale of a business than from its liquidation.

Succession Planning

The previous section outlined that the exit of the entrepreneur is ultimately inevitable and can have significant impact on the entrepreneur, firm, potential owners, competitive market and economies. Therefore this section will define succession planning.

Succession planning in can be defined as: “the process of planning for the future transition of ownership and/or management of the business.” It is a process that involves a mix of “personal, family, managerial and governance issues” (Kirkwood & Harris, 2011)

This is supported by Ip and Jacobs (2006) drawing on the findings of their broad review of over 400 articles on succession planning. Ip & Jacobs present Rothwell’s definition of business succession planning: “As any effort designed to ensure the continued effective performance of an organisation, division, department, or work group by providing for the development, replacement, and strategic application of key people over time” (Rothwell, 2010). As there is no shortage of exit modalities, succession planning can be applied as across all and any entrepreneurial exit.

Succession planning is an important long-term strategic consideration, which is not only critical to the long-term nature of business ownership but also to local economies. From a local economic perspective, it can reduce threats to the brought about through closures of businesses. From a business development perspective, “ownership succession can be seen as critical to the long-term nature of businesses the business and the financial and psychological position of the entrepreneur. (Goodchild et al., 2003; Ip & Jacobs, 2006) This is supported by Ayres (1990) who presents that succession planning is “the single most lasting gift that one generation can bestow on the next.” (Motwani, Levenburg, Schwarz, & Blankson, 2006)

Across the globe, entrepreneurs are increasingly looking to exit their business. (Bruce & Picard, 2006; Grant Thornton, 2006; Jusko, 2005; Kirkwood & Harris, 2011; MassMutual & Andersen, 2007; Simon, 2015). Yet, a significant proportion of these firms lack adequate succession plans and succession is often left to chance (Bruce & Picard, 2006; Ip & Jacobs, 2006; Motwani et al., 2006).

The succession planning is most often unique to the firm or entrepreneur as each succession plan is developed on a case-by-case basis. This is because, as the succession plan is developed as the entrepreneur faces the "multidimensional phenomenon" that is the entrepreneurial exit. Thus succession planning draws on a wide array of topics from finance to law, leadership to human resources, training to performance measurement (Ip & Jacobs, 2006; Kirkwood & Harris, 2011).

The current literature on business exit and succession planning has drawn a significant body of research across a broad and diverse range of industries. This is because in any business where continuity is desirable, succession planning
has a role to play. Therefore succession planning literature can be found across a range of industries as diverse as: accountancy, automobiles, construction, entrepreneurial firms, franchises and military etc. (Ip & Jacobs, 2006).

A broad review of the scholarly literature presents that there are three streams of research on business succession planning these are(Motwani et al., 2006);

- Stream #1 - Definition and overview of succession planning;
- Stream #2 - Developing and implementing conceptual models of succession planning strategies;
- Stream #3 - Culmination of the above, focusing on the assessment of succession planning that is taking place within the business.

This research is focused on stream 3; through focusing on the level of succession planning that is taking place within the business.

These streams of business succession planning literature fall into two categories. Firstly, research that is concerned with succession within family-owned businesses (Ayres, 1990; Dunemann & Barrett, 2004; Dyer & Handler, 1994; Morris, Williams, Allen, & Avila, 1997; Salvato et al., 2010) and secondly concerned with business that are not family-owned (Bruce & Picard, 2006; DeTienne & Cardon, 2012; Goodchild et al., 2003; Leroy & Meuleman, 2007; Van Teeffelen & Uhlaner, 2013).

As researchers Reid, Dunn, Cromie, and Adams (1999) identify family-owned firms tend to have different objectives when compared to non-family firms. Reid et al. continue that family firms are not a homogeneous cohort they are diverse and as such have a wide range of objectives and orientations that change over time. Family owned businesses are vital sources of employment and wealth in the communities that they operate.

As Trow (1961) outlines the general pattern of the succession planning of family-owned firms in his early examination. Succession begins to loom as a problem requiring action during the latter years of the entrepreneurs’ career. “If there is a son (or son-in-law or nephew) of the principal owner, then he is the first possible successor considered. If he appears to be interested and competent, then action is taken to assure his succession and to see that he gets adequate training: that is, a plan is formulated.” Ip and Jacobs (2006) paraphrase “If the son is too young, not interested in the business, or is considered to lack ability, succession is postponed. If, however, the owner departs, the son will become the successor regardless of any shortfalls. Only if the owner has no heir, will other persons from inside or outside the firm be considered for succession”

For family business, succession planning presents a number of issues some of which are outlined below; (Ip & Jacobs, 2006)

- Attracting successors from outside the business is difficult for family-owned firms
- The challenge of ensuring that the family successor can acclimatised to them firm’s past, present
- The unwillingness of the current incumbent to step aside;
- The potential successor’s aversion to taking over,
- Disagreement among family members,
- Non-acceptance of individual roles,
- Lack of adequate control of emotional issues necessary for maintaining trust between family members.
- Gender issues, the preference for sons rather than daughters to succeed often means that provisions for daughters to become successors is neglected

Ip & Jacobs cite researchers Welsch (1993) and Fiegner, Brown, Prince, and File (1994) who present that the key differences in succession planning between family and non-family-owned businesses are that family-owned firms “favour more personal, relationship-centered approaches to successor development. While the non-family-owned firms “prefer formalised, task-oriented development approaches.”

Regardless of family/non-family ownership the activities that the business undertakes related to succession planning as identified by Sharma, Chrisman, and Chua (2003) are in fact related to and form part of the succession (entrepreneurial exit) process.

This piece of research will focus on SMEs within New Zealand regardless of whether they are family-owned or non-family-owned.

Furthermore, (Christensen, 1953; Hayes & Adams, 1990; Morris et al., 1997; Trow, 1961) find that succession planning contributes to the chance of a successful entrepreneurial exit. It does this through the engagement of stakeholders, providing them with a sense of ownership. Furthermore, (Sharma et al.) present that the development of a succession plan implies that the exit process may proceed in an orderly fashion through, from pre-exit through the exit of the entrepreneur, to post exit. However, while succession planning improves the chance of a successful exit it does not guarantee it (Kirkwood & Harris, 2011). “Even if formal plans are developed and implemented, they will simply raise the chance of success and not guarantee it.” Therefore there is a level of risk related to succession planning, and even if a firm could mitigate and manage all the various factors, the problem then remains “how?” (Ip & Jacobs, 2006)

This section identified the three streams of research on business succession planning and identified that there was a broad categorisation of the literature to focus on either family-owned or non-family-owned firms and some of the peculiarities of each category. This research will focus
broadly on SMEs and investigate the level of succession planning that is taking place within the business.

In conclusion this section defined succession planning as “the process of planning for the future transition of ownership and/or management of the business” (Kirkwood & Harris, 2011) and identified that succession planning is an important long-term strategic consideration. Yet, a significant proportion of firms lack adequate succession plans and leave succession to chance. Furthermore, it also found that although succession planning improves to the chance of a successful entrepreneurial exit, does not guarantee it.

**Lack of Succession Planning**

Research by Sharma et al. (2003) found that succession planning is most important topic requiring the attention of the leadership of the respondent’s firm. Researchers agree and present that a lack of long-term succession planning appears to be the critical barrier to succession in most small businesses (Goodchild et al., 2003; Martin et al., 2002).

Kirkwood and Harris (2011) cite research by Grant Thornton (2006) that found the majority respondents had identified succession ambitions (64%) and taken external advice (63%). “However, less than half had prepared a succession plan (49%)”. This is consistent with the results presented by Sawers and Whiting (2010) citing (M Battisti & Massey, 2008) that found only 47% of New Zealand SME owners had an exit plan.

If firms are aware of the importance, then why is there a lack of succession planning? There are a number of reasons that business owners fail to plan for succession. The research into these barriers to succession planning has found conflicting results.

Some researchers attribute the lack of planning to the ‘soft’, personal or psychological issues due to the emotions generated by the process. As it forces incumbents to consider their mortality, while in family business it challenges other family members to face the need for change (Ip & Jacobs, 2006; Martin et al., 2002; Motwani et al., 2006).

While Ip and Jacobs (2006) also found that while the psychological issues cannot be overlooked. The complexities of tax finance and legal issues also present significant barriers to succession.

Conversely, research by Kirkwood and Harris (2011) held that tax, finance and legal issues were not considered to be barriers to succession planning and found that confidentiality issues were the most pertinent barrier to succession planning. Kirkwood and Harris present that confidentiality issues could indirectly support prior research that the personality of the owner is important.

In conclusion, entrepreneurs are aware of the importance of succession planning, however, they fail to plan for their succession. This section presented a range of research identifying each contending a different barrier to succession. The conflict in the research is not entirely unexpected as highlighted previously the exit of an entrepreneur is a “multidimensional phenomenon”. As such one could expect each individual and cohort to harbour their own and distinct barriers to succession planning.

**Succession failure**

Succession failure occurs when business is weakened or fails due to the inability of the incumbent entrepreneur to manage the succession process, or is not motivated to address the succession situation (Martin et al., 2002).

Ryan and Power (2012) cite research by the European Commission that acknowledged that the failure of succession was a significant point of concern. The research cites “there are 450,000 firms within the EU-27 successfully transfer between owners each year. However, of the 1.7 million firms which close each year 620,000 (or 37 per cent) attempt to transfer prior to closure; 470,000 of these firms fail to transfer for economic reasons (i.e. they have no valuable assets), while the remaining 150,000 (representing 600,000 jobs) close due to inefficiencies in the transfer (succession) process.” (Calogirou, Fragozidis, Duval, & Boulonne, 2010)

There is a number of factors for succession failure, the research following has outlined a number of them. By understanding potential pitfalls of succession failure it can provide a lens through which to understand how to plan for the entrepreneurial exit.

**Lifestyle rather than strategic Businesses:** Lifestyle businesses are prevalent within New Zealand, as Kiwis have a cultural tendency to grow their business to a level, and once they achieve the “Three B’s.” The “Bach, Boat, and BMW” they then lose interest in further development (Fry, 2009). These lifestyle businesses align the objectives and goals of the business with the personal goals of the entrepreneur thus creating what researchers have described it as a “self-imposed glass ceiling” (Fry, 2009).

However, business with strategic and growth objectives are inherently more saleable than the business that focuses upon primarily achieving objectives related to personal and lifestyle of the owner, (such as “Three B’s.”).

The lifestyle business entrepreneur often faces challenges when coming to the sale of their business due to their often inflated price, lower demand and often relatively poor performance which contributes to the poor salability (Martin et al., 2002).

**Poor business performance:** A poor performing firm loses its appeal to buyers unless it is attractive because of its assets. As outlined above, lifestyle businesses because of their lack of objective strategic focus often have relatively poor performance (Martin et al., 2002)

**Dependence upon the owner:** The dependence of the firm on the entrepreneur for their knowledge, skill set, professional qualifications and key customer relationships
results in businesses being vulnerable to succession failure. This restricts the number of potential purchasers as they need to have a similar skill set to that of the incumbent (Martin et al., 2002).

**No natural family or internal successor available:** It is a challenge for incumbents to attract and keep qualified and motivated successor as they are competing with other firms where career opportunities or long-term rewards are better defined for potential successors (Goodchild et al., 2003). In competitive family-owned firms, potential family successor may not be the best for the firm (Martin et al., 2002).

**Ignoring the need to make arrangements for succession:** As previously identified business owners are aware of succession planning and its importance. Research suggests that the time frame for a planned entrepreneurs exit is typically between three and ten years (Ip & Jacobs, 2006).

Without allowing the time frame to allow for a staged build up and withdrawal of capital this creates limitations on the ability for an employee to succeed an existing incumbent.

For a number of business owners, an impending retirement could limit the potential for planned succession. Therefore, “leaving business closure as the main means of retirement” (Goodchild et al., 2003).

In conclusion, this section identified a number of factors that increase the vulnerability of SMES to succession failure. Of prime importance is the fact that the majority of SME owners focus on short-term issues rather than taking a long term strategic view. A long-term view is critical influencing factor in mitigating the other vulnerabilities identified.

**Importance of Successful transfer for NZ**

As outlined previously New Zealand is a nation of small businesses. SMEs make up 97% of all firms in the country, contribute 27% of the GDP and provide employment to nearly 600,000 New Zealanders (New Zealand Ministry of Business Innovation & Employment, 2015; Statistics New Zealand, 2014, 2015a).

Small business owners are ageing and are looking to exit their firms in increasing numbers due to retirement. Therefore as outlined previously this “shift in the demographic profile may have profound consequences for individuals and the country alike, in terms of firm survivability, firm market valuations, retirement conditions and employment statistics.” (Sawers & Whiting, 2010).

There is no dataset available that measures succession failure in New Zealand. However, the European Commission found that across the European Union “Thousands of economically sound businesses, mainly small and medium sized enterprises (SMEs), disappear every year because they fail to overcome the difficulties involved in the transfer of ownership.” (Calogirou et al., 2010). The number of these business that have a succession failure due to inefficiencies is estimated to be in the region of 150,000 firms that employ more than 600,000 employees (Calogirou et al., 2010)

Although not quantified, research has identified that the loss of these firms through succession failure effects the economy as a whole particularly when the specialized knowledge and skill set is lost as a result of succession failure is not replaced in the national economy (Bruce & Picard, 2006; Kirkwood & Harris, 2011; Martin et al., 2002)

Bruce and Picard (2006) identify that through the succession failure these businesses will exert significant pressure on the economy through employment, economic output, and business formation. This is due to the changing demographics of business owners, the high failure rate of successful transfer and the businesses, post-succession.

Conversely, Kirkwood identifies that “a successful succession contributes to the local community as the exiting owner is more likely to contribute expertise (and potentially investment) back into other businesses, and the new ‘ambitious’ owners are able to focus on innovation and new ways to grow the operation because the business is handed over in a measured and organized fashion” (Kirkwood & Harris, 2011).

In conclusion, this section has identified that there is a significant potential downside for an economy due to the failure of businesses to achieve a successful transition. Conversely, there is a significant upside to successful succession. Therefore, it is a significant benefit for New Zealand researchers, policy makers and business owners to ensure that successful transitions take place.
Summary

Through a review of the current literature surrounding ageing entrepreneurs, their exit and succession planning, this chapter built upon the background and provided a basis for further examination.

In summary, New Zealand is a Nation of SMEs. Collectively SMEs contribute significantly to the national economy. The population and business owners are experiencing a demographic shift, they are ageing. Previous research identified that this shift in demographic “shift in the demographic profile may have profound consequences for individuals and the country alike, in terms of firm survivability, firm market valuations, retirement conditions and employment statistics.” Therefore it is pertinent for researchers, policy makers and business owners to understand the impact that succession planning can have and conversely the potential for negative outcomes that comes with a lack of succession planning.

Like ageing of the broad population, business owners are getting older and are looking to exit their business within the short term. This section presents mainstream media reports from that identified that although this problem is widely known, business owners delay preparing for succession.

It is noted that entrepreneurs exit businesses for a range wide and varied range of reasons and that the exit is “multidimensional phenomenon”. Ultimately, the exit of the entrepreneur is inevitable. The research identifies that a significant proportion of entrepreneurs intend to exit their business within the short term, also it identifies that there is a lack of or delay in preparation for the exit.

Business owners face a choice when deciding upon an exit modality, however, the exit modality chosen impacts not only the business owner as a vehicle to release capital from the firm but also the stakeholders in the firm and the wider economy. Prior research identified that as economies are more likely to profit the sale of a business than from its liquidation. Therefore, economically there is a preference for sale over liquidation.

The literature review found that succession planning improves to the chance of a successful entrepreneurial exit, but does not guarantee it. Succession planning is defined as “the process of planning for the future transition of ownership and/or management of the business” (Kirkwood & Harris, 2011) Furthermore, the literature review identified that succession planning is an important long-term strategic consideration, yet, a significant proportion of firms lack adequate succession plans and leave succession to chance.

There were factors identified that increase the vulnerability of SMEs to succession failure. However, the majority of SME owners focus on short-term issues rather than taking a long-term strategic view. This is seen as a prime barrier to succession as a long-term view is critical in mitigating the other vulnerabilities identified.

The literature review further identified that there is a significant potential downside for an economy due to the failure of businesses owners and firms to achieve a successful transition. Conversely, there is a significant upside to successful succession.

In conclusion, report identified from the current literature, given the changing demographics, there is clearly a need for further examination into New Zealand SME owners and their exit intentions and preparedness (or lack of) for succession.
“A goal without a plan is just a wish.”
Antoine de Saint-Exupéry
Research Methodology

This chapter provides an overview of the research process including the aim of the research and the design of the research. This chapter also identifies ethical considerations.

Aim of the Research

The aim of this research is to be an exploratory study that provides a basis for understanding how ready SME business owners are for their eventual exit from the business and provides a foundation for further research.

Objectives

To capture data through an exploratory study to allow the examination of the preparedness of the business owners for the exit of their businesses.

To evaluate the following research questions:

- Q1 - There is a positive relationship between the age of the business owner and the preparedness for a successful business exit. Older business owners are more likely to be prepared for their exit than younger business owners.
- Q2 - There is a positive relationship between the age of the business owner and exit timeframe intentions. Older business owners are more likely to exit their businesses in the short term. This may seem obvious however previous research (M Battisti & Massey, 2008; Goodchild et al., 2003; Kirkwood & Harris, 2011) has not tested this.
- Q3 There is a positive relationship between the size and age of the firm and formalised succession plans.

Research Process

The purpose of this exploratory survey is to provide a well-grounded picture of the level of preparation that business owners have undertaken for their exit and eventual succession. It was designed to provide insights to the research questions outlined above and provide a basis to build further research upon.

Data collection

Data was collected via an online survey. It was decided to use an online survey as it provided both a cost effective and timely collection tool that could reach business owners across New Zealand with minimal fuss. As there was no database of SMEs available to develop a statistically viable sample from a link to the survey was generated and distributed via email, social media and through business support groups such as the Horowhenua District Councils Economic Development Office.

The survey had 29 questions. The first section consisted of 8 questions that captured demographic information about the respondent and their firm. The remaining questions consisted of a number of multi-choice questions and 16 Likert scale questions to tested how prepared the respondent was for the exit.

The design of the Likert questions was informed by research by Kirkwood (2010) who examined the succession planning process of SMEs in Dunedin New Zealand. (A copy of the survey is included in Appendix)

Responses were collected from the 23rd of February through to the 13th of March 2016. In total, there was a total of 179 respondents.

Ethical Considerations

An ethical consideration was given to the design of the survey and flagged the following as ethical issues, anonymity, confidentiality and informed consent.

To ensure anonymity, no record of the identity of the person who responds to the survey and the survey is designed not to record the IP address of respondents.

To ensure confidentiality the raw data is stored in a password protected database only accessible to the researcher.

Prior to participants partaking in the research, they were provided with information about the study, their rights and the contact details of both the researcher and the Massey Human Ethics Committee.

This research was submitted to the Human Ethics Committee and approved as a low level risk.

Data Analysis

Data collected through this study was collected using an online form, which provided the raw data as an excel spreadsheet. The data was coded and imported into SPSS. SPSS is an IBM statistical package that allowed for processing and further analysis.
Research Results

The research was conducted using an anonymous online survey that collected responses over 19 days from the 23rd of February through until the 13th of March 2016. An exploratory approach was chosen due to time constraints and the lack availability of a suitable dataset to create a randomised sample. Therefore the survey was shared via email and social media.

The survey collected demographic data of the respondent and their business over the first 8 questions and the remaining 19 questions related to how the business was prepared for the respondent’s exit.

In total, there were 179 respondents, of these respondents there were 11 that were discounted as they were not current business owners or self-employed. Returning 168 total respondents.

Demographics

Sex

There was an even split between male and female respondents with 49.4% respondents being female.

Age

The respondents were spread in their age with one respondent under the age of 17 and three over the age of 75. The median age group for all respondents was 56-60. The median age group for Female respondents was 46-50 and for Male respondents 56-60. Over 52.3% (n. 55) of all respondents are aged over 51.

Age of Respondent

<table>
<thead>
<tr>
<th>Age of Respondent</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid 17 or younger</td>
<td>1</td>
<td>.6</td>
<td>.6</td>
<td>.6</td>
</tr>
<tr>
<td>21-25</td>
<td>1</td>
<td>.6</td>
<td>.6</td>
<td>1.2</td>
</tr>
<tr>
<td>25-30</td>
<td>10</td>
<td>5.6</td>
<td>6.1</td>
<td>7.4</td>
</tr>
<tr>
<td>31-35</td>
<td>12</td>
<td>7.2</td>
<td>7.4</td>
<td>14.7</td>
</tr>
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<td>36-40</td>
<td>13</td>
<td>7.9</td>
<td>8.0</td>
<td>22.7</td>
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<td>41-45</td>
<td>15</td>
<td>8.4</td>
<td>9.2</td>
<td>31.9</td>
</tr>
<tr>
<td>46-50</td>
<td>24</td>
<td>13.8</td>
<td>14.7</td>
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<tr>
<td>51-55</td>
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<td>16.4</td>
<td>17.8</td>
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<td>56-60</td>
<td>20</td>
<td>11.6</td>
<td>12.3</td>
<td>76.7</td>
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<td>61-65</td>
<td>15</td>
<td>8.9</td>
<td>9.2</td>
<td>85.9</td>
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<td>7.0</td>
<td>7.4</td>
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<td>71-75</td>
<td>7</td>
<td>4.1</td>
<td>4.3</td>
<td>97.5</td>
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<td>75 plus</td>
<td>4</td>
<td>2.4</td>
<td>2.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
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<td>91.1</td>
<td>100.0</td>
<td></td>
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<td>Not Given</td>
<td>16</td>
<td>8.9</td>
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<tr>
<td>Total</td>
<td>179</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Status

Most (70.8% n.119) respondents describe themselves as business owners however 29% (n. 49) of respondents describe themselves as self-employed.
## Status of Respondent

<table>
<thead>
<tr>
<th>Status of Respondent</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-employed</td>
<td>49</td>
<td>29.2</td>
<td>29.2</td>
<td>29.2</td>
</tr>
<tr>
<td>Business Owner</td>
<td>119</td>
<td>70.8</td>
<td>70.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>168</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

## Business information

### Age of Firm

The age of firms ranged from those that had just formed, starting in 2016 to one firm that was over a 105 years old. The mean age of firms was 17.38 years and the standard deviation is 15.468.

<table>
<thead>
<tr>
<th>Age of Firm</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of firm</td>
<td>170</td>
<td>0</td>
<td>106</td>
<td>17.38</td>
<td>15.468</td>
</tr>
<tr>
<td>Valid (listwise)</td>
<td>170</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Location of Business

The responses came from all regions across New Zealand, with the exception of Marlborough, Southland, Tasman and the West Coast. The majority (57.9% n=106) of respondents were from the Lower North Island, Wellington, Kapiti and Horowhenua. The most probable reason for this is the authors business networks are most strong across this region and due to the way in which respondents were recruited this created a bias towards respondents from the Lower North Island.

### Number of Employees

SMEs make up 79.6% (n=125) of respondents. These SMEs employ less than 19 staff. There were a significant number (n=22 12.3%) of respondents who did not answer this question.

### Annual Revenue

The revenues reported spread from firms with less than $30,000 in annual revenue through to five firms that reported revenues greater than $10 million with the majority (47.6% n=80) reporting annual revenues between $30,000 and $499,000. The median revenue was between $30,000 and $499,000.

![Annual Revenue of Respondents](image-url)
### Annual Revenue

#### Annual Revenue All respondents

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $30,000</td>
<td>12</td>
<td>7.1</td>
<td>7.4</td>
</tr>
<tr>
<td>$30,000 - $499,999</td>
<td>80</td>
<td>47.6</td>
<td>49.1</td>
</tr>
<tr>
<td>$500,000 - $1 million</td>
<td>20</td>
<td>11.9</td>
<td>12.3</td>
</tr>
<tr>
<td>$1 million - $3 million</td>
<td>34</td>
<td>20.2</td>
<td>20.9</td>
</tr>
<tr>
<td>$3 million - $5 million</td>
<td>12</td>
<td>7.1</td>
<td>7.4</td>
</tr>
<tr>
<td>Greater than $10 million</td>
<td>5</td>
<td>3.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Total</td>
<td>163</td>
<td>97.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $30,000</td>
<td>12</td>
<td>7.1</td>
<td>7.4</td>
</tr>
<tr>
<td>$30,000 - $499,999</td>
<td>80</td>
<td>47.6</td>
<td>49.1</td>
</tr>
<tr>
<td>$500,000 - $1 million</td>
<td>20</td>
<td>11.9</td>
<td>12.3</td>
</tr>
<tr>
<td>$1 million - $3 million</td>
<td>34</td>
<td>20.2</td>
<td>20.9</td>
</tr>
<tr>
<td>$3 million - $5 million</td>
<td>12</td>
<td>7.1</td>
<td>7.4</td>
</tr>
<tr>
<td>Greater than $10 million</td>
<td>5</td>
<td>3.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Total</td>
<td>163</td>
<td>97.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

#### Exit Time Intentions

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes - within 5 years</td>
<td>61</td>
<td>34.1</td>
<td>38.4</td>
</tr>
<tr>
<td>Yes - between 5 and 10 years</td>
<td>34</td>
<td>19.0</td>
<td>21.4</td>
</tr>
<tr>
<td>Yes - within 15 years</td>
<td>24</td>
<td>13.4</td>
<td>15.1</td>
</tr>
<tr>
<td>No - Do not intend to exit in the foreseeable future</td>
<td>40</td>
<td>22.3</td>
<td>25.2</td>
</tr>
<tr>
<td>Total</td>
<td>159</td>
<td>88.8</td>
<td>100.0</td>
</tr>
</tbody>
</table>

#### Exit Time Intention

**Age and Exit Intention**

The age of owner was tested for a correlation with exit intention. This found that there is a significant relationship between Age and exit intention. A moderate negative correlation was found. This shows that as business owners increase age their intention to exit in the short term increases.

#### Correlations

**Correlations of business owners aged 51 plus**

<table>
<thead>
<tr>
<th>Age of Business owner</th>
<th>Exit Time Frame Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>.426**</td>
<td>87</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
<td>78</td>
</tr>
</tbody>
</table>

**Correlation between Business Owners Age and Exit Time Frame for respondents over 51 years of age**

**. Correlation is significant at the 0.05 level (2-tailed).**

**Correlations of business owners aged 50 and under**

<table>
<thead>
<tr>
<th>Age of Business owner</th>
<th>Exit Time Frame Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>-.180</td>
<td>105</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.081</td>
<td></td>
<td>95</td>
</tr>
</tbody>
</table>

**Correlation between Business Owners Age and Exit Time Frame for respondents under 50**

**. Correlation is significant at the 0.01 level (2-tailed).**

#### The Entrepreneurial Exit

**Exit Intention.**

Respondents were asked to indicate time frame that they intend to exit the firm. The majority of respondents 38.4% (n. 61) indicated that they would prefer to exit within 5 years. This number jumps to 59.7% (n.95) indicated that they would prefer to exit within 10 years. However, 25.3% of respondents indicated that they do not intend to exit within the foreseeable future.

The data was then separated in by age, the first group aged 51 and older and the second group aged 50 and under. The correlation tests were then re calculated. For the group aged 51 and older the significant held and the negative correlation slightly strengthened. The second group aged 50 and under found that the was not a statistical relationship and that the correlation changed to be a negative weak correlation.

#### Exit Time and Owner Age Correlation

The exit intention separated by age is presented in the following graph.
Exit intention by age

Above: Exit Intention by Age
Below: Preference for Exit Modality

<table>
<thead>
<tr>
<th>Preference for Sale of Business</th>
<th>Preference for Liquidation of Business</th>
<th>Preference for Passing on Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most Preferred</td>
<td>Preferred</td>
<td>Least Preferred</td>
</tr>
<tr>
<td>Count</td>
<td>92</td>
<td>39</td>
</tr>
<tr>
<td>Row N %</td>
<td>63.4%</td>
<td>26.9%</td>
</tr>
</tbody>
</table>

Exit motivation

When asked what would be the motivation to exit their business the majority 62.6% (n.102) indicated that retirement would be the main motivating factor for exiting their business. Entering a new venture is the second most popular exit motivation 28.2% (n.46).

Exit Motivation

<table>
<thead>
<tr>
<th>Exit Motivation</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Financial Distress</td>
<td>7</td>
<td>3.9</td>
<td>4.3</td>
<td>4.3</td>
</tr>
<tr>
<td>New Venture</td>
<td>46</td>
<td>25.7</td>
<td>28.2</td>
<td>32.5</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>1.1</td>
<td>1.2</td>
<td>33.7</td>
</tr>
<tr>
<td>Retirement</td>
<td>102</td>
<td>57.0</td>
<td>62.6</td>
<td>96.3</td>
</tr>
<tr>
<td>Seek Employment</td>
<td>6</td>
<td>3.4</td>
<td>3.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>163</td>
<td>91.1</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
<td>16</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>179</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Preferred exit mode.

Respondents were asked to rank their preference of exit modality and were offered three choices: The sale of the business, the liquidation of the business, and passing the business on. The sale of the business was the most preferred exit modality with 63.4% (n. 92) of respondents indicating this preference. 26.8% (n.34) indicated that passing the business on was most preferred while 13.8% indicated that their preference upon exit would be for liquidation of the business.

Business owners also indicated their least preferred option with 65.9% of respondents indicating that liquidation was their least preferred exit modality.
The Firm

Current Business Practice

When asked about their current business practices respondents indicated that 90.5% of business employ the services of an accountant, 59.5% a lawyer, 19% a board of directors, 14.9% a business mentor 7.7% a board of advisors and business coach.

38.7% of businesses have a written business plan, 32.7% have a shareholders agreement, 24.4% have an informal succession plan and only 8.9% have a written succession plan.

<table>
<thead>
<tr>
<th>Current Business Practice</th>
<th>Board of Directors</th>
<th>Board of Advisors</th>
<th>Lawyer</th>
<th>Accountant</th>
<th>Business Mentor</th>
<th>Shareholder Agreement</th>
<th>Written Succession Plan</th>
<th>Informal Succession Plan</th>
<th>Business Coach</th>
<th>Written Business Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>Valid</td>
<td>Missing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>32</td>
<td>13</td>
<td>100</td>
<td>152</td>
<td>25</td>
<td>55</td>
<td>15</td>
<td>41</td>
<td>13</td>
<td>65</td>
</tr>
<tr>
<td>Missing</td>
<td>136</td>
<td>155</td>
<td>68</td>
<td>143</td>
<td>113</td>
<td>153</td>
<td>127</td>
<td>155</td>
<td>103</td>
<td></td>
</tr>
<tr>
<td>Valid %</td>
<td>19.0%</td>
<td>7.7%</td>
<td>59.5%</td>
<td>90.5%</td>
<td>14.9%</td>
<td>32.7%</td>
<td>8.9%</td>
<td>24.4%</td>
<td>7.7%</td>
<td>38.7%</td>
</tr>
<tr>
<td>Total</td>
<td>168</td>
<td>168</td>
<td>168</td>
<td>168</td>
<td>168</td>
<td>168</td>
<td>168</td>
<td>168</td>
<td>168</td>
<td>168</td>
</tr>
</tbody>
</table>

Percentage of Respondents that have

- Under 50 years of age
- 51 years and older
Respondents Perspective

Respondents were presented with 16 statements regarding business practices and exit preparation and asked to answer the question by indicating their agreement using a five point Likert scale (strongly disagree, disagree, neutral, agree, and strongly agree). The results of which are outlined in the table below.

46% of respondents agree that planning for their exit is important (29.3% agree n.49 and 16.2% strongly agree n.27)

To give broad measure of the level of preparedness the mean answer to the 16 questions was calculated and then separated by broad age grouping.

<table>
<thead>
<tr>
<th>Very poor</th>
<th>Poor</th>
<th>Neutral</th>
<th>Good</th>
<th>Very good</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 50 years</td>
<td>14.08%</td>
<td>28.17%</td>
<td>21.13%</td>
<td>29.58%</td>
</tr>
<tr>
<td>Over 51 Years</td>
<td>11.27%</td>
<td>19.72%</td>
<td>28.17%</td>
<td>30.99%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Planning for my exit from my business is important</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>22</td>
<td>52</td>
<td>49</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>10.20%</td>
<td>13.20%</td>
<td>31.10%</td>
<td>29.30%</td>
<td>16.20%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The proceeds from the exit of my business will fund my retirement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>22</td>
<td>52</td>
<td>49</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>10.20%</td>
<td>13.20%</td>
<td>31.10%</td>
<td>29.30%</td>
<td>16.20%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>My business has a succession plan</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>34</td>
<td>45</td>
<td>38</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>14.80%</td>
<td>21.00%</td>
<td>27.80%</td>
<td>23.50%</td>
<td>13.00%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The succession plan is informal (not written)</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>35</td>
<td>48</td>
<td>55</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>7.90%</td>
<td>21.20%</td>
<td>29.10%</td>
<td>33.30%</td>
<td>8.50%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The succession plan is a written document</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>22</td>
<td>32</td>
<td>72</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>8.50%</td>
<td>13.40%</td>
<td>19.50%</td>
<td>43.90%</td>
<td>14.60%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I have talked with my existing advisors (e.g. Lawyer, Accountant) about exiting my business</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>47</td>
<td>52</td>
<td>34</td>
<td>19</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>29.20%</td>
<td>32.30%</td>
<td>21.10%</td>
<td>11.80%</td>
<td>5.60%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consulted Specialist Advisors</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>39</td>
<td>24</td>
<td>49</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>16.90%</td>
<td>23.50%</td>
<td>14.50%</td>
<td>29.50%</td>
<td>15.70%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Discussed the exit with business partner/s</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>43</td>
<td>52</td>
<td>33</td>
<td>25</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>26.20%</td>
<td>51.70%</td>
<td>20.10%</td>
<td>15.20%</td>
<td>6.70%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I have involved family members in succession planning</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>27</td>
<td>19</td>
<td>51</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>11.50%</td>
<td>16.40%</td>
<td>11.50%</td>
<td>30.90%</td>
<td>29.70%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I have prepared the business for sale ( e.g. Documentation, Valuation)</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>24</td>
<td>35</td>
<td>56</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>10.30%</td>
<td>14.50%</td>
<td>21.20%</td>
<td>33.90%</td>
<td>20.00%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>We have presented proposed succession to staff</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>49</td>
<td>34</td>
<td>25</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>24.20%</td>
<td>29.70%</td>
<td>20.60%</td>
<td>15.20%</td>
<td>10.30%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I have identified a potential successor</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>61</td>
<td>57</td>
<td>25</td>
<td>16</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>37.70%</td>
<td>35.20%</td>
<td>15.40%</td>
<td>9.90%</td>
<td>1.90%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I the successor is aware of my plans</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>42</td>
<td>39</td>
<td>39</td>
<td>26</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>25.60%</td>
<td>23.80%</td>
<td>23.80%</td>
<td>15.90%</td>
<td>11.00%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I have considered cash flow considerations due to retirement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>28</td>
<td>37</td>
<td>53</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>10.90%</td>
<td>17.00%</td>
<td>22.40%</td>
<td>32.10%</td>
<td>17.60%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I have actively involved family members in the succession plan</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>33</td>
<td>36</td>
<td>45</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>13.60%</td>
<td>20.40%</td>
<td>22.20%</td>
<td>27.80%</td>
<td>16.00%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I have considered tax implications of the exit</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>36</td>
<td>33</td>
<td>50</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>11.60%</td>
<td>22.00%</td>
<td>20.10%</td>
<td>30.50%</td>
<td>15.90%</td>
<td></td>
</tr>
</tbody>
</table>
“If you don’t know where you are going, you’ll end up someplace else.”

Yogi Berra
Discussion of Results

The previous chapter outlined the findings of the anonymous online survey of business owners and the entrepreneurial exit. This chapter will discuss these results and complete analysis in line with the three research questions identified in Chapter 1. This chapter will compare the reviewed literature with the research findings.

Age and level of preparation

The first research question proposed, “There is a positive relationship between the age of the business owner and the preparedness for a successful business exit. Older business owners are more likely to be prepared for their exit than younger business owners.”

Through a review of the literature found that succession planning improves to the chance of a successful entrepreneurial exit, but does not guarantee it. As outlined previously in chapter three, succession planning is defined as “the process of planning for the future transition of ownership and/or management of the business” (Kirkwood & Harris, 2011).

Furthermore, the literature review identified that succession planning is an important long-term strategic consideration. The literature also holds that there is a connection between succession planning and the age business owners. The research holds owners who are in their late 50s are most vulnerable to succession failure (Ip & Jacobs, 2006; Martin et al., 2002; McCarthy, 1996). This is of concern, as the median age of respondents was 56-60. This is consistent with those found by (Grant Thornton, 2006; Weber & Schaper, 2004).

The literature identified research by Sharma et al. (2003) that found that succession planning is most important topic requiring the attention of the leadership of the respondent’s firm. This was supported by this research that found, 46% of respondents agree that planning for their exit is important. Yet, a significant proportion of firms lack adequate succession plans and leave succession to chance.

Current Business Practice.

8.9% (n.15) of respondents indicated having a written succession plan and 24.4% (n. 41) indicate that they have an informal succession plan.

The below graph shows that business owners under the age of 50 are more likely to have a written succession plan 10.8% (n.8) than their counterparts over the age of 51 7.4% (n.6). However, respondents over the age of 51 are more likely to report having an informal succession plan 24.7% (n.20) than those under 50 20.3% (n.15).

Current Business Practice & Exit Intention

<table>
<thead>
<tr>
<th></th>
<th>Yes - within 5 years</th>
<th>Yes - between 5 and 10 years</th>
<th>Yes - within 15 years</th>
<th>No - Do not intend to exit in the foreseeable future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has Written Succession Plan</td>
<td>9.84%</td>
<td>5.88%</td>
<td>17.39%</td>
<td>2.56%</td>
</tr>
<tr>
<td>Has Informal Succession Plan</td>
<td>24.59%</td>
<td>35.29%</td>
<td>30.43%</td>
<td>15.38%</td>
</tr>
</tbody>
</table>

Respondents Perspective

To gauge the respondents understanding of succession planning and the level of preparation respondents were presented with 16 statements regarding business practices and exit preparation and asked to answer the question by indicating their agreement using a five point Likert scale (strongly disagree, disagree, neutral, agree, strongly agree). The mean of the results of these questions was then calculated to provide a variable “level of preparation” that provides an insight to the level of preparation of each respondent. This variable was then used to test for a correlation between the age of the respondent and the level of business owner.

As is shown in the table above there is a weak positive correlation .159. However, as the Sig. (2-Tailed) value is .061 is greater than .05 we can conclude there is no correlation between the age of respondent and the level of preparation.
Correlations

<table>
<thead>
<tr>
<th>Age of Business owner</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>.159</td>
<td>155</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level of preparation of preparation</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.159</td>
<td>.061</td>
<td>140</td>
</tr>
</tbody>
</table>

Correlation of the Age of Business Owner and Level of Preparation.

Summary

To address the question in summary “There is a positive relationship between the age of the business owner and the preparedness for a successful business exit. Older business owners are more likely to be prepared for their exit than younger business owners.”

The research found that although business owners are aware of the importance of succession planning there is a significant lack of both formal and informal succession planning across all age groups.

Furthermore, an examination of the data found that there was not statistically significant correlation between the age of business owners and the level of preparation.

Age and Exit Intention

The second research question proposed, “There is a positive relationship between the age of the business owner and exit timeframe intentions. Older business owners are more likely to exit their businesses in the short term.”

As previously identified, the exit of an entrepreneur was found to be an age-related event and directly connected with the entrepreneurs’ life journey. Jackson (2011) identifies “the story is not one of ‘if’ the boomers retire, but rather that even if some substantially delay that retirement, it will happen”.

Exit Intention

Previous research looking at SMEs in New Zealand has identified broad timeframes for an exit but fail to identify exit intentions by age. This fails to provide critical data around the different age groups and their exit intention. This information is pertinent for business owners, policy makers and business researchers.

When asked to indicate the time frame that they intend to exit the firm. The majority of respondents 38.4% (n. 61) indicated that they would prefer to exit within 5 years. This number jumps to 59.7% (n.95) indicated that they would prefer to exit within 10 years. However, 25.3% of respondents indicated that they do not intend to exit within the foreseeable future.

These results are in line with those of the findings of (M Battisti & Massey, 2008; Sawers & Whiting, 2010 cited in M Battisti & Massey, 2008; Grant Thornton, 2006; Kirkwood & Harris, 2011) that report that 34% of respondents intend to retire from their firm within five years and 64% within the next ten years.

The age of owner was tested for a correlation with exit intention. This found that there is a significant relationship between age and exit intention. A moderate negative correlation was found. This shows that as business owners ages increases their intention to exit in the short term increases.

The data was then separated by age, the first group aged 51 and older and the second group aged 50 and under. The correlation tests were then re-calculated. For the group aged 51 and older the significant level held and the negative correlation slightly strengthened to -.426. The second group aged 50 and under found that there was not a statistically significant correlation (sig. 0.081) and the level of correlation changed to be a negative weak correlation.

Exit Time Intentions

<table>
<thead>
<tr>
<th>Exit Time Intentions</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes - within 5 years</td>
<td>61</td>
<td>34.1</td>
<td>38.4</td>
<td>38.4</td>
</tr>
<tr>
<td>Yes - between 5 and 10 years</td>
<td>34</td>
<td>19.0</td>
<td>21.4</td>
<td>59.7</td>
</tr>
<tr>
<td>Yes - within 15 years</td>
<td>24</td>
<td>13.4</td>
<td>15.1</td>
<td>74.8</td>
</tr>
<tr>
<td>No - Do not intend to exit in the foreseeable future</td>
<td>40</td>
<td>22.3</td>
<td>25.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>159</td>
<td>88.8</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
<td>20</td>
<td>11.2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>179</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Above: Exit Time Frame Intentions

Below: Correlation of Age of Business owner and Exit Time

Correlations

<table>
<thead>
<tr>
<th>Age of Business owner</th>
<th>Exit Time Frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>-.420**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>153</td>
</tr>
</tbody>
</table>

Exit Time Frame

<table>
<thead>
<tr>
<th>Age of Business owner</th>
<th>Exit Time Frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>-.420**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>147</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
Correlation of business owners aged 51 plus

<table>
<thead>
<tr>
<th></th>
<th>Age of Business owner</th>
<th>Exit Frame</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of Business owner (51 plus)</td>
<td>Pearson Correlation 1</td>
<td>-.426** 1</td>
<td>N 87 78</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed) .000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exit Time Frame</td>
<td>Pearson Correlation -.426**</td>
<td>1</td>
<td>N 78 78</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed) .000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Correlations of business owners aged 50 and under

<table>
<thead>
<tr>
<th></th>
<th>Age of Business owner</th>
<th>Exit Frame</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of Business owner Aged 50 and under</td>
<td>Pearson Correlation 1</td>
<td>-.180 1</td>
<td>N 105 95</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed) .081</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exit Time Frame</td>
<td>Pearson Correlation -.180</td>
<td>1</td>
<td>N 95 95</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed) .081</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For those over 51 years of age most respondents 47.4% (n.37) indicated a preference for an exit in the short term within 5 years. However, with the group aged 50 years old and younger the majority 39.1% (n.27) indicated that they do not intend to exit within the foreseeable future.

Exit Motivation

When asked to indicate the motivation for exiting their firm the majority of respondents 62.6% (n.102) indicated that retirement would be the main motivating factor for exiting their business. This is consistent with findings from (Australian Bureau of Statistics, 2001; Bruce & Picard, 2006) Entering a new venture is the second most popular exit motivation 28.2% (n.46).

This research identified that as the age of the entrepreneurs increases the motivation to exit due to new venture decreases. While, as the age of the entrepreneurs increases the motivation to exit due to retirement increases.

Exit Mode

Respondents ranked their preference of exit modality. The three choices that they were offered: The sale of the business, liquidation of the business, and passing the business on. The three exit modes that Martina Battisti and Okamuro (2010) identified in their research.

Previous research has identified that a “business sale is a desirable outcome for a growing number of business owners, prior evidence, however, suggests that, only a minority achieve a satisfying outcome.” (Martina Battisti & Okamuro, 2010)
Reviewing the research presented a number of key trends.

1. The sale of the business remains the most popular exit modality 63.4% (n. 92) supporting the findings of Martina Battisti and Okamuro (2010). Younger business owners are more likely to identify that the sale of the business as the most preferred exit modality. As the age of the owner increases the preference for the sale of the business decreases.

2. Passing the business on is the second most preferred exit modality 26.8% (n.34). Older business owners are more likely to display an increased preference for passing the business on. As age increases there is a slight increase in the number of business owners who identify that passing the business on is their least preferred exit modality.

3. Liquidation is the least preferred exit modality 65.9% (n.81) across all age groups. However, older business owners over 66 years of age identify that it as their most preferred exit modality.

Summary

This research presents that there is a statistically significant correlation between the age of business owners and their exit timeframe. The majority of owners 38.4% intend to exit their businesses within 5 years. Business owners over the age of 51, 47.4% intend to exit within five years.

There are a number of reasons why entrepreneurs would leave their business and entrepreneurs at different stages in their life present different motivations for exiting their firm. 62.6% (n.102) indicated that retirement would be the main motivating factor for exiting their business. The research identified that younger respondents are more likely to exit to start a new venture, while older respondents would exit to retire.

This research found that respondents have a preference for the sale of the business 63.4% (n. 92) as the most popular exit modality. Furthermore, the research presents that it that entrepreneurs of different ages have different preferences for exit modalities. Of note is the respondents aged 66 and over who showed a preference for liquidation as their preferred exit modality.

Size of firm & Succession Plan

The third research question proposed, “There is a positive relationship between the size and age of the firm and formalised succession plans.”

As outlined in the previous sections succession planning is an important long-term strategic consideration that all firms must face. This section aims to test if larger businesses have allocated the resources to create a succession plan.

To test the research question the number of firms with written succession plans was cross-tabulated against the age of firm, the sales revenue and the number of employees. These were then graphed as below. The graphs show that although there is not a clear linear trend. There are a higher number of smaller firms that have succession plans. As an example of this 33% (n.4) of firms with turnover $30,000 - $499,000 having a written succession plan vs 8% (n.1) of firms with annual revenues greater than $10 million. The author would argue that this is, in fact, has little to do with trends in the data rather that the fact that there are very few businesses with a written succession plan skews the data.

Summary

The research has failed to identify a strong relationship between the size of the firm, the number of employees or revenue with business succession plans due to the small number of firms that have written succession plans. The research presents that there is not a strong relationship between the annual revenues.
Summary

This section presented a discussion of the three research questions through an examination of the results of the research in comparison to the literature reviewed.

• Q1 “There is a positive relationship between the age of the business owner and the preparedness for a successful business exit. Older business owners are more likely to be prepared for their exit than younger business owners.”

The research found that although business owners are aware of the importance of succession planning there is a significant lack of both formal and informal succession planning across all age groups.

Furthermore, an examination of the data found that there was not statistically significant correlation between the age of respondents and the level of preparation.

• Q2 - There is a positive relationship between the age of the business owner and exit timeframe intentions. Older business owners are more likely to exit their businesses in the short term.

This research presents that there is a statistically significant correlation between the age of business owners and their exit timeframe.

This study identified that younger respondents are more likely to exit to start a new venture, while older respondents would exit to retire.

This research presents findings that show respondents have a preference for the sale of the business 63.4% (n. 92) as the most popular exit modality. However, entrepreneurs of different ages have different preferences for exit modalities but broadly have a preference for the sale of the business.

• Q3 There is a positive relationship between the size and age of the firm and formalised succession plans.

The research has failed to identify a strong relationship between the size of the firm, number of employees or revenue with business succession plans.
“In preparing for battle I have always found that plans are useless, but planning is indispensable.”

Dwight D. Eisenhower
Conclusion

The study was set out to explore the concepts of the ageing population and succession planning within the context of Small to Medium Enterprises within New Zealand. The study has identified that: New Zealand is a nation of SMEs. SMEs are crucial to the economy. Like the broad population, the owners of the SMEs are ageing and moving towards retirement. That succession planning is important to facilitate a successful entrepreneurial exit but often it is overlooked.

The study also sought to answer three questions as outlined in chapter one.

1. Q1 - There is a positive relationship between the age of the business owner and the preparedness for a successful business exit. Older business owners are more likely to be prepared for their exit than younger business owners.

2. Q2 - There is a positive relationship between the age of the business owner and exit timeframe intentions. Older business owners are more likely to exit their businesses in the short term.

3. Q3 There is a positive relationship between the size and age of the firm and formalised succession plans.

The main empirical findings were summarised within the research and discussion chapters: Chapters five and six respectively. This section will synthesise the empirical findings to answer the study's three research questions.

1. There is a positive relationship between the age of the business owner and the preparedness for a successful business exit. Older business owners are more likely to be prepared for their exit than younger business owners.

The research found through examination of the data that there was not statistically significant correlation between the age of respondents and the level of preparation.

Furthermore, the research found that although business owners are aware of the importance of succession planning there is a low level of both formal and informal succession planning across all age groups.

2. There is a positive relationship between the age of the business owner and exit timeframe intentions. Older business owners are more likely to exit their businesses in the short term.

To help understand the exit intentions the research identified that younger respondents are more likely to exit to start a new venture, while older respondents would exit to retire.

Further findings that show respondents have a preference for the sale of the business 63.4% (n. 92) as the most popular exit modality. However, entrepreneurs of different ages have different preferences for exit modalities but broadly have a preference for the sale of the business.

3. There is a positive relationship between the size and age of the firm and formalised succession plans.

This section identified that SMEs in New Zealand firms lack succession planning. Due to the small number of firms that have written succession plans, the research has failed to identify a strong relationship between the size of the firm, number of employees or revenue with business succession plans.

Recommendation for future research

This exploratory research has been designed to form a basis for further research on SMEs and succession within the New Zealand context. Through the development of this research process, a number of research questions have been uncovered and they are identified in the table below:

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. If they are aware of the importance of succession planning, Why do NZ SMEs fail to plan</td>
</tr>
<tr>
<td>2. What are the barriers that incumbents face when selling their business?</td>
</tr>
<tr>
<td>3. A longitudinal study examining the entrepreneurial exit from pre-exit through post-acquisition</td>
</tr>
<tr>
<td>4. What do different sectors/industries need to support succession planning?</td>
</tr>
<tr>
<td>5. What are the motivating factors of potential successors within the New Zealand context?</td>
</tr>
<tr>
<td>6. What are culturally specific issues that Maori/Pacifica business face when passing on?</td>
</tr>
</tbody>
</table>

Limitation of the study

Through the course of conducting this research, the author has noted a number of limitations to the study.

The lack of a suitable dataset to design and conduct a randomised study against meant that experimental research would provide a basis on which to build future research.

As respondents self-reported there is no objective observer that can verify if the business practices identified in the survey are being undertaken within the organisation.

The short time frame that the author had allocated to complete the research gathering meant that it missed out on collecting data from a wider range of respondents thus providing more robust results.

There is a bias towards respondents from the lower North Island, the results of this research may not present the same as if the research was conducted with a wider reach.

This study has relied on quantitative data. As the literature has identified the exit is a multidimensional phenomenon
the use of qualitative research could augment the data-rich findings of this study.

**Conclusion.**

In conclusion, New Zealand faces a challenge in the coming years as the baby boomers begin to retire. This challenge is uniquely personal to each and every business owner. However, with great challenges come great opportunities. For business owners and policymakers there is a chance now to take stock and plan for their exit before it is too late.
“Finally, remember one inviolate truth: every owner leaves his business. The question is, will you leave feet first on a stretcher, or will you sip champagne in victory?”

Ned Minor
Appendix

Survey Questions

About You

Are you Male or Female
- Male
- Female

What is your Age?

Which of the following categories best describes your status?
- Self-employed
- Business Owner
- Employee
- Retired
- Other:

About your Business

When did your business begin operations?

Where is your business based?

How many full-time employees currently work for your organisation?

What is your annual sales revenue?
- Less than $30,000
- $30,000 - $499,999
- $500,000 - $1 million
- $1 million - $3 million

Does your business currently use or have any of the following?
- Board of Directors
- Informal Succession Plan
- Business Mentor
- Board of Advisors
- Accountant
- Shareholders Agreement
- Business Coach
- Lawyer
- Written Business Plan
- Written Succession Plan

Do you intend to exit (sell, pass on, close) your business?
- Yes within 5 years
- Yes between 5 and 10 years
- Yes within 15 years
- No I do not intend to exit in the foreseeable future

What is your preference for exiting from your business?

Least Preferred  Preferred  Most Preferred
- Sale of the business
- Passing the business on to a family member or other
- Closing the firm and liquidating the assets.

What is the primary reason that you would exit (sell, pass on, close) your business?
- Retirement
- New Venture
- Seek employment
- Financial distress
- Other:

Preparedness for Exit.

The aim of this section is to understand how you think about your business and how prepared you are for an exit from your business.

Please indicate if you agree with the following statements.

(1) Strongly Disagree  (2) Disagree  (3) Neutral  (4) Agree  (5) Strongly Agree
- Planning for my exit from the business is important
- The proceeds from an exit from my business will fund my retirement
- The proceeds from an exit from my business will fund my next venture
- My business has a succession/exit plan
- My succession/exit plan is informal (not written)
- My succession/exit plan is a written document
- I have talked with my existing advisors (eg. Lawyer,
Accountant) about succession/exiting

• I have consulted with specialist advisors about succession/exiting

• I have discussed exiting with business partner/s

• I have involved family members in succession/exiting planning

• I have prepared the business for sale (eg. Documentation, Valuation)

• We have presented the proposed succession/exit to staff

• I have identified a potential successor

• I have considered the cash flow considerations due to succession/exit

• I have considered the tax implications of succession/exit

• I have considered the legal implications of an succession/exit
## Current Business Practice

<table>
<thead>
<tr>
<th>Count</th>
<th>Total in age</th>
<th>Board of Advisors</th>
<th>Board of Directors</th>
<th>Written Business Plan</th>
<th>Business Coach</th>
<th>Informal Succession Plan</th>
<th>Written Succession Plan</th>
<th>Shareholder Agreement</th>
<th>Business Mentor</th>
<th>Lawyer</th>
<th>Accountant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>has</td>
<td>has</td>
<td>has</td>
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<tr>
<td>Count</td>
<td>%</td>
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<td>Count</td>
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<tr>
<td>17 or younger</td>
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<tr>
<td>10</td>
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<td>0%</td>
<td>0</td>
<td>0%</td>
<td>5</td>
<td>50%</td>
<td>1</td>
<td>10%</td>
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<td>10%</td>
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<td></td>
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</tr>
<tr>
<td>12</td>
<td>1</td>
<td>8%</td>
<td>2</td>
<td>17%</td>
<td>4</td>
<td>33%</td>
<td>0</td>
<td>0%</td>
<td>1</td>
<td>8%</td>
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Bibliography.


Brockhaus, R. H. (1975, 1975/08//). *I-E LLocus of Control Scores As Predictors of Entrepreneurial Intentions.*


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