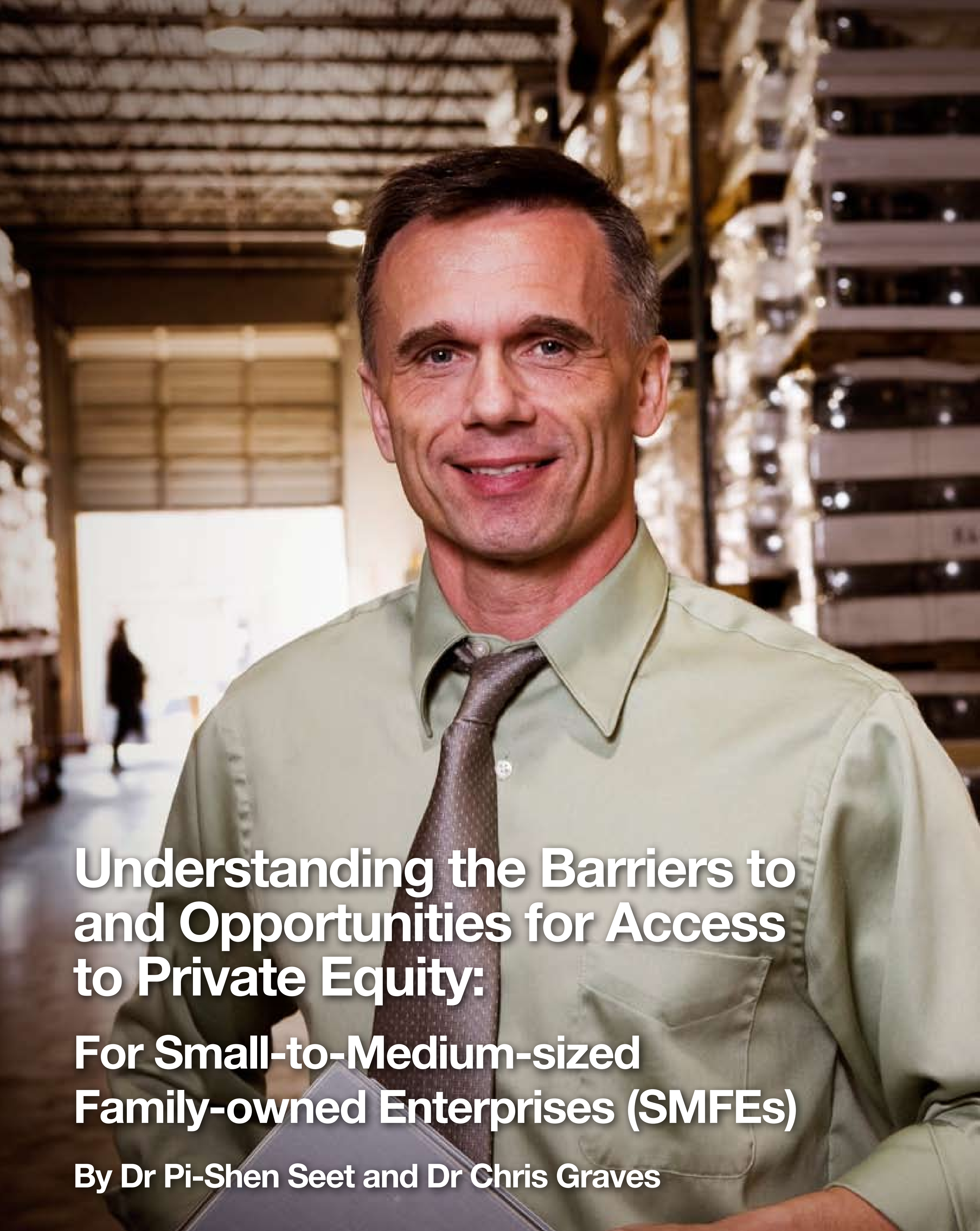

Understanding the Barriers to and Opportunities for Access to Private Equity:

For Small-to-Medium-sized Family-owned Enterprises (SMFEs)

By Dr Pi-Shen Seet and Dr Chris Graves

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Definitions

Buy-in Management Buy-out (BIMBO) – Hybrid Management Buy-in / Management Buy-out (Wright, 2007).

Family Business – A firm where the owners identify the business as a 'family business' and it is majority owned / controlled by a family group and has at least one family member in the management team.

Management Buy-out (MBO) – The acquisition of a company by its own managers. In most cases, the management team seeks the support of PE investors to buy the shares of the company (EVCA, 2001).

Management Buy-in (MBI) – Occurs when there are insufficient internal management skills to conduct a buy-out. A management team from outside the company acquires a controlling interest – again with the support of private equity investors (EVCA, 2001).

Private Equity (PE) Investment – An investment by a person (e.g. business angel) or an intermediary (e.g. managed investment fund, venture capital / private equity firms). As an equity partner, the investor shares the profits and the risk of business failure. This definition EXCLUDES funds provided by existing owners, family, relations and friends.

Small-to-Medium-sized Enterprise (SME) – SMEs are defined by the ABS as businesses employing between 5 to 200 employees (ABS, 2002).

Small-to-Medium-sized Family Enterprise (SMFE) – a firm that satisfies both the SME and family business definitions used in this study. That is, a firm that has between 5 to 200 employees, where the owners identify the business as a 'family business' and it is majority owned / controlled by a family group and has at least one family member in the management team. Conversely, a non-SMFE is an SME that does not satisfy the study's definition of a family business.

Trade Sale – Sale of the equity share of the company to another company (Frederick, Kuratko, & Hodgetts, 2006).

Executive Summary

This report presents the findings of research into factors that influence the use of private equity (PE) amongst small-to-medium-sized family-owned enterprises (SMFEs).

Due to the upcoming retirement of the post-war baby-boomer generation, it is anticipated that around 60% of family business owners plan to retire by 2016. Although the majority of family firms intend to pass the business onto the next generation, it is predicted that half will be unable to do so due to a lack of available and / or suitable successors. As a consequence, many family owners will have little option but to sell or close down the business. The scale of this problem suggests that not all family business owners can look forward to traditional exit options such as trade sales, and therefore alternative succession strategies, such as the involvement of PE, need to be considered.

The rapid growth of the PE sector in the last decade has resulted in new exit options through ownership restructuring deals with PE firms such as management buy-outs (MBOs). The family business literature suggests that barriers exist between family business owners and PE providers, which implies that PE investment in SMFEs may be a theoretical possibility but not necessarily a practical reality. However, because PE has increasingly been used in the ownership transition of family firms in Europe and North America, there is growing interest in whether PE investors can provide a practical solution to the upcoming succession crisis amongst SMFEs in Australia.

Because of the paucity of research into the challenges that SMFEs face when engaging with the PE sector, the study was exploratory in nature and was conducted in two stages. Stage one, in 2007, involved an exploratory qualitative approach whereby 13 SMFE owners, 12 professional advisers and 7 PE investors were interviewed. This was followed by stage two, which involved a survey of 328 Australian SMEs in 2009.

The main finding of this study was that there is growing interest within the PE community to invest in family businesses. However, finance, knowledge and empathy gaps between SMFE owners and the PE community limit the extent to which PE is a practical solution to the growth and succession of family firms. Interestingly, there was no statistically significant difference in attitude to PE between family and non-family firms. Rather, it was the attributes of the owners (intended succession / exit strategy, knowledge of PE, objectives) which determined attitudes towards using PE.

These findings suggest that PE investment in family firms can be encouraged through the education of owners and their accountants (their preferred advisers) on how PE can assist family firms in growth and ownership transition. Accountants can also play a key role in professionalising the managerial capabilities within family firms and thereby making them a more attractive investment to PE providers. Specifically, SMFEs are in need of assistance in developing strategic business plans and succession plans, the establishment of independent / advisory boards, the utilisation of outside managerial expertise and the development of performance measurement systems.

Background for this Study and Introduction

1.1 Introduction

Australian family businesses (most of which are SMEs) contribute significantly to the Australian economy, constituting around 70% of all business enterprises (KPMG & FBA, 2009). They account for 40% of Australia's private sector output and generate 50% of Australia's employment growth (Smyrnios & Walker, 2003). Around 60% of family business owners plan to retire by 2016 as part of the general trend of retiring baby boomers (KPMG & FBA, 2007). Although over 55% hope to pass on the business to the next generation, it is estimated that only 25 to 35% will be successful in doing so because of a lack of interested and / or suitable family successors (Smyrnios & Dana, 2006). This suggests that there is an impending crisis where many SMFEs will have difficulties in successfully exiting or passing on the business in the near future. As a consequence, it is estimated that an average of one family business will be sold or closed down daily in Australia in the next decade (Emmerson, 2006). As about half of the AUD$4.3 trillion in value of SMFEs is expected to come onto the market over the next decade (Smyrnios & Dana, 2006), not all will be able to utilise traditional exit options such as trade sales.

As many family business owners already face difficulties in growing their firms or managing inter-generational transfer or succession (Sharma, Chrisman, & Chua, 2003; Shepherd & Zacharakis, 2000; Smith & Amoako-Adu, 1999; Wasserman, 2003), it has been suggested that opening up the family business capital to PE investors is one possible solution to these difficulties (Allen, 2001; Dawson; EVCA, 2005a; Howorth, Westhead, & Wright, 2004; Scholes, Westhead, & Burrows, 2008). The successful transition of family firms (e.g. to next generation, MBO or sale) is critical to national economies as it is estimated that a successful transfer conserves, on average, five jobs, whereas a start-up generates on average two jobs (European Commission, 2003).

However, little is known about the practicality of PE as a solution to the challenges faced by family businesses. Research to date suggests that most SMFE owners are unprepared or ill-equipped to engage with PE investors (Poutziouris, Michaelas, Chittenden, & Sitorious, 2000). As a consequence, the purpose of this study is to explore whether PE is a workable solution for the impending crisis in family business succession, and whether advisers to SMFEs can assist in bridging the gap between SMFE owners and PE investors.

This report is organised as follows. Firstly, an overview of PE (definition of and trends in PE in the world, in Australia and within family firms) is given. Secondly, a review of the relevant literature is given which concludes with the research issues to be addressed, as well as the methodology used in this study. Thirdly, the findings from stage one (exploratory interviews and focus groups) and stage two (survey) of this study are presented. The report concludes by summarising the findings of the study and the implications for SMFE owners and their advisers.

1.2 Overview of Private Equity

1.2.1 What is Private Equity

Because of the rise in PE deals in the last decade, the term 'private equity' has been broadly used, inconsistently applied and frequently conflated with the term 'venture capital' (Gilligan & Wright, 2008). In its broadest view, PE is "risk capital provided in a wide variety of situations, ranging from finance provided to business start-ups to the purchase of large, mature quoted companies, and everything in between" (Gilligan & Wright, 2008:1). Although PE is often associated with investments in unlisted firms where existing shareholders are bought-out, PE is also involved in the re-privatisation (delisting) of publicly-listed firms as was the case with the Australian public company Colorado Group Ltd, which was delisted in 2007 as a result of its shares being acquired by a PE firm.

For the purposes of this study, PE is defined as an investment by a person (e.g. business angel) or an intermediary (e.g. managed investment fund, venture capital / private equity firms). As an equity partner the investor shares the profits and the risk of business failure. This definition excludes funds provided by existing owners, family, relations and friends.

This definition encompasses both early stage (venture capital) and later-stage (expansion, turnaround, buy-out) investments which is consistent with the view adopted by the Australian Bureau of Statistics (ABS) (ABS, 2010). Given that this study focuses on PE investments among family firms (most of which are SMEs), the amounts that may be invested may not be very large. As a consequence, this study's definition of PE also includes investments by individuals (e.g. business angels) in addition to that of PE firms.

1.2.2 What is a Buy-out

One major vehicle for PE investment in established family firms is a buy-out. We follow Wright, Robbie, Chiplin, & Albrighton (2000) in defining a buy-out as "the acquisition of an enterprise by a group of individual manager and investors". There are two different categories of buy-outs, namely insider driven buy-outs and outsider-driven buy-outs (Wright & Burrows, 2008). Insider driven buy-outs, which include MBOs, arise when the current management team takes control of the firm(s), sometimes together with a PE firm. Outsider-driven buy-outs, which include management buy-ins (MBIs) occurs when the existing management is replaced by a new team from outside the firm.

1.2.3 The Benefits of PE

The main reason that firms consider PE above other types of investment is that some research has shown that, in general, PE-invested firms improved their performance and enhanced long-term value (Gurung & Lerner, 2008; Lerner, Sorensen, & Strömberg, 2009). This can be explained largely by the principal-agent theory in economics whereby in many firms, managers (agents) are not incentivised to maximise shareholders' (principal) value (Gilligan & Wright, 2008). Although Jensen was largely referring to mature, publicly-listed firms (Jensen, 1989; Jensen, 1993), he argues that the legal and regulatory structures of modern firms negatively affects value maximisation due to inefficient corporate governance and the lack of alignment of incentives between owners and managers. PE helps to address some of these issues and improve operations in such firms by closer monitoring of managers and incentivising managers with equity, thereby more tightly aligning managers' and shareholders' interests (Bernstein, Lerner, Sorensen, & Stromberg, 2010).

In various research studies, PE has been found to enhance profitability (Kaplan, 1989; Phalippou & Gottschalg, 2009). While this may be through the more effective use of debt, or more efficient use of existing capital and labour, it has also been found to improve management practices, such as the adoption of more modern manufacturing and continual improvement processes (Bloom, Sadun, & Van Reenen, 2009). As Gurung & Lerner (2008) note, "While government- and family-owned firms, as well as firms owned by private individuals, have substantial 'tails' of badly managed firms, those owned by PE appear to be consistently well managed". Since the global financial crisis (GFC), many firms have reduced their level of debt. In spite of this, Achleitner, Lichtner, & Diller (2009) found that PE has been able to create value even with these reduced levels of debt, with two-thirds of value created due to improved managerial and operational enhancements.

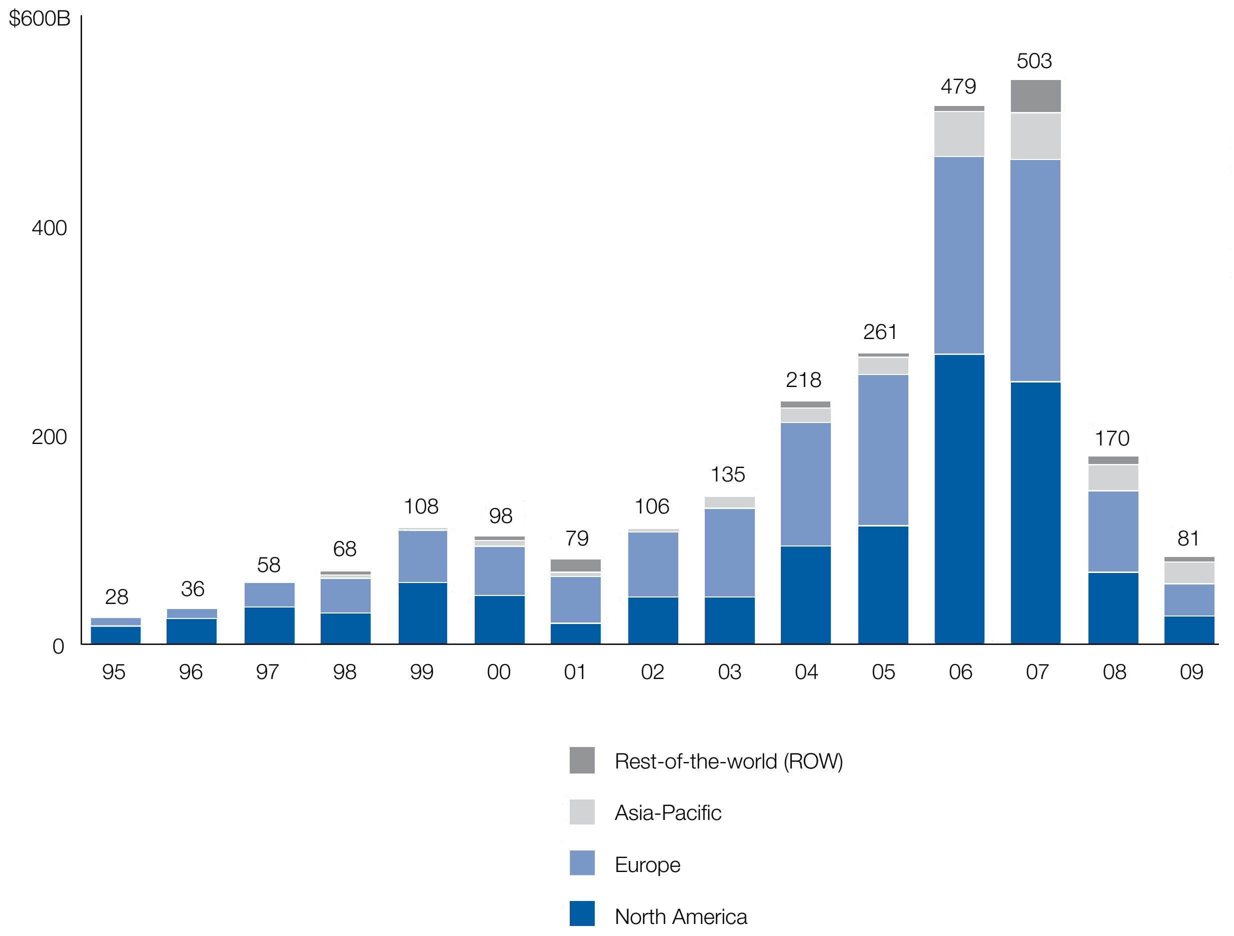
Just before the boom in PE investments in the last decade, Wright, Hoskisson, Busenitz, & Dial (2000) argued that the role of PE-backed MBOs was positive in that it allowed management to be empowered to take entrepreneurial actions and develop new forms of employee cooperation. In a study of US firms, Davis, Lerner, Haltiwanger, Miranda, & Jarmin (2009) found that due to an intensification of creative destruction immediately following PE-investment, in the first two-year post-acquisition period, PE-invested firms on average experienced a two percent productivity improvement compared with the control group of firms. There is also evidence that PE-invested firms have significant increases in aspects of corporate entrepreneurship and innovation e.g. new product development (Bull, 1989; Wright, Simons, Scholes, Renneboog, & Campus, 2006) and patent citations (Lerner, Sorensen, Strömberg, & Field, 2008).

This perspective is also evident in the Australian context. In its study of Australian executives attitudes towards PE, the Economist Intelligence Unit (2008) found that 79% of executives believed that with the arrival of PE, firms will be more focussed on efficiency and 68% believed that PE will also expand the strategic options of firms.

1.3 Trends in Global and Australian PE

There has been a general trend in the growth of PE investments globally over the last 15 years, with an exceptional increase in 2005-2007, followed by an even more significant downturn since late 2007, in line with the GFC. This is illustrated in the PE-backed buy-out activity trends shown in Figure 1.

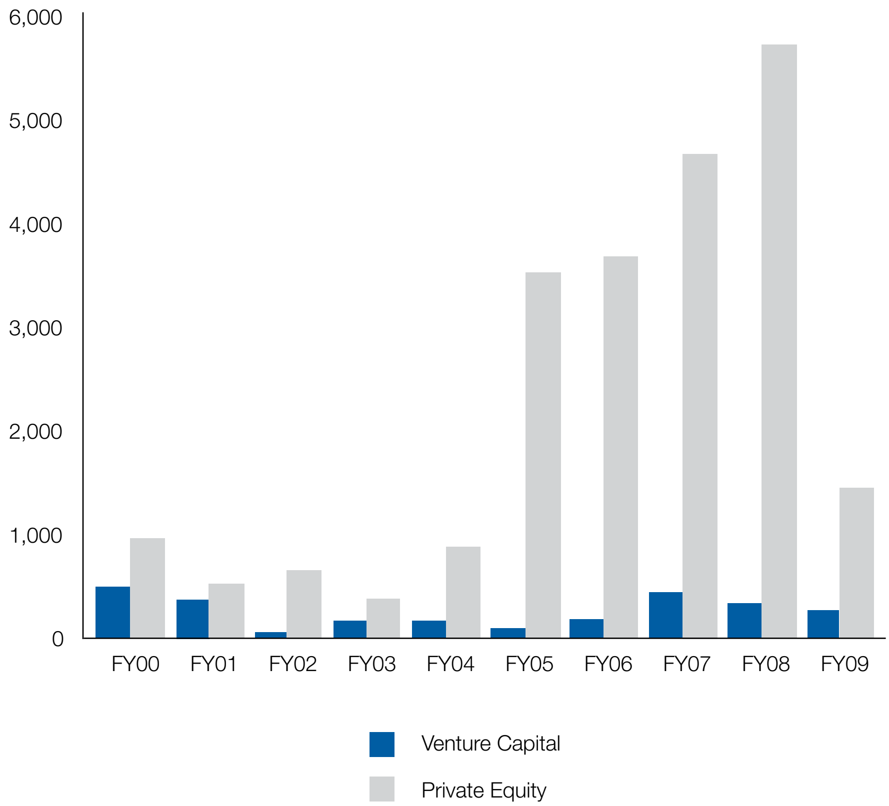
Figure 1 – Global PE-backed Buy-out Deal Activity (1995-2009)



(Source: MacArthur & Lemire (2010))

The worldwide PE market nearly quadrupled from US$50b to US$200b between 2005 and 2007 (Chen, Heimer, Kensinger, Martin, & Petty, 2007). Australia was by no means unaffected by the global wave of PE with a record number of deals in 2006 (Economist Intelligence Unit, 2008), followed by major PE-led bids for Coles Myer in 2006 and Qantas in 2008. While both these large bids failed, the number and size of PE deals grew overall, hitting a peak of AUD$17.4b committed to PE-type investment vehicles in the 2007/08 financial year (FY) (ABS, 2010). There were similar findings among surveys of members of the Australian Private Equity and Venture Capital Association (AVCAL) with a peak total of AUD$5.94b raised among its members in the FY2007/08 (AVCAL, 2009a) (see Figure 2).

Figure 2 – VC and PE Funds Raised in Australia by Fiscal Year (in AUD millions)



(Source: AVCAL (2009a))

The wide-ranging global enthusiasm of PE deals in the mid-to-late 2000s saw many businesses begin exploring whether PE was an effective means to improve performance and long-term sustainability. Among the SME sector, the traditional PE model has been to invest in high-risk, high-growth potential start-up firms, largely in the technology sector, with the later-stage PE investments mainly in larger firms. However, while the initial targets for later-stage PE investments were relatively large firms, the amount of investment flowing into the PE sector in the mid-to-late 2000s meant that the investment funds and managers began investing in later-stage medium-sized and even smaller-sized firms, largely via buy-outs. Among the SMEs, family-owned or family-controlled firms formed a significant proportion and PE was seen as a potential solution to some of the issues facing these firms, most notably the problem of succession among baby-boomer founded firms, as will be elaborated on later in section 1.4.

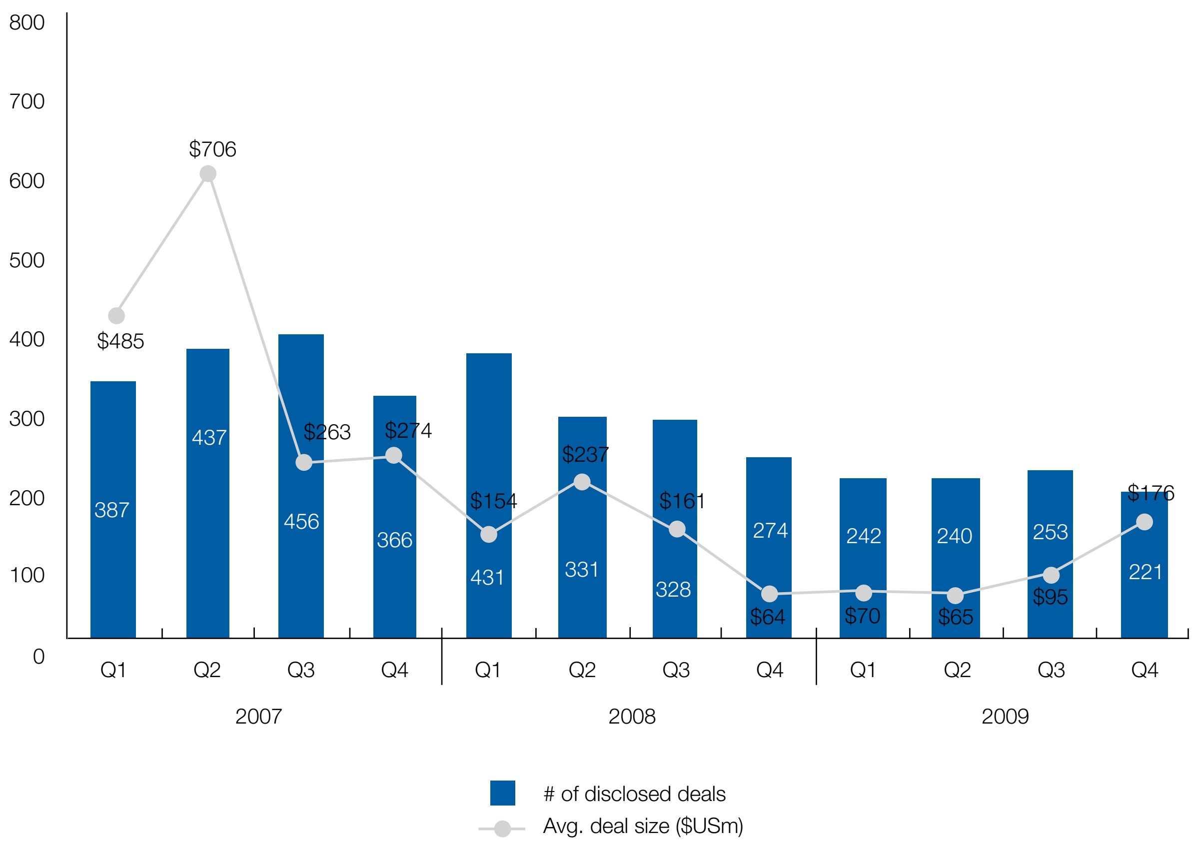
Similar to other financial investment asset classes, PE was significantly affected by the turmoil in global financial markets from late 2007-2009 (see Figure 1 above). PE in Australia was similarly affected by the GFC with PE (non-venture capital) funds raised among AVCAL members falling dramatically from AUD$5.61b (FY2007/08) to AUD$1.28b (FY2008/09) (see Figure 2 above) (AVCAL, 2009a). Similarly the ABS found that there was a significant fall in new investments (from AUD$2.22b in 2007/08 to AUD$0.85b in 2008/09) (ABS, 2010). The higher finance costs combined with a major shift in investors' risk profiles also resulted in major Australian banks winding back their PE arms in 2009 (Emmerson, 2009).

While PE investments in Australia were negatively affected by the GFC, there has also been evidence to suggest that the PE sector in Australia was not as badly affected as other developed economies. At the onset of the sub-prime crisis or credit crunch, as it was known before it escalated into the GFC, the Economist Intelligence Unit noted that while predicting the future for PE in Australia would be very difficult, PE would not be as severely affected as *"corporates are likely to find it equally difficult to finance their growth plans, or to refinance short-term debt (and) this will lead more corporates to look to PE as a source of funding … (as) the fact remains that the major PE firms – and no doubt some of the smaller ones as well – are flush with cash. They need to put it somewhere"* (Economist Intelligence Unit, 2008:5).

This was subsequently confirmed by AVCAL which note that, despite the volatile economic conditions, "a number of PE funds are cashed up with significant dry power [ready cash] to invest." (AVCAL, 2009b:1). In the same report, AVCAL notes that while the ongoing tight liquidity and credit conditions will make large leveraged buy-outs (LBOs) extremely unlikely, there will be continued and renewed interest for so-called mid-market and smaller deals that can give value to investors. The ABS' own survey of the VC and PE industry found that the value of funds raised only decreased by one percent (from AUD$17.6b to AUD$17.4b) from FY2007/08 to FY2008/09 (ABS, 2010), suggesting that the PE sector in Australia was only mildly affected by the GFC. In comparative studies Australia's PE performance on the PE indices, as measured in the latest Global Venture Capital and Private Equity Country Attractiveness Index, showed that current PE attractiveness has not declined below the 2006/2007 levels (Groh & Liechenstein, 2009). In addition, AVCAL sees significant growth potential in the Australian PE market driven by foreign investment (AVCAL, 2009c).

When this research project began in late 2007, the unfolding sub-prime crisis saw many predicting that the credit crunch would destroy the PE market. However, given the benefits of PE investing as highlighted earlier in this section, this has not happened. Ernst & Young's report on global PE deals indicates that a recovery in the PE sector may be happening with the value of global PE investments growing since the second half of 2009 (Figure 3) and it predicts even more encouraging trends for the rest of 2010 (Ernst & Young, 2010).

Figure 3 – Quarterly Disclosed Global PE Activity: 2007–2009



Source: Dealogic

This chart captures transactions where the buyer is a PE firm aquiring global targets. Deal value refers to those deals where the value is known. Average deal size equals disclosed value divided by disclosed volume.

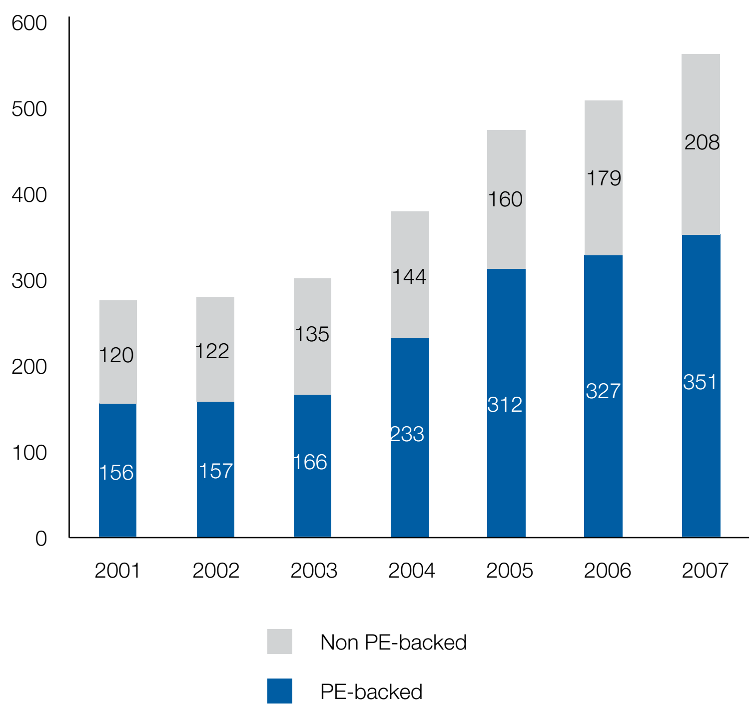
(Source: Ernst & Young (2010))

1.4 PE and Family Firms

PE investment, especially through buy-outs, has been found to be attractive in the private family firm sector (Wright & Burrows, 2008). It has been found to offer an alternative exit route for family firms that have not been able to find appropriate successors to assume ownership and/or management responsibilities (Bachkaniwala, Wright, & Ram, 2001; EVCA, 2005a; Wright, Thompson, & Robbie, 1992). Even if there are potential successors, families may not have the entrepreneurial commitment or the requisite resources and capabilities for continued growth and survival in an increasingly competitive and dynamic global marketplace. However there may be professional managers who possess sufficient interest and knowledge to take on the challenge of making innovative and entrepreneurial changes and thereby ensuring business growth and survival (Howorth et al., 2004). Although a trade sale or an initial public offering (IPO) may be alternative options, these may be unattractive as the family may no longer be involved in the business (Scholes et al., 2008) or it may require technical and financial resources beyond the capabilities of the family (Poutziouris, 2002). In such cases, an MBO may be appropriate as it "may be a means of effecting succession and be acceptable to the founder as the best way to preserve their psychic income (non-monetary satisfaction) through maintaining the company's independent identity and culture, as well as continuing to be involved in the business" (Wright, 2007:296). If internal professional managers do not possess sufficient interest or skills to be owner-managers, but external parties can identify potential opportunities in the family business, an MBI may be more appropriate (Robbie & Wright, 1996).

A survey of family firms involved in PE-backed buy-out deals in Europe by the EVCA found that 33% of them would have ceased to exist had it not been for a buy-out/buy-in involving PE (EVCA, 2001). In Europe, PE-backed deals involving family-firms have been increasing as a proportion to other deals (Figure 4) so that in the decade leading up to 2007, the combined value of European buy-outs/buy-ins involving family firms rose from €11.2b to €18.3b and a majority of them (62%) were PE-backed (Wright et al., 2008b).

Figure 4 – Number of PE and non-PE-backed Buy-outs/Buy-ins of Family Firms (€m)



(Source: Wright et al. (2008b))

Before the GFC occurred, the Australian PE sector began exploring opportunities in the family business sector (Minder, 2006; The Advertiser, 2006). This follows patterns of PE involvement in family businesses in Europe and North America, which have a similar if not a more rapidly ageing population (Maherault, 2004; Poutziouris, 2001; Reier, 2006). These were mainly through ownership restructuring deals with PE firms (e.g. via MBOs, MBIs or Buy-In Management Buy-Outs (BIMBOs) (BVCA, 1999)). For example, in 2001, RMB Capital invested AUD$10m in Hastie Group, a 1st-generation NSW family-controlled refrigeration firm, for 50% of the company. Hastie's founder, David Martin, by then was 60 years old and neither of his children was keen to take over the firm (Walker, 2006). With the new investment, Hastie went on to acquire another 17 similar refrigeration firms in a roll-up before an IPO on the ASX in 2005 for AUD$152m. In another example, ANZ Capital made ten PE investments in family firms over a 12-month period in 2005-06 whereby founders were facing retirement and/or succession issues compared with the normal rate of investment of two or three a year before that (Walker, 2006). In late 2008, the South Australian PE firm, Paragon Private Equity, invested in a 2nd-generation family business AEM Cores (founded 1962) via an MBO. As Andrew Savage, former director of CHAMP Ventures, observed in 2006,

"We are seeing more and more investment opportunities in family businesses. In our last fund, two out of ten investments were into family business or acquiring family businesses. That is a trend with this baby-boomer demographic that we expect to continue." (Walker, 2006:45).

Notwithstanding the unpredictable nature of trends in PE investment highlighted earlier in this report, PE investors, especially in Australia, are still looking for attractive deals in the family-firm sector. Michael Lukin of Macquarie Private Equity noted at the May 2009 Private Equity Forum organised by Venture Capital South Australia (VCSA) that, while the PE sector was still in mired in the middle of the GFC, in contrast to the lack of interest in deals among larger firms, PE was still looking for opportunities in

"… smaller 'non-corporate' deals. These are the family-owned, founder-operated businesses. The way I'd like to think of this is 'There is more to life than the Global Financial Crisis'… At some stage, these guys have to trade. They have to do a deal … For that small buy-out, mid-market buy-out space, we are going to see more and more of these businesses come to market … and I think this is going to be a very attractive market for PE to play and one where PE in the next three, four, five years will deploy a lot of capital. As we do see the greying of the economy and the baby-boomers starting to retire, these businesses will trade."

Despite these trends and positive case studies, PE has often been ignored (whether deliberately or not) by family business owners as a viable succession option (Higashide & Birley, 2002; Howorth et al., 2004). Besides requiring a major shift in the culture of family businesses that traditionally have relied mainly on debt for external finance (Walker, 2006), this has not been helped by the rather negative media reports that accompanied the attempted buy-outs of major Australian firms. The failed bid in 2007 for Qantas by a PE consortium was reinforced by relatively negative media coverage during and after the failed bids for other major Australian firms such as Flight Centre, Orica and Coles. In addition, it may require fundamental changes especially among SMFEs to professionalise their processes and structures. However, the bulk of research on PE has been on large firms (e.g. Dawson (2009) and while there has been some research on SMEs (e.g. Brettel, Breuer, Espel, & Abedin (2009), there has been little research into how family-owned or controlled SMEs and/or their advisers engage with the PE sector (Romano, Tanewski, & Smyrnios, 2001). In addition, despite noting that the performance of private-equity buy-outs is highly contextual (Wood & Wright, 2009), most of the existing research has been done in the US context, with some studies in the UK. The limited research to date shows that most SMFE owners are unprepared to or ill-equipped to engage with such organisations (Poutziouris et al., 2000).

1.5 Conclusion

In summary, while PE has been used for a variety of purposes, it has become an important alternative means of exit for owners of family firms, especially via MBOs, in the US and in Europe. While the GFC has negatively impacted on PE investment globally, the Australian PE sector has weathered the storm relatively well compared with other developed economies. Given that there is limited research on the engagement of PE investors by family firms, especially those in the small-to-medium-sized segment, the remainder of the report highlight some of the barriers to, and opportunities for, both family firms and PE investors to work together to avert the impending crisis in succession prompted by the retirement of the baby-boomer generation.

Literature Review, Research Questions and Methodology

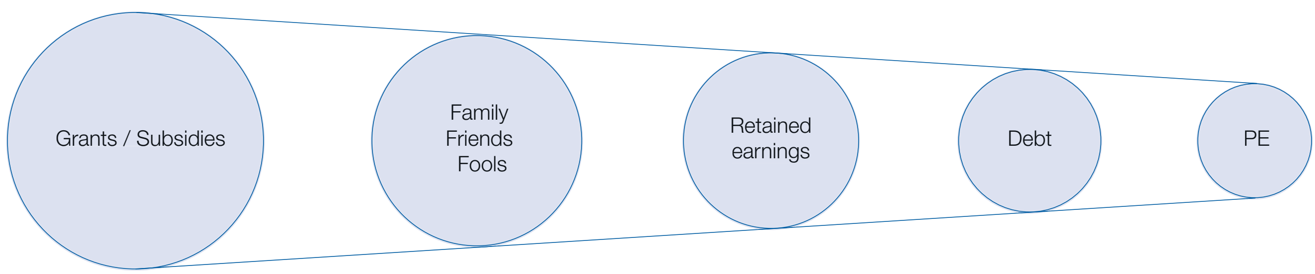
2.1 Literature Review

Although there has been little research into how SMFE owners and their advisers engage with the PE sector (Romano et al., 2001), exploratory research by Poutziouris et al. (2000) indicate that some family businesses are open to external capital for long-term investment to develop new technologies and markets. However, in order to access PE, these firms will have to overcome three possible gaps between SMFEs and PE: (1) a finance gap, (2) a knowledge gap, and (3) an empathy gap.

2.1.1 Finance Gap

The 'finance gap' refers to when particular sources of financing (e.g. PE) are not available to SMFEs. The finance and family business literature suggests that SMFEs face a finance gap due to supply and demand reasons. On the supply side, a finance gap arises when there is a difference between the minimum investment criteria of PE investors and the corresponding size of prospective SMFE investments. As Mason and Harrison (1995) argue, there is a shortage of long-term investment finance for smaller firms on account of PE investors' preference for making larger investments in established companies. On the demand side, family business research suggests that owners follow a pecking order when financing the business, where family owners prefer to use retained earnings and debt before having to resort to outside non-family equity (Poutziouris, 2001). The pecking order hypothesis (as developed originally by Myers & Majluf (1984)) predicts that SMFEs may experience a finance gap because of their aversion to equity financing relative to debt financing and retained earnings (Figure 5).

Figure 5 – Pecking Order Hypothesis



The pecking order hypothesis was drawn on to explain family businesses' decision-making processes for external financing primarily for organisational growth but it can also be applied to how SMFEs view PE options for succession. It explains the creation of an 'equity gap' or 'finance gap' between smaller family businesses and equity investors. For example, Poutziouris (2001) finds that equity financing is generally taken as the last option for SMFEs. This is reinforced by Wu, Chua and Chrisman (2007) who find that the combination of family ownership and management have a negative impact on the use of equity financing.

The finance gap may be reinforced by professional advisers to SMFEs such as accountants, who lack the experience and understanding of using PE given that most of their work in the SME sector focuses on the lower end of the pecking order such as grants and family equity (Carey, Simnett, & Tanewski, 2005).

2.1.2 Knowledge Gap

The 'knowledge gap' refers to any lack of understanding SMFE owners may have about the PE industry. This includes any lack of knowledge about the different transition vehicles used in succession financing, the investment criteria commonly applied by PE firms and the PE market in general.

Commenting on research in the UK context, Poutziouris (2001:289) remarks that a knowledge gap may exist as *"family companies (may be) antithetic to venture capital options simply because they feel less knowledgeable and comfortable about deal structures"* in particular and the PE industry in general. Harvey & Evans (1995:164) agree noting that:

"The cost of capital from venture capital firms normally goes well beyond the financial parameters of the loan arrangement. They frequently expect … a host of other requirements. Many of these requests would seem foreign in the privacy of the family business."

In their research, Poutziouris, O'Sullivan and Nicolescu (1997) found that as a result of inadequate knowledge around different financing options, SMFE owners were hesitant to discuss finances with outsiders. Accordingly, this knowledge gap may create a barrier to effective communication between SMFEs and PE investors. Wu, Chua and Chrisman (2007) concur and note that in general, there has been a paucity of research into the deal structures used by SMFEs when using PE as well as relationships with and access to PE.

Australian industry research has found also that Australian SMFEs have little knowledge on how to present themselves as a financially attractive investment opportunity to PE investors (KPMG, 2006). Lindhe (2007) notes that the lack of knowledge on how to plan for exit is a key barrier to a successful trade sale or buy-out, and this is supported by Emmerson (2006) who argues that PE buy-outs in Australia are not common partly due to the fact that business owners lack knowledge regarding the PE sector.

2.1.3 Empathy Gap

In some studies, a dislike for institutional finance, particularly external PE, has been identified amongst family business owners (Gallo & Vilaseca, 1996; Upton & Petty, 2000). This 'empathy gap', may be due asymmetries between family businesses' sources of capital and their personal, business and familial objectives (Gasson, 1999). The 'empathy gap' relates to family businesses being antithetic to PE simply because they may not have had any experience with PE investors and feel less comfortable about PE deal structures (Poutziouris, 2001). A lack of knowledge of the PE process and their goals can lead to a lack of trust in the PE investor. Similarly, a lack of understanding of the dynamics of family business may cause the PE investor to lose confidence in the SMFE. The empathy gap thus refers to any disconnect in trust between the SMFE and PE fund.

Using complementary theoretical frameworks relating to trust and negotiation behaviour, Howorth, Westhead & Wright (2004) identify that family businesses undergoing MBOs or MBIs had large information asymmetries. The existence of such asymmetries supports the existence of the gaps under discussion. When good relationships and trust were found to exist between the vendor and the MBO or MBI team, Howorth, Westhead & Wright (2004) found that information asymmetries were mitigated. Thus, a buy-out transaction may result in a more mutually beneficial outcome when knowledge and empathy between the two parties is increased. However, there has been limited research on the cause and effect relationship of information asymmetries, such as issues of moral hazard and adverse selection, and the level of trust of-and-by family businesses and PE firms (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001).

Most family business owners take a long-term perspective towards performance (Donckels & Frohlich, 1991). Preference for control, lifestyle objectives, and job security has been shown to be more important to owner-managers than rates of return (Boyer & Roth, 1978; Poutziouris, 2001). PE investors, on the other hand, are generally concerned with finding opportunities that will yield high returns on investments with manageable risk. The objectives considered by SMFE owners and PE investors can be seen to fundamentally conflict. Thus, PE is often not considered as a viable source of capital for the family firm.

Upton & Petty (2000) found that out of six critical factors listed by PE firms in assessing the value of a transition financing opportunity (1. Growth business; 2. Entrepreneur willing to 'let go'; 3. Stable family; 4. Strategic business plan in place; 5. Qualified successor; 6. Outside board of directors), the entrepreneur's willingness to let go and the firm having a 'stable family' were ranked fourth and fifth below the business having a qualified successor, potential for business growth and the business having a strategic plan. However, when investors were asked why they would not fund a particular deal, issues of 'family conflict' and 'unstable family members' were widely noted. Because family firms are often structured by accountants to meet the needs of the family (e.g. use of family trusts to minimise overall taxation), PE firms may be reluctant to invest until such structures have been 'simplified'.

It is clear from these paradoxical findings that investors initially regard transition financing to be a relatively straight-forward investment. Conversely, when considering reasons why an investment may encounter hardship, investors are also aware of some of the negative outcomes of working with family businesses.

2.1.4 The Role of Professional Advisers

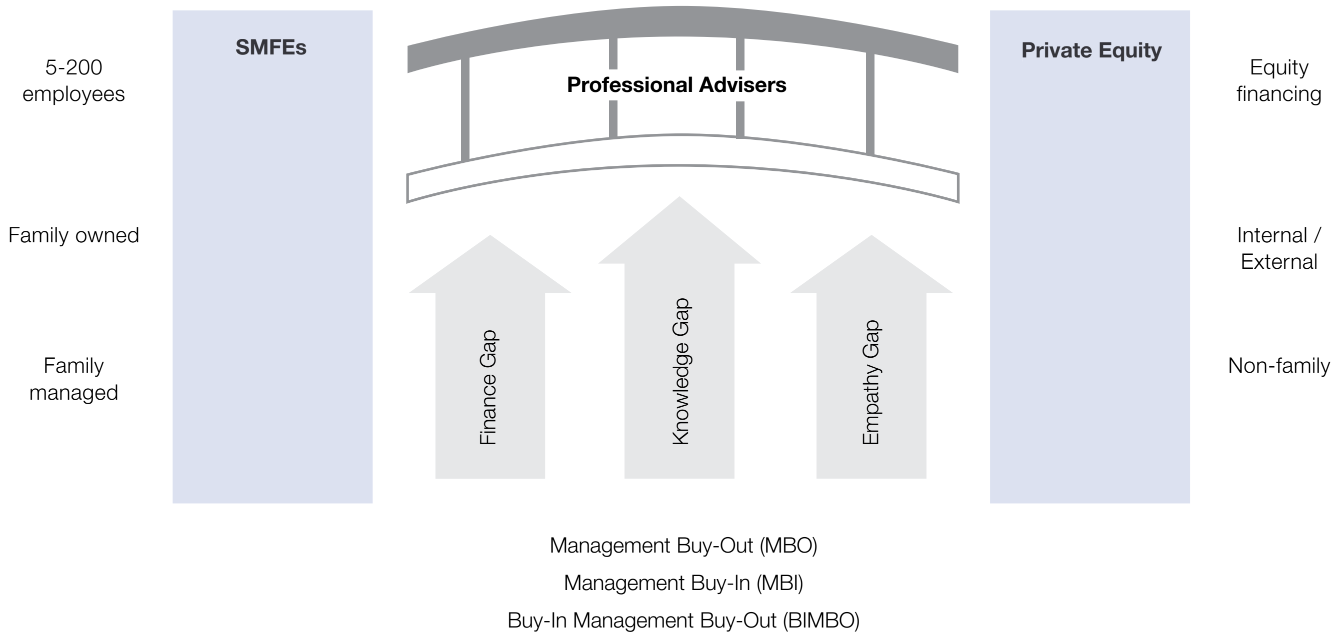
One way to close these gaps between business owners and PE investors may be through the use of professional advisers, because when the SMFE grows, such advisers are often engaged to advise the owners on the increasing complexities of business transactions as part of the professionalisation process (Gersick, 1997; Gurd & Thomas, 2006; Hofer & Charan, 1984). However, there is little research or evidence to show that the professional adviser may have experience in PE deals or appropriate knowledge of the sector and therefore the capability to help bridge any empathy or knowledge gaps that the business owners have.

For the purposes of this study, professional advisers can be considered as any accountant belonging to a professional accounting body, attorney, financial planner, business consultant or academic offering professional advice to client companies. The EVCA (2005b) found that in almost a third of the family business buy-out processes investigated in Europe, the owners approached an independent professional adviser when initiating the deal. This finding denotes that professional advisers in many cases may act as a link between SMFE owners and PE investors.

2.1.5 Summary

Figure Six summarises the three main gaps identified in the research literature between SMFEs and PE and the possible role that professional advisers could play in bridging that gap.

Figure 6 – Research Model



2.2 Research Objectives and Research Questions

The objective of this study is to explore the barriers that SMFE owners face in engaging with the PE sector and how advisers might facilitate greater take up of PE by the SMFE sector.

As such, it intends to investigate the following research questions:

1. To what extent is there a finance gap between SMFEs and the PE sector and what are some of the drivers of this gap?
2. How knowledgeable are SMFE owners of PE and how PE investment can assist them in realising their growth and succession / exit objectives?
3. What are the attitudes of SMFE owners towards using PE for growth, restructuring ownership and exit? What factors influence these attitudes and do these attitudes differ between SMFEs and non-SMFEs (that is, does 'familiness' matter?)
4. Who are SMFE owners most likely to approach for advice when it comes to seeking advice on financing, succession planning and PE?
5. In what ways can professional advisers assist in overcoming the barriers to PE investment in SMFEs?

2.3 Research Design and Methodology

Because of the paucity of research into the challenges that SMFEs face when engaging with the PE sector, the study adopted a mixed-method research study design in two stages as follows:

1. Stage One – Exploratory interviews and focus groups with Australian SMFE owners, SMFE professional advisers and PE professionals; and
2. Stage Two – A survey among Australian SMFE owners.

The detailed design and methods used are elaborated on in the next two sections.

2.4 Conclusion

In summary, despite the growth of PE and its intentions to increase its involvement in the family firms and those in the SME segment, there are three major gaps that need to be bridged between the business owners and the PE sector, namely a finance gap, a knowledge gap and an empathy gap. Given that SMFE owners rely significantly on their professional advisers, and on their accountants in particular, for advice on financial-related issues, advisers are in a position to play an important role in helping to bridge those gaps.

2.5 Acknowledgements

The authors would like to acknowledge that the parts of the literature review and stage one of the research are part of a paper that has been peer-reviewed and accepted for publication in the *International Journal of Entrepreneurship and Small Business (IJESB)*. The paper is entitled, "The effect of finance, knowledge and empathy gaps on the use of private equity amongst family-owned SMEs" and will be published in a forthcoming *IJESB* Special Issue on 'Accounting and Finance for SMEs'. We would like to thank the editor of the *IJESB* Special Issue for consenting on behalf of Inderscience, the publisher, for this content to be included in this report.

Stage One: Exploratory Interviews with SMFE Owners, Private Equity Investors and Professional Advisers

3.1 Research Design, Method and Sample

For the first stage of research, in-depth face-to-face interviews were conducted with 13 SMFE owners, 7 PE investors, and 12 family business advisers in South Australia. Given the importance of gathering 'rich' data (Steyaert & Bouwen, 1997), the data were collected primarily via a combination of in-depth guided and semi-structured interviews as there were few media and other research reports and the contexts were important and could not be discounted (Patton, 1990). As we did not have access to an official register or database of the population, a non-probability convenience sampling process based on snowballing was used as this offered a better solution to the problem of data collection amongst hidden groups (Van Meter, 1990). Two of the interview sessions were conducted as focus groups of family firm owners who had expressed interest in participating in the research. A content analysis of the interview data revealed themes associated with the engagement of PE by the SMFEs and the roles and competencies of the professional advisers.

3.2 Respondent Profile

A profile of respondents is shown in Table One. It shows the types of firm (PE, advisory or SMFE) that they came from, the annual sales turnover or size of investment fund, employees in the firm, and industry sectors or preferred investment sectors.

Table 1 – Profile of Respondents

Company	Fund Size/ Turnover-AUD	Employees	Investment Sectors/ Industry	Remarks
PE1	$35m	3	Technology	Min. Investment = AUD$0.1m (Mostly Venture Capital)
PE2	$500m	15	Stable growth	Min. Investment = AUD$5m
PE3	$200m	10 – 20	SMEs and large firms	Min. Investment = AUD$2m
PE4	$34m	20	High growth	Min. Investment = AUD$1m
PE5	$0.2m-$2m	3	SME Fund Manager	Min. Investment = AUD$0.25m
PE6	$20m-$30m	3	Growth/turnaround fund	Min. Investment = AUD$2m
PE7	$10m-$50m	5 – 8	General fund manager	Min. Investment not disclosed
Adviser1	N.A.	<5	Consultant	N.A.
Adviser2	N.A.	<5	Consultant	N.A.
Adviser3	N.A.	<5	Financial Adviser	Below Tier 1
Adviser4	N.A.	<5	Consultant	N.A.
Adviser5	N.A.	5 to 15	Trade-sale consultant	N.A.
Adviser6	N.A.	5 to 15	Firm re-structuring	N.A.
Adviser7	N.A.	5 to 15	Transition Mgrs	N.A.
Adviser8	N.A.	<5	CPA	Certified Practising Accountant.
Adviser9	N.A.	5 to 10	Financial Adviser	Below Tier 1
Adviser10	N.A.	15 to 20	Financial Adviser	Tier 1
Adviser11	N.A.	N.A.	Government adviser	N.A.
Adviser12	N.A.	<5	Family Business adviser	N.A.

Company	Fund Size/ Turnover-AUD	Employees	Investment Sectors/ Industry	Remarks
SMFE1	$1m-$20m turnover	12	Management consulting	1st Gen
SMFE2	$1m-$20m turnover	5	Manufacturing	2nd Gen
SMFE3	$1m-$20m turnover	15	Publishing	1st Gen
SMFE4, SMFE5, SMFE6, SMFE7, SMFE8	$1m-$20m turnover	5 - 70	Two wineries Printing, Drilling, Automotive	2nd - 3rd Gen; Focus Group 1
SMFE9	$1m-$20m turnover		Manufacturing	
SMFE10	$20m-$100m turnover		Funerals	2nd - 3rd Gen; Focus Group 2
SMFE11	$20m-$100m turnover		Hydraulic	
SMFE12	$20m-$100m turnover	25 - 260	Winery	
SMFE13	$20m-$100m turnover	<200	Confectionery	2nd Gen

Notes:
1. N.A. = Not Applicable;
2. SMFE12 is a multi-business entity. Its largest entity employs 260 people but these are not all full-time employees.

3.3 Findings

3.3.1 Finance Gap

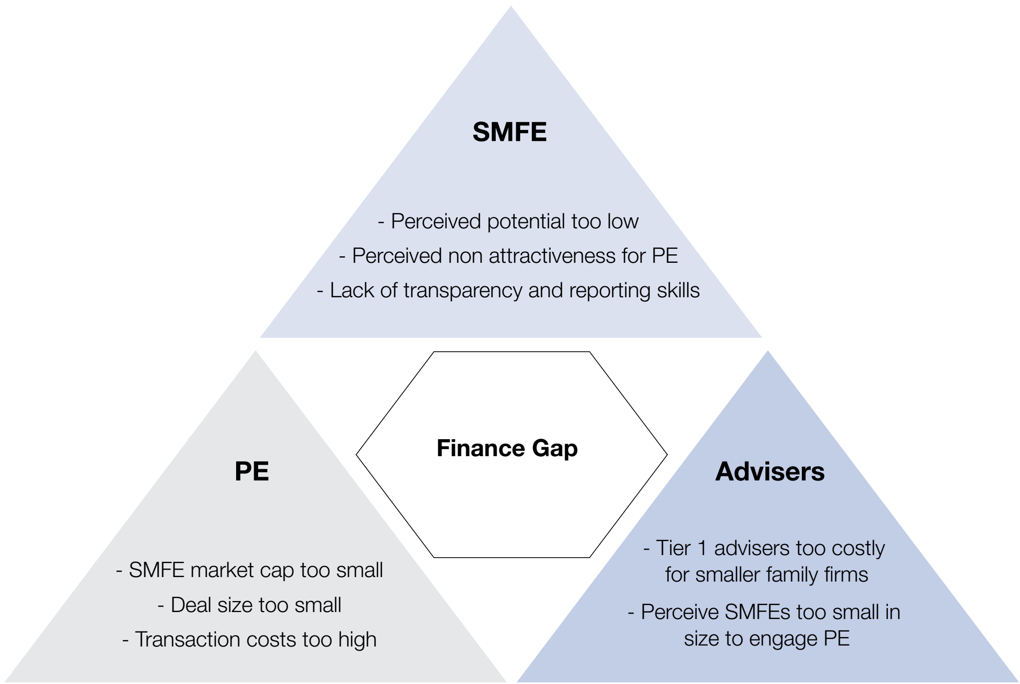
All three groups of respondents (PE investors, SMFE owners and professional advisers) confirmed that SMFEs face a finance gap when it came to accessing PE. However, the extent of the finance gap appears to be dependent on the size of the PE fund. Contrary to Schaper (2006) who argued that SMFEs with AUD$1m in turnover will increasingly be sought out by PE firms, a growing trend in the minimum investment threshold was noticed. Accordingly, SMFEs are increasingly less likely to receive PE investment from larger investors. However, a number of niche PE investors were identified as having the opportunity to fill this void with three out of the seven PE investors interviewed being established after 2003. From the SMFEs' perspective, most did not consider their size and growth potential to be adequate for PE minimum investment criteria. Five of the seven (or 71%) PE investors interviewed concluded that smaller deals can be more expensive to execute as the family business at this level may not be professionalised. For example, one PE investor stated, *"smaller deals can just be more expensive because they don't have their books in order"*. The remarks column in Table One gives an overview of the minimum investment criteria indicated by the PE funds interviewed.

The findings also provide evidence that the increased transaction costs from dealing with family business fuel the finance gap. While PE investors noted that experienced advisers had the ability to lower due diligence costs and may add financial value for the SMFE on the final price paid by the PE firm, it was also found that less knowledgeable and less experienced professional advisers could increase the cost of due diligence and potentially lower the final price paid for the business by the PE firm. Due to their size and depth in most sectors of businesses, the experience would more likely be found in the so-called 'tier one' business advisory firms (e.g. the 'Big Four' accounting firms of Ernst & Young, KPMG, PricewaterhouseCoopers, and Deloitte Touche Tohmatsu). This was corroborated in our interviews in that of the 11 professional advisers not from tier one institutions, only four (37%) expressed that they were confident of advising on matters relating to PE as they had previous experience in the area and of these four, two had gained the experience from employment in tier one firms. One professional adviser noted that for their advice to be financially feasible,

"minimum enterprise value of the company, excluding debt, is AUD$10m. AUD$5m or less will be too small for the [Advisory Group] to help and leave enough money in the deal. [A] Business broker would provide a better service for smaller firms".

Both PE investors and professional advisers commented that the pecking order hypothesis broke-down when SMFE owners were faced with a strong need for exit financing. However, the feedback received from SMFEs was mixed. For most firms, the legacy of the business was seen to be at jeopardy if PE investors were to fund the exit. Figure 7 summarises the effects of the finance gap between the three different groups.

Figure 7 – The Finance Gap



3.3.2 Knowledge Gap

The respondents consistently noted that SMFEs lacked knowledge and awareness of PE, which is consistent with the findings reported by Poutziouris (2001). Larger firms and firms heavily associated with family business associations exhibited a greater awareness of PE as an option and also demonstrated that they possessed knowledge about specific PE investors operating in South Australia. While several interviewees indicated that there is a growing knowledge and appreciation of PE among SMFEs in South Australia, all the PE investors and professional advisers interviewed commented on the low level of knowledge on PE in general and specific PE processes in the SMFE community. This was confirmed in that none of the SMFE owners exhibited thorough knowledge of the PE industry in general, and on the transition vehicles usually used by PE. As one PE investor noted:

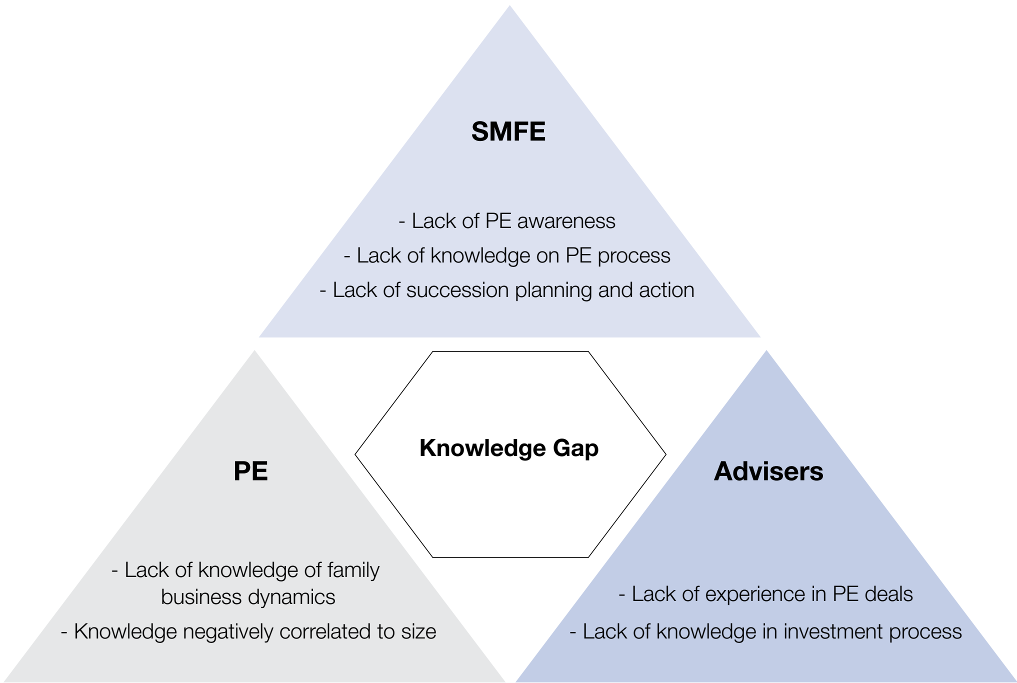
"There is still a great deal of naivety on how much work is required as well as the length of the processes."

In agreement, a professional adviser noted that *"…PE is an unknown term"* among SMFEs. The specifics of PE investment processes proved to be a highly specialised field of expertise. SMFE owners and advisers that had previously not been involved in deals involving PE funding were less knowledgeable on investment vehicles such as MBOs, MBIs and BIMBOs. This can hardly be attributed to the characteristics of family business owners in general, but is more likely due to the nature of the PE investment processes being a narrow subject matter.

In line with KPMG's (2006) research, SMFEs were found to lack the expertise on how to make themselves a financially attractive investment opportunity to PE investors. Regarding limitations in SMFE succession planning, one PE investor stated, *"They often do not know what the company is worth"*. While most SMFEs indicated that they had a formal succession plan, it was also apparent that the succession plan was to be used during succession crises and events, and not as a 'live' strategic planning document for the firm.

On the adviser side, we find that the knowledge level appears to be related to the size of the advisory firm as well as actual deal experience. The larger accountancy and law firms showed that they had expertise in the field, while smaller firms demonstrate lack of knowledge of the PE investment processes if they have not previously been involved in deals for their clients. One PE investor noted that, *"the expertise only resides in the 'Big Four', and possibly in the second tier"*. Some larger PE and advisory firms indicated that this may be a problem as SMFEs often deal with smaller accountancy firms. On the other hand, a number of firms indicated that the role of advisers would be to provide the PE firm with the necessary information (e.g. for due diligence), and the specifics of the knowledge on deal structures would be produced by the PE investor. The combination of specific skills in the PE sector space combined with an understanding and appreciation of specific dynamics in family businesses appeared to be a rare skill set in the professional adviser community. Figure Eight illustrates how the knowledge gap is created between the three different groups.

Figure 8 – The Knowledge Gap



The SMFE owners lack awareness of the PE market and processes. Professional advisers to SMFEs in general do not have experience in PE deals and hence also lack adequate knowledge in PE investment processes to advise SMFE owners effectively. Given that few of their investments are in family firms, PE investment professionals, on the other hand, lack knowledge of the family business dynamics, and those that do have some knowledge of SMFEs tend to be working in PE funds which are much smaller.

3.3.3 Empathy Gap

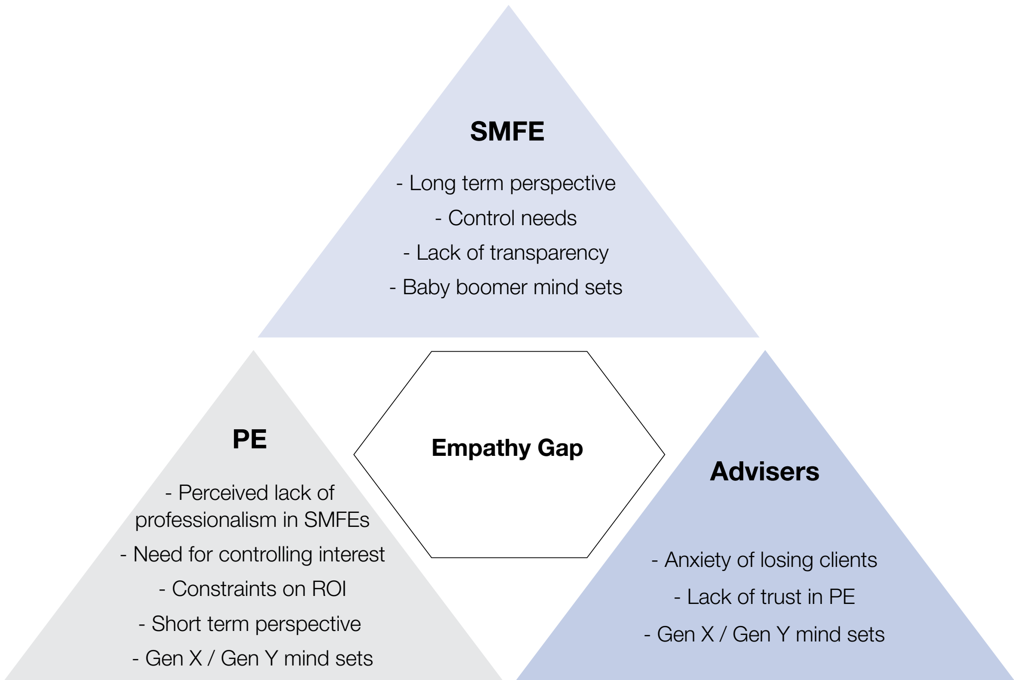
There was also evidence of a significant empathy gap. Regarding the inclusion of PE in the firm, one SMFE owner stated, *"someone else coming into the company would just complicate the system"*. On the other hand, one PE investor identified that *"family businesses are those that have not run as hard as they could"*.

The differing goals of PE investors and SMFEs were found to be a barrier to SMFEs gaining access to PE. By employing standardised investment terms, PE investors were perceived by family businesses to be inflexible, thus decreasing SMFEs trust towards PE. Confirming the PE side of the empathy gap, PE investors identified the goals of family businesses as *"less motivated"* and *"employ[ing] more patient capital"*. To the extent that the comments were generally negative from the SMFE owners and PE investors about each other, we find that there is evidence of antipathy, and not just a lack of empathy, between both parties.

PE investors perceived professional advisers as functional, non-empathetic parties in the investment process. However, this was not corroborated across the SMFE professional adviser spectrum and was largely found only among larger advisory firms who were keen to emphasize objectivity and hence did not perceive themselves to have empathy issues towards or against SMFEs or PE investors. For example, an interviewee from one of the larger advisory groups in the study perceived SMFE owners as incompatible with *"hard business people"*. PE investors claimed to understand the possible causes of family business resistance to outside equity financing. However, SMFE owners felt otherwise and the views of professional advisers were mixed. Further research is required to clarify the level of understanding PE investors have of the causes, rather than effects, of family business issues and conflict.

Another aspect mentioned by several respondents was the effect of age differences between SMFE owners seeking retirement and the majority of professional advisers and PE fund managers. SMFE owners perceived advisers from larger advisory firms as well as the majority of fund managers to be from the Generation X or Y, while SMFE owners were often much older. Such generational differences were found to contribute to an inherent empathy gap. Figure Nine shows a representation of the empathy gap between the three different groups.

Figure 9 – The Empathy Gap



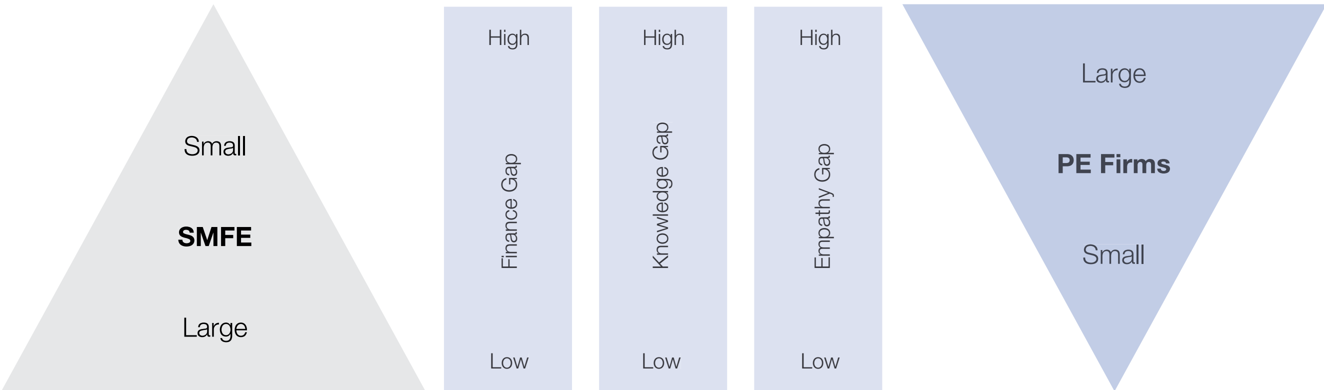
In general, we find that SMFE owners are older (baby boomers) with interests in longer-term perspectives. They want to retain strong control in their firms which is not compatible with perceived interests of the PE community. The younger (Gen Y) PE professionals exacerbate this empathy gap with a belief that SMFE owners are ‘unprofessional’ and that returns on investment are difficult to unlock in SMFEs that may have other interests in mind than that of the investors/ shareholders. This is made worse by SMFE advisers who also do not trust the PE community and are fearful that they may lose a valuable client once the SMFE is bought out.

3.4 Effect of Size

The findings indicate a relationship between the size of the different groups of interest (PE investors, SMFEs and advisory firms) and the relative size of the finance, knowledge and empathy gaps.

Figure 10 indicates that all the identified gaps increase in size as the SMFE size decreases and PE fund size increases. The finance gap relationship is explained by the findings presented above – larger funds increased their minimum investment limit and therefore did not consider the smaller SMFEs as viable investment targets. On the empathy and knowledge gaps, the findings indicate that there is a positive correlation between SMFE size and PE knowledge as well acceptance of PE, while there is a negative correlation between PE size and knowledge of, and ability to empathise with, specific family business issues, thus increasing the empathy and knowledge gaps.

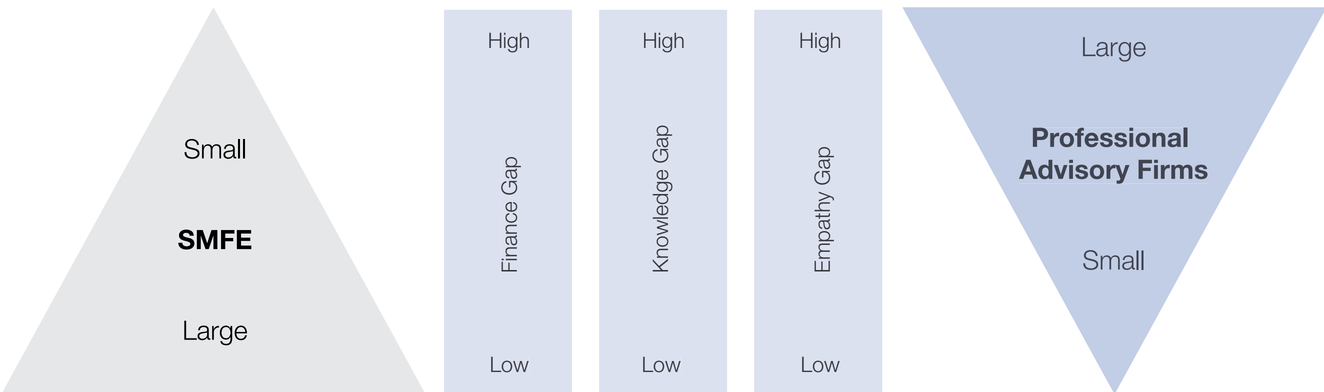
Figure 10 – Size Effects on the Gaps Between SMFEs and PE



3.5 Role of Professional Advisers and their Effects

Similar relationships are seen when looking at SMFEs and professional advisers (Figure 11). The finance gap is increased by the increased transaction costs relative to the size of the investment. This suggests that SMFEs would need to use more established and larger professional advisory firms in such transactions. However, the larger professional advisory firms note that their fees would be too high for them to be involved in deals with the smaller SMFEs. There is also a positive correlation between the size of the SMFE and the level of trust they had towards the larger accounting and law firms.

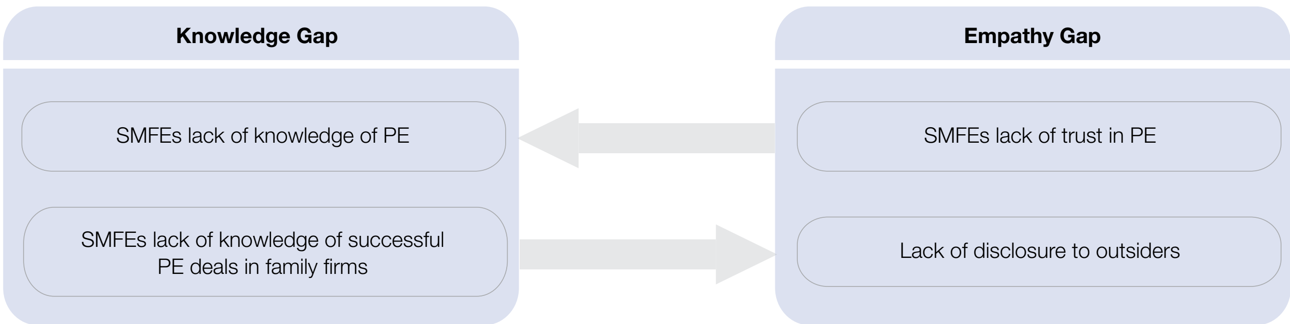
Figure 11 – Size Effects on the Gaps Between SMFEs and Professional Advisers



3.6 Interactions Between the Three Groups and Gaps

Even though the gaps are seen in the initial conceptual model as distinct constructs, in our analysis of the interviews, we find interactions and overlaps between the three gaps. For example, PE investors' lack of knowledge and understanding of dynamic issues in family businesses, due to integration of family and business dimensions, may lead to a lack of trust in, and understanding of, how SMFEs operate as well as the advantages that may flow from family involvement (e.g., lower agency-related costs). Conversely SMFE owners who lack knowledge on the investment vehicles used by PE investors, as well as the potential benefits offered by PE, have less trust in PE investors. SMFE owners are thus reluctant to communicate and disclose information to outsiders seeking to provide equity financing for their business. Without transparent communication, building empathy on both sides will be difficult. A lack of trust in PE investors would logically lead to a lack of interest in getting information on how they operate through deal structures. This indicates a reverse interaction, where the lack of empathy fuels the knowledge gap (refer to Figure 12).

Figure 12 – Interaction Between Knowledge and Empathy Gaps



Two knowledge-based factors appeared to drive the degree to which SMFEs exhibit lack of trust towards PE. First, the SMFE owners' level of knowledge regarding specific PE investment processes appears to negatively correlate with the existence of an empathy gap. Second, the degree to which SMFE owners have heard of successful PE investments in other family businesses appear to negatively correlate with the existence of an empathy gap.

Real and perceived lack of knowledge in the SMFE community can be argued to fuel the finance gap by increasing transaction costs. If knowledge levels about PE and financing in general are low, PE investors would need to spend more effort on educating and searching for relevant information in the due diligence process than in the situation where the target is more knowledgeable. Non-disclosure of information, due to a lack of trust (empathy gap), would also increase transaction costs and thereby fuel the finance gap.

The pecking order theory may be closely linked with SMFE-PE trust issues and hence reinforce the empathy gap. SMFEs will rarely consider PE if their financing needs are not substantial enough to eliminate retained earnings and debt funding as an option. In addition, SMFEs are found to be reluctant to approach PE investors for financing even when the family firm met the minimum investment requirements of most investors. This reluctance, or empathy gap based on a lack of knowledge of the PE process and PE's intentions, in effect widens the finance gap.

3.7 Conclusion

In summary, the first phase of research found evidence of significant finance, knowledge and empathy gaps between SMFE owners and the PE community and that the size of the firm inversely affects the size of the gaps. Professional advisers were also found to contribute to these gaps, instead of bridging them. For example, less knowledgeable professional advisers could increase the cost of due diligence and potentially lower the final price paid for the business by the PE firm. Such advisers were perceived to be less experienced and educated in the processes of PE investments and possibly knowingly (or unknowingly) anti-PE, thus minimising the financing options open to SMFEs. Finally, there were strong dynamic interaction effects between the three identified gaps and the three groups of people studied.

3.8 Acknowledgements

The authors are grateful to the University of Adelaide MBA students, Petter Gustafson, Magdalena Hadji and Andrew Schnackenberg, who assisted us with this phase (stage one) of the research.

Stage Two: Survey of SMFE Owners

4.1 Research, Design and Sample

Drawing on survey instruments developed in previous academic research, a 240-item questionnaire was developed with the assistance of family business researchers, family business owners and advisers. The questionnaire contained six sections: firm and owner characteristics, firm performance, management and strategic issues, practices and attitudes to financing alternatives, succession and exit plans, and sources of advice for business and financing issues.

The population considered in this study was Australian SMEs, which comprise businesses that employ between five and two hundred employees (ABS, 2002). For this comprehensive survey, the sampling frame followed procedures similar to Tanewski & Carey (2007) where the Dun and Bradstreet database was used to randomly select 2,300 Australian SMEs from two states in Australia (South Australia and Victoria) so as to minimise any regional effects that may be particular to one state. The questionnaire was sent to each owner together with a covering letter which explained the purpose of the study and outlined an incentive to encourage participation (donation made to charity). A follow-up letter was sent three weeks after the initial questionnaire was distributed, which resulted in 385 completed questionnaires (response rate of 16.7%). This compares favourably with other SME studies in Australia particularly considering the fact that respondents were required to disclose personal information such as ownership and financing structures (e.g. Smyrnios & Dana, (2006); Romano et al. (2001)). This response rate is superior to that obtained by studies in other developed economies (Bygrave, Hay, & Peeters, 1994) and also with a study in Europe of firms involved in MBOs/MBIs which had a 7% response rate (Scholes et al., 2008). After removing invalid questionnaires (incomplete, SMEs < 5 or > 200 employees), a total of 328 usable questionnaires remained.

4.2 Findings

4.2.1 Characteristics of the Firms Included in the Sample

Table Two presents the descriptive statistics of the firms sampled, grouped by family business status. Of the 328 firms included in the study, around 57% were classified as family firms according to the three criteria used. Family firms were older (mean of 26 vs. 21 years for non-SMFEs) but smaller in size (mean employees 20.3 vs. 24.5 for non-SMFEs).

Table Two also presents descriptive statistics of the prevalence of business practices amongst the SMEs included in the sample. These business practices are often used to assess the degree to which a firm has adopted a professional style of management (i.e., professionalised), an issue important to PE investors (Wright et al., 2008a). Overall, these statistics suggest that SMFEs are less professionalised compared with their non-family counterparts. With regard to business planning, 51% of SMFEs had a documented strategic / business plan (62% for non-SMFEs), while around 28% had a research and development plan (36% for non-SMFEs). Only around 27% of SMFEs and non-SMFEs had a documented succession plan for the business. With regard to business control, 65% of SMFEs had documented job descriptions for managers (72% for non-SMFEs) and 63% had a documented organisational structure (75% for non-SMFEs). Only eight percent had an independent board or advisory board (22% for non-SMFEs) and 40% of SMFEs had employed a non-family manager (that is, 60% of SMFEs had a management team that was solely made up of family members). Although there was little difference in the usage of benchmarking (47% of SMFEs; 46% of non-SMFEs) and regular reporting (88% of SMFEs; 91% of non-SMFEs), only 46% of SMFEs had a performance appraisal system for employees in place (59% for non-SMFEs). With regard to developing their managerial expertise, only 46% of SMFEs undertook management training during the year (61% for non-SMFEs).

With regard to the industries that the firms operated within, family firms were more concentrated in the retail and wholesale sector (23.0% vs. 15.8% for non-SMFEs) and the agriculture sector (9.1% vs. 2.9% for non-SMFEs). Non-SMFEs were more concentrated in the financial services sector (16.5% vs. 10.7% for SMFEs) and the technology/communications sector (14.3% vs. 5.9% for SMFEs).

Table 2 – Descriptive Statistics

	SMFEs (n=188)	Non-SMFEs (n=140)
Family business status	57.3% of firms	42.7% of firms
Mean age (since foundation)	26.1 years	21.3 years
Mean firm size (# employees)	20.3	24.5
Business practices in place:		
- Documented strategic or business plan	51.4%	62.4%
- Documented succession plan for the business	27.6%	27.0%
- Documented job descriptions for managers	65.1%	72.0%
- Documented organisational structure	63.4%	75.4%
- Benchmarking	46.8%	45.9%
- Independent board or advisory board	8.3%	22.3%
- Management training during the year	46.2%	61.1%
- Non-family managers appointed?	39.9%	not applicable
- Performance appraisal system for employees	45.9%	58.5%
- Regular income & expenditure reports	87.6%	91.2%
- Research & development plan	27.9%	35.5%
Industry:		
- Recreational	12.9%	11.6%
- Retail / wholesale	23.0%	15.8%
- Transportation / storage	4.8%	2.9%
- Financial services	10.7%	16.5%
- Manufacturing	14.9%	13.7%
- Construction	12.8%	13.6%
- Technology / communication	5.9%	14.3%
- Agriculture	9.1%	2.9%
- Personal services	3.2%	5.1%
- Other	2.7%	3.6%

4.2.2 Finance Gap Experienced by SMFEs

Table Three presents the mean ownership structure amongst family and non-family firms included in the sample. Working owners constitute the largest ownership group amongst both groups of firms. However, compared with their non-family counterparts, SMFEs are less likely to have PE investors as part of the ownership structure. Specifically, on average, individual PE investors only own 0.5% of SMFEs (compared with 3.2% of non-SMFEs) while PE firms have no ownership amongst SMFEs (compared with 2.3% amongst non-SMFEs).

Table 3 – Average Ownership Structure Amongst Family and non-Family Firms

	Mean	
	SMFEs (n=188)	**Non-SMFEs (n=140)**
Working owners	90.1%	79.7%
Non-working owners	7.1%	8.3%
Employees (excl working owners)	2.2%	3.5%
PE (individuals)	0.5%	3.2%
PE (firms)	0.0%	3.0%
Other	0.1%	2.3%
	100.0%	100.0%

These results suggest that SMFEs face a finance gap in the market when it comes to acquiring capital from PE investors. As highlighted earlier in the qualitative phase of this study, this is most likely due to both demand and supply sides of PE. On the supply side, SMFEs are less likely to receive capital from PE firms because the transaction costs associated with negotiating a PE deal are prohibitive. On the demand side, family business owners may face a self-imposed finance gap because of their attitudes (antipathy) towards using PE. To further examine the demand-side effects, respondents were asked to score on a scale of one to five (little influence to significant influence) whether certain factors influence their likelihood of using PE. The top five reasons why SMFE owners would not use PE are listed in Table Four below.

Table 4 – Top Five Reasons Why SMFE Owners Would Not Use PE

	SMFEs (n=188)
Loss of control of the business	3.36
Lack of links with the PE sector	3.16
Lack of experience in engaging with PE sector	3.12
Lack of trust / confidence in PE providers	3.11
Debt finance more appropriate	3.09

Scale: 1 (little influence) to 5 (significant influence)

These results suggest that the reluctance of SMFE owners to use PE can be grouped into two categories: antipathy towards PE and knowledge of PE. With regard to antipathy, the most influential reason why SMFE owners are reluctant to use PE is the fear of loss of control of their business. The fourth most influential factor is the lack of trust of PE investors. As a consequence, it is no surprise that SMFE owners prefer debt finance over PE equity (fifth most influential factor) which is consistent with the financing pecking order discussed earlier in this report. With regard to knowledge of PE, SMFE owners identify the lack of links and experience in engaging with the PE sector as the second and third most influential factors, respectively, as to why they are unlikely to use PE.

In summary, the above results suggest that SMFEs are less likely to use PE due to their attitudes towards and knowledge of PE. The attitudes (antipathy) towards using, and knowledge of, PE amongst SMFE owners are explored and contrasted with non-SMFE owners in the following two sections.

4.2.3 Attitudes (Antipathy) of SMFE Owners Towards Using PE

Concerning attitudes towards using PE, non-SMFEs were more likely to use PE for growth (mean of 2.4 vs. 2.11 for SMFEs), restructuring ownership (mean of 2.4 vs. 2.1 for SMFEs) and exiting the business (mean of 2.8 vs. 2.5 for SMFEs). Overall, these results suggest that SMFEs are less likely than non-SMFEs to source capital from PE investors (as highlighted in the previous section) because of their antipathy towards using PE.

Table 5 – Likelihood of Using PE

	Mean	
	SMFEs (n=188)	Non-SMFEs (n=140)
Use PE to grow the business	2.11	2.38
Use PE to restructure ownership	2.13	2.41
Use PE to exit the business	2.46	2.82

Scale: 1 (very unlikely) to 5 (very likely)

4.2.4 Knowledge of PE

Non-SMFE owners exhibited a higher degree of knowledge of PE compared with SMFE owners. Specifically, non-SMFEs had a marginally higher knowledge of how PE can assist owners in growing or exiting their business (mean of 2.6 vs. 2.5 for SMFEs) and a higher knowledge of the benefits that can be obtained through using PE (mean of 2.7 vs. 2.4 for SMFEs). Owners of non-SMFEs have a better understanding of the firm characteristics that are important to PE investors (mean of 2.7 vs. 2.5 for SMFEs) as well as a marginally better understanding of how to go about arranging a PE deal (mean of 2.3 vs. 2.2 for SMFEs). One possible reason why SMFE owners have an antipathy towards using PE (as identified in both phases of this study) is because of their limited knowledge of the PE sector, an issue that is explored further in the next section.

Table 6 – Knowledge of PE

	Mean	
	SMFEs (n=188)	Non-SMFEs (n=140)
How PE can assist in growth or exit	2.5	2.6
Benefits obtained from using PE	2.4	2.7
Firm characteristics important to PE providers	2.4	2.7
How to go about arranging a PE deal	2.2	2.3

Scale: 1 (very low) to 5 (very high)

4.3 Further Analysis of Results

As highlighted in the previous section, descriptive statistics of the ownership structure of the firms sampled suggest that SMFEs are less likely to source capital from PE investors when compared with their non-family counterparts. This is most likely because SMFE owners have a higher degree of antipathy towards using PE when compared with non-SMFEs. However, attitudes (antipathy) towards using PE amongst SMFEs and non-SMFEs may be explained by factors other than 'familiness'. Specifically, attitudes towards PE may be influenced by the owner's intended exit/succession strategy (pass onto next generation vs. complete exit of family ownership), knowledge of the PE sector (which was found to fuel antipathy towards PE), owner objectives (lifestyle vs. financial goals) as well as the age, size and industry type of the firm. Therefore, the difference in attitudes towards using PE (for growth, ownership restructure and exit) amongst SMFEs and non-SMFEs was further explored by controlling for other possible influences including intended exit/succession strategy, knowledge of PE, owner objectives, and firm age, size and industry type (refer to appendix for statistics of regression modelling).

4.3.1 Use of PE to Grow the Business

As discussed earlier, the descriptive statistics suggest that SMFEs are less likely than their non-family counterparts to use PE for growth. However, while controlling for the influence of owner (objectives, exit strategy, PE knowledge) and firm characteristics (size, age, industry) there was no statistically significant difference between SMFEs and non-SMFEs with regard to using PE for growth.

Rather the results suggest that owner characteristics have significant influence over attitude towards using PE for growth. Specifically:

- Owner objectives: Owners that emphasise maximising the value of the business are significantly more likely to use of PE for growth. Conversely, owners that emphasise a work/life balance are significantly less likely to use of PE for growth.
- Intended succession strategy: owners that intend to employ outside management but retain control or sell the business are significantly more likely to use PE to finance growth.
- PE knowledge: owners with a better understanding of PE were significantly more likely to use PE for growth.

4.3.2 Use of PE to Restructure the Ownership of the Business

As observed earlier, the descriptive statistics suggest that SMFEs are less likely to use PE to restructure the ownership of the business when compared with their non-family counterparts. However, while controlling for the influence of owner (objectives, exit strategy, PE knowledge) and firm characteristics (size, age, industry) there was no statistically significant difference between SMFEs and non-SMFEs with regard to using PE for restructuring ownership.

Rather, the results suggest that owner characteristics have a significant influence over attitude towards using PE for restructuring ownership. Specifically:

- Owner objectives: owners that emphasise a work/life balance are significantly less likely to use PE for restructuring ownership.
- Intended succession strategy: owners that intend to sell the business are significantly more likely to use PE to restructure the ownership of the business.
- PE knowledge: owners with a better understanding of PE were significantly more likely to use PE for restructuring ownership.

4.3.3 Use of PE to Exit the Business

As earlier shown, the descriptive statistics suggest that SMFEs are less likely to use PE to exit the business when compared with their non-family counterparts. However, while controlling for the influence of owner (objectives, exit strategy, PE knowledge) and firm characteristics (size, age, industry), there was no statistically significant difference between SMFEs and non-SMFEs with regard to using PE for exit.

Rather, the results suggest that owner characteristics have a significant influence over attitude towards using PE for exit. Specifically:

- Owner objectives: owners that emphasise a work/life balance are significantly less likely to use PE for exiting the business.
- Intended succession strategy: not surprisingly, owners that intend to pass the business on to the next generation are significantly less likely to use PE in order to exit the business. Conversely, owners that intend selling the business are significantly more likely to use PE to exit the business.
- PE knowledge: owners with a better understanding of PE were significantly more likely to use PE for exiting the business.

4.4 Discussion of Results Regarding Owner Attitudes Towards Using PE

The results of this study highlight that, while controlling for other influences, there is no statistically significant difference in the attitude (antipathy) of SMFEs and non-SMFEs towards using PE[1]. Rather, this study shows that differences in attitude towards using PE relate to owner-related characteristics such as the owners' objectives, their intended succession strategy and their knowledge of PE.

With regard to the objectives of the business, firms that emphasise maximising the value of the firm are significantly more likely to use PE to grow the business. However, firms that emphasise work/life balance objectives are significantly less likely to seek PE for any of the three purposes of PE examined in this study.

Intended succession strategies were found to influence attitudes towards using PE. Owners that intend on selling the business are significantly more likely to use PE for all three purposes of PE examined in this study (growth, restructuring ownership, exit). Also, owners that intend to employ outside management but retain control are more likely to use PE to expand the business. Understandably, owners that intend to pass the business onto the next generation are significantly less likely to seek PE to sell the business.

Firms with an understanding of PE are significantly more likely to use PE for growing the business, restructuring ownership and selling the business.

The control variables (age, size and industry) were not found to significantly influence the likelihood of using PE.

4.5 Role of Advisers

Analysis of the survey data clearly identified that the owners' understanding of PE significantly influences their attitudes towards using PE. As highlighted earlier in this report, professional advisers can play an important role in educating SMFE owners on how PE may assist in growing, restructuring ownership or exiting the business. However, little is known on who SMFE owners are most likely to approach for advice on financing in general, and PE in particular. This issue was explored in the survey and the results are discussed below.

Table 7 – Sources of Advice for SMFEs on Financing, Exit / Succession and PE

Top 5 Sources of Advice for SMFEs on	Financing	Exit / Succession	PE
External accountant	4.3	4.4	4.4
Bank	3.5	2.9	3.2
Consultants	2.8	3.2	3.2
Solicitors	2.8	3.4	3.7
Family & Friends	2.4	2.6	2.4

Scale: 1 (very unlikely) to 5 (very likely)

As Table 7 highlights, SMFE owners are most likely to approach their external accountant for advice on financing, planning for exit / succession and for using PE. Apart from advice on financing the business (where banks were the next most likely source), the second most likely source of advice for SMFEs is their solicitor, followed by business consultants. These results suggest that compared with all other sources of advice, accountants are in a privileged position when it comes to advising SMFEs on financing-related issues.

1 The robustness of the results in this study was assessed by varying the family business definition used. Specifically, the results were repeated using two common alternatives to defining family businesses (1 - perceived by owners as a family business, 2 - perceived as a family business + majority family owned/controlled). No differences in the results were observed. That is, the significance (and sign of the coefficient) of the variables included in the study was stable regardless of the family business definition used.

Table 8 – Perception of External Accountant in Advising on PE

	Proflie of external accountant					
	Size of accounting firm			Qualification		
External accountant's ...	**Big 4 firm**	**Medium/ large firm**	**Small/sole practitioner**	**CPA**	**CA**	**Other**
Knowledge of PE	3.7	3.6	3.4	3.6	3.6	3.2
Experience with the PE sector	3.6	3.3	3.2	3.5	3.4	3.1
Links with the PE sector	3.5	3.2	3.1	3.3	3.3	3.0
Ability to reconcile interests of owners and PE providers	3.5	3.5	3.2	3.4	3.5	3.0

Scale: 1 (very low) to 5 (very high)

Although accountants were the most likely source of advice on PE, SMFE owners were asked to assess their external accountant's knowledge, experience and links with the PE sector. A summary of the results obtained from the survey are presented according to the size of the external accountant's firm as well as their external accountant's professional qualification. Consistent with the findings from stage one of this study, the size of the accounting firm used appears to be important when seeking advice on PE. The greater the size of the accounting firm, the greater the perceived knowledge, experience and links with the PE sector. The results also suggest that Certified Practising Accountants (CPAs) and Chartered Accountants (CAs) are perceived to have greater knowledge, experience and links with the PE sector when compared with other accountants.

The above results suggest that not all accountants are perceived to be the same when it comes to advising SMFE owners on PE. Specifically, CPA or CA qualified external accountants from larger accounting firms are perceived as being more able to advise SMFE owners on PE.

4.6 Conclusions Based on the Quantitative Analysis

One of the questions posed in this study was 'Does Family Matter' when it comes to understanding attitudes towards using PE amongst SMEs. Based on the results presented in this paper, we believe the answer to this question is both no and yes. There was no statistically significant difference in attitude to PE between family and non-family firms (regardless of the family business definition used). So being a family business does not, in itself, influence attitudes to PE. Rather, it is the attributes of the family unit which differ amongst family businesses. Specifically, 'family matters' to the extent that the family owners' (as with all SME owners) attitude towards using PE is largely influenced by their intended succession/exit strategy (next generation, retain control or sell), their understanding of PE, and whether they emphasise 'lifestyle' objectives.

The implications of these findings are that PE is unlikely to assist in the transition of family businesses when the family intends on passing the business onto the next generation and/or emphasises 'lifestyle' objectives. However, PE may assist in family business growth and ownership transitions when the owners intend to employ outside management and retain control or plan to sell the business.

Another key finding of the quantitative analysis is that an owner's knowledge of PE significantly influences their attitude towards using PE, regardless of whether it is for the purpose for growing the business, restructuring the ownership or exiting the business. This suggests that educating family business owners of PE and how it can assist them in implementing their goals and intended succession/exit strategy will have a significant influence of the use of PE amongst family businesses. Importantly, owners are most likely to approach their accountant when seeking advice on financing in general, and PE in particular. This suggests that accountants are in a privileged position when it comes to advising SMFEs on PE, and can play a significant role in assisting SMFEs in addressing the upcoming succession crisis through the use of PE.

The descriptive statistics highlight that SMFEs are less professionalised than their non-family counterparts. Of particular concern is that only half of SMFEs have a documented strategic plan while less than 30% have a documented succession plan. Also, less than 10% have an independent or advisory board in place and only 40% employ outside management expertise. Because the adoption of a professional style of management influences a firm's attractiveness to PE investors (transaction costs, information asymmetries, perceived risk), accountants can play a key role in encouraging PE investment through advising SMFEs on professionalisation.

4.7 Comment on the Impact of the Global Financial Crisis on the Results

Just prior to the scheduled date for posting the survey to the firms sampled, there was sudden deterioration in confidence in the financial capital markets in the USA, which subsequently affected global capital markets and came to be known as the GFC. The appetite for risk disappeared almost overnight and PE deals around the globe evaporated. We therefore delayed our survey for six months and launched it in April/ May 2009 in order to ask owners their perceptions of the effect of the GFC on likelihood of using PE. Based on the responses received in the survey, only four percent of respondents stated that their plans for using PE have been put on hold because of the GFC. So although the level of PE deals in the world (and to a lesser extent in Australia) has declined, the GFC has had little influence on the overall attitudes towards using PE amongst SME owners included in this study.

Conclusions and Recommendations

The purpose of this study was to investigate factors that influence the use of PE amongst SMFEs in general, and specifically, whether PE investors can provide a practical solution to the upcoming succession crisis amongst SMFEs. The main finding of this study was that the engagement of SMFE with PE investors is limited by the existence of finance, knowledge and empathy gaps between SMFE owners and the PE community. Specifically:

1. Finance gap: the results suggest that compared with their non-family counterparts, SMFEs face a finance gap when it comes to attracting capital from PE providers due to both supply and demand factors. On the supply side, SMFEs are less likely to receive capital from PE firms because of prohibitive transaction costs, and potential risks stemming from information asymmetries (lack of transparency) and a perceived lack of professional management and practices. On the demand side, family business owners may face a self-imposed finance gap because of their attitudes (antipathy) towards and knowledge of PE.
2. Knowledge gap: Owners' degree of knowledge and understanding of PE has a significant influence on their attitude towards using PE (regardless of whether it is for growth, restructuring ownership or exit). The results suggest that owners have limited knowledge of what PE is and how it can assist them in realising their objectives. At the same time, PE providers also have a lack of understanding of family business dynamics and what is important to family owners. Owners are most likely to approach their accountant when seeking advice on financing and PE. Also, CPA and CA qualified external accountants from larger accounting firms are perceived as being more able to advise SMFE owners on PE.
3. Empathy gap: the results suggest that SMFE owners' attitudes towards using PE are largely influenced by their intended succession/exit strategy, their understanding of PE and whether they emphasise financial or lifestyle objectives. Interestingly, there was no statistically significant difference in attitude to PE between family and non-family firms (regardless of how a family business is defined). So being a family business does not, in itself, influence attitudes to PE. Rather, it is the attributes of the owners (intended succession/exit strategy, knowledge of PE, objectives) which determine attitudes towards PE.

Based on these findings, the following recommendations are proposed:

1. Because owners' knowledge and understanding had a significant influence over attitudes towards using PE, one way to facilitate the use of PE amongst SMFEs is through educating owners on PE and how it can assist them in ways such as growth and succession / exit. Such education could be through seminars conducted by industry and government associations, as well as family business networks such as Family Business Australia. As accountants are the preferred source of advice to owners on financing and PE, it is important that the accounting professional bodies equip their members with the requisite knowledge on PE. The results suggest that the professional bodies should target public accountants operating in small practices or as sole practitioners.
2. To lower the perceived risks, information asymmetries and transaction costs associated with investing in family firms, accountants (their preferred advisers) can assist SMFE owners in professionalising the management of the firm. Specifically, SMFEs are in need of assistance in developing strategic business plans and succession plans, the establishment of independent / advisory boards, the utilisation of outside managerial expertise and the development of performance measurement systems. In addition to accessing PE, professionalisation will benefit SMFEs in a number of ways.

Appendix

Regression Modelling of: Attitudes Towards Using PE to Grow the Business*

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.636	.996		-.639	.523
Family business status	-.077	.151	-.030	-.509	.611
Exit options (Next generation)	.016	.056	.018	.290	.772
Exit options (outside management but retain control)	.126	.059	.124	2.122	**.035**
Exit options (sell firm)	.411	.098	.255	4.203	**.000**
Knowledge of PE	.039	.016	.137	2.413	**.016**
Bus objectives (max value of firm)	.179	.086	.123	2.072	**.039**
Bus objectives (work/life balance)	-.146	.077	-.112	-1.885	**.060**
Age (since foundation)	-.003	.004	-.043	-.740	.460
Firm size (# employees)	.002	.002	.040	.682	.496
Indus 1 (recreational)	.724	.870	.185	.832	.406
Indus 2 (retail / wholesalers)	.893	.857	.284	1.042	.298
Indus 3 (transport / storage)	.632	.914	.101	.692	.490
Indus 4 (financial services)	.582	.868	.154	.671	.503
Indus 5 (manufacturing)	.747	.863	.206	.866	.387
Indus 6 (construction)	.691	.867	.185	.797	.426
Indus 7 (technology / communication)	1.180	.870	.278	1.356	.176
Indus 8 (agriculture)	.985	.890	.189	1.108	.269
Indus 9 (personal services)	.634	.908	.101	.698	.486
Indus 10 (other)	.781	.933	.105	.836	.404

* Dependent Variable: Use PE to grow the business

Regression Modelling of: Attitudes Towards Using of PE to Restructure Ownership*

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.122	.956		.127	.899
Family business status	-.097	.146	-.039	-.668	.505
Exit options (Next generation)	.009	.054	.011	.176	.861
Exit options (outside management but retain control)	-.038	.058	-.038	-.664	.507
Exit options (sell firm)	.592	.095	.375	6.246	**.000**
Knowledge of PE	.052	.015	.189	3.376	**.001**
Bus objectives (max value of firm)	.112	.083	.079	1.345	.180
Bus objectives (work/life balance)	-.206	.074	-.162	-2.768	**.006**
Age (since foundation)	.006	.004	.088	1.517	.130
Firm size (# employees)	.001	.002	.029	.505	.614
Indus 1 (recreational)	.289	.835	.076	.346	.730
Indus 2 (retail / wholesalers)	.385	.823	.126	.468	.640
Indus 3 (transport / storage)	.061	.877	.010	.070	.945
Indus 4 (financial services)	-.062	.833	-.017	-.075	.940
Indus 5 (manufacturing)	.228	.829	.064	.276	.783
Indus 6 (construction)	.285	.833	.078	.342	.732
Indus 7 (technology / communication)	.316	.835	.076	.378	.706
Indus 8 (agriculture)	.228	.854	.045	.267	.790
Indus 9 (personal services)	-.018	.872	-.003	-.020	.984
Indus 10 (other)	.372	.906	.048	.410	.682

* Dependent Variable: Use PE to restructure ownership

Regression Modelling of: Attitudes Towards Using PE to Exit the Business*

Model	Unstandardised Coefficients		Standardised Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.673	.990		2.700	.007
Family business status	-.013	.150	-.005	-.087	.931
Exit options (Next generation)	-.114	.056	-.116	-2.046	**.042**
Exit options (outside management but retain control)	-.080	.059	-.072	-1.344	.180
Exit options (sell firm)	.616	.097	.355	6.330	**.000**
Knowledge of PE	.087	.016	.285	5.431	**.000**
Bus objectives (max value of firm)	-.110	.086	-.070	-1.280	.201
Bus objectives (work/life balance)	-.221	.077	-.157	-2.870	**.004**
Age (since foundation)	.002	.004	.026	.487	.627
Firm size (# employees)	.001	.002	.033	.613	.540
Indus 1 (recreational)	-.830	.864	-.197	-.960	.338
Indus 2 (retail / wholesalers)	-.639	.852	-.189	-.750	.454
Indus 3 (transport / storage)	-1.176	.908	-.175	-1.295	.196
Indus 4 (financial services)	-1.239	.863	-.301	-1.435	.152
Indus 5 (manufacturing)	-.719	.857	-.184	-.839	.402
Indus 6 (construction)	-.943	.862	-.234	-1.095	.275
Indus 7 (technology / communication)	-.750	.864	-.164	-.868	.386
Indus 8 (agriculture)	-.736	.884	-.131	-.833	.406
Indus 9 (personal services)	-1.224	.902	-.182	-1.357	.176
Indus 10 (other)	-.774	.928	-.096	-.834	.405

* Dependent Variable: Use PE to exit the business

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