

Ryan, Geraldine; Power, Bernadette; McCarthy, Noreen; Braidford, Paul

Conference Paper

Regional Influences of Business Transfers within the British Isles

50th Congress of the European Regional Science Association: "Sustainable Regional Growth and Development in the Creative Knowledge Economy", 19-23 August 2010, Jönköping, Sweden

Provided in Cooperation with:

European Regional Science Association (ERSA)

Suggested Citation: Ryan, Geraldine; Power, Bernadette; McCarthy, Noreen; Braidford, Paul (2010) : Regional Influences of Business Transfers within the British Isles, 50th Congress of the European Regional Science Association: "Sustainable Regional Growth and Development in the Creative Knowledge Economy", 19-23 August 2010, Jönköping, Sweden, European Regional Science Association (ERSA), Louvain-la-Neuve

This Version is available at:

<https://hdl.handle.net/10419/119098>

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REGIONAL INFLUENCES ON BUSINESS TRANSFERS WITHIN THE BRITISH ISLES¹

DR. GERALDINE RYAN^{2,3}

Department of Economics, University College Cork, Ireland
E-mail: g.ryan@ucc.ie

DR. BERNADETTE POWER²

Department of Economics, University College Cork, Ireland
E-mail: b.power@ucc.ie

MR. PAUL BRAIDFORD

St. Chad's College, Durham University, United Kingdom
Email: paul.braidford@durham.ac.uk

MS. NOREEN MCCARTHY,

Department of Economics, University College Cork, Ireland
E-mail: noirin.mccarthy@ucc.ie

ABSTRACT

As a direct consequence of the ageing workforce, many entrepreneurs will exit their firm in the coming years. We examine some of the factors that may impact the entrepreneurs' succession choice (i.e. whether to transfer the firm to a family member, sell the firm, or shutdown the firm). Using a sample of British Isles entrepreneurs (N=641), we examine how factors such as the economic vibrancy of the region in which the firm is located, the age, size and type of firm and the age of the retiring entrepreneurs impact on his/her succession choice. The succession choice is particularly important for rural communities where succession failure results in the loss of valuable enterprises, jobs, knowledge, and expertise. Using a multinomial probit model we find evidence that entrepreneurs who run older, smaller firms and firms located in rural areas expect to shutdown their business and dispose of the assets on retirement.

Keywords: Entrepreneurial Exit, Small-Medium Enterprises, Regional Differences, Multinomial Probit Model

¹ Draft document, please do not cite without permission for the authors..

² Corresponding author

³ Geraldine Ryan and Bernadette Power gratefully acknowledge the financial support of the Irish Research Council for Humanities and Social Sciences (IRCHSS) and Invest Northern Ireland who generously provided funding to enable us to gather the Irish data and to promote this research agenda.

INTRODUCTION

Many entrepreneurs forget that the decisions they make on day one can have huge implications down the road for their firm. While it can take a working lifetime or more to build a successful company, all this work can be wasted if the entrepreneur wants to retire or has to leave the business. Entrepreneurial exit is a complex multilevel phenomenon as it concerns both the entrepreneur's personal exit from the firm, and the subsequent role of the firm in the market (Wennberg, 2008). When the entrepreneur exits the firm, the firm may also exit from the market or it may survive with another management team (DeTienne, 2009). Failure to transfer a viable business can result in the loss of enterprises, jobs, knowledge and expertise in a local economy, while at the same time reducing the opportunities available to new entrepreneurs who are capable of maintaining and developing established businesses (see Thwaites and Wynarczyk, 1996; Martin, Martin and Mabbett, 2002). The aim of this paper is to examine whether factors such as the entrepreneurs age, the age and size of the firm, and the location of the firm impact on the entrepreneurs expected succession choice in the British Isles.¹

Over the next decade, the European Commission estimates that 610,000 small and medium sized enterprises in Europe will have to be transferred to new owners each year (European Commission, 2006). Even though these entrepreneurial exit and transfer decisions can have a significant impact on the entrepreneur, the firm, competitive dynamics and economies through wealth distribution (Wennberg, Wiklund, DeTienne & Cardon, 2009), little attention has been paid to entrepreneurial transfer decisions (DeTienne, 2009), especially to transfer decisions outside the family (Power and Ryan, 2007). This is a concern as while traditionally entrepreneurs in small and medium sized firms, particularly those in rural areas, transferred their business to family members, declining family sizes and alternative employment opportunities mean that this route is no longer a viable option for many entrepreneurs (Small Business Service, 2004). With the relentless decline of employment in agriculture and other traditional rural industries, the identification and encouragement of new sources of jobs for those living in rural communities has become a key priority in rural development. Tarling *et al.* (2003) argue that it is increasingly thought that the bulk of new jobs in rural areas are coming from small firms, in both the tourism and manufacturing

¹ 96.8% of firms in the United Kingdom and 81% of firms in Ireland employ less than ten people. At the start of 2008, small and medium-sized enterprises (SMEs) together accounted for more than half of the employment (59.2%) and turnover (51.5%) in the UK, while SMEs account for 56% of the Irish workforce (Office National Statistics, 2008; Central Statistics Office, 2008).

industries.² The transfer dilemma is magnified further when you consider that over half of the buyers in the United Kingdom are only prepared to purchase businesses in their ‘local’ area, with most purchases occurring within five miles of their home base (Allinson *et al.*, 2007).

Physical location has been shown to be hugely important with respect to almost all entrepreneurial phenomena (Schoonhoven & Romanelli, 2001). Founders start firms in particular locations for a variety of reasons, among them access to key networks of resources, institutional incentives, personal preference and proximity to key stakeholders (Romo & Schwartz, 1995; Saxenian, 1994). Clustering of organizations and the emergence of mutually beneficial networks within regional ecosystems are crucial constructs in understanding entrepreneurially driven economic growth (Garnsey & Heffernan, 2005; Glasmeier, 1988; Poudier & St. John, 1996). While a great deal is known about the characteristics of entrepreneurs and their motives for starting these businesses,³ very little is known about what determines the succession choices of these entrepreneurs.

In general, it is difficult to obtain information on firm transfers and exits. The severity of this problem increases for smaller firms and, as a result, small firm transfers and exits have not been studied sufficiently. Using telephone interviews, this paper examines the exit behaviour of 641 SMEs in the British Isles.⁴ Briefly, our ideas are developed as follows: Section 2 uses the literature to identify some factors that may impact on the entrepreneurs’ succession choice. Section 3 introduces our key variables, Section 4 reports upon the results of multinomial probit estimation and Section 5 presents some conclusions.

ENTREPRENEURIAL EXIT STRATEGIES

While the individual entrepreneur, as the designer and dominant force within an organization, plays an integral role in the establishment, operation and exit of their enterprise (DeTienne, 2009), few scholars have considered what factors influence their succession/exit choice (Sarasvathy, 2004). Using the Theory of Planned Behaviour we argue that the entrepreneurs’ exit intentions are an important predictor of the actual transfer outcome. The Theory of Planned Behaviour, developed by Ajzen and Fishbein (1980), suggests that the probability that a particular behaviour will occur is dependent on the intention of the individual to engage

² Others such as Loveman and Sengenberger, 1991; Audretsch *et al.*, 2000; Acs and Audretsch, 1993 argue that small firms are quickly becoming the driving force in the modern economy.

³ Previous research has examined the importance of various demographic variables such as employment (Storey, 1982; Ronstadt, 1988), family background (Scott and Twomey, 1988; Matthews and Moser, 1995), gender (Buttner and Rosen, 1989; Kolvereid *et al.*, 1993), education (Storey, 1982), ethnic membership (Aldrich, 1980), and religion (Weber, 1930).

⁴ The largest firm in our sample has 55 employees. Our sample includes Republic of Ireland (360 firms), Northern Ireland (22 firms), Scotland (60 firms), Wales (28 firms) and England (171 firms).

in that behaviour. This theory has been successfully used to explain an entrepreneur's start-up intentions (Krueger et al., 2000), outcomes (Kolvereid & Isaksen, 2006) and exit intentions (Leroy, Manigart, and Meuleman, 2009; DeTienne, 2009). Leroy *et al.* (2009) show that in most cases positive transfer intentions translate into actual transfer behaviour. Later we will examine the transfer intentions of 641 SME entrepreneurs in the British Isles.

These entrepreneurs have many exit options available to them. They can transfer their firm to a family member, they can sell their firm (either to an employee/manager or in a trade-sale), or they can shutdown their firm and dispose of its assets. Previous research in this area has primarily examined intergenerational succession in family businesses.⁵ Because few family firms survive into the second or third generation of family ownership (Lee, Lim & Lim, 2003) and many of those that are transferred are to unqualified family members (Kets de Vries, 1993), the major concern in this research is the selection and development of a successor (see Sharma, Chrisman & Chua, 2003) rather than a focus upon exit strategies. Generally, it is argued that firms should stay in the family if this is the most profitable transition alternative (Bjuggren and Sund, 2002). Founders generally prefer to hand over the reins of their business to a family member rather than a professional manager, because the interests of the principal and his/her offspring are more likely to be aligned (Vickers, 1985). Family business successions occur more smoothly when heirs are prepared, when family relations are affable and based on trust, and when family businesses engage in more planning for taxation and wealth transfer purposes, Morris *et al.* (1997). The size of the family also impacts on the likelihood of succession, Bertrand *et al.*, (2005) for example, argue that family succession is more likely in large families. However, as family sizes continue to fall across countries in the EU, it seems that more of these family firms will need to seek successors outside the family (Goldstein *et al.*, 2003).⁶ In the UK, an increasing number of owner-managers are using trade-sales and management buyouts as a means to exit their business (CMBOR, 2008).

Allinson *et al.*, (2007) argue that if no suitable family member is available to take over the running the business then the next preferred alternative is to sell the business to an employee(s). A management buyout provides the owner-manger with a means of realizing the majority of his/her wealth and ensuring the continued independent ownership of the firm

⁵ See for example Bennedsen *et al.* (2006), Burkart *et al.* (2003), Miller *et al.* (2003), Bjuggren and Sund (2002), Dyck *et al.* (2002), Beckhard and Dyer (1983).

⁶ In fact, recent survey evidence from the United States suggest that while 80% of all business owners expect to transfer their business to family member or to key employees only 20% actually do (Knott & McGrath, 2004; Minor, 2003).

(Westhead, 2003). While not popular in the British Isles, MBOs have many advantages - the employees are likely to be familiar with the firms' ethos, the product groups, the key customers and the major rivals. More importantly they are likely to know the true value of the firm, thus increasing the amount the entrepreneur can extract from the business. Unfortunately, entrepreneurs often find it difficult to find a suitable employee to take over the running of the business (Monroe, 2003).

An entrepreneur may also decide to sell the firm to another individual or to another firm. A sale to another firm is a desirable exit strategy because often acquisition premiums are paid to the exiting entrepreneur, making it a highly lucrative exit strategy for entrepreneurs (Haunschild, 1994). This is particularly the case if there are a large number of rivals interested in taking over the firm. Sales to individuals, on the other hand, primarily occur in the low-end of the market and the financial payout is often low (DeTienne and Cardon, 2009).

While previous research suggests that transferring the venture produces more psychological well-being for the entrepreneur compared to liquidation (Petty, 1997), it is not always possible to find a suitable successor or to find someone who is willing to pay the right price. The failure to transfer a viable business can be a result of a number of factors, including poor business performance, over reliance on the idiosyncratic knowledge of the entrepreneur, the absence of medium term plans for business transfer and businesses intended to meet the personnel and lifestyle goals of the entrepreneur as opposed to strategic business objectives (Martin *et al.*, 2002).

The discussion so-far indicates the complexity of the decisions facing the SME entrepreneur regarding his/her retirement from the firm and following this the continued operation of the firm. Many characteristics have the potential to influence the entrepreneurs' succession decision, including the level of family involvement in the firm, the availability of suitable employees, the proximity of the firm to potential buyers and the existence of an exit plan. Below we divide these characteristics into two groups; firm-specific characteristics and regional-specific characteristics, and we examine how these factors may influence an entrepreneurs' succession decision.

Firm-Specific Characteristics

While several variables are likely to impact on the entrepreneurs' succession choice, here we concentrate on five key characteristics; the age of the entrepreneur, the entrepreneurs level of

preparedness for succession, the age of the firm, the influence of family involvement and the size of the firm.

Several utility theory arguments such as human capital productivity (Harada, 2004) and life-time risk preferences (Morin and Suarez, 1983) suggest that older entrepreneurs should be more likely to exit.⁷ Indeed, Tsoutsoura (2010) finds that the departing entrepreneur of firms that experience a family succession are older than departing entrepreneurs of firms that undergo unrelated succession. As a result, we hypothesise that entrepreneurs who intend to sell their firm are likely to be younger than those who intend to transfer to family.

Since an entrepreneurs exit from a firm is typically a rare event, we follow Conner and Armitage (1998) in assuming that exit behaviour is more influenced by deliberative planning than by automated habits. As a result planning becomes an important precursor to actual behaviour. Despite this, recent research indicates that fewer than 50 percent of entrepreneurs consider their exit strategy prior to making an exit decision (Dahl, 2005; King, 2002, Holmberg, 1991). This is surprising as succession planning, unlike some other forms of business planning, requires a formal and structured approach (Ambrose, 1983; Dyck *et al.*, 2002; Dyer, 1986; Handler, 1990; Lansberg, 1988; Malone, 1989; Sharma *et al.*, 2001; Ward, 1987). This is not only due too the many different aspects required for succession planning but the longer time horizon needed to prepare the next new generation of business owners to ensure ongoing success. One key element of succession planning is the choice of exit mode; if the entrepreneur chooses family succession or MBO then early exposure to the business allows the successor to become increasingly familiar with the company, its culture, and values. It also provides the opportunity to develop capabilities needed by the firm (Cabrera-Suarez *et al.*, 2001; Barach & Gantisky, 1995; Barach *et al.*, 1988; Goldberg, 1996; Ward, 1987). It helps successors to build relationships and credibility by successfully moving up the organizational ladder. Despite these advantages, Wang (2006) finds that company founders encounter psychological deterrents to succession planning as it includes a letting go of power. Founders avoid succession planning as they are afraid they will loose their identity and sense of purpose. Lansberg (1988) identified the lack of succession planning as one of the most important reasons why first-generation family firms do not survive their founders; therefore,

⁷ Empirical evidence is however mixed with some studies indicating that older entrepreneurs are more likely to exit (Holtz-Eakin *et al.*, 1994; Taylor, 1999; Bates, 1990), and other studies showing they are less likely to exit (Gimeno *et al.*, 1997; Van Praag, 2003).

we argue that firms with a succession plan in place are less likely to suffer business transfer failure.

With regards to the trading age of the firm, we suggest that the older the business, the more likely the entrepreneur expects a failed business transfer. According to the hypothesis of the liability of old age, the adaptability of older firms is limited, so they cannot anticipate or react adequately to changing economic circumstances (see Aldrich and Auster, 1990; Caves, 1998). Older firms often have close-knit cooperative relationships with other firms, but it is precisely these tight inter-firm relationships that can block change, creatively and innovation. Hence, we argue that older firms are more likely to shutdown.

When considering succession options many studies find that family businesses have a clear preference to keep the business in family hands (Lambrecht and Naudts, 2007; Bloom and Van Reenen, 2006). Successful succession can provide a family-owned business with a competitive edge over a non-family-owned business by enabling the continued use of accumulated idiosyncratic knowledge of family members (Bjuggren and Sund, 2002). The inside knowledge possessed by family members, coupled with their loyalty and trust, endows them with specific competencies and know-how required to run the business effectively and helps them to create the resources and capabilities required to generate a competitive advantage (Ram and Jones, 2002; Tatoglu, Kula and Glaister, 2008). Bukhart *et al.* (2003) argue that family-owned firms may choose family management even though this is sub-optimal for company performance because family members receive “amenity potential” from managing the family firm, which often bears the family name and has been managed by several previous generations. In a family business safeguarding the family character of the business regularly becomes the family’s main succession objective and selling out to a non-family member is sometimes considered a failure (Mickelson and Worsley, 2003). Since insider managers who also are family members, have a greater vested interest in ensuring a succession process that maintains the cultural foundation of the company than do outside stakeholders (Beckhard & Dyer, 1983; Dyer, 1986), we argue that the preferred exit route for family firms is family succession.

Finally, if it is not possible to transfer the business to a family member, then the next preferred option is to transfer to an employee. As a result the size of the firm is becoming increasingly important as less and less firms survive through intergenerational succession and as a result entrepreneurs must seek suitably competent and willing employees to take over the running of the business. As discussed earlier, entrepreneurs often find it difficult to find suitable candidates with an adequate level of competence, access to finance and a willingness

to bear the risk of taking over the running of the business (Power, 2004). The Small Business Service (2004) argues that firms which are smaller in size face a greater risk of transfer failure. This is because while small firms are likely to attract entrepreneurial minded people (Elfenbein, Hamilton and Zenger, 2010; Gompers *et al.*, 2005) these employees are unlikely to remain with the firm for long periods of time. Elfenbein *et al.* (2010) and Gompers *et al.* (2005) find evidence that small firms suffer from entrepreneurial spawning - this is the tendency for employees to quit and become entrepreneurs themselves. In addition, when it comes to executive development and the potential for executive mobility larger organisations have a distinct competitive advantage. These firms offer greater training and management opportunities and they are likely to have more resources available to them when it comes to planning their succession (Chaganti, Chaganti, and Malone, 1991). These factors mean that larger organizations are more likely to have more qualified, experienced candidates in place for possible succession. Since the availability of suitable candidates within the firm conditions the entrepreneur's expectations about his choice of endgame, we hypothesise that the larger the organisation the less likely a failed business transfer.

Regional Characteristics

Next, we turn to the important issue of the firms' location. A number of factors are likely to influence an entrepreneurs' succession decision including the level of entrepreneurial talent in the region (Markley, 2006), the wealth of a region and the ease of access to markets.

Entrepreneurial talent in a region depends on the stochastic distribution of entrepreneurial talent among the inhabitants and on regional-specific factors that enhance this ability. Maskell and Malmberg (1999) argue that access to locally available tacit knowledge enables firms to develop a competitive edge. This knowledge may be stored in the people in the region⁸ (Christensen and Drejer, 2010) or it may be stored through the institutionalization of learning processes over time (Gertler *et al.*, 2000). This type of embedded knowledge may be interpreted as a common culture and is similar to the Marshallian notion of "as if it were in the air" (Marshall, 1920, 225). Marshall (1920) and Krugman (1991) argue that urban areas usually attract younger, better-educated adults, thereby providing a source of entrepreneurial talent, and a pool of potential buyers. We hypothesis that the higher the level of entrepreneurial talent in a region, the less likely that the entrepreneur expects business transfer

⁸ This is known as sticky knowledge as people are relatively immobile.

failure. This level of talent in urban and agglomeration economies⁹ can be measured by examining the amount of skilled labour in a region, the proportion of managers in the workforce and the proportion of highly educated workforce (Kangasharju, 1998).

Nyström (2007) argues that people with a high level of human capital¹⁰ are expected to be better at discovering and exploiting entrepreneurial opportunities. Wainger and Price (2004) argue that the proportion of self-employed people in a region is an indicator of the entrepreneurial drive of the workforce. An explanation for this is that self-employed people provide, among other things, role models and business ideas for potential entrepreneurs, as well as opportunities for potential entrepreneurs to familiarise themselves with the market and with the management of a small business. In other words, these firms are seedbeds where employees may gain insights into entrepreneurial work that lowers the barriers to founding their own businesses. Dunn and Holtz-Eakin (1996, 15) find that parents' self-employment experience had "very large and significant effects, just about doubling the probability of the son's entering self-employment." Unfortunately, this variable can capture the lack of other available employment opportunities in an area and therefore it is likely to be much higher in remote rural locations.

High gross value added in a region indicates that the region is an economically vibrant region. This may be due to urban economies (Glaeser et al., 2000; Gordon and McCann, 2005; Jacobs, 1969) or agglomeration economies (Parr, 2002). Economically vibrant regions are characterised by a stable, prosperous, ecologically sustainable, competitive and diverse economy with a high level of demand for goods generated from interregional, national and global penetration. However, high GVA also indicates higher labour costs for the firms in the region (Nyström, 2007). A high income level might discourage employees or outsiders who are sensitive to high labour costs from purchasing a firm. In formulating a general hypothesis about the relationship between business transfer and regional incomes we argue that the demand effect will be the most important effect. This demand effect coupled with the fact that in rural settings there are very few employment opportunities for family members to live and work in the region other than to takeover the operation of the family firm (or a local business as a going concern) (Alston and Kent, 2001). The declining numbers of businesses

⁹ Urbanisation economies are derived from the common location of businesses in different and unrelated sectors. Agglomeration economies, on the other hand, are characterised by a concentration of businesses in the same or similar industries. Both types of economies offer a range of synergy possibilities (e.g. proximity to the goods market, lower cost base due to economies of scale, skilled labour market, knowledge spillovers) that can increase the attractiveness of SME's in these regions

¹⁰ Human capital involves the way in which an individual's skill, capabilities and knowledge are utilised by the organisation.

being transferred to family members indicates that the desire of younger generations to take over the family businesses is diminishing. This threatens the survival of these businesses and the continuation of the jobs generated in these rural communities. Our hypothesis argues that the higher the GVA per worker in the region the less likely a business transfer failure.

Another key variable influencing a firms' succession decision is proximity of the firm to the market. The decision where to locate is influenced by the opportunities, in terms of demand, offered by various regions. For a firm with growth opportunities, infrastructure sets the stage and creates the strategic context in which firms can flourish. Bartik (1991), Newman and Sullivan (1988) and Wasylenko (1997), amongst others, argue that business location is traditionally analysed within an economic framework where firms maximize profits subject to location-specific cost constraints, such as wage rates, and access to transportation networks. Nyström (2007) claims that firms locating in urban regions may experience positive external effects. She argues that lower transport costs and proximity to suppliers and customers reduce costs and improve the quality of the good or service provided.

McCann and Shefer (2004) argue that spatial transaction costs faced by modern firms have changed over recent decades, and that this has changed the ways in which transportation infrastructure contributes to firm location behaviour and regional economic development. They argue that infrastructure has a key role to play in how people and firms within a region relate to each other and how they relate to the outside world. The relative ease of access to a region has a major impact on the ability of local firms to develop profitable market relationships with firms and customers in its region and in other regions (Rietveld, 1994).

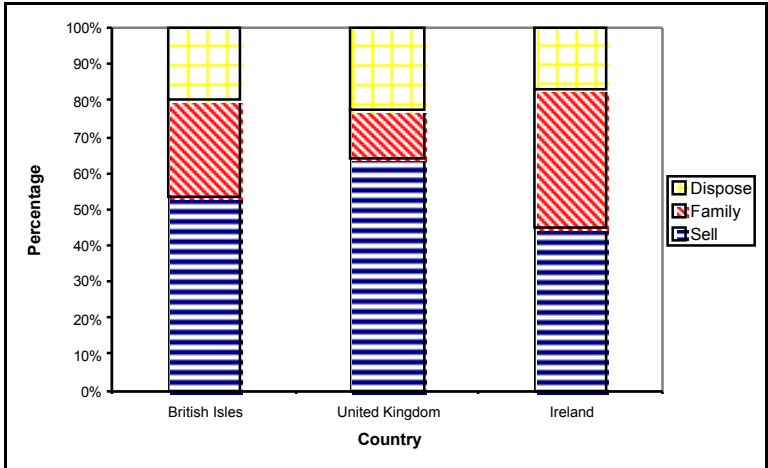
There are other advantages to locating close to an urban centre. Numerous studies show that investors are better able to obtain information on nearby companies. As a result information asymmetries will be higher in rural firms, with few nearby investors, than in urban firms, with many nearby investors. Loughran and Schultz (2006) use the firms' location to measure this information asymmetry. Rural location as a measure of information asymmetry is good because it implies not only that there are few investors located nearby, but also that the distance is economically as well as physically meaningful. As we result, we argue that the further the firm is located from an urban centre, the more likely the entrepreneur expects to transfer the firm to a family member.

Data

Prior to setting up the empirical model, we preliminarily analyse our data set. Our key variable of interest is the entrepreneurs' expected succession choice. Data on this variable was

collected in telephone interviews with 641 owner-managers of mature small firms in the British Isles. The sample includes 360 firms from the Republic of Ireland and 281 from the United Kingdom.¹¹ This data was collected between 2001 and 2009.¹² Entrepreneurs were asked to select their preferred succession route; these answers were recoded into three categories: transfer to family, sell the business (either in a trade-sale or to employees) or shutdown the firm and dispose of its assets. Figure 1 presents a summary of the results.

Figure 1: Expected Succession Choices



Here we see that 53% of SME entrepreneurs in the British Isles intend to sell their business on their retirement, 27% intend to transfer their business to a family member and 19% intend to shutdown their business and dispose of the assets. The percentages falling into each category are similar to those reported by Grant Thornton’s (2002) survey and Leach and Bogod (1999). There are some notable differences between the entrepreneurs intentions in the United Kingdom (N=281) and Ireland (N=360). Significantly more entrepreneurs in the United Kingdom intend to sell their business [T-statistic=0.00 df=637] or shutdown their business [T-statistic=0.055, df=637] on retirement while significantly more Irish entrepreneurs intend to transfer their business to a family member [T-statistic=0.000, df=637]. These differences are likely to be connected to the different tax system in these countries. For example, in Ireland entrepreneurs over the age of 55 get total relief from capital gains tax when they dispose the whole/part of their business assets or share in their company to their

¹¹ The United Kingdom dataset includes 22 Northern Ireland firms, 60 Scottish firms, 28 Welsh firms, and 171 English firms.
¹² The data for Northern Ireland and the Republic of Ireland was collected between 2008 and 2009, see Power and Ryan (2009) for details. 63 of the Scottish cases were collected in 2001, see Power (2004) for details, and the remaining data for Scotland, England, and Wales was collected in 2006, see Allinson, Braidford, Houston, Robson and Stone (2007) for details.

child. In addition, substantial capital acquisition tax relief is available to a child inheriting a family firm, where the market value of those assets is reduced by 90% in determining any liability for gift or inheritance purposes. These benefits incentivise entrepreneurs to pass their firm to a family member. While it is not feasible for all firms to transfer, it is important that efforts are made to sustain as many viable businesses as possible as European Commission figures indicate that, measured by employment, on average a business transfer is 150% more effective than a start-up. In other words, one and a half people are employed for every transfer, as compared to one for a start-up (European Commission, 2006).

To explore the characteristics which may influence the entrepreneurs' expected succession choice we explore a number of firm and regional specific variables. The firm specific data was collected in the telephone interviews. This data includes the number of years the firm is trading, the number of employees in the firm, whether the entrepreneur is over 60 years of age, whether a family member is involved in the business and whether the entrepreneur has a business succession plan. Summary statistics and the definitions of each of the key variables used in formally investigating influences on the entrepreneurs' succession expectations are displayed in Table 1.

[Place Table 1 near here]

The average number of trading years in the full sample of firms in the British Isles is about 33 year (roughly one generation). There is a significant difference in the average ages across expectation type. For example, the average age of firms run by entrepreneurs who expect to sell their business is significantly younger than all other potential succession routes [age = 25 years, T-statistic < 0.01, df = 629]. Similarly, the average age of firms intended to be transferred to family is significantly older (at 38 years) than all other succession routes (see Table 1). Thus, younger firms are recognising their potential to sell their business rather than the more traditional approach to transfer businesses within the family.

The number of full-time equivalent employees in the firms in our sample varied between 0 and 55, with an average of 7 employees. Earlier we hypothesised that the greater the number of employees in firm, the larger the number of potential buyers for the firm. We find a significant difference in the average number of employees employed by expected succession route [F statistic (2,636) = 7.868], see Table 1. The size of firms intending to shutdown is significantly smaller, with an average of 4 employees, while those intending to transfer to family run significantly larger firms with on average 9 employees.

Our next variable is a dummy variable which captures whether the entrepreneur is over 60 years of age. The intention of this variable is to capture if mature entrepreneurs are more likely to transfer their business to a family member than to sell it. We find no evidence of this effect in the British Isles [F-statistic (2,632) = 1.515]. In Ireland we find some evidence that those who intend to transfer to family are on average older than those selecting other exit routes [T-statistic=0.10, df = 354]. As mentioned earlier, this is likely to be connected with the tax system in Ireland which offers favourable benefits to family successions. In the United Kingdom we find evidence that those intending to sell their firm are on average younger while those intending to transfer to family or shutdown their business are likely to be older. This finding concurs with the evidence presented by Tsoutsoura (2010).

Exit plan is also a dummy variable, which takes a value of 1 if the entrepreneur has a formal or informal exit plan. Here we find evidence that around half of firms who intend to transfer their business to a family member have a business plan [mean=0.49], this is significantly greater than entrepreneurs choosing alternative succession routes. In addition, entrepreneurs intending to shutdown their business are less likely to have an exit plan. Our final firm specific variable is a dummy variable which takes the value of 1 if family members are involved in the firm. As expected those intending to transfer their business to a family member are significantly more likely to have a family member working in the firm [mean for family=0.49, mean for alternative routes=0.50, T statistic <0.01, df = 635]. Similarly those intending to sell their business are less likely to have family members working in their firm [T-statistic<0.01, df=635].

Turning to our regional specific characteristics, here we included five variables; population per square kilometre in the region where the firm is located, the distance in kilometres from the firm to the nearest capital city; the share of skilled labour in the region where the firm is located, gross value added per person in the region where the firm is located and the percentage of self-employed persons in the region where the firm is located.¹³ This data was collected from the Central Statistics Office in Ireland, the Northern Ireland Statistics and Research Agency, the Scottish Census, the Scottish Executive Statistics, the Welsh Assembly Government Statistics and the Office for National Statistics in the UK.

¹³ We also included the percentage of individuals with a third level degree, the percentage of professionals and managers in the region, average residential wages per worker in the region and the total population of the region, however these variables proved to be highly correlated with the variables included and therefore we excluded them from the final analysis.

Keeble and Walker (1994) maintain that population density should be interpreted as measuring the wider existence of either agglomeration economies or diseconomies which are related to costs of premises, labour and accessibility/congestion. To measure population density we examine the population per square kilometre in the region where the firm is located. We find that population per square is statistically different by expected succession route in the British Isles [F-statistic (2, 636) = 8.417]. In particular we find that entrepreneurs expecting to transfer their firms to family members are located in areas with a lower population per square kilometre (i.e. rural areas)

We use distance to the nearest capital city as a measure of proximity to the market. This variable was calculated using AA Route Planner¹⁴ and it measure the distance, in kilometres, from the place where the firm is located (identified from the firms' postal address in Ireland and Scotland and from Super Output area codes in England and Wales) to the nearest capital city. Our results indicate that firms in the British Isles which are intended to be sold are located significantly closer to the capital city [mean = 120.63 kilometres versus 148.10 for other firms, T-statistics<0.01, df=636], while firms intended to be passed to family are located in more rural locations [mean = 154.59 kilometres versus 125.55 for other firms, T-statistic<0.01, df=636]. Looking at the data for the individual countries, it appears that in Ireland firms intended to be sold are located closer to Dublin while those intended to be shutdown are located significantly further away from Dublin. In addition while family firms in Ireland seem to be spread between urban and rural areas, this is not the case in the United Kingdom where family firms are located in significantly more rural locations [mean=70.45 kilometres versus 89.74. for other firms, T-Statistic< 0.10, df=278)

The measure the wealth of the region in which the firm is located we include gross value added per person in the region where the firm is located (in Euros, base year is 2000) and to measure the entrepreneurial spirit of the region we included the percentage of self-employed people in the region in which the firm is located. Neither variable is found to be significant. Finally, to measure the entrepreneurial talent in a region we include the pool of skilled workers in the region where the firm is located. Better skills are linked, in the literature, to a more flexible and productive workforce, which can adapt innovate technologies and enable individuals to move into new areas of work. In particular, the literature on localization economies suggests that the local or regional availability of a skilled labour pool specific to the industry may benefit the business, as knowledge is embodied in workers

¹⁴ See http://www.aaireland.ie/routes_beta/

(Porter, 1990). We find evidence that firms intended to be transferred to families in the British Isles tend to be located in regions with lower levels of related skills [T-statistic<0.05, df=635]. However, this result is not significant in either the Irish or the United Kingdom dataset, and is therefore likely to capturing the higher levels of skilled labour in the United Kingdom.

Model Estimation and Results

The entrepreneur's choice of succession route is represented as a decision among unordered alternatives and is estimated using a multinomial probit model.¹⁵ We assume that entrepreneur i 's utility from choosing succession route j , U_{ij} is a function of the characteristics of the firms, the characteristics of the region in which the firm is located and a stochastic error. A typical representation (Maddala, 1983; Powers and Xie, 2000; and Dow and Endersby, 2004) is:

$$U_{ij} = \beta' X_{ij} + \alpha'_j Z_i + \varepsilon_{ij}$$

where X_{ij} is a vector of firm specific characteristics (e.g. age of the firm, age of the entrepreneur, size of the firm) and Z_i is a vector of regional characteristics (e.g. location of the firm, wealth and skill base of the region in which the firm is located). We seek to estimate β and α_j and their standard errors. If each entrepreneur wishes to maximise his utility, the probability that the entrepreneur i chooses family succession, F , over other potential endgames such as asset disposal, D ; and trade-sale, T , is:

$$P_F = U_F > U_D \text{ and } U_F > U_T$$

For any succession choice 's' in the set $1, \dots, s$ options:

$$P(s) = P[\varepsilon_s - \varepsilon_j < (\beta' X_{ij} + \alpha'_j Z_i) - (\beta' X_s + \alpha'_s Z_i), j \neq s]$$

The multinomial probit estimations results for are presented in Table 2. The associated reference category is family succession. This succession route was selected as the reference category since more is known about the characteristics of this route in the literature.

[Place Table 2 near here]

¹⁵ A multinomial probit estimation (MNP) technique is adopted as MNP does not impose the independence assumption. Arrow (1951) identified the importance of the IIA property. The idea is that the relationship if the chooser is comparing two alternatives according to a preference relationship, the ordinal ranking of these alternatives should not be affected by the addition or subtraction of other alternatives from the choice set. Specifically, the ratio of choice probabilities for any two alternatives does not depend on the characteristics of any other alternatives. The logistic model does not estimate substitution patterns across choices well.

Looking firstly at the characteristics that influence the decision to sell firms in the British Isles (See Table 2, column A) we see find that entrepreneurs who expect to transfer their business using either an MBO or a tradesale are significantly younger than those firm intended to be transferred to family. This suggests that younger firms perhaps no longer expect to transfer their business to family members. In fact, they are significantly less likely to have family members employed in the business in comparison with those firms expected to be transferred to family. They have a significantly higher probability of having a high level of self-employed in the region in which they are located than for firms located in the regions where the entrepreneurs expect to transfer their business to family firms. In addition, the coefficient on population per square kilometre is positive and significant, and the coefficient on GVA per person is significant and negative. This suggests that these firms are much more likely to be located in more urban or agglomeration economies where a relatively large absolute number of potential buyers exist for the business rather than in rural areas.

Similarly, we find that entrepreneurs who expect to shutdown their business and dispose of the assets of their business are significantly less likely to have family members employed in the business in comparison with those firms expected to be transferred to family. These firms are more likely to be smaller in size than those which expect to transfer to family members. This means that they have a smaller internal talent pool from which to select a successor. Smaller firms may also be less attractive propositions for potential new entrants who intend to take over the running of a business already in existence and therefore they face a greater threat of business transfer failure. In addition these firms are less likely to have prepared a formal or informal succession plan. In terms of location these firms are significantly more likely to be located in regions with a lower GVA per head and a higher population per square kilometre than those firms which intend to transfer to family. This suggests that these firms are also more likely to be located in urban or agglomeration economies. Power and Ryan (2007) have these entrepreneurs are more likely to believe that their business is unlikely to function in their absence (i.e. that they are the intangible asset of the business).

To examine the stability of our results re-estimate our multinomial probit model including a dummy variable which take the value of 1 if the country is the United Kingdom and the value of 0 when the country is Ireland. This allows us to quickly examine any key differences between the United Kingdom and Ireland while preserving the large sample size. This model presents some interesting results. Firstly the dummy variable is significant and positive for both succession routes. This confirms our earlier observation that family transfers are much

more likely in the Irish market while firm sales and firm closure are more likely in the United Kingdom. Secondly we note that GVA per head loses significance. This suggests that our earlier result may be a function of the differences in GVA across country and it may not be a factor influencing the entrepreneur succession decision. These results are very similar to the earlier results and show that those intending to sell their firms are more likely to have younger firms, be owned by younger entrepreneurs, have less family involvement, be located in areas with high entrepreneurial spirit and be located in areas with high population density than those intending to transfer their firm to a family member. Those intending to shutdown their firms and dispose of its assets are more likely to be smaller firms, without succession plans, with low less of family involvement, located in areas with high population density which are further away from the capital city than those who intend to transfer to family.¹⁶

Conclusion

This study makes some inroads into addressing the scant evidence on alternative succession routes. We find that entrepreneurs who run smaller (in terms of employee size), non family businesses in highly population region, not located in the Capital city expect to shutdown their business and dispose of the assets on retirement. These factors threaten to increase the number of failed business transfers particularly if the entrepreneur's expectations are accurate and if these condition their behaviour.

Location seems to play a role in the entrepreneurs' succession choice. Entrepreneurs running non-family business located away from the capital city are more likely to expect transfer failure. These are likely to be businesses with lifestyle and personal rather than strategic goals and businesses which are dependent on the intrinsic knowledge of the entrepreneur to ensure their continued success. On the other hand, entrepreneurs running non-family businesses located in highly populated areas with high levels of entrepreneurial spirit (i.e. more urban areas) are more likely to expect to transfer their firm. Therefore we can conclude that proximity to market is a key variable in the entrepreneurs' decision.

Rising numbers of failed business transfers pose a particular problem for several European countries as the age distribution of business owners rises. The declining proportion of firms being taken over by family members aggravates this problem. In fact, relatively younger non family firms believe that a tradesale was their most likely exit strategy. They were more profit orientated and located in vibrant regions.

¹⁶ The change in significance of the age effect for those intending to sell and the distance effect for those intending to close down is reflective of the evidence presented in the test of difference for the United Kingdom.

Further research needs to examine what actions governments could undertake to preserve the value tied up in these well established firms. It is important that we raise awareness among small-medium sized firms' entrepreneurs. It is important that they recognise at start-up the long-run consequences for the continued operation of their firm. It is important that entrepreneurs realise the value of the intellectual property tied up in their firms and begin to examine ways in which they can extract this value. Therefore, it is important that incentives are put in place to encourage and facilitate the purchase of exiting firm. Young entrepreneurs should be made aware of the opportunities and advantages of purchasing an exiting business rather than starting a business from scratch. It is surprising that relatively few management buyouts take place in the British Isles in comparison to other countries and it is important that the reasons for this be investigated further.

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Table 1 Descriptive Statistics by Expected Mode of Exit

	British Isles						Ireland					United Kingdom				
	N	Mean	F-Stat	Sale	Family	Disposal	N	F-Stat	Sale	Family	Disposal	N	F-Stat	Sale	Family	Disposal
# Years Trading ^a	635	29.71	7.954*	25.02* 35.16	37.94* 26.69	31.26 26.69	355	3.904**	25.090* 36.95	37.69** 27.68	34.62 31.05	280	0.216	24.75*** 31.66	37.32** 25.95	28.17 27.12
# employees ^b	640	7.34	7.868*	7.620 7.040	8.950** 6.750	4.380* 8.060	360	5.462*	6.120*** 8.030	9.300* 5.850	5.130** 7.580	280	6.491*	8.960* 5.090	7.630 7.570	3.660* 8.740
Dummy owner > 60 ^c	636	0.29	1.515	0.267 0.322	0.302 0.289	0.349 0.279	357	1.437	0.150 0.199	0.220*** 0.150	0.150 0.182	279	5.220*	0.372* 0.565	0.611** 0.415	0.539*** 0.412
Exit Plan ^d	634	0.36	13.28*	0.368 0.371	0.491* 0.323	0.203* 0.409	356	4.469**	0.500 0.451	0.518 0.445	0.300* 0.508	278	5.294*	0.251 0.212	0.388** 0.214	0.111* 0.274
Family Involvement ^e	638	0.58	27.27*	0.470* 0.710	0.797* 0.502	0.588 0.580	358	29.28*	0.356* 0.680	0.766* 0.390	0.483 0.545	280	8.518*	0.572* 0.770	0.916* 0.602	0.687 0.629
Skilled Labour Share ^g	636	9.63	2.747***	9.939 9.304	8.707** 9.994	10.14 9.526	359	0.001	7.614 7.592	7.588 7.611	7.601 7.602	277	0.381	12.04 12.72	12.93 12.18	12.60 12.19
% Self-employed ^h	640	9.75	0.110	9.738 9.754	9.706 9.760	9.822 9.727	359	0.069	9.782 9.765	9.740 9.793	9.822 9.763	280	0.094	9.698 9.734	9.579 9.731	9.821 9.678
Pop Sq Km ⁱ	640	391.00	8.417*	477.9* 292.0	155.7* 479.0	482.1 369.7	360	3.075**	197.0** 114.8	107.7** 179.1	130.8 156.1	280	1.862	730.8 641.1	338.2* 751.9	811.4 665.3
Distance to City ^j	637	133.58	8.063*	120.63* 148.10	154.59* 125.55	139.10 132.00	357	3.44*	189.14*** 165.48	176.86 164.91	189.14** 165.48	279	1.312	92.20 85.79	70.45*** 89.74	92.20*** 85.79
GVA per head ^k	638	25600	0.088	25441 25750	25798 25506	25685 25561	358	1.319	27979*** 26720	26759 27614	26630 27420	279	0.734	23157 23841	22138 23588	24798 22988

Note: The first number in each cell in the mean for the category, the second number is the mean for the remaining categories

*** Significant at p-value less than 0.1; ** significant at p-value less than 0.05; *significant at p-value less than 0.01.

^a Years that the business was in operation

^b Number of fulltime equivalent employees

^c Categorical variable: 1= owner is over 60 years of age; 0 = otherwise

^d Categorical variable: 1= owner has a formal/ informal exit plan; 0 = otherwise

^e Categorical variable: 1= family members currently working in the firm; 0 = otherwise

^f Average weekly residential wage, 2000 prices, in Euros

^g A measure of related skilled labour in the region where the firm is located

^h A measure of the numbers of persons self employed the region where the firm is located

ⁱ Population per square kilometre in the region where the firm is located

^j The distance in kilometres from the firm to the nearest city

^k Gross Value Added per person in the region where the firm is located, in Euros, base year = 2000

Table 2: Results of Multinomial Probit

	<i>COLUMN A</i>		<i>COLUMN B</i>	
	British Isles		British Isles (with country dummy)	
	Sale	Disposal	Sale	Disposal
# Years Trading	-0.0077*	-0.0029	-0.0065*	-0.0019
# employees	-0.0046	-0.0359*	-0.0059	-0.0370*
Dummy owner > 60	-0.1103	0.0705	-0.3842***	-0.1363
Exit Plan	-0.1982	-0.7997*	-0.0369	-0.6827*
Family Involvement	-1.2456*	-0.8035*	-1.3579*	-0.8891*
GVA per worker	-0.00003*	-0.00003*	0.000007	-0.00001
Skilled Labour Share	0.0217	0.0148	-0.0005	-0.0022
% Self-employed	0.1212**	0.0859	0.0955***	0.0658
Pop Sq Km	0.0011*	0.0012*	0.0007*	0.0008*
Distance to City	-0.0009	0.0017	0.0005	0.0028**
Dummy (Ireland=0)			1.2934*	0.9888*
Constant	1.1164***	0.2364	0.2629	-0.3974
Wald Chi-square		120.41		141.78
Df		20		22
P-value		0.000		0.000
Log pseudo-likelihood		-544.27		-529.77
N		617		617