Small Business Insolvency:
A Review of the Process from the Perspective of the Insolvency and Restructuring Professional

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PREFACE

Many countries realize the importance of small business to their economies. In Canada (Industry Canada, 2010) small business employs 5 million people representing 48% of the total work force in the private sector. Further, 98% of businesses have fewer than 100 employees. Small business contributes 29% to Canada's GDP. An earlier report (Industry Canada, 2008) showed that during an exceptionally good economic period from 1997 to 2003, an average of 125,000 small businesses failed annually. From a long term perspective, the same report determined that only 25% of small businesses remain in operation after 9 years. This finding is similar to that reported by Zontanos and Anderson (2004) who found that over two thirds of small businesses close within the decade they open. From an even longer perspective, very few small businesses continue on to subsequent generations of ownership. Cater et al (2006) determined that 30% of small businesses are passed to the second generation; 12% to the third generation; and 4% to the fourth generation. While some small businesses are sold many become insolvent. Given these statistics the question arises, what are the issues involved in the small business insolvency process? Are there common issues surrounding these processes? Can factors be identified that will assist Insolvency and Restructuring Professionals to deal with the insolvency process for small business?

This exploratory investigation documented the opinions of experienced Insolvency and Restructuring Professionals relating to their experience regarding small businesses. Research involving the insolvency process in relation to small business is quite limited. Confidential one-on-one interviews were conducted to document research participant's interpretations. A qualitative approach was adopted, employing Narrative Inquiry to document these interpretations. The interview transcripts were analysed to identify emerging themes. The results of this investigation provide a more thorough understanding of issues involved in the insolvency process related to small businesses; and support the identification of specific small business issues which may provide input to developing a more efficient and effective insolvency process.

This document consists of a number of major sections. Some of these sections are based on published results of previous investigations. A specific reference is included in the introduction to the appropriate section.

Section A provides background and context information about small business. This material includes small business definitions and a comparison of small businesses and large companies. This section also elaborates on the differences between small business managers, entrepreneurs, and the entrepreneurial process. There are many ways to classify a small business. These are described in this section. Small businesses are further analysed with regards to various approaches to evaluate performance. This section concludes with a discussion of the consideration for growth in a small business.

Section B presents a discussion of successful small business. There are many ways to determine success. Various alternatives are presented in this section. It is proposed that small business success may be related to longevity – specifically multiple generations. That is, a small business may be considered successful if it exists beyond the generation of the founding entrepreneur. A previous research project is presented which supports longevity as a consideration for success. This project involved interviewing representatives of eleven small businesses which had existed for at least two generations.

Section C presents the results of a follow-up investigation involving the small businesses included in the multi-generation small business project described in Section B. The follow-up involved multi-generation small businesses' response to the 2008-2009 financial crisis.

As a contrast to the successes presented in Sections B and C, Section D describes an investigation into those management aspects, or lack thereof, which contribute to the failure of small businesses. In summary, Sections A, B, C, and D provide the context for the current investigation into small business insolvency and restructuring.

After this the small business insolvency and restructuring project is described Section E provides an overview of the generic research approach taken for this, and previous, investigations. This approach is based on the idea that a qualitative, open-ended interview perspective will facilitate the identification of emerging themes relative to research questions in general and more specifically in this case, to management issues of insolvency and restructuring of small business.

Section F describes the research project which investigated small business insolvency and restructuring. The approach for this project was taken from the perspective of the Insolvency and Restructuring Professional. The objective was to determine the management issues involved in this process which specifically relate to small business.

Finally, Section G presents a conclusion to this document.

ACKNOWLEDGEMENTS

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SECTION A
SMALL BUSINESS CONTEXT

INTRODUCTION

The material in this section provides background and context information about small business and includes small business definitions and a comparison of small businesses and large companies. This section also elaborates on the differences between small business managers, entrepreneurs, and the entrepreneurial process. There are many ways to classify a small business. These classifications are described in this section. Small businesses are further analysed with regards to various approaches to evaluate performance. This section concludes with a discussion of the consideration for growth in a small business.

SMALL BUSINESS DEFINED

Some time ago, an interesting definition of a small business was developed by the Wiltshire Committee.

> A small business is, "…a business in which one or two persons are required to make all the critical management decisions." (Wiltshire Committee, 1971:7).

There currently exist many different definitions of "small business". While some measures such as total assets or annual sales or revenue may be considered they tend not to be employed because they are difficult or impossible to determine. Many small businesses are privately held and are not required to report such statistics. Indeed, research shows that small business managers tend not to rely upon these statistics even when they are available (Halabi et al, 2010). Therefore, most research investigations and many government agencies employ the number of employees as a way to define small business (Longnecker et al, 1997). This statistic is readily available because of the income tax remittance requirement of payroll systems.

There are, however, inconsistencies in how this statistic (number of employees) is operationalized to define small business. In Canada the number is 100 employees for goods producing firms and 50 employees for service firms (Industry Canada 2010). Firms employing between 101 and 499 persons are considered medium. In the United States a small independent business is defined as having fewer than 500 employees (Michma and Bednarz, 2006). There does not seem to be a differentiation made based upon sector, as in Canada. Perhaps the most specific definition of small business is provided by the European Parliament (2002). They define micro businesses as having 0 – 10 employees. Small businesses include up to 50 employees, and medium sized businesses have up to 250 employees. Because of these inconsistencies researchers tend to take a contingency approach to defining small business based upon number of employees for each research project. While these definitions vary, investigators tend to follow relatively closely their adapted version of one of the above categories.

SMALL BUSINESSES VERSUS LARGE COMPANIES

It is important to note that, "... a small business is not a little big business ..." (Welsh and White, 1981). Managers of small business adopt a perspective and make decisions which are different from those made by administrators of large companies. These differences have been documented by many researchers and the following examples are included here.

Stevenson (1999) presented a perspective on approaches to business practice, included here in Table A.1. A continuum of business practice includes major aspects related to strategic orientation and decision making. Small business managers and large company administrators are placed at each end of the continuum. Strategically, small business managers will tend to focus externally and attempt to capitalize on emerging opportunities (Stevenson, 1999). At the other end of the continuum, large company administrators will place their attention internally and focus on the efficient use of current resources.

TABLE A.1
APPROACHES TO BUSINESS PRACTICE

ASPECTS OF BUSINESS PRACTICE	**PROMOTER** ⟷ ***Small Business***	**TRUSTEE** ***Large Company***
Strategic orientation	Capitalize on an opportunity	Focus on efficient use of current resources to determine the greatest return
Resource commitment and control decisions	Act in a very short time frame	Long time frame, considering long term implications
	Multi-staged	One-time up-front commitment
	Minimum commitment of resources at each stage	Large scale commitment of resources at one stage
	Respond quickly to changes in competition, market, and technology	Formal procedures of analysis such as capital allocation systems

Adapted from Stevenson, 1999

The decision making process also varies between small business managers and large company administrators. Indeed, Stevenson's (1999) terms of "promoter" (small business manager) and "trustee" (large company administrator) seem very appropriate in this context. The promoter's decision making time frame is very short. Decisions are made in multiple stages with a minimum commitment of resources. This allows the promoter to react quickly to changes in the environment. The trustee's decision making time frame is based upon a long term perspective. After thorough analysis, one time commitments are made regarding the allocation of large scale resources. This approach is supported by formalized internal and repeatable systems for allocation of resources including financial and human capital.

Another example of small business managers' perspective relates to the concept of "resource poverty" (Thong et al, 1994). This term suggests that small business managers lack important resources associated with skills, time, and finances. These three aspects of resource poverty contribute to the perspective on business practice (Stevenson, 1999) outlined above. First, businesses that are small employ few people. The small number of employees may not possess the appropriate skills to support the entire business operation. This point leads to the second aspect of resource poverty. With fewer people and available skills the small business manager will be limited in the time available to devote to decision making activities. Third, as most small businesses are privately held, they tend to be similarly financed resulting in a limited supply of monetary resources. In general, small business has difficulty obtaining financing. Indeed, small business has more difficulty than large companies in accessing financial resources (Ang, 1991). Small business managers may take an informal approach generally described as the "3Fs" – Family, Friends, or Fools. This approach may prove difficult. Initially, the amount of finances available may be limited. Further, if repayment is delayed for some reason personal relationships may be negatively affected. A more formal approach would be to establish a business relationship with a lending institution (Cole and Wolken, 1996; Ang, 1992). However, because of the centralized nature of credit granting policies unique regional or industry sector aspects of small business operations may not be considered (Hunter, 2011; Boot, 2000; and Degryse and Van Cayseele, 2000).

Further, there is a recognized difference between small business managers and entrepreneurs. A small business manager establishes a business for personal goals (Jenkins and Johnson, 1997) and will possess less innovative tendencies than entrepreneurs (Stewart et al, 1998; and Carland et al, 1984). An entrepreneur focuses on small business profit and growth (Carland et al, 1984) and will typically engage in an innovative approach to goods, services, and new markets. The entrepreneurial process, as described further in the following sub-section, involves a growth oriented approach to innovation (Stewart and Roth, 2001).

The final example of small business managers' perspective relates to the approach to marketing. Small business, in addition to their lack of resources as outlined above, will rely upon a relatively small customer base (Zontanos and Anderson, 2004) in a concentrated local area (Weinrauch et al, 1991). Thus, it is paramount that small business managers establish and maintain a long term and close relationship with their customers (Berry, 1983; McKenna, 1991; and Cardwell, 1994). There is, however, concern that with a downturn in the economy a focused customer approach may create more of a negative performance affect than a more diversified approach to marketing and customer relations.

ENTREPRENEURIAL PROCESS AND SMALL BUSINESS VENTURE

The process followed by the entrepreneur is referred to as entrepreneurship, which involves the establishment and maintenance of a business venture and the ongoing practice of systematic innovation (Drucker, 1988). A model of the entrepreneurial process is included here as Figure A.1 (McMullan and Long, 1990). The result of this process is a small business entity. This process may be summarized as follows:

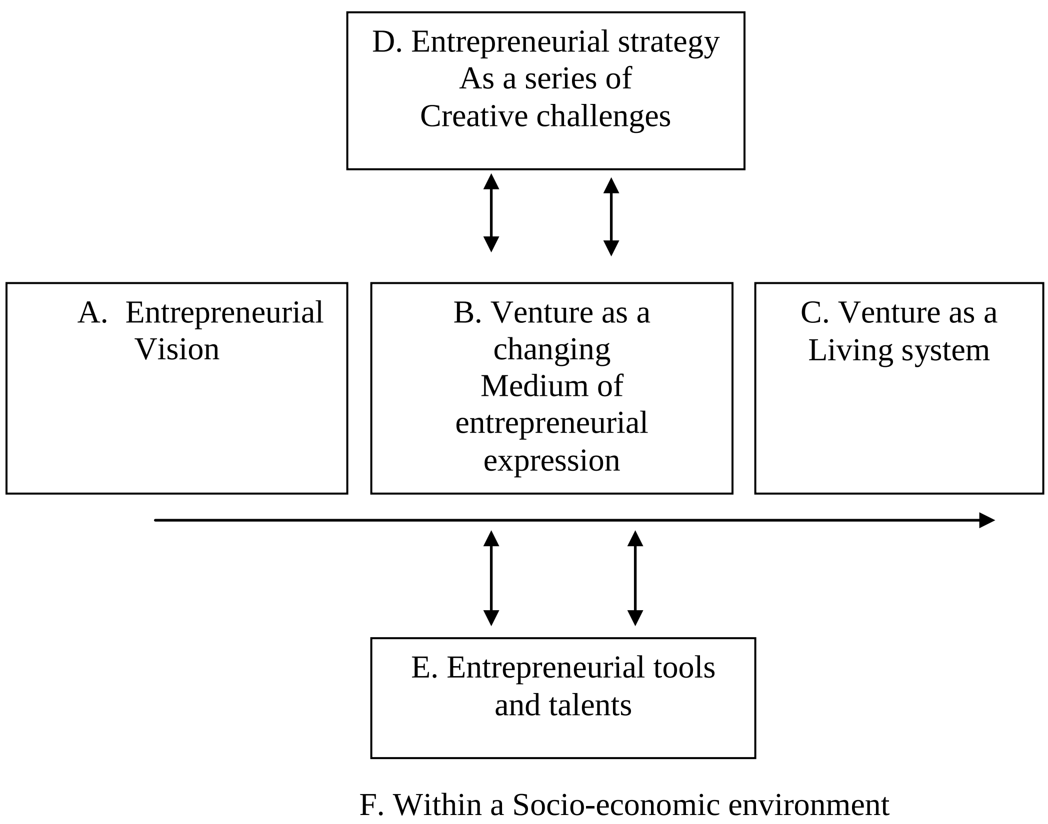
> *"The entrepreneurship process begins with a vision (A) of a business opportunity. Once a commitment is made to pursue the vision, the entrepreneur endeavors to build a self-sustaining living system (business venture) (C). The venture takes shape (B) as each strategic challenge (D) is addressed. The necessary tools and talents (E) are brought to the venture by the entrepreneur, through the commitment of members and may in part be acquired from independent consultants, or mentors. All of this takes place within and is influenced by a particular socio-economic environment (F). Part D (Figure 1) refers to a series of creative entrepreneurial challenges. There are ten of these challenges, each of*

which corresponds to a structural attribute of a living system (Table 2). As the strategic entrepreneurial challenges are reviewed, it is important to recognize that;

1. *Their ordering is logically intuitive,*
2. *each independent strategic decision makes a structural contribution to the business venture,*
3. *structural components are dynamic and may be revisited, and*
4. *each decision will build on those made previously and will affect those to come"*

(Hunter and Kazakoff, 2008:7-8)

FIGURE A.1
MODELING THE ENTREPRENEURIAL PROCESS



Adapted from McMullan and Long, 1990:135

The entrepreneurship act (Long, 1983; Long and McMullan, 1984; and McMullan and Long, 1990) is a creative process which begins with a vision of an opportunity and culminates in a self-sustaining living system or ongoing venture. The initial vision may be an abstract idea or the realization of the potential for a business venture to provide a product or service. The functioning small business will require strategic responses to challenges such as those listed in Table A.2. These challenges could occur sequentially, although it may be necessary to conduct iterations of previously addressed challenges depending upon the issues encountered in an unpredictable future. When these challenges have been successfully addressed the business venture will become a self-sustaining living system. The entrepreneurial process will have built into this system the capability to innovate and grow in response to an ever changing environment.

TABLE A.2
CHALLENGES IN DEVELOPING AN ENTREPRENEURIAL VENTURE

Entrepreneurial Challenge	Corresponding Living Systems Attribute
1. Identifying realizable opportunities	All living systems have identifiable environments.
2. Designing feasible products	All living systems have boundaries, which distinguish them from their environment.
3. Planning resource requirements	All living systems are composed of interacting parts involving some functional differentiation and specialization.
4. Negotiating resource and client contracts	All living systems must take in energy and information.
5. Engineering efficient production	All living systems transform energy and information from one state to another.
6. Regularizing sales revenue	All living systems export outputs into their environments.
7. Standardizing operating performance	All living systems have cyclical patterns of changing activities within the system and within the environment.
8. Expanding strategically and opportunistically	All living systems are characterized by homeostatic balance and governance mechanisms, evolving systematically to better fit their environment.
9. Professionalizing middle management	All living systems become differentiated over time into more and more independent roles.
10. Institutionalizing innovative capacity	All living systems are characterized by negative entropy.

Adapted from McMullan and Long, 1990:267

The following comments are provided to more fully explain these challenges.

Challenge 1: Identifying Realizable Opportunities

The founding entrepreneur must know himself or herself and have an appreciation for how the vision for a product or service may be accepted in the market place. A vision is a broad general concept while an opportunity is a specific course of action that is worthwhile pursuing (de Bono, 1980).

Challenge 2: Designing Feasible Products

The decision to implement the opportunity results in the creation of a product or service. This is the very reason the business exists. Products and services must enhance competitive advantage.

Challenge 3: Planning Resource Requirements

Resources in the form of human, material, financial, and intellectual capital must be identified. Then a plan may be developed as to how these resources will be sourced and how they will interact in support of business operations.

Challenge 4: Negotiating Resource and Client Contracts

Once the resource requirements as outlined above are identified it will be necessary to determine the source. If the resource is not going to be supplied directly from the founding entrepreneur then the source may be the commonly referred “3Fs”, Family, Friends, or Fools!

Challenge 5: Engineering Efficient Production

The product or service must add value by efficiently converting raw material and other necessary inputs into the required outputs.

Challenge 6: Regularizing Sales Revenue

Sales revenue is the life blood of a small business. Sales are proof that the vision is viable. More importantly, the product or service must be produced at a cost that results in a profit and encourages customers to make a positive purchase decision.

Challenge 7: Standardizing Operating Performance

As sales grow the founding entrepreneur’s attention will move to the management of functional issues. Accounting and financial records will provide input to decisions about efficiencies in operations of the business. As the processes are repeated perhaps more efficient approaches will be identified and implemented.

Challenge 8: Expanding Strategically and Opportunistically

Over time the business must evolve in response to changes in the environment. This may mean growth, but growth is not necessary. But growth, if it is to occur, must be in concert with the environment. Further, the pace of growth may vary (Tan et al, 2009).

Challenge 9: Professionalizing Middle Management

With growth it will be necessary to focus even more on management aspects. These aspects relate to organizational structure and the creation of a middle management level. Opportunities will arise to establish specialized management functions.

Challenge 10: Institutionalizing Innovative Capability

The business was formed because of the innovative characteristic of the founding entrepreneur. Now it will be time for this characteristic to be transferred to the business. Evidence of a distinct innovative influence within a small business is shown by the establishment of a research and development function.

In summary, the entrepreneurial process or entrepreneurial act involves four challenging periods for the founding entrepreneur, as follows:

1. Preparing the venture

   During this period the founding entrepreneur will recognize an opportunity; and will proceed to develop a product or service in response to this opportunity.

2. Launching the venture

To begin carrying out the business sources of funding will be identified and contact may be made with potential customers.

3. Growing the venture

   A viable small business may increase or stabilize sales of products or services and may develop new products or services. With increased sales volumes employees may be hired. Experience in carrying out business operations will allow for the development of repeatable processes.

4. Exiting the venture

   At some point in time the founding entrepreneur will leave the small business. The departure may be through the sale of the business or succession in that the small business is passed to a subsequent generation.

CLASSIFICATION OF SMALL BUSINESS

Some time ago researchers classified small business by sources of policy making (Deeks, 1973) or as a complement by generation (Barry, 1978). More recently a static model was introduced depicting participants within the small business. This static model was extended to incorporate the passage of time. These schemes are described in the following paragraphs.

One way to classify small businesses is by the source of policy making (Deeks, 1973). Three structures are presented in Table A.3 below. When a small business is young and just starting out there will probably be one individual who makes and implements the policy decisions. The Monocratic structure would reflect this situation. Later, perhaps in subsequent generations, the Oligarchic structure applies as the business grows and involves more individuals, either shareholders or family members, making decisions about the business operations. In a Patrician structure one person establishes policy but is supported by specialist managerial staff to implement the policy. The specialist managerial employees are considered professional administrators and not shareholders or family members.

A complementary way to classify a small business is by generation (Barry, 1978). Thus, an *entrepreneurial* small business is still controlled by the founder and would relate to Deeks' (1973) monocratic structure. A *traditional family business* is controlled by descendants of the founder and would relate to Deeks' (1973) oligarchic structure.

TABLE A.3
STRUCTURE IN TERMS OF POLICY

STRUCTURE	DESCRIPTION
Monocratic	A majority shareholder establishes policy
Oligarchic	Multiple specialized owner/managers are the source of policy
Patrician	One person establishes policy with specialist support

Adapted from Deeks, 1973

Ward and Lief (2005) outline the differences between the family firm and the non-family firm as shown in Table A.4.

TABLE A.4
DIVERGENCE ON THE BASICS

FOR THE FAMILY FIRM	FOR THE NON-FAMILY FIRM
The purpose is continuity	The purpose is maximizing near-term share price
The goal is to preserve the assets and reputation of the owning family	The goal is to meet institutional investor expectations
The fundamental belief is that the first priority is to protect downside risk	The fundamental belief is that more risk promises return
The strategic orientation is adaptation	The strategic orientation is constant growth
The management focus is continuous incremental improvement	The management focus is innovation
The most important stakeholders are customers and employees	The most important stakeholders are shareholders and management
The business is seen as a social institution	The business is seen as a disposable asset
Leadership is stewardship	Leadership is personal charisma

Adapted from Ward and Lief, 2005:2

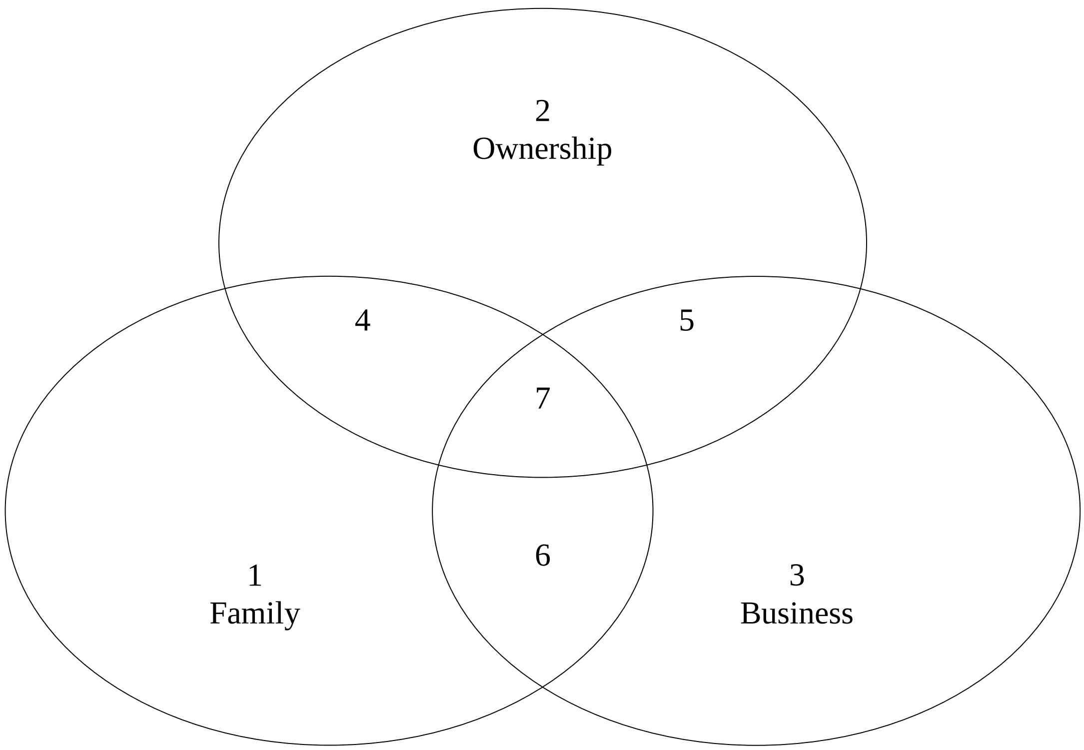
The authors suggest,

> "To tap into their inherent strengths family enterprises must set off on a quest to recognize and appreciate their own DNA – what makes them what they are. With this greater awareness of self, combined with a welcoming attitude toward complexity and contradiction, family businesses can achieve holistic long-term success."
>
> (Ward and Lief, 2005:2-3)

Three-Circle Model

The Three-Circle Model of Family Business presented in Figure A.2 employs a Venn diagram to depict three independent but intersecting components of a family business. These components are business, ownership, and family. The components overlap in a way that produces seven classifications of how an individual may participate in a small business. (Gersick et al, 1997).

FIGURE A.2
THE THREE-CIRCLE MODEL OF FAMILY BUSINESS
Source: Gersick et al, 1997



The following Table A.5 provides a description of each of the classifications in Figure A.2.

TABLE A.5
INDIVIDUAL – BUSINESS CLASSIFICATION

NUMBER	CLASSIFICATION	DESCRIPTION
1	Family	A spouse or child of the Family member
2	Owner	A shareholder who is not a Family member and not an employee
3	Business	An employee
4	Family – Owner	A Family member who is an owner but not an employee
5	Owner – Business	An owner who works in the business but is not a Family member
6	Family – Business	A Family member who is an employee but not an owner
7	Family – Owner – Business	A Family member who is an owner and an employee

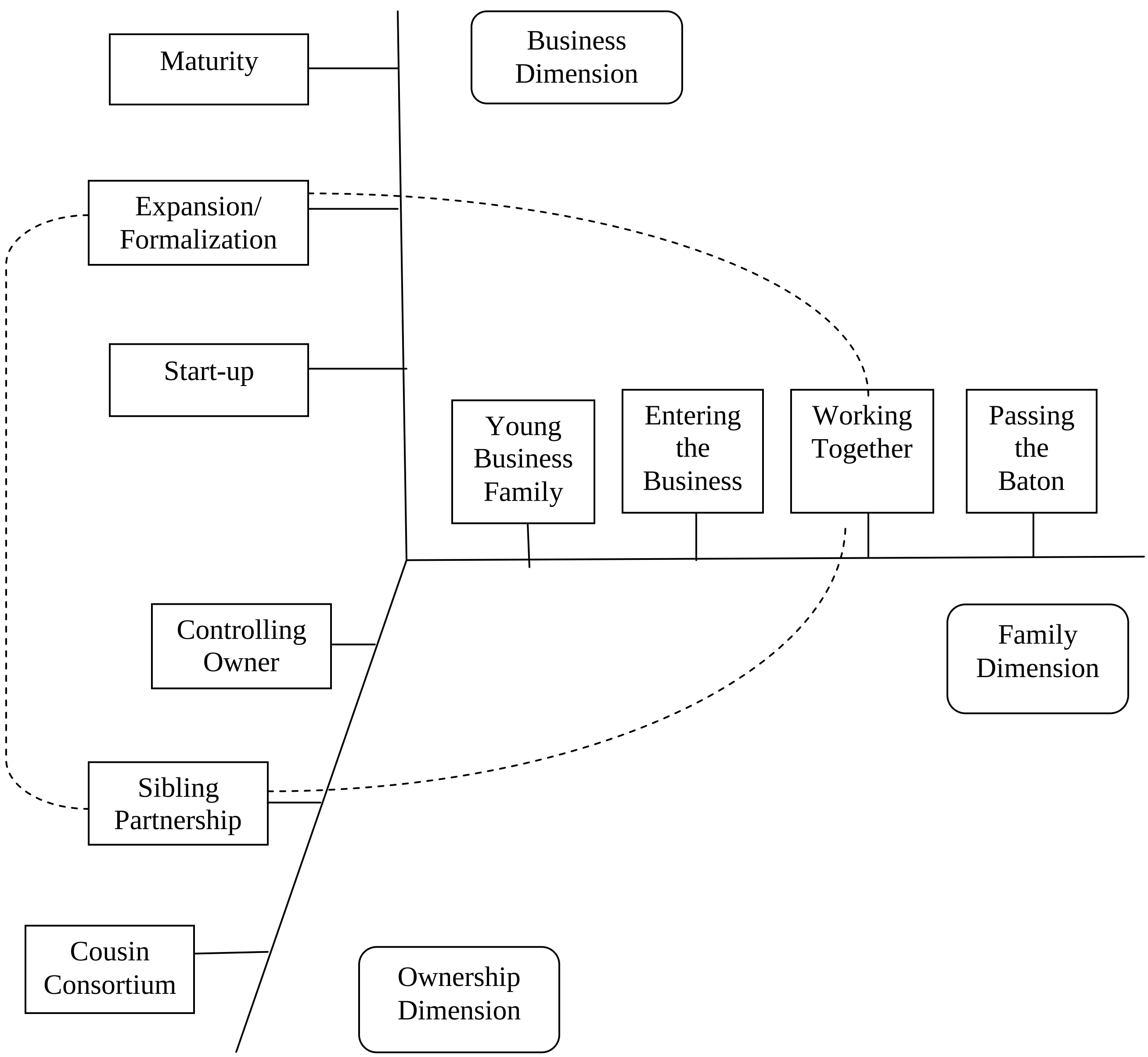
Adapted from Gersick et al (1997)

The above model presents a static description of the relationship between an individual and the business. This approach may be employed to depict the current state of a small business and those involved in its operation. However, the model itself does not incorporate the ability to assess changes relative to the passage of time. That is, individuals may proceed from one component to another simply as a result of their change in status within the small business. Further, individuals may enter the small business through marriage, birth, or hiring. Or they may depart the small business because of divorce, death, retirement, or quitting. Thus the passage of time in this model would be accomplished through a subsequent iteration at a future point in time.

Three Dimensional Development Model
Gersick et al (1997) presented a subsequent model which does represent the passage of time shown in Figure A.3. The description of the components of the Three-Dimensional Development Model is based upon presentations of the model by Ward (2004) and Gersick et al (1997). The three dimensions represent Business, Ownership, and Family. These dimensions are similar to the components incorporated in Figure A.2. The passage of time is represented by the progression along the dimension axis starting from the centre and proceeding through various stages to the extremity of the dimension.

The profile of a specific small business may be depicted within this model by linking the current stage across the three dimensions. The dashed lines in Figure A.3 represent the profile of a small business with sibling partnerships working together attempting expansion or the formalization of business processes.

FIGURE A.3
THE THREE-DIMENSIONAL DEVELOPMENTAL MODEL
Adapted from Gersick et al 1997



The following Table A.6 presents a description of each component on the three dimensions.

The presentation here will provide an outline of the dimension and then a description of the stages along the continuum of the axis representing the dimension. Progression is assumed to take place from the centre of the model to the extremity of each dimension. The dimensions of this model are further explained in the paragraphs following the table.

TABLE A.6
DIMENSIONAL PROGRESSION

DIMENSION	STAGE	DESCRIPTION
Business	Start-up	The business is formed
	Expansion/Formalization	The business grows requiring a formalized structure
	Maturity	The products/services are established in the market
Ownership	Controlling Owner	The business is controlled by one owner
	Sibling Partnership	Siblings participate in the business
	Cousin Consortium	Subsequent generations participate in the business
Family	Young Business Family	The business owners are young
	Entering the Business	The business owners are middle aged
	Working Together	The next generation are involved in the business
	Passing the Baton	Control is passed to the next generation

Adapted from Ward, 2004 and Gersick et al, 1997

The Business Dimension involves a progression of the small business from initial formation through to maturity. In the “Start-up” stage the small business is officially formed and the focus is on survival. Initially, usually, one product or service is offered. As the small business normally involves only one person and perhaps another family member from the same generation there exists a very informal structure and approach to management.

In the “Expansion/Formalization” stage the small business is growing. The volumes of the initial product or service increases and perhaps new complementary products or services are added. Because of this expansion employees may be hired which increases the complexity of business operations. This increased complexity leads to the necessity to create a more formalized structure and approach to management. Employment contracts and job descriptions will be necessary. Some more specialized skills may be required.

The “Maturity” stage represents the third and final stage relative to the development of the small business. Products or services are now well established in the market place. Market share is relatively stable. Internally, management processes are consistent and adequately support the necessary business functions. Some small businesses may consider a major review of strategic focus and direction. This is a time to consider plans for renewal or dissolving the small business.

The Ownership Dimension presents the major considerations for ownership structures. This continuum represents progression from a single owner to an ownership structure involving individuals from subsequent generations. In the “Controlling Owner” stage one individual retains control of the small business. In some instances a spouse or life partner may be involved in an equal or subordinate assistant role.

The “Sibling Partnership” stage involves individuals who are offspring of the Controlling Owner. Not all of the offspring could be involved in the small business so some form of sibling accommodation (Handler, 1991; Friedman, 1989; and Ward, 1987) will be necessary regarding participation in the equitable share of the family asset. In some situations the Controlling Owner may still participate in the operation of the small business but to a lesser extent.

The final stage along this dimension is “Cousin Consortium”. Here the ownership structure is expanded beyond the Controlling Owner’s direct offspring to include grandchildren who are, in effect, cousins. As the small business passes into subsequent generations and the ownership dimension evolves it becomes more complex. It is necessary to address the rights and responsibilities of both participating and non-participating family members.

The Family Dimension depicts the evolving status of the family entity involved in the small business. In the “Young Business Family” the founding entrepreneur may take a spouse or life partner. These two individuals will establish their personal relationship as well as agreeing to a work/family balance.

The “Entering the Business” stage involves succession considerations. Offspring of the founding entrepreneur and perhaps individuals from subsequent generations may want to investigate options regarding their involvement in the business. In addition, at this time the founding entrepreneur may be reaching an age where life style considerations may lead to the start of succession planning. This consideration could also result in an investigation into revising the business strategy in support of any succession plans.

In the “Working Together” stage the founding entrepreneur is adjusting to a revised and perhaps limited role within the business. The next generation is involved in the business and may be making decisions about its future direction. There is a potential at this time for conflict to arise regarding management of the business. Both the founding entrepreneur and the newly entering next generation family members are learning and adjusting to new roles. The founding entrepreneur may find it difficult to relinquish control. The younger family members may find it difficult to develop processes to take the business in what they consider to be a new and more beneficial direction.

The final stage along this dimension involves “Passing the Baton”. The founding entrepreneur engages the succession plan and may withdraw from active participation in the business. Until the founding entrepreneur’s death advice may be offered and may be accepted.

The Three-Dimensional Developmental Model (Ward, 2004; and Gersick et al, 1997) is a framework which facilitates the analysis of family businesses. However, the model is based upon some very large family businesses such as Cargill, McGraw-Hill, and Wal-Mart (Gersick et al, 1997). The focus of this document is on small business. Recall that managers of small business focus on the near term when responding to immediate opportunities in a multi-stage approach allocating minimal resources (Stevenson, 1999). Managers of large companies take a longer term perspective making a one-time large scale commitment following formal analysis procedures (Stevenson, 1999). Also, when compared to large companies, small business managers possess relatively less money, time, and skills. The concept of resource poverty (Thong et al, 1994) explains this difference, as presented in an earlier sub-section.

The successful small business will pass through the stages of each of the three dimensions. The small business characteristics, as above, may affect how the stages of the model are operationalized. For instance, the Controlling Owner may retain more control over the small business and perhaps for a longer time. The Passing the Baton stage may be fraught with more emotional decisions because of the family dynamics in a relatively major component of family assets. Further, because the business is small the processes in the Expansion Formalization stage may be less formal resulting in relatively inconsistent management processes in the Maturity stage.

PERFORMANCE OF SMALL BUSINESS

Managers of small business tend to view operational performance evaluation in an informal way. Financial and statistical information may not be used. Management practices are unplanned. Competitive advantage then is attained through aspects of intangible resources such as culture, reputation, skills and knowledge, and personal relationships. These aspects are further explained in the following paragraphs.

Huybrechts et al (2011) investigated the intangible aspects of small business through the lens of the resource-based view (Wernerfelt, 1984) which suggests that the level of performance of the small business is the result of its resources (Penrose, 1959) and how they are employed (Barney, 1991). The assessment of the intangible aspects as they relate to performance is presented in four categories in Table A.7.

TABLE A.7
FAMILY FIRM INTANGIBLE RESOURCES

CATEGORY	DESCRIPTION
Organizational Culture	"This collection of values, beliefs, assumptions and symbols (Barney, 1991) can influence employees in a way that is beneficial to financial performance." (Huybeechts et al, 2011: 272)
Reputation	"...a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all of its key constituents when compared with other leading rivals..." (Fombrun, 1996:72)
Human Capital	"...the acquired knowledge, skills, and capabilities that enables persons to act in new ways..." (Coleman, 1988:100)
Networks	"...personal relationships which transcend the requirements of organizational structure..." (Hall, 1992:138) and include "...information, technologies, access to markets and complementary resources..." (Hitt et al, 2001)

Adapted from Huybrechts et al, 2011

These four categories of intangible resources may contribute to competitive advantage. The following comments relate to the performance of small business and how these categories explain the competitive advantage obtained by family-base firms. The category of "Organizational Culture" may be considered by four detailed comments. First, the family firm is group oriented. Employees interact altruistically (Lubatkin et al, 2005; Schulze et al, 2001; and

Schulze et al, 2003). Thus, they tend to share knowledge and collaborate in an environment of trust (Zahra et al, 2004). Second, there is an internal focus regarding unique knowledge and expertise (Miller and le Breton-Miller, 2006; and Zahra et al, 2004). Third, the influence of the founding entrepreneur is significant (Denison et al, 2004), even after relinquishing control of the business. Hunter and Kazakoff (2008) found further support for the continued influence of the founding entrepreneur even after his demise when they investigated multi-generation small business. Fourth, family firms tend to focus relatively more on the long term (James, 1999; and Ward and Aronoff, 1991). This long term perspective supports the pursuit of innovative strategies (Teece, 1992) and represents a contrast with Stevenson's (1999) short time frame perspective.

The "Reputation" of the small business may also contribute to competitive advantage. It is considered important to establish and maintain a positive reputation (Fombrun, 1996). The process of marketing the product or service brand should contribute to a unique image for the small business. Positive and on-going relationships with all stakeholders including the general public will contribute to a positive reputation and in turn competitive advantage (Fombrun, 1996).

"Human Capital" includes the knowledge and skills of employees of small business (Huybrechts et al, 2011). There is concern that the level of skill may be limited in small business because of the tendency to employ family members (Dunn, 1995; and Schulze, et al, 2001). However, there are positive aspects related to lower turnover (Miller and Le Breton-Miller, 2003); increased motivation (Tagiuri and Davis, 1996); and altruistic behaviour amongst employees (Voordeckers et al, 2010). Family members tend to be very committed to their job (Donnelly, 1964; and Horton, 1986) and are willing to make sacrifices for the good of the business (Dyer, 2006).

Finally, "Networks", sometimes referred to as social capital (Nahapiet and Ghoshal, 1998), involve important personal relationships. In a small family run business social capital relates to the relationships between family members (Huybrechts et al, 2011). Organizational social capital refers to the relationships with external entities (Arregle et al, 2007) such as banks, suppliers, or customers (Le Breton-Miller and Miller, 2006).

Further investigations have identified other aspects which may affect small business performance. These aspects include management practices, managerial capability, manager creativity, and approach to financial information.

Floren (2006) investigated management practices in small businesses. He found that small business managers continually shifted their attention amongst many issues. Their work day is "...unplanned, informal, hectic and fragmented." (Floren, 2006:281). Further, small business managers prefer informal communication and, as supported by Halabi (2010), tend to ignore formal information even when it is available.

Zinger et al (2001) investigated the impact of managerial capability on the performance of emerging small businesses and determined that sound marketing practices positively contributed to improved sales and earnings. This finding supports the contention by Pitt and Kannemeyer (2000) regarding the key role of a marketing strategy in an early stage enterprise. As presented earlier, small business tend to have a relatively small customer base (Zontanos and Anderson, 2001) within their local area (Weinrauch et al, 1991). This limited focus may affect performance during economic downturns. A marketing strategy involving a more diversified approach to customer relations is recommended. Further, owner/manager creativity contributes positively to competitive advantage (Wyer et al, 2010). They determined, among other findings, that attitudes towards flexibility and learning on the part of managers created a positive work environment which facilitated overall performance, and in turn competitive advantage.

Halabi et al (2010) investigated whether and how financial information is used in small businesses. They determined that small business managers possessed a very basic understanding of both accounting and finance and tended to rely upon an external accounting service for general business advice. This finding supports previous research (DeThomas and Fredenberger, 1985; Marriott and Marriott, 2000; and Argiles and Slof, 2003). When statistical performance information was available the small business managers seemed to prefer to consider a more informal assessment such as the bank account. Again, this finding confirms prior investigations (Welsch and White, 1981; Khan and Rocha, 1982; Chaganti and Chaganti, 1983; Deakins et al, 2002; and Dyt and Halabi, 2007).

GROWTH OF SMALL BUSINESS

Tan et al (2009) suggest that small business research "...has shifted towards the attributes and strategies that enable small business to grow, to contribute to economic value creation, and to flourish at the center of the innovation and technology-based calculus." (Tan et al, 2009:234). The most common means for measuring growth is change in employment (Hoogstra and van Dijk, 2004; Chaganti et al, 2002; Smallbone et al, 1995; and Davidsson and Delmar, 1997) or change in sales (Kelley and Nakosteen, 2005; LeBrasseur et al, 2003; and McMahon, 2001).

Dobbs and Hamilton (2007) investigated small business growth and expanded upon four applicable categories, originally identified by Smallbone and Wyer (2000) relative to small business growth. Table A.8 documents these categories. In general, this table provides descriptions of the four categories. First, Growth is be related to management strategy. That is, to begin, a strategic decision is made that growth will be an objective. Second, in conjunction with this decision is the character of the entrepreneur who must be motivated to exploit the opportunity to grow. Third, the small business must be in a specific industry where the market provides the prospect for growth. Fourth, the small business profile (size and age) are other contributing factors to growth.

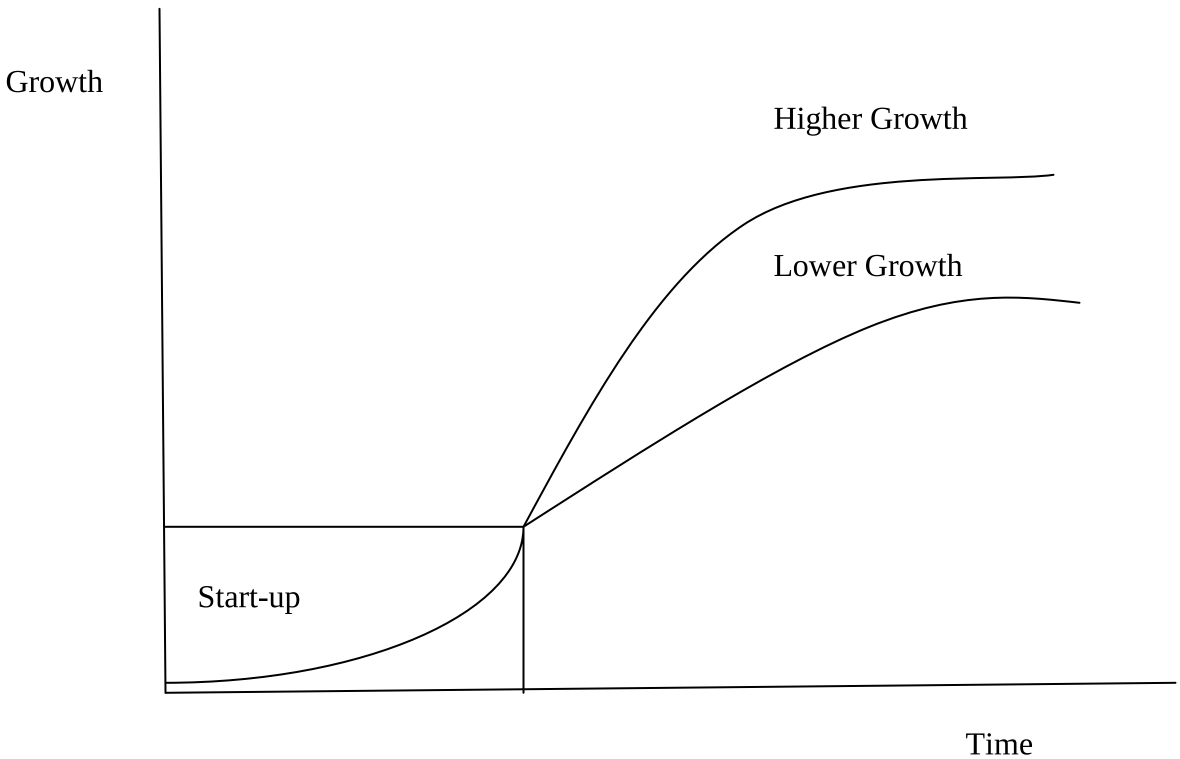
TABLE A.8
SMALL BUSINESS GROWTH

CATEGORY	FACTOR	DESCRIPTION
Management Strategy	Growth Objective	Growth may not always be an objective. An owner's consideration of control, life style, and family desires will determine business goals.
	Employee Recruitment and Development	A growth oriented strategy will be affected by the business' ability to attract, develop and retain appropriate employees
	Product Market Development	Growth will be facilitated with an emphasis on product or service innovation and differentiation rather than on price.
	Financial Resources	A lack of financial resources may inhibit growth. Accepting external equity may impinge upon owner control.
	Internationalization and Business Collaboration	While most small businesses do not export, high growth businesses tend to do so.
Characteristics of the Entrepreneur	Motivation	Businesses established to exploit an opportunity will have a higher propensity to grow.
	Education	Educated individuals are more likely to grow their business. Education improves search skills, foresight, imagination, computational and communication skills.
	Experience	Management and industry experience will contribute to growth
	Size of the Founding Team	Larger teams possess more talent and resources which may contribute to growth if not affected by group conflict.
Environmental Industry specific Factors	Nature of the Market	High demand increases growth prospects.
	Role played by large companies	Sub-contracting and outsourcing policies of large companies can influence growth potential.
Characteristics of the business	Size	New small businesses have a higher growth rates.
	Age	Younger businesses have a higher growth rate.

Adapted from Dobbs and Hamilton, 2007

An interesting research question posed by Tan et al (2009) relates to identifying the factors which contribute to the divergence of growth paths in small business. Figure A.4 depicts this divergence which is supported by Dobbs and Hamilton (2007) who suggest that start-up firms tend to grow quickly until a certain size. Then, depending upon management strategies, growth tends to slow.

FIGURE A.4
A HIGHER VERSUS LOWER GROWTH COMPARISON



Adapted from Tan et al, 2009

Hunter and Kazakoff (2008) found a similar divergence in growth when investigating multi-generation small business. Their investigation is discussed in more detail in Section B about multi-generation small business. They determined that most of the small businesses they investigated reported that an increase in sales could be addressed within existing facilities. More automobiles, cows, or watches could be sold. However, expansion was more complicated for a small business that was building houses. For instance, one small business home builder focused on entry level houses. They had established good working relationships with enough of the sub-trades (electrical, plumbing, roofing, etc.) to be able to build and sell an average of one house per week over one year. But even a small increase in volume would necessitate forming a working relationship with a completely new set of sub-trades. Also, for a period of time while volume continued to increase, this second set of sub-trades would only be necessary on a part-time basis. Usually, sub-trades do not find part-time associations beneficial. Indeed, during the initial stages of expansion the home builder expected to experience financial losses. Thus, the home builder focused on quality products and efficient operations at current volumes rather than growth.

Another factor which contributes to variance in growth is the small business approach to strategy. Examples of this factor were found in the business model of automobile dealers in Hunter and Kazakoff (2008). One dealer adopted a very conservative approach. Expansion plans involved a consideration for family involvement which resulted in a relatively lower growth path. Alternatively, another dealer took a more aggressive approach to growth. Expansion opportunities were investigated with the consideration of involving non-family members in management roles.

Where feasible all of the businesses considered the possibility of future expansion opportunities. Invariably, they emphasized a concern for continuing to provide quality products and services. They recognized the importance of loyal customer relationships and how this relationship could lead to new satisfied customers.

CONCLUSION

This section has presented a background description of small business. It has differentiated small business from other types of small business and those who become involved in owning and/or managing small businesses. A discussion of small business performance was also included. The next section describes an investigation into multi-generation small business along with a discussion of what could be considered success.

SECTION B
MULTI-GENERATION SMALL BUSINESS

This section is based on the following reference:

- Hunter, M. Gordon and Dan Kazakoff. (2008). **Little Empires: Multi-Generation Small Business in Southern Alberta, CANADA**. Heidelberg Press, Melbourne, Australia. ISBN: 978-1-920889-30-2

INTRODUCTION

This chapter presents an overview of the project which investigated multi-generation small businesses and factors that contributed to their long term success. These businesses are privately held and do not have publically traded stock. Ownership of the business is held within the family unit which may be children, or grandchildren of the founder. In some cases individuals may become involved in the family business through marriage. For this project a multi-generation small business was defined as one that has been passed from one generation to the next within the family unit.

The goal of this project was to identify those characteristics which not only contribute to the current success of the small business, but also those which have contributed to the survival of the small business beyond the tenure of the founder. The majority of investigations into multi-generation small business have focused upon factors surrounding succession planning. This is an important aspect to consider for multi-generation small businesses and, indeed, consideration for succession emerged from this investigation. However, succession planning is just one, albeit an important issue, relating to the success of small businesses over more than one generation.

To begin, this section presents background information about the characteristics of small business owner/managers. Also, further background research is reviewed involving succession planning and dealing with siblings who may or may not be participating in the operation of the small business. The following sub-section outlines the issues identified when conducting the interviews for **Little Empires** (Hunter and Kazakoff, 2008).

SMALL BUSINESS BACKGROUND

Within the small business sector there are several general aspects which contribute to the uniqueness of multi-general small business. A Maclean's magazine (Anonymous, 2006) article documented the characteristics, included here in Table B.1, of a small group of entrepreneurs who are regarded as "super achievers" who have achieved phenomenal growth.

TABLE B.1
"SUPER ACHIEVERS" CHARACTERISTICS

CHARACTERISTIC	DESCRIPTION
Technology	Small business with a high level of Internet and wireless capabilities experienced revenue increases at 2.25 times the rate of those businesses not connected to the Internet.
Exporting Internet Sales	Small businesses that export more than half of their Internet-based sales experienced 2.5 times the growth of their counterparts which did not sell outside of Canada.
Advisors	Small Business owners who consulted advisors regularly tallied sales 76% higher than those who did not consult advisors.
Incorporated	Small businesses which formed corporations increased revenues 40% more than sole proprietors which did not incorporate.
Outsourcing	Small Businesses which offered outsourcing work to other companies registered earnings 61% higher than those which did not outsource contract work to third parties.
Education	Small firms whose leaders have acquired some post-secondary education have experienced revenue growth 2.5 times greater than those whose leaders have not done so.

Adapted from Anonymous, 2006

Owner/managers of multi-generation small businesses exhibit the characteristics outlined above as super achievers in small businesses. This suggestion is supported by investigations conducted by Westhead (2003) who investigated differences in performance and objectives of first versus multi-generation businesses. While he determined that profitability was not influenced by generation stage he did find a difference in objectives. First generation objectives tended to be reflected in comments such as, "… family objectives have a priority over business objectives". However, in multi-generation businesses the objective was more, "… to enhance the reputation and status of the business in the local community". Thus, the objectives changed from an internal focus to an external focus while maintaining an emphasis on family and business.

Stavrou (1999) determined that individuals' intentions to join their family business was influenced by their involvement in the business when there were growing up. The level of involvement (volunteer, part-time, full-time) and birth order were an influence on intentions to join the family business. Thus, those who were involved more and those early in the birth order tended to be more likely to join the family business.

Another group of entrepreneurs has been identified by Burlingham (2006) who reject growth opportunities. He found many companies that simply wanted to focus on doing better rather than doing more. The common characteristics of these companies are shown in Table B.2.

TABLE B.2
CHARACTERISTICS OF "SMALL GIANTS"

CHARACTERISTIC	DESCRIPTION
Know yourself and what you want out of business.	The Small Giants' owners and leaders are remarkable, first and foremost, for the clarity they have about their goals in business. They can decide not to go for maximum growth because they know what else they are looking for and why.
Love your business.	The Small Giants' leaders are unusual for the passion they bring to their companies. They absolutely love whatever it is that the company does, and they care deeply about doing it as well as it can be done.
Be rooted in a community.	Each of the Small Giants has a close connection with the local city, town, or county in which it does business – a relationship that goes beyond the usual concept of "giving back". While all of these companies are model corporate citizens, the relationship is very much a two-way street. The community also helps to mould the character of the business.
Cultivate relationships with employees, customers, and suppliers.	With customers and suppliers, the Small Giants emphasize personal contact, one-on-one interaction, and mutual commitment to delivering on promises. The effect is to create a sense of community and common purpose. The companies treat their employees in the way that owners think people ought to be treated – with respect, dignity, integrity, fairness, kindness, and generosity.
Stay private and closely held.	The owners are keenly aware of the need to keep ownership inside the business. Outside investors generally want the best return possible. Of course, Small Giants' owners also want a return, but it's not their paramount purpose. By keeping stock inside the business they are free to pursue other goals.

Adapted from Burlingham, 2006

An issue that has received a great deal of attention relative to multi-generation small business is succession. Eventually, a decision has to be made about who will take over the family business when the senior generation reaches retirement age. If the small business is sold to someone outside of the family there will be no concern for succession. However, in a multi-generation small business this issue becomes important by the very fact that the business will be passed on to another family member.

Bjuggren and Sund (2002) discuss succession employing the term "transition" regarding the passing of ownership from one generation to the next within a family business. The concept of "knowledge idiosyncrasy" is introduced to support their discussion of intergenerational succession. This concept incorporates the idea that learning occurs through watching and doing. Thus, within a family run business significant learning about the business occurs as the younger generation associates with the older generation in the working environment. Inside knowledge is passed from one generation to the next in either a tacit or explicit manner. In similar ways attitudes and ethics are developed and transferred.

A good written succession plan is necessary to provide for continuation of the small business (Manthey and Balhoff, 2002). The plan must take into consideration the specific situation of each small business (Barach et al, 1988). Thus, there may be many ways to address succession (Feigener et al, 1996). In general, a succession plan should attempt to pass the ownership of the small business from one generation to the other without interfering with the operation of the small business. What this usually relates to is financial implications. There are two major areas here. First, the succession plan should attempt to minimize any tax implications (Narva, 2003). Second, the exit strategy (BDC, 2006) of the senior generation may also have a financial effect on the small business. This strategy should attempt to provide a sufficient retirement fund while not impinging upon the financial resources of the small business.

There is a significant amount of academic and practitioner information which addresses the types of financial implications outlined above. Unfortunately, very few small business owners prepare succession plans (Brown and Coverly, 1999). A CIBC small business survey (CIBC World Markets, 2005) suggests that over the following 15 years over one half of Canada's small business owners plan to retire. The document also suggests that very few of these individuals have definite plans for succession. It seems that it is a difficult matter to consider that one day the owner will die (Brown and Coverley, 1999). Dealing with the issue of one's mortality tends to be ignored.

Another issue relates to sibling accommodation. When the multi-generation small business passes to a subsequent generation there usually is more than one of the founder's offspring involved. Also, there may be siblings who are not involved in the business. Some form of accommodation will have to be made for these non-participating siblings. Handler (1991) suggests that ways must be determined to minimize any form of conflict. She states, "In successful family businesses, both siblings and parent-owner work to make sibling rivalry positive rather than negative in effect" (Handler, 1991:22). Thus, businesses may publicize their philosophy on salary and promotions, ensure that participating siblings have separate and distinct roles within the business, and adopt a code of conduct, whether explicit or implied, regarding sibling interaction. It is important that this accommodation be extended to those siblings who are not participating directly in the business. As a member of the family they will have rights to the assets of the business. Documenting these rights and a method for sharing in them must be addressed and resolved. Handler (1991) further suggests that positive sibling accommodation will result in a team approach taken by family members involved in operating the business.

Friedman (1989) studied sibling rivalry by applying conflict management theories. Potential conflicts amongst siblings must be managed. Ward (1987) suggests sibling rivalry must be managed within a positive rather than negative context. Techniques for accomplishing this include:

- An explicit compensation philosophy
- Identify separate and unique sibling roles
- Code of conduct for sibling interaction

SMALL BUSINESS ISSUES

In the following discussion some of the same issues may appear in different sub-sections. This situation arises because of the longevity of the business. That is, some small businesses may be going through a particular transition at different times relative to the involvement of the participant being interviewed. Thus, some issues are presented that have been resolved and others are described in anticipation of being addressed.

Past Issues

The past issues identified by the participants, while varied, were mainly about establishing their presence and identity within the business. Very early in their association with the business the participant may have worked part time while attending school. This involvement provided an initial, and valuable, learning experience about the attitude, atmosphere, and work ethic of the family business. This experience facilitated the transition into full time involvement in the business. Once this decision was made other issues arose. The participants all desired to be accepted by employees as competent contributors to the operations of the small business and that they did not acquire their position simply because they were a family member. While there was a strong sense of family there was also a desire to prove, both to employees and themselves, that they held a specific position on merit and could perform it well. Perhaps the solidification of their merit to hold a position came when, in some cases, a novel approach to an initiative was required in response to the emergence of a new competitive environment. Other issues dealt with a move of business premises, some of which were required and some were initiated by the small business. The participants were also involved in the planning and carrying out of business expansions.

These past issues facilitated the participant's move into full time involvement in the family business. While the activities and tasks may have created a hectic time, they served to establish and validate the participant's role within the family business.

Current Issues

The discussion of current issues, related to the near term focus on operations with respect to ensuring appropriate and well trained employees; and also responding to current market conditions. There are also current issues with a longer term focus that are being addressed which relate to activities and tasks of organizing and acquiring infrastructure to support future operations. Thus, implementation projects for information technology are being carried out to support future more efficient operations. Further, while no specific plans are in place there exists the idea that expansion opportunities will be considered given the right set of circumstances.

Future Issues

The discussion of issues in this section related to organizing and planning activities to support future operations, such as expansion into new markets; and diversification by developing and providing new products and services. It is generally known that managers of small businesses take a near term focus and prefer to make small incremental financial commitments. Further, they function within constraints resulting from the concept of resource poverty which suggests small businesses lack money, time, and skills. However, the issues about the future raised here suggest that the above generally accepted approach taken by managers of small businesses may not apply to those individuals involved in multi-generation small businesses.

Business Models

The individual descriptions of business models reflect an emphasis on quality interactions with various stakeholders through providing superior products and exceptional service for the long term benefit of the business. Specific aspects related to work/life balance for employees; dealing with customers; and interacting with the local community.

Succession

There has been a great deal written about succession and the necessity to develop an appropriate plan. Many consulting firms, especially those which focus on small business provide a succession planning service.

One of the more important aspects for a multi-generation small business is planning for succession. An issue that makes this process difficult is the reticence of the older generation to recognize their mortality and to decide to pass on control of the business. Another complicating issue is the very fact that this process of succession only takes place once per generation.

One of the guiding principles that some participants have found to contribute to the success of developing a sound succession plan is to be fair but not necessarily equal for both participating and non-participating family members.

CONCLUSION

This section has presented a description of issues related to multi-generation small business. The next section describes how these multi-generation small businesses have responded to the 2008-2009 financial crisis.

In general, small business performance is associated with growth. However, as determined by Dobbs and Hamilton (2007) and Tan et al (2009) over time small businesses tend to grow slower than when they were initially formed. Further, while performance may lead to competitive advantage other management strategies may also be involved. Thus, it is proposed that longevity represents an interpretation of successful performance. The term longevity was operationalized through the identification of multi-general small business and their unique management issues. A positive culture within a small business will contribute to longevity, as well as a caring and nurturing approach to employees through training and attention to work/life balance. There is a focus on quality customer service in order to develop a trusting and long term relationship. The business model is focused on the inherent expertise of the owner/manager. While diversification may be considered it is done so within the niche established by the small business. Longevity of the small business leading to subsequent generations is facilitated by an individual who steps forward and offers to not only run the business but to act as a steward for the family asset. This means making decisions which maintain the asset as well as addressing issues of sibling accommodation.

If longevity is the focus, then multi-generation small business, as reported earlier in this section, provides examples to other small businesses regarding the management issues which must be addressed.

SECTION C
RESPONSE TO THE FINANCIAL CRISIS

This section is based upon the following reference:

- Hunter, M. Gordon, and D. Kazakoff. (2012). *Multi-Generation Small Business Response to the Recent Financial Crisis*, **Journal of Applied Management and Entrepreneurship**, **17**(1), 37-51

INTRODUCTION

This investigation represents a follow-up to the earlier research project, reported in Section B, which identified aspects of multi-generation small businesses (Hunter and Kazakoff, 2008). The earlier investigation delved into detail regarding the factors that have allowed some small businesses to continue for more than one generation. It documented the comments of family representatives regarding their interpretation of the experiences of their intergenerational small business. Relative to small businesses in general, multi-generation small businesses are considered to be "successful" because of their longevity. Further, due to the very nature that they are successful from a multi-generation perspective, they are also a family business. While some family businesses may be quite large, the focus for this research was on the small business.

The financial crisis spanned the period of mid-2008 to late-2009, and was characterized by a sharp economic downturn, world-wide financial markets collapse, and significant job losses. The goal of this project was to identify the aspects related to how multi-generation small businesses reacted to the financial crisis. Multi-generation small businesses are considered successful mainly because of their long term survival beyond the normal tenure of a small business. The project thus provides lessons for all small businesses regarding responses to the financial crisis. The lessons learned may serve to contribute to reducing the large number of small business failures (Industry Canada, 2010).

Representatives of multi-generation small businesses were asked to participate in this project. All of the individuals interviewed were participating family members. Overall, the research participants represented eight small businesses in western Canada, all of whom were involved in the project reported in Section B.

DISCUSSION

Table C.1 provides an overview of the themes identified in this project. There was an interesting common thread which emerged during the interviews. Each research participant seemed to have viewed the financial crisis with optimism and tended to search for and identify opportunities for their business given the new environment.

TABLE C.1
EMERGING THEMES

Category/Theme	Comment
Previous Crisis	• No direct experience • Input from previous generation
External Factors	
• Market	• Decline
• Banks	• Positive response because of conservative financial approach
• Environment	• Cut back in operations lead to focus on existing customers
Internal Factors	
• Business Model	• Revisions to supply chain and relationships with business partners
• Diversification	• New opportunities for products and services
• Employees	• Very few lay-offs • Retained for planned future growth

Previous Crisis Experience

The research participants had no direct experience with a previous financial crisis. The participants did, however, provide comments about the effect on them as a family member, and the impact a previous financial crisis had, from their perspective, on the business and those family members from prior generations who had been managing the small business. They commented about how the family successfully overcame financial struggles. At the time of the previous crisis there was concern as a number of similar small businesses had become bankrupt. The previous generation had thus implored the research participant to ensure they recognized the value of knowing and controlling costs. Further, there seemed to be a generic entrepreneurial spirit in attempting to appropriately and successfully respond to the changing market conditions brought on by the financial crisis.

External Factors

This sub-section includes aspects which are external to the small business and while the owner/managers do not have control over these factors, it is incumbent upon them to attempt to respond in a way that will be appropriate, and hopefully beneficial, for the small business. The external factors presented here are relative to the market, banks, and the overall environment's effect on the small business.

The first external factor was related to the market. The financial crisis resulted in an overall decrease in the market as many industries cut back on activities. There were, however, some industries where the market continued to be as active as they were prior to the financial crisis. For instance, the agriculture sector (as a primary industry) was not affected as much as other industries. Farmers continued to plant and seed supply operations continued to be active. Also, the funeral services sector was not as affected as others. Indeed, it is generally known that the funeral services sector is regarded as "recession proof". Where there was a market cut back the participants tended to look for opportunities to maintain or even increase market share. In the true entrepreneurial spirit some participants saw the situation as an opportunity to introduce new products within their established market niche.

In general, there was a desire to remain profitable. The opportunity to increase market share was viewed in light of the potential for profit. It might be considered more desirable to obtain 15% market share and remain profitable than to achieve 18% and lose money. This situation would exist in a business with large step increases in fixed costs as sales volumes rise.

The second external factor was related to the banks. The participants were pleasantly surprised by the positive response they received from their banks. This response is the result of the conservative approach to finances taken by the small business owner/managers. When operating from a strong financial position the banks felt the small businesses represented low risk. Further, the research participants commented upon their appreciation for the conservative approach taken by the banks relative to financial institutions in other countries.

The third external factor related to the overall environment of the small business. As stated earlier, there was an overall decrease in the market. This necessitated a cut back in operations of the small businesses involved in this project. Some stores or offices were closed. Fewer projects or contracts were available. While these responses led to some employee lay-offs, the number was very low. The specific aspects of this consequence are presented in the next sub-section about internal responses.

The research participants' attitude was to consider the situation to be a time to focus on getting better. As a result, there was more of a focus on customer relations and the desire to retain existing customers. It was felt that satisfied customers would be the best form of advertising. This situation also led to a focus on employees. With the hesitation to lay-off employees there was a desire to ensure they were performing as productively as possible. Thorough reviews of duties and procedures were conducted to attempt to identify areas for potential improvement. Also, employees may have been re-assigned to other tasks or locations. Further, with a view towards the local community, and in light of the above productivity initiative, attempts were made to bring work in-house. Activities which had previously been outsourced were assigned, where appropriate, to an internal employee. An example of this re-assignment is the maintenance of the small business web site.

Internal Factors

This sub-section includes a discussion of those factors which are internal to the small business and thus allow the manager to attempt to plan, organize, and implement a response. These factors relate to the business model, diversification, and employees.

The first internal factor was related to the business model. Previous research (Hunter and Kazakoff, 2008) suggested that multi-generation small business focused upon a particular niche, but attempted to diversify somewhat. A farm operation would concentrate on activities associated with the land, such as cattle, feed lots, grain, and seed cleaning. During the recent financial crisis, opportunities were investigated for new directions within the area of expertise. New car dealers investigated used car operations. Further, a homebuilder who had focused on residential single family homes started to investigate the possibilities associated with multi-family homes as well as commercial buildings.

Some of the participants turned their attention to the supply chain. In an attempt to control costs the entire process of material purchases was reviewed. Supplier relationships were revised or terminated in favour of more cost efficient processes. In some cases, where possible, some stages of the supply chain were eliminated and formal business contact was established directly with the manufacturer. Also, relationships with business partners were solidified. The participants spent an increased amount of time interacting with representatives of other businesses. Not only did they revise their relationships in their supply chain, as described above, they also attempted to maintain their relationship with businesses to which they supplied products and services.

The second internal factor was related to diversification. This factor relates closely to the business model factor above but is presented separately here because of the importance attributed to diversification by the participants. Several participants commented that they did not want to have, "… all their eggs in one basket". In true entrepreneurial spirit the financial crisis was viewed as an opportunity to consider many alternatives to diversify. Some of the participants even indicated the situation created a positive sense of urgency to consider new opportunities. Investigations were initiated into the creation of new products or offerings of new services.

The third internal factor was related to employees. It was noted throughout the interviews that the participants approached decisions about employees with significant passion. Very few lay-off decisions were made. Some employees nearing retirement were kept on and after their retirement these positions were not filled. Senior staff members were retained in anticipation of the need for experience to respond to future growth opportunities during recovery from the financial crisis. All of the participants recognized and acknowledged the importance of employees and the attitude and skills as a valuable resource for their small business.

CONCLUSION

When asked about the future a clear ray of optimism shone through the comments of all the research participants. They saw an opportunity to improve their approach to management. They were prepared to adopt a customer focus. Some were investigating revisions to the performance metrics with a concentration on margins. If price changes were not possible then the cost of goods sold were reviewed in an attempt to maintain or increase margins.

Growth was a common consideration for the future. This translated into opportunities for employees to advance within the business. Some plans were being developed for the inclusion of non-family members and the next generation of family in the management and participation in ownership of the small business. As these growth opportunities were reviewed, a willingness to accept more risk in future endeavours was expressed. Research participants quickly added that increased risk would be considered from a very financially conservative perspective.

SECTION D
SMALL BUSINESS FAILURES

This section is based upon the following reference:

- Hunter, M. Gordon. (2011). *Understanding the Common Causes of Small Business Failures: A Qualitative Study*, **Journal of Applied Management and Entrepreneurship**, **16**(1), 87-104

INTRODUCTION

The goal of this project was to document the opinions of small business and assessment consultants relating to their experience working with small businesses that have failed or were potentially heading towards failure. Confidential one-on-one interviews were conducted to document research participant's interpretations. A qualitative approach was adopted, employing Narrative Inquiry to document these interpretations. The interview transcripts were analyzed to identify emerging themes.

LITERATURE REVIEW

A review of the available literature about small business failures reveals a number of categories, such as, basic definitions; liabilities; poor management; and the resource-based view of the firm.

A number of articles address the basic definitions surrounding this area of research. Watson (2003) discusses different definitions of small business failure. One is "discontinuance of ownership" (Bruderl et al, 1992; Churchill, 1952; Ganguly, 1985; Hutchinson et al, 1938; Phillips and Kirchoff, 1989; Stewart and Gallagher, 1986; and Watson and Everett, 1999) where the business is sold to someone else. Another definition is "discontinuance of business" (Bates, 1995; Bates and Nucci, 1989; Birley, 1986; Cooper et al, 1988; Dekimpe and Morrison, 1991; Dunne et al, 1989; Hamilton, 1984; Price, 1984; Reynolds, 1987; Stanworth, 1995; and Tauzell, 1982). In this case the business ceases operation. Yet another commonly used definition is "bankruptcy" (Fredland and Morris, 1976; Lowe et at, 1991; and Watson and Everett, 1999). This represents the formal process of liquidating the business assets. Beaver (2003) suggests that, "… failure can no longer be regarded in terms of the traditional, inflexible paradigm of the cessation of trading." (Beaver, 2003:119). Thus, he suggests that success or failure should be regarded from the perspective of the attainment of objectives held by stakeholders in the business. Liao et al (2008/2009) employed the term "entrepreneurial discontinuance". They refer to Headd (2003) who determined that one third of small businesses that closed within four years of start-up were considered by the owner/manager to have actually been successful.

Cressy (2006) suggested failure occurs, "… when the firm's value falls below the opportunity cost of staying in business." (Cressy, 2006:103). He explored this definition through an analysis of risk tolerance of small business owner/managers. Internally the owner/manager will address a risk situation by adopting innovative business processes. Externally risk is evident in the owner/manager's response to attempting to effectively manage uncontrollable environmental events. Gilmore et al (2004) suggest that owner/managers respond to risk by employing their managerial competencies or relying on networking.

The terms “liability of newness” and “liability of smallness” are also employed by Liao et al (2008/2009). Newness relates to the lack of a track record in dealing with external entities. New businesses have yet to establish efficient business routines and effective management structures (Mellahi and Wilkinson, 2004). The concept of the liability of newness has been investigated by Jovanovic (1982), Mata and Portugal (1994, 1999), Bruderl et al (1992), Honjo (2000), and Wagner (1994). Smallness suggests a lack of necessary resources (human and financial) along with the ability to attract these needed resources (Mellahi and Wilkinson, 2004). A number of researchers comment on the liability of smallness (Strotmann, 2007; Mata et al, 1995; Agarwal and Audretsch, 1999, 2001; Agarwal and Gort, 1996; and Agarwal, 1997, 1998). Both of these liabilities may contribute to discontinuance.

An over-arching reason for small business failure relates to “poor management”. A number of investigations support this contention (Beaver, 2003; Dun and Bradstreet, 1991; Gibb and Webb, 1980; Lauzen, 1985; McNight, 1990). Van Gelder et al (2007) took a psychological perspective to investigate the differences between failed and operational businesses. They determined that failed entrepreneurs did not develop a long term planning strategy but instead were simply reactive to situations as they arose. They also determined that there was little difference between the two groups based upon experience and education. Thus, as Bruderl et al (1992) found it is perhaps more important to organize and manage generic business processes and to be able to identify business opportunities.

Liao et al (2008/2009) employed the resource-based view of the firm to investigate “entrepreneurial discontinuance”. Their results are presented in reference to human, social, and financial capital. They determined that small business is susceptible to failure when there is a deficiency in human capital in the form of education and management experience. Interestingly, their results show that industry-specific experience actually contributed to discontinuance. They suggest that industry experience may result in less innovation and a more entrenched approach to existing ways of operating. Earlier, Bruderl et al (1992) had determined that small business owner/managers with high human capital were more productive in organizing and managing business processes; and better able to recognize attractive business opportunities.

Social capital involves how individuals interact within relationships communities and networks (Burt, 1997; and Nahapiet and Ghosal, 1998). Liao et al (2008/2009) determined that social capital played a limited role. However, they did assume that a lack of social capital may lead to discontinuance.

Financial capital relates to the ability to raise funds from personal sources such as family and friends. Here Liao et al (2008/2009) found that financial capital was important, especially personal funding. A lack of funding results in constant pressure to obtain necessary financial resources and creates a distraction from a focus on the business.

Esteve-Perez and Manez-Castillejo (2008) also employed the resource-based view of the firm to investigate survival. They determined that the survival rate increases when the firm develops distinct capabilities which support a response to a changing competitive environment. Firm specific assets may be developed through advertising and research and development initiatives. Advertising lets more potential customers know about the firm’s products or services. Research and development improves the firm's competitive position and creates an innovative environment.

Mukherji et al (1999) investigated firms which were considered to be declining. They employed a framework consisting of three levels of impacts on the firm. One level is the firm itself and its set of resources and internal competencies. The second level is the industry in which the firm operates. The overall industry performance will impact the operation of the firm. The third level takes a macro perspective and includes dimensions related to available technology, the economy, and domestic and international politics. The concepts of this framework are employed later in this section through the identification of impacts related to those which are controllable and those which are not controllable from the owner/manager's perspective.

DISCUSSION

Interviews were conducted with experts in the fields of small business, and evaluation and assessment of operations. Three experts were interviewed. One participant, who is a Chartered Accountant with fifteen years of experience focuses on assisting small business. Sometimes he may refer a small business owner/manager onto an Insolvency and Restructuring Professional based upon his assessment of the small business operation. This individual discussed the issues associated with four small businesses. Another participant has practiced law, specializing in tax issues and the formation of new small businesses, for twenty-five years. His specific comments related to two small businesses. The third participant has been a Chartered Accountant for fifteen years and has been a qualified Insolvency and Restructuring Professional for six years. His focus is on small businesses. He discussed issues associated with six small businesses. Their discussion of issues was further elucidated by their general comments about small business issues obtained from their combined fifty-five years of experience. Thus, the unit of analysis is based upon the comments of the three interviewees and their specific experience with a total of twelve small business instances.

The following two sub-sections present the issues identified in the interviews. The issues have been categorized as "controllable" and "uncontrollable" (Cressy, 2006). Indeed, it was noted (Dun and Bradstreet, 1991) that two thirds of the issues causing small business failures are controllable leaving one third as uncontrollable. A controllable issue will be dealt with by the small business owner through specific action. With regards to uncontrollable issues the small business owner will find it necessary to respond in some way. Thus, it is either the action taken or the response that will affect the performance of the small business and may contribute to its success or failure.

Controllable Issues

The majority of the issues identified in the interviews were those that the business owner could attempt to control. The operative word is "could" because as explained below, in some instances the small business owner/manager may for many reasons chose to ignore the obvious.

The following paragraphs present a discussion of the themes, presented in Table D.1 along with support from the comments made by the research participants.

Table D.1 Controllable Issues

Issue	Description
Business Plan	Documentation of small business idea
Budget	Specific items and amounts
Cash Flow Projection	Expected revenues and expenses
Market Assessment	Potential demand for products or services
Capitalization Requirements	Initial financial investment
Business Perspective	Realize the difference between a job and a business
Personal	Know the necessary effort and skills
Advice	Willing to ask for help and take suggestions
Compliance	Government reporting requirement
Growth	Manage future expansion

Business Plan

The starting point for any business is the development of a reasonable plan. The plan must be realistic and should include the following:

- Budget
- Cash flow projections
- Market assessment
- Capitalization requirements

In general, those businesses that may fail do not take the time to develop a comprehensive business plan.

- Budget

  A start-up business should develop a budget to ensure that all items have been considered and that the business idea is a financial viability. Businesses that become non-viable economically do not have a proper budget. The small business owner/manager does not prepare a budget for the initial capital investment and they just, "… do not take care of the numbers".

- Cash Flow Projections

  A cash flow projection should identify all the revenue and expenses over a specified period of time. One of the biggest reasons for small business failure is the lack of planning for expenses such as initial construction and inventory costs. It is also important to consider the cost of bank debt and lease contracts.

  Cash flow management issues have contributed to small business failures. It is suggested that cash flow projections be prepared based upon either three or five years which should include a 10% margin for unanticipated events. In the interviews the research participants identified that many small business owners do not have the necessary skills to properly develop cash flow projections and to administer a cash flow management program.

- Market Assessment

  The small business owner/manager should attempt to determine the size of the potential market for the product or service to be provided. In many cases this is not done. Unfortunately, many small business owner/managers assess the market based upon what they think the market should be, rather than determining specific facts about the market size. It is also important to assess the potential market within the specific local region. There is the potential for unique market niches to occur within a certain region.

- Capitalization Requirements

  At the commencement of any venture there will be a requirement to invest capital. Many small business owner/managers underestimate the amount. They do not consider such items as initial facilities construction or beginning inventory.

Business Perspective

The first few years of operation for any small business are the most difficult. The statistics about small business provide support. For instance, from 1997 to 2003, during the best economic times in Canada an Industry Canada (2008) report stated that 125,000 small businesses failed annually. The annual Industry Canada report (2008) has determined that about 25% of small businesses (those employing fewer than 100) remain in operation after 9 years.

The successful small business owners are able to treat the business like a business. That is, they are able to hire the right kind of people, if that is necessary. They establish processes that are necessary for the business operation to run smoothly and efficiently. They recognize the importance of having processes to support accounting, billing, collections, and human resources. Those small business owner/managers who have problems with the viability of the business do not establish good accounting practices. They do not carry out the necessary actions for dealing with customers regarding answering questions or collecting money owed to the business. In turn, they do not pay the business bills in a timely fashion. This latter issue can be the start of the downfall of the business as creditors, financing institutions, and government expect regular and correct payment. Unfortunately, these small business owner/managers are not prepared to pay an accountant to help them develop a business plan nor to develop the necessary operational processes.

There are two other issues from a business perspective that will affect the potential failure of the small business. One issue is internal and relates to partners. The other issue is external and relates to customers. First, while partners may start out being very passionate about a business venture there may come a time where each sees a different future for themselves. Thus partners must continue to communicate to ensure they are both “on the same page” regarding the small business and their perspective for the future of the business. Second, the business must not rely on one or a few customers. If the business works for a few customers the connection may be very close. However, the business will be reliant upon the performance of a few customers (Cressy, 2006). By attempting to deal with many customers the business will in effect spread its financial risk.

Personal

An individual may start a small business for a number of personal reasons. They must realize that establishing and running a small business takes a great deal of time and effort. They should not be looking to “… buy themselves a job”. This means they have really not started a business. They are simply working independently. So, if they are not at work nothing gets done and they do not get paid. In many of these situations the individual eventually becomes bored and loses the passion for the work.

An individual who starts a small business may have unrealistic expectations about what is required of them. They may be in a hurry to commence operations and are fixated solely on the business idea and not on the business operation. They may not realize how hard they will have to work. Thus, they may hire someone to run the business when this is not necessary or financially viable. They have no idea what it takes to make a business work including effort and skill. Unfortunately, they are not prepared to put in the time and effort to learn.

Some individuals approach the establishment of a new business venture with a sense of entitlement. They think they deserve many personal assets. They do not think they have to work hard to obtain them. Indeed, they may start spending too much of the business' financial assets on personal items. There is a potential for the successful small business owner/manager to become involved in a venture that does not relate to their experience and may lead to financial difficulties. The small business owner/manager may start to think they can be successful in any business venture. They have been successful in their current business and they may begin to think it is possible to duplicate that success in another venture. In some instances, these businesses may be related to entertainment such as a restaurant or a bar. Hence a common term to refer to these unfortunate ventures is, "drinking up the profits".

Another instance that may contribute to financial difficulties is the attraction of tax shelters. Because of the way tax shelters are structured they will commence with a financial loss or at least a substantial tax deduction. Many tax shelters are speculative in nature. Unfortunately, they often fail creating a financial loss greater than the anticipated tax shelter amount. This, in turn, puts financial distress on the original small business.

Advice

There are many sources of advice for the small business owner. These sources should be tapped regularly and often. Banks, lawyers, and accountants represent just a few potential valuable sources of information and guidance. Unfortunately, small business owners who are not prepared to accept advice may not be able to develop appropriate ideas for responses to issues that arise that affect the business operations. Thus, it was suggested that the new small business owner/manager should keep their job while starting the business until the new business can support the owner/manager financially.

Compliance

Many small business owner/managers do not realize the time and effort required to fulfil compliance reporting. The compliance burden includes activities such as:

- Bookkeeping
- Goods and Services Tax (GST)
- Accounts payable
- Payroll
- Labour standards
- Workers' compensation

If the small business owner/manager fails to comply by remitting required information and cash settlement, the regulatory entity will take action. Canada Revenue Agency has significant powers to ensure appropriate taxes and source deductions are remitted. Bank accounts may be frozen effectively halting all business operations.

Growth

Growth needs to be managed. On a small scale the small business owner/manager is able to focus on a quality product or service which will result in customer satisfaction. However, growth, if not managed properly, can lead to logistical problems and financial distress. The small business owner/manager must be able to manage larger facilities and more staff. If all of these aspects related to increased operations are not managed well customers may become dissatisfied, accounts may not be collected on time, and then bills will not be paid leading to the above compliance issues. There is a fine balance between not too much overhead, and enough to support the necessary activities to facilitate growth.

Uncontrollable

Some issues were identified that are beyond the control of the small business owner/manager. These external issues are mainly related to aspects of market conditions as outlined in table D.2.

Table D.2 Uncontrollable Issues

Issue	Description
Access to Financial Capital	Sources of funds to initiate or facilitate operations
Market Decline	On-going demand for products or services
Competition	Other similar businesses
Downturn in the Economy	General economic cycle

Access to Financial Capital

A relatively informal approach to obtaining finances is commonly referred to as the “3F’s”. The small business owner/manager in this case will approach three types of individuals, Family, Friends, and Fools. The amount obtained from these sources may be limited and will certainly cause friction if repayment is delayed.

A more formal approach to obtaining finances is the creation of some form of debt. It is difficult, especially in western Canada, to obtain the necessary financial resources to start a new business. Most credit granting policies are established at banking headquarters in eastern Canada. Thus, aspects of business operations unique to western Canada may not be considered. For instance, geographical aspects related to access to raw material and costs of shipping finished goods, may affect the timing of required financial resources.

More expensive financing alternatives relate to credit card use and merchant banking. Society in general is oriented toward the use of credit cards. Not everyone realizes the high cost of this alternative. However, credit cards have been used to acquire raw materials and inventory; and in some cases to even meet payroll commitments. Another financing alternative is to approach a merchant bank. These institutions are less risk averse than the commercial banking system. Thus, they are more willing to take on the granting of credit that inherently involves more risk. However, they will expect a higher reward for taking on this risk. Some small business owner/managers will hesitate at adopting this financial approach because the merchant bank may in effect take over the business and the underlying business idea.

Market Decline
A business may be established to address a specific market need. Initially, demand for the product or service must exist. Preliminary market research must support the viability of the business. However, the initial foray into the market may address the need to such an extent that the product or service is no longer needed.

Competition
If a small business is doing well it may attract other individuals to start similar ventures. These new businesses may compete based upon lower costs or the provision of better service. An immediate response by the original business may be to compete directly on cost and/or service. A more proactive plan in anticipation of competition is to attempt to establish some form of barrier to entry to create a competitive advantage. The creative use of information technology is one generic example.

Downturn in the Economy
The cycle of the economy may affect the business. The ebb and flow of the economic environment could impact performance of the small business. The recent world economic crisis provides an example. As the economy slowed there were major layoffs and financial resources were in short supply. Specifically, as housing starts declined there was a ripple effect throughout all of the products and services associated with residential accommodation.

In light of the above issues, while they are uncontrollable, it is incumbent upon the small business owner to determine how to respond. Selling the business may be an unsavoury option. Also, it is difficult to downsize an already small business. A viable response may be to focus on customers to ensure the provision of the appropriate products and level of service until the return to a more normal level of economic activity.

The results of the investigation reported in this section may be mapped onto the framework by Mukherji et al (1999). See Table D.3. They developed a three level model for describing the environmental forces which may impact the firm. They employed the model for investigating turnaround strategies.

Table D.3 Forces Impacting the Firm

FRAMEWORK	**RESEARCH RESULTS**	
LEVELS	THEME	COMPONENTS
Organization	Controllable	Business Plan Business Perspective Personal Advice Compliance Growth
Industry	Uncontrollable	Access to Financial Capital Market Decline Competition
Macro	Uncontrollable	Downturn in the Economy

Adapted from: Mukherji et al (1999)

The Organization level incorporates the resources and competencies possessed by the small business owner/manager. The Mukherji et al (1999) framework suggests that the owner/manager can be proactive in managing these aspects. This concept relates directly to the controllable theme which emerged from the investigation reported earlier in this section. This theme, as presented in the previous sub-section includes personal actions and attributes including:

- Development and use of a business plan
- Employment of business processes and an approach that includes a mutual understanding by all partners and the establishment of a supportive customer base
- Realistic expectations about effort and performance
- Willingness to take advice
- Understanding of the necessity for compliance reporting
- Realization that growth can have both positive and negative consequences

The Industry level reflects the characteristics of a specific industry. The Mukherji et al (1999) framework suggests that it is necessary for the firm to respond to influences at this level. The current investigation identified three components of an emerging theme as uncontrollable, which are as follows:

- Access to financial capital is determined by individuals or entities who may be convinced that the business warrants investment
- Trend in market demand
- Concentration of other firms providing the same products or services

The elements of the Macro level relate to the overall performance of the national economy, political initiatives, and technological innovation. The investigation reported in this section identified an uncontrollable emerging theme related to a downturn in the economy. Thus, the aspects outlined in the Mukherji et al (1999) framework may impact the economy which in turn will generate a ripple affect impinging upon the performance of the small business.

In summary, Mukherji et al (1999) suggest the necessity to include an assessment of information from all three levels of the framework to be able to attempt to manage the performance of the small business at an optimal level.

CONCLUSION

This section has reported on the investigation into identifying issues surrounding the failure of small businesses. The results presented above have been organized by those issues which are controllable and those which are uncontrollable by the small business owner/manager. The many controllable issues presented above represent a complex web of demands placed upon the small business owner/manager. Further, while issues exist over which the small business owner/manager has no control it is important to deal with the specific issue within the context of the small business. Thus, the small business owner/manager must be able to assess the situation; determine acceptable alternatives; decide which alternative to adopt; and proceed to implement the selected alternative – all the while remaining cognizant of the potential necessity for further change. The contribution made by this research relates to the specific comments about how the small business owner/manager can plan and organize business processes to deal with issues that arise which are internal and controllable; and how to respond to those issues which are external and uncontrollable.

There are some individuals who have the ability to learn from the failure of their small business. They may have tried to start and operate a small business. But, for many reasons the business may have failed. These individuals are able to assess and learn from these issues. This learning experience contributes to the potential success of a subsequent small business venture.

An earlier comment suggested the individual should think of their efforts as a business and not a job. Taking this business oriented approach means the individual recognizes that the venture, as an entity unto itself, takes on a life of its own. Plans and processes must be established and maintained or modified to facilitate the on-going operation of the business. It must not be treated as a financial pipeline to address personal desires. It must be nurtured and allowed to survive and potentially grow. The small business owner/manager must continue to remain involved either directly or in setting and maintaining the direction for the business. A focus on the business and a passion to see it succeed must be maintained.

SECTION E
GENERIC RESEARCH APPROACH

INTRODUCTION

Researchers who want to investigate a relatively new subject area should adopt an approach which facilitates the exploration and identification of emerging constructs. Within the context of a research question data should be gathered employing a technique which will support subsequent analysis. Emerging themes may be identified based upon the data which, in turn, could be employed to develop constructs relative to the research question. Thus, the data gathering technique must be employed consistently across a number of data gathering incidents. In contrast to this consistent technique, the approach must also allow for flexibility so that the research participants are relatively free to respond in their own way to the research question.

This section provides a description of a technique which addresses this conundrum of consistency and flexibility. The technique is applied when gathering qualitative data in one-on-one interviews. From a Narrative Inquiry approach interview protocols are developed based upon the exploration of a research question. Each interview protocol provides consistency across a number of interviews; but also allows for flexibility of the research participants to offer their opinions within their respective interviews.

The remainder of this section is organized, according to Figure E.1, in the following manner. The next section presents an overview of qualitative research. Within this qualitative perspective the concepts of Grounded Theory (Glaser and Strauss, 1967; and Strauss and Corbin, 1990) are presented. The presentation is then focused on Narrative Inquiry (Scholes, 1981) and the Long Interview Technique (McCracken, 1988) for conducting qualitative one-on-one interviews. At the most detailed level an interview protocol is described. The emphasis is on the process of gathering the appropriate data and identifying emerging themes which support describing the relevant issues.

QUALITATIVE PERSPECTIVE

Qualitative research is an interpretive approach to investigating subjects within the context of their natural surroundings (Myers, 2009). Qualitative researchers thus spend a great deal of time in organizations focusing on the interpretations of personal experiences held by individuals. The researcher works closely with specific individuals and may come to regard them as partners in the investigation or research participants.

The researcher usually conducts the interview one-on-one with the research participants. The interview may or may not be confidential depending upon the topic. But, it is a time for the research participants to tell a personally experienced story. Within the context of the investigation topic the research participants should be allowed to freely recite their story.

In the interview the researcher will attempt to document the interpretations held by a research participant. The research participants must be allowed to respond to a research question without influence. The context of the response must be solely that of the research participant. However, the recitation must be guided somewhat by the researcher in order to be able to subsequently compare themes which emerge from across a series of interviews.

The researcher must be open-minded and prepared to reflect upon any differences in perspectives between the researcher and the research participants. This attitude becomes especially important when conducting international or cross-cultural research. The adopted approach should facilitate grounding the discussion within the personal experiences and culture of the research participants.

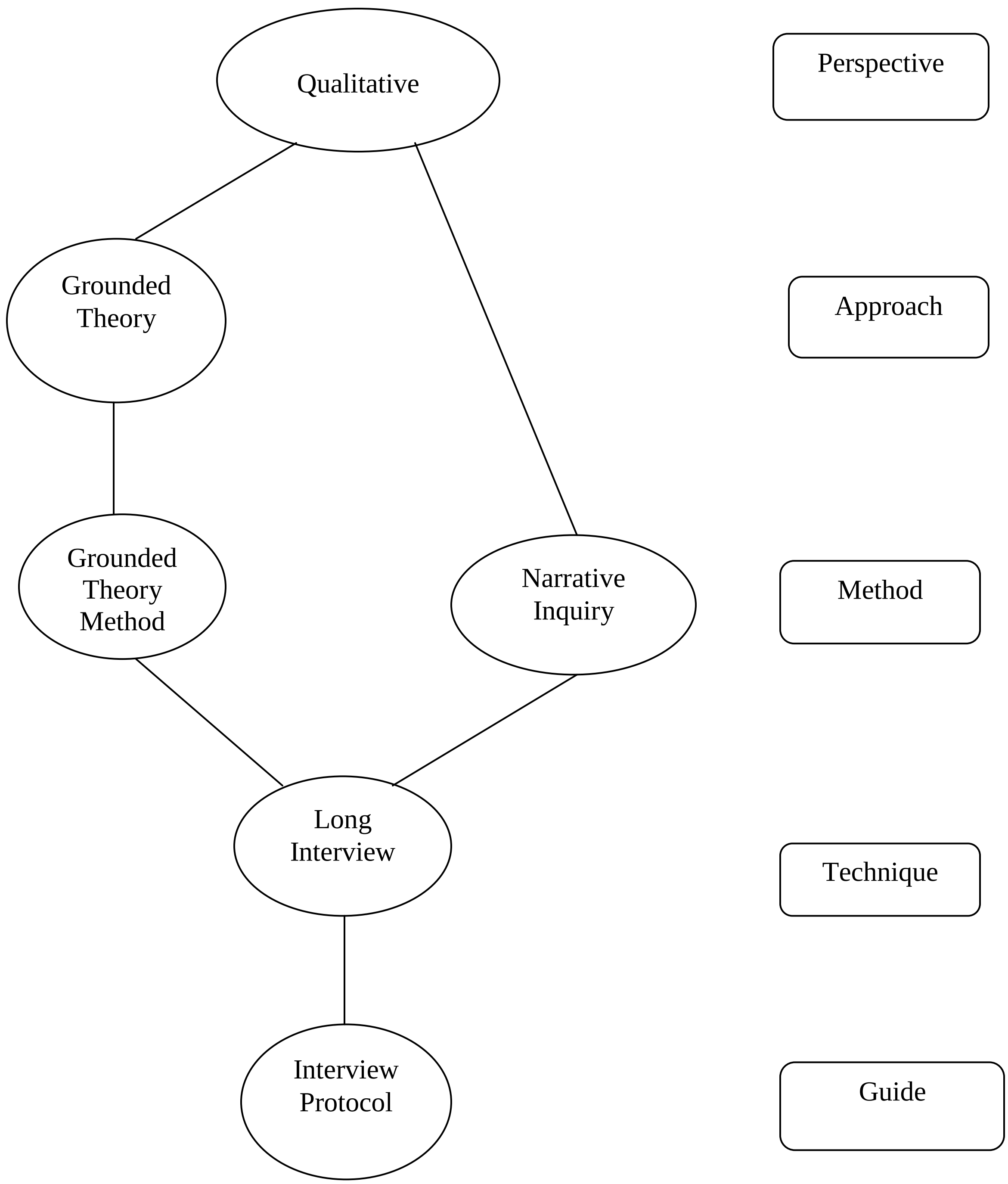
GROUNDED THEORY APPROACH

Glaser and Strauss (1967) originally defined Grounded Theory as, "… the discovery of theory from data systematically obtained from social research." (Glaser and Strauss, 1967:2). Their theory describes the emergence of conceptual categories which may be characterized by their properties. The data that have been gathered employing a Grounded Theory approach are employed to discover the categories and describe their properties.

Grounded Theory may be employed as an approach to conducting research or as a data analysis technique (Urquhart, 2001). The former, research approach, suggests no *a priori* adoption of a research theory or framework. Thus, a research question is developed and appropriate data, relevant to the question are gathered and analyzed. The overall objective of this research approach is the generation of a new theory. The latter, data analysis method, involves the constant comparison of data; and is generally known as the Grounded Theory Method. As more data are gathered the constant comparison method will either generate new categories or provide further support for previously identified categories. "By comparing where the facts are similar or different, we can generate properties of categories that increase the categories' generality and explanatory power." (Glaser and Strauss, 1967:24). A significant effort is required to collect and analyse qualitative data (Luna-Reyes and Andersen, 2003). Obtaining access to research participants can be very difficult. Conducting interviews is very time consuming. Contents of the transcripts resulting from the interviews must be reviewed thoroughly to identify emerging themes (Glaser and Strauss, 1967).

It is common practice in qualitative research to identify emerging themes (Miles and Huberman, 1994). To begin, each transcript must be carefully read noting important content such as terms or phrases. This is "open coding" (Strauss and Corbin, 1990). A thorough understanding of each transcript will facilitate subsequent analysis (Thompson, 1997). Common patterns of groupings are identified and categorized based upon content. Further data from the transcript are used to support the description of the categories. This is "axial coding" (Strauss and Corbin, 1990). The constant comparison of data is carried out across a number of interviews. This is known as "selective coding" (Strauss and Corbin, 1990). This process identifies new emerging categories or further supports the existing categories. Throughout this process of reviewing interview transcripts and identifying categories the qualitative researcher must, "…be open to possibilities afforded by the text rather than projecting a predetermined system of meanings onto the textual data" (Thompson, 1997:441). Analysis of the data is complete when it is not possible to identify new categories in the data. This situation is referred to as, "theoretical saturation" (Glaser, 1978).

FIGURE E.1
RESEARCH ROAD MAP



The above describes a general approach to conducting qualitative research. Within the purview of Grounded Theory and more specifically, the Grounded Theory Method, data may be gathered and analyzed. The following sub-sections introduce and describe, in more detail, a method within Narrative Inquiry and the Long Interview Technique, for conducting qualitative interviews, which address the Glaser and Strauss (1967) comment about obtaining social research data systematically.

NARRATIVE INQUIRY METHOD

Scholes (1981) defined Narrative Inquiry as, "… the symbolic presentation of a sequence of events connected by subject matter and related by time" (Scholes, 1981:205). A further exploration of this definition identifies the concepts of "contextually rich" and "temporally bounded". The concept of contextually rich involves the first-hand experience of the research participant which are more vividly remembered (Tulving, 1972). Further, recollections of personal experiences, "…would be more memorable, be given more weight, and be more likely to guide behavior". (Swap et al, 2001:103). The other concept, temporally bounded suggests that personal recollections should be recounted based upon a beginning, a sequence of events, and an ending. A sequential account of events contributes to more vivid recollections (Bruner, 1990; and Czarniawska-Joerges, 1995).

Narrative Inquiry provides an approach to conducting qualitative research. To further facilitate gathering qualitative data via interviews a guide is necessary. Not only should the guide aid in focusing the discussion of one interview; it should also provide a consistent approach across a number of interviews. The next sub-section outlines a response to this issue.

LONG INTERVIEW TECHNIQUE

The Narrative Inquiry method promotes documenting research participant recollections involving the concepts of contextually rich and temporally bounded. The documentation of these personal stories is conducted via a one-on-one interview. Care must be taken across a number of interviews to ensure both unbiased questioning but also consistency in conducting the interviews.

Researcher bias is a difficult issue to address and attempt to resolve. This is especially so when conducting qualitative research. The qualitative researcher must continually strive to pose questions in a non-directive manner. Thus, the researcher might ask, "… tell me about …"; or "… please describe …". Another issue related to bias is when and how much a qualitative researcher should probe for more details. The answer to this issue usually relates to ensuring that the research participant is given every opportunity to relate their entire story in a way that is understood by the qualitative researcher.

The issue of consistency may be addressed through the development and use of an interview guide for all of the interviews. The Long Interview Technique (McCracken, 1988) provides a framework for the development of the interview guide which is described in the next sub-section.

The Long Interview Technique (McCracken, 1988) involves the following four steps:

- Gaining an awareness of the relevant literature
- Introspectively understanding one's own awareness of the research question

- Conducting the interview during which research participants have an opportunity to tell their story by responding to three generic question categories
    - Grand tour
    - Planned prompt
    - Floating prompt
- Conducting analyses of the interview data to identify emerging themes.

The first two steps involve preparatory work in advance of the interview. Also, before the interview is conducted an interview guide, discussed later in the next sub-section, should be prepared.

The terms “Grand tour”, “Planned prompt”, and Floating prompt” form the major components of the Long Interview Technique (McCracken, 1988). Grand tour questions are asked at the beginning of the interview. They help to relax the research participant; develop a measure of trust between the research participant and researcher; and provide a context within which the research participant can present their interpretations of their past experience. Planned prompts are those questions which relate to areas the researcher knows in advance will provide valuable input to addressing the original research question. Floating prompts may be asked at any time during the interview. They relate to the decision by the researcher to probe a comment in more detail to attempt to obtain a better understanding of the interpretation being provided by the research participant.

INTERVIEW PROTOCOL GUIDE

Recall that the interview is conducted so that the research participant may reflect upon past experiences within a specific domain of discourse and that the interview structure should facilitate the recollection of this past experience. Throughout the interview the research participant must be encouraged in an unbiased manner to thoroughly describe their interpretations of their personal experience regarding the subject of the investigation. Their discussion will ground the data in their personal experiences, which is the main objective of conducting the research and attempting to answer the research question.

An interview guide, referred to here as a “protocol”, gives direction for conducting the data gathering process and subsequent analysis. The protocol serves to ground the specific discussion in the research participant’s personal experiences (Swap et al, 2001) and facilitate the documentation of a chronological sequence of events (Bruner, 1990 and Czarniawski-Joerges, 1995) within the interview. Further, the protocol provides some consistency in conducting a series of interviews.

CONCLUSION

This section has presented a generic overview of the research approach taken for the investigation reported in the next section which describes the specific small business insolvency research project.

SECTION F
INSOLVENCY PROJECT

INTRODUCTION

The investigation reported on in this section identified issues surrounding the insolvency process related to small businesses. In Canada 98% of businesses have fewer than 100 employees, representing 48% of the total labour force or 5 million employees (Industry Canada, 2010). Each year 139,000 new businesses are formed, with about 30% failing within one year, and only 25% still in operation after 9 years (Industry Canada, 2010). Given these statistics the question arises, what are the issues involved in the small business insolvency process? Are there common issues surrounding these processes? Can factors be identified that will assist insolvency professionals?

This exploratory investigation documented the opinions of Insolvency and Restructuring Professionals relating to their experience regarding small businesses. Research involving the insolvency process in relation to small business is quite limited. Confidential one-on-one interviews were conducted to document research participants' interpretations. A qualitative approach was adopted, employing Narrative Inquiry to document these interpretations. The interview transcripts were analyzed to identify emerging themes. The result of this investigation provides a more thorough understanding of issues involved in the insolvency process related to small businesses.

This section is organized in the following manner. The next sub-section provides an overview of the available literature relating to the insolvency process. Then, the research project conducted for this specific investigation is described. The findings are then presented in the Discussion sub-section in the form of identifying the themes which emerged from the participant comments. These themes are discussed relative to the insolvency process from the perspective of the Insolvency and Restructuring Professional. General comments are also provided in the form of three pillars and their relationship to generic causes of financial distress. Further, some suggestions are included. Finally, conclusions are presented.

LITERATURE REVIEW

This section presents a review of literature regarding various perspectives on insolvency with some comments related to entrepreneurs and small business. The perspectives include generic, international, and an historical focus on Canada.

From a generic perspective the major factor which contributes to financial distress relates to the owner/manager's lack of knowledge about the business and its environment. Another factor involves the cost of borrowing and, again, the owner/manager's lack of knowledge of financial issues related to the small business.

Carter and van Auken (2006) attempted to determine the underlying causes of bankruptcy. They surveyed an equal (+50 each) number of bankrupt and non-bankrupt businesses. The most critical issues identified relate to lack of knowledge, inaccessibility to debt, and the economic climate. Knowledge was the factor which most differentiated the two groups. This issue relates to accessing and processing information which is similar to the concept of resource poverty

(Thong et al, 1994). In general, small business owners may not have the time or skills to gather the appropriate information. This situation may be even further exacerbated during times of financial distress and may be a major factor in initiating the insolvency process.

Vlad (2011) investigated influences on small business bankruptcy by analysing bankruptcy levels over a five year period ending in 2009. The major finding of the investigation suggests bankruptcy rates of small business are related to the cost of borrowing. Recommendations are proposed regarding the increase in awareness of exposure to risk related to finances and corporate structure. Further, it is suggested new entrants should be better informed about financial issues. Managers of newly formed small business should be made aware of bankruptcy levels and the consequences of levels of financial leverage should be explained.

Cook et al (2011) reviewed the United Kingdom's Company Voluntary Arrangement (CVA) process which was designed to provide assistance to financially distressed small businesses. They adopt the Franks and Torous (1992) concepts of "economically" distressed for businesses that are not viable; and "financially" distressed for businesses that are viable but are currently experiencing temporary financial difficulty. To be clear, a financially distressed business is currently incapable of servicing debts when they are due. In an economically distressed situation the assets of the business would be more valuable if redeployed. Determining financial distress is less complicated than assessing economic distress. Cook et al (2011) propose the resource-based view to assess financial viability. They suggest that issues which cause distress are all influenced by the entrepreneur. The issues relate to poor marketing management, poor financial management, failing to keep up with the competition. They conclude that it is important to manage both customer and supplier relationships. But the entrepreneur should avoid over-reliance on a single customer or supplier.

A third alternative to the common practice of declaring a business not viable or conducting a financial restructuring was proposed by Rotem (2011). The third alternative is the legal duplication of a financially distressed business in order to create a viable on-going business. Business duplication is in effect a, "… home-made bankruptcy proceeding …" (Rotem, 2011:132). This process mirrors the formal bankruptcy process both of which allow the debtor time to respond to creditor demands. Rotem (2011) suggests that business duplication be considered mainly for financially distressed businesses rather than those businesses that are economically distressed. Also, if business duplication is going to proceed it must be commonly recognized, "… that company duplicators be personally liable to any debts left unsatisfied by the duplicated companies …" (Rotem, 2011: 137). This requirement would address concerns for potentially perpetrating a fraud against the creditors of the original business.

The bankruptcy systems vary amongst countries. Further, it can be difficult to determine to total asset value of a business which operates in multiple jurisdictions.

Couwenberg (2001) investigated asset sales in bankruptcy procedures and the effect on survival. He considered the sale of assets for on-going businesses essentially the same as financial restructuring when resolving financial distress. An overview of bankruptcy systems is presented for Sweden, France, Germany, United Kingdom, and United States. Based upon these bankruptcy systems he developed a generic overview of survival routes through bankruptcy. The various paths and loops through this route lead either to reorganization or liquidation. Further, he concluded that very little is known about small business bankruptcies.

Cross-border insolvencies have increased as a result of the international expansion of business. Ziegel (2002) analyzed cross border insolvencies involving multinational corporations in Canada and USA. He compared the insolvency process in both countries and the impact that has on corporations proceeding through insolvency. Within the insolvency profession there is a drive for greater harmonization between the two countries which would potentially maximize creditor returns in liquidation or facilitate re-organization.

It is difficult to determine a debtor's total assets when some are resident in another jurisdiction. Menendez (2010) drew attention to international insolvency proceedings in Europe. He proposed revisions to International Insolvency law to address the inefficiencies he described. These inefficiencies relate to differences in interpretations between countries. This situation is inadequate for the creditors and may create opportunistic situations for assets to be hidden.

The historical process of bankruptcy law revisions is fraught with politically oriented issues rather than a desire to necessarily improve the bankruptcy process. Ziegel (2010) presented a thorough analysis of the history of bankruptcy law in Canada. Given the low priority to reform demonstrated by legislative and parliamentary agendas, it seems incumbent upon the insolvency profession to attempt to facilitate necessary reform. Ben-Ishai (2004) presented an interesting case for abolishing "crown priority" for asset allocation in bankruptcy. Businesses are now encouraged to restructure when possible. This results from the increasing recognition that business value may include a determination for human capital and goodwill beyond the physical assets. A concern, expressed by government regarding abolition of "crown priority" is that garnishes will be issued relative to employee source deductions and GST amounts resulting in the initiation of the bankruptcy process at an earlier stage. Sarra (2003) reviewed the legislative reform taking place at that time regarding the restructuring process under Canadian Insolvency Law. She proposed devising a viable restructuring plan that would allow the business to continue as a going concern. While a business may be financially stressed it may be more beneficial to all the stakeholders if the financial issues of the business were addressed in a way that allowed the business to continue. Such a process within the Companies' Creditors Arrangement Act (CCAA) for large corporations and the Bankruptcy and Insolvency Act (BIA) aimed at small business should be devised. Sarra (2004) continued to raise issues regarding the then review of the Canadian Bankruptcy and Insolvency system. In this instance the issue raised related to the ethics and conflicts involved with the individual involved in the role of Insolvency and Restructuring Professional. While no resolution to these issues were proposed in the article questions were raised in response to the recommendations regarding the BIA and CCAA acts resulting from the 2003 review process initiated by the Canadian Standing Senate Committee on Banking, Trade and Commerce.

In her Lloyd Houlden Research Fellowship report Sarra (2009) investigated business insolvency and attempted to gain a deeper understanding and identify mechanisms to resolve the issues. She categorized the sample of businesses as incorporated, sole proprietorships, and partnerships. Two main issues were identified. First, across all three categories poor management lead to insolvency issues. Second, inadequate capitalization led to insolvency. Sole proprietorships may encounter capitalization issues from the start. Partnerships and corporations tend to encounter capitalization issues upon commencing an initiative to expand their product/service offerings or geographical locations.

In summary, the investigations reported in this section relate to and support the identification of two categories of issues. Insolvency may arise because the entrepreneur lacks necessary management skills or the small business is under-capitalized.

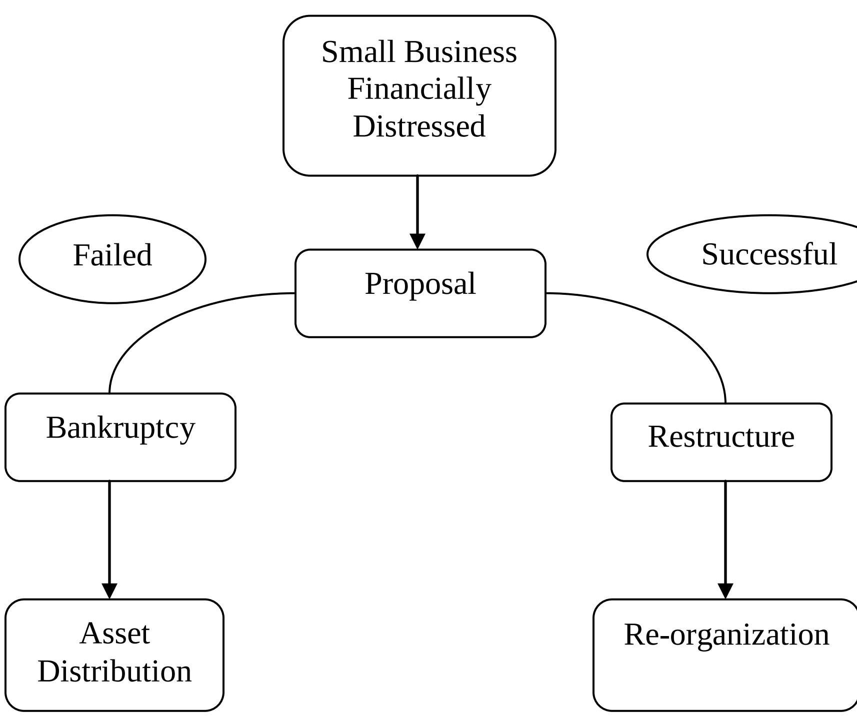
PROJECT

The research approach taken for this investigation was described from a generic perspective in Section E. Qualitative one-on-one interviews were conducted with research participants. An interview guide was employed which strikes a balance between flexibility within an individual interview and consistency across a number of interviews. The consistent approach facilitates subsequent identification of emerging themes.

To begin, this project the Canadian Insolvency Foundation forwarded an announcement to members. See Appendix C for the English version and Appendix D for the French version. Data were gathered from Insolvency Professionals who volunteered to participate. Eight confidential interviews were conducted employing the guide enclosed in Appendix A. This guide was also used for those research participants who preferred to respond via email. Three responded in this manner. Thus, a total of eleven Insolvency and Restructuring Professionals, member of the Canadian Insolvency Foundation, provided input to this research project.

Figure F.1 presents a conceptual overview of the Insolvency process. The following paragraphs describe the issues associated with each of the components of Figure F.1. The descriptions are based upon the emerging themes identified in the transcripts of the research participants and supported by the review of literature.

FIGURE F.1
The Insolvency Process



In total eleven Insolvency Professionals participated in responding to the interview guide. There were eight males and three females. Their ages ranged from thirty-one to seventy-two with an average of forty-eight. Their years of experience ranged from four to thirty-six with an average of nineteen years.

Various reasons were given for becoming an Insolvency Professional such as it is interesting work, requiring creative ability, providing work in all aspects of business. A number of research participants stated they had become an Insolvency Professional because their father had been one.

DISCUSSION

Most Insolvency and Restructuring Professionals suggest that by the time the small business owner/manager approaches them it is too late to consider restructuring.

> *"Financial distress has progressed beyond the stage for potential recovery."*
>
> *"The owner/manager has suffered enough and just wants out."*

The Insolvency and Restructuring Professional offers information for the owner/manager to decide how to proceed.

> *"We offer information and the debtor decides."*

It is important at this stage that both parties discuss and understand the options and the potential for the future viability of the business.

> *"I put a lot of facts on the table."*

Examples of the questions posed by the Insolvency and Restructuring Professional in this discussion could be as follows:

- *"What do you want to have happen with this company?*
- *Are you done?*
- *Are you tired of running it?*
- *Do you want to wrap it up or do you want to see if there is some ability for us to restructure it so that we can get it back on a profitable level and you can continue to operate it, or do you want out?"*

Thus the counselling process is more about dealing with the person than the business. The individual must decide where they want to be in a few years.

Unfortunately, the majority of businesses are liquidated because by the time they approach the Insolvency and Restructuring Professional the financial distress may have progressed beyond the point where re-structuring may be financially viable. The financial problems are not recognized early enough. Often the owner/manager has been struggling for quite some time and is too tired to put more effort into the business.

> *"Typically, the Trustee will meet with management to discuss and consider the specific issues management is facing with their business. Based on the specific circumstances*

identified, the Trustee can then provide management with the options available and the pros and cons of each of those options. The Trustee does not make the ultimate decision as to whether the company proceeds with bankruptcy or restructuring but provides advice to management and can make recommendations (based on specific circumstances and previous experience) and can advise how the decision will impact both the business and management (either by way of personal guarantees or directors' liabilities)."

"Management issues involved in the decision can include the following (in no particular order):

- *What are management's intentions for the business?*
- *Do creditors support restructuring and do they have faith in management's ability to restructure?*
- *Are any of the Company's assets unencumbered or are all of the assets secured (if all assets are encumbered then cooperation of secured lender would be required for business to restructure)*
- *Is the Company viable (i.e. do cash flow projections support continued operations)?*
- *Ability of management to obtain additional financing required during restructuring (i.e. operating line, temporary bulge facility, investment from management, AR factoring, DIP)*
- *Are there landlord issues (i.e. distraint by landlord if in arrears)*
- *Any other creditor actions (i.e. Statements of Claim, seizure of assets, garnishees)*
- *Employee issues (retention of key employees is critical to restructuring)*
- *Deemed trust or first ranking secured claims including Canada Revenue Agency ("CRA"), employees, WCB, etc. Restructuring provides for payment in full of deemed trust claim amounts due to CRA within 6 months unless CRA consents otherwise*
- *Operational risks associated with continued operations (i.e., ability to secure insurance coverage, warranty issues, etc.)*
- *Does management have support of key suppliers and vendors during restructuring process (restructuring will be difficult if key suppliers and vendors do not continue to provide services or only provide continued services on a COD basis)*
- *Ability of management to provide retainer to secure services of Trustee and legal counsel*
- *Quality of Company's "books and records"*

Small businesses may become financially distressed in a number of ways. The business may have been a good idea. But, it was just the wrong time and place. General categories relate to personal reasons and business operations.

Personal issues relate to age, health, martial break down, or even addictions. Other personal issues relate to the knowledge of the owner/manager and their approach to running the business.

"The owner knew how to work the snow plough and backhoe, but knew nothing about running a business."

"To save money he did not have an accountant."

"…don't have enough working capital to survive a mistake."

The business itself may cause the distress through margins being set too low, or a down turn in the market resulting in financial distress.

"The owner lacked experience. There was no due diligence, no cash flow statements. They were unwilling to work hard."

"The receivables were not collected on time and the inventory levels were too high."

Further, this delay in collecting receivables will result in an increased requirement for operating capital and may create a delay in payroll. In turn, delayed payroll may result in an initiation by Canada Revenue Agency to recover the source deductions owed to the Agency.

"The management issues I see in deciding whether a debtor should choose bankruptcy or restructuring are:

- *Management's interest and commitment to continuing operations. Often by the time they come to see us they have been struggling on their own for months or years and are too tired to put more effort into the company. In a small business, this is key – usually you cannot just find a new president to take over.*
- *What will get the creditors the best result – this is not just about the dollar return, it is about timing, risk appetite, etc. If major creditors are unlikely to support a feasible proposal, proposal will fail. Often with small businesses, CRA is a major creditor. They are less likely to accept certain types of proposals.*
- *Funding a restructuring – often, when a debtor comes to us they have gone through all of the company's cash as well as any additional cash the shareholders were willing to put in. They are usually not a great candidate for take-out financing or DIP financing (too small for a lot of people to look at). Cash from operations may be sufficient to fund.*
- *Impact on directors – director's liabilities and impact on their ability to do business in the future"*

Overall, the classic warning signs of impending financial distress include:

- *Not collecting accounts receivable in a timely manner*
- *Increasing accounts payable*
- *High inventory levels*

If the decision is to proceed with Bankruptcy there are issues that affect the Insolvency and Restructuring Professional. When investigating the details of the business operation management cooperation may not be forthcoming. Further, records relating to the business operation may be incomplete. In a number of cases required document filings may not have been completed. Thus, in many cases the owner/manager simply walks away from the business. The formal bankruptcy process is not followed because of the related costs.

"More and more often we are seeing management of small businesses, electing to simply "walk away" from the business and not electing to wind up the company under a formal bankruptcy process. This is likely due to the costs associated with the bankruptcy process and the fact that the Trustee requires a significant retainer.

> *This leaves more of the administrative burden and costs of enforcement with the creditors (creditors will need to enforce security to seize assets, resort to legal action, and/or incur legal costs to petition company into bankruptcy). Or in the event these options are cost prohibitive it will result in more "orphaned" companies."*

Orphan failure occurs when there are no financial resources available to even pay the trustee to wrap up the business. This situation usually ends in personal bankruptcy.

In order to consider re-structuring the small business there has got to be something worthwhile to save.

> *"…the principle impediment to restructuring is two things: one is the mindset of the owner/ manager and two is the ability to source new financing; those are the two big issues. And coupled with the mindset of the original owner/manager is the competence or lack thereof of the original owner/manager and the consequential ability or inability to find expertise to reinforce the obvious lack of expertise that was there originally."*

A restructure proposal should only be initiated if the business is inherently viable. Once this decision is made it is important to obtain buy-in from stakeholders. Suppliers and employees must be involved in these discussions.

> *"…all I need is a list of creditors from the company and we can file immediately upon one signature a notice of intention to make a proposal which places a stay of proceedings against all creditors, including secured creditors and the government, for a period of thirty days. So it gives the company the breathing room that it needs for thirty days in which to formulate a plan for its creditors."*
>
> *"So if they do not have to make any payments to their old creditors, they have to show that they are at least making enough profit to cover their current bills, and they can survive during the stay period. And then you figure out, "What is it that we're going to offer to the unsecure creditors, and how are we going to fund that?" And that's where your imagination starts coming in."*

Also, Canada Revenue Agency is an important stakeholder regarding collection of source deductions. If the owner/manager is prepared to proceed with restructuring it is important to assess the competence of the individual. If the lack of management skills is related to the initial cause of the financial distress then this situation may arise again in the future.

> *"Required information may not be provided in a timely manner. The cash flow statements may contain material errors."*

Finally, an assessment should be made regarding the ability to source re-financing of the business. This may be a difficult task because of the negative history of both the business and the owner/manager.

GENERAL COMMENTS

In summary, the generic causes of financial distress in small business may be described as three pillars upon which the small business functions. All three must be in place to support the small business. If one of the three is missing or otherwise not functioning properly there may arise financial distress. If two of the three are missing there will be impending catastrophe for the small business. The three important components relate to product/service, marketing, and administration.

The first pillar, product/service is usually addressed by the skills of the owner/manager. That is, the small business may be formed by an individual who possesses the necessary skill to provide the product/service. For instance, the skill may relate to a trade such as plumbing or electrical. It is imperative that the owner/manager remain current with regards to related processes and applicable technology. Failure to maintain a current skill set may affect product/service demand resulting in financial distress.

The second pillar is marketing. In order to initially obtain financing the owner/manager must prove to a financial institution that there is a market for the product/service. Given sufficient passion of the owner/manager for the product/service a market may be established. Unfortunately, demand for the product/service could wain due to market demand or competition. This may result in financial distress.

The third pillar, and the one aspect which seems to contribute the most to financial distress, relates to administration. This component may be described in relation to managing employees and accounting. As a small business grows, more and new skills will be required. While it is necessary to acquire these skills, it is more important to create an environment which facilitates retention of the individuals who possess the necessary skills. This environment may be created through remuneration and/or a positive work place involving employee empowerment. The accounting function also has the potential to create financial distress. Receivables must be collected in a timely manner in order to sustain cash inflows. Payables and payroll must be managed judiciously regarding cash outflows in concert with the receivables. Further, it is imperative to respond to the requirements of source deductions as specified by Canada Revenue Agency.

SUGGESTIONS

The following suggestions have been identified within the themes which emerged from the interview transcripts of this investigation. These suggestions relate to counselling upon the formation of the small business; ensuring the owner/manager is cognizant of the cost of acquiring financial resources; and the myriad of issues involved in the consideration of restructuring.

Insolvency risk exists due to low asset value and, as above, management’s lack of skill or interest in handling accounting and financial systems. If these issues can be identified early enough, they can usually be managed. Perhaps a “driving test” should be considered in order for someone to start a business. Counselling upon the registration of the small business could involve discussion of bankruptcy rates, business plan components, and some short courses related to the three pillars described above.

The cost of borrowing is one of the major issues leading to financial distress (Frank and Torous, 1992) and the potential initiation of the insolvency process. The necessity for borrowing results from rising receivable amounts and a net increase in administrative expenses. Potential ways to resolve this issue include a government loan or government back debt.

There are considerations from both perspectives about whether or not to restructure a viable small business that may be in financial distress. If the assessment of the Insolvency and Restructuring Professional determines that a small business could be restructured perhaps there could be a government sponsored program to provide interim finances so the small business is not forced into bankruptcy by creditors (accounts payable) or CRA (Taxes payable or source deductions).

There would be specific conditions to be met in order to consider restructuring. There would have to be "buy-in" from all the stakeholders. Further, the owner/manager would have to be able to recognize the cause of the financial distress and be prepared to take action to resolve the specific issue. The owner/manager would have to work at improving upon knowledge about the three pillars. Further, the owner/manager would have to be willing to accept counselling on perceived individual weaknesses.

The process would involve the following activities. Initial screening for potential candidates would be performed by the Insolvency and Restructuring Professional who would make an independent assessment and decision that restructuring might be appropriate. Interim funding may be provided by either government backed debt or a term loan with a reduced interest rate.

Thus, the restructuring process would be nominated by an Insolvency and Restructuring Professional and administered by a financial institution such as BDC. There could be a consideration for a debt to equity swap which would then involve a financial recovery expert. In any event a "cooling off" period for those who go through liquidation with a requirement to access information about aspects which contributed to the financial distress

Restructuring of small business may provide some potential secondary benefits. Thus, the process may save a small business that is providing an important or necessary product/service. Saving the small business may contribute to maintaining the local employment base along with the consequent spin-off of salaries spent in the immediate area. This latter aspect relates to local economic contribution which would continue to stimulate the local economy.

The main comment about not restructuring suggests that through "survival of the fittest" the small business sector will thrive and continue to make a significant contribution to the economy. Further, a restructuring program may be subject to potential abuse requiring a number of checks and balances to be incorporated into the financial administration process.

CONCLUSION

This section has described the main research project in this investigation. The comments of seventeen Insolvency and Restructuring Professionals about the experiences were documented. Each participant provided very valuable information for this project. The next section presents a conclusion to this document.

SECTION G
CONCLUSION

This final section presents a brief review of what has been included in this document. Small business context was initially presented which was further elucidated with the inclusion of sections reporting on multi-generation small business, response to the 2008-2009 financial crisis by the multi-generation small businesses, and causes of small business failures. Then a section was included which described the generic approach taken for all investigations reported in the previous sections as well as for the current project about small business insolvency.

The Insolvency section provided some context about previous related investigations and then described the approach and findings for this specific research project. The discussion concluded with suggestions about two general approaches to addressing the issues involved in small business insolvency. One suggestion involves taking no action and allowing the small business to fail. It was felt that only the strong and overall competent small businesses should survive. The other suggestion describes how small business may be assisted regarding dealing with insolvency. The assistance may be provided in the form of advice upon the formation of the small business. This approach would potentially serve to prevent some of the issues that caused the small business to become financially distressed. Alternatively, financial assistance could be provided to a small business that, in the opinion of the Insolvency and restructuring Professional, is temporarily financially distressed and eventually could return to being a viable operation.

Small business is an important part of the economy. Unfortunately, there is a very high rate of failure. Any approach that would resolve this issue would provide significant benefit.

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Appendix A
Small Business Insolvency
Interview Protocol

Participant Background (for basic demographic purposes)

1. Personal
    a. Gender
    b. Age
    c. Education
2. Professional Practice in Insolvency
    a. Province
    b. How long have you been in Professional Insolvency Practice?
    c. What is your specialization?
    d. Why did you become involved in Insolvency?

Consider that Insolvency can lead to Bankruptcy or Restructuring

1. Do you decide whether to proceed with Bankruptcy or Restructuring?
    a. What are the management issues involved in the decision?
2. What do you consider to be the main reasons for insolvency of small business?

Consider the Process of Bankruptcy for Small Business

1. What management issues have you addressed or are currently addressing?
    a. Describe the issue.
    b. Discuss the status and anticipated outcome.
    c. Repeat for another issue.
2. What management issues do you foresee addressing or requiring your attention in the future?
    a. Describe the issue.
    b. How do you plan to address the issue?
    c. What is the anticipated outcome?
    d. Repeat for another issue.

Consider the Process of Restructuring for Small Business

1. What management issues have you addressed or are currently addressing?
    a. Describe the issue.
    b. Discuss the status and anticipated outcome.
    c. Repeat for another issue.
2. What management issues do you foresee addressing or requiring your attention in the future?
    a. Describe the issue.
    b. How do you plan to address the issue?
    c. What is the anticipated outcome?
    d. Repeat for another issue.
3. Think of a recent restructuring example.
    a. What caused the insolvency?
    b. Could the insolvency be resolved?
        i. How?

General Comments

1. Do you have any further comments about Small Business Insolvency?

Appendix B
Insolvabilité des petites entreprises
Protocole d’entrevue

Renseignements généraux sur le participant (aux fins d’établissement d’un profil démographique de base)

1. Renseignements personnels
    a. Sexe
    b. Âge
    c. Études
2. Activité professionnelle en insolvabilité
    a. Province
    b. Depuis combien de temps travaillez-vous comme professionnel de l’insolvabilité?
    c. Quel est votre domaine de spécialisation?
    d. Pourquoi avez-vous choisi le secteur de l’insolvabilité?

Insolvabilité et faillite ou restructuration

1. Est-ce vous qui décidez s’il faut opter pour la faillite ou la restructuration?
    a. Quels sont les aspects de la gestion dont il faut tenir compte au moment de prendre cette décision?
2. Selon vous, quelles sont les principales raisons de l’insolvabilité des petites entreprises?

Procédure de faillite des petites entreprises

1. Quels aspects de la gestion avez-vous abordés ou abordez-vous à l’heure actuelle?
    a. Décrivez l’aspect en question.
    b. Indiquez l’état de la situation et le résultat prévu.
    c. Répétez les deux premières étapes pour chaque aspect.
2. Quels aspects de la gestion prévoyez-vous devoir traiter ou aborder dans l’avenir?
    a. Décrivez l’aspect en question.
    b. Comment prévoyez-vous traiter ou aborder cet aspect?
    c. Quel est le résultat prévu?
    d. Répétez l’exercice pour chaque aspect.

Procédure de restructuration des petites entreprises

1. Quels aspects de la gestion avez-vous abordés ou abordez-vous à l’heure actuelle?
    a. Décrivez l’aspect en question.
    b. Indiquez l’état de la situation et le résultat prévu.
    c. Répétez les deux premières étapes pour chaque aspect.
2. Quels aspects de la gestion prévoyez-vous devoir traiter ou aborder dans l’avenir?
    a. Décrivez l’aspect en question.
    b. Comment prévoyez-vous traiter ou aborder cet aspect?
    c. Quel est le résultat prévu?
    d. Répétez l’exercice pour chaque aspect.
3. Pensez à un cas de restructuration récent.
    a. Quelle était la cause de l’insolvabilité?
    b. L’entreprise aurait-elle pu résoudre son problème d’insolvabilité?
        i. Comment?

Commentaires généraux

1. Avez-vous des commentaires à formuler sur l’insolvabilité des petites entreprises?

Appendix C
Email to CIF Members

Canadian Association Of Insolvency And Restructuring Professionals

June 19, 2012

Insolvency and Restructuring Professionals

Small Business Focus

One of this year's Lloyd Houlden Research Fellowship awardees is Professor Gordon Hunter of the University of Lethbridge. His research paper will identify issues surrounding the insolvency process related to small business. Professor Hunter would like to receive comments from CIF members regarding their experiences surrounding the insolvency process related to small business, as part of his research material.

If you wish to participate in this research endeavour, please contact Professor Hunter directly at ghunter@uleth.ca

You may participate either by responding confidentially to a series of open ended questions by email or through a confidential one-on-one interview with Professor Hunter. Please indicate your preference when you email Professor Hunter. The interviews will be conducted during the months of July and August and should take approximately one hour.

Any comments provided by members of CIF are greatly appreciated and will provide valuable input into Professor Hunter's final report to be submitted in the fall of 2012. As part of the CIF Award, Professor Hunter will present his results in a series of seminars to be organized later.

Mark Yakabuski, B.A. (Hons.), President/Président directeur général
Canadian Association of Insolvency and Restructuring Professionals
Association canadienne des professionnels de l'insolvabilité et de la réorganisation
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CAIRP and its members are committed to professionalism, trustworthiness and objectivity.
L'ACPIR et ses membres misent sur le professionnalisme, la confiance et l'objectivité.

Appendix D
Courriel aux membres du CIF

View: Mobile | Web

CAIRP

Association canadienne des professionnels de l'insolvabilité et de la réorganisation

Le 19 juin 2012

Professionnels de l'insolvabilité et de la restructuration

Pleins feux sur les petites entreprises

M. Gordon Hunter, professeur à l'Université de Lethbridge, est un des récipiendaires de la Bourse de recherche Lloyd-Houlden 2012. Son rapport de recherche recensera les problèmes entourant la procédure d'insolvabilité des petites entreprises. Dans le cadre de ses travaux, M. Hunter aimerait recevoir les commentaires des membres de la Fondation canadienne de l'insolvabilité (FCI) sur leur expérience en ce qui a trait à la procédure d'insolvabilité des petites entreprises.

Si vous désirez participer à cet effort de recherche, vous pouvez communiquer directement avec M. Hunter à l'adresse ghunter@uleth.ca.

Vous pouvez participer en répondant par courriel, en toute confidentialité, à une série de questions ouvertes.

Tous les commentaires formulés par les membres de la FCI sont grandement appréciés et fourniront de précieux renseignements pour la rédaction de la version finale du rapport de M. Hunter, qui sera présentée à l'automne 2012. En tant que bénéficiaire d'une bourse de la FCI, M. Hunter présentera les résultats de ses travaux dans le cadre d'une série d'ateliers qui auront lieu plus tard.

Mark Yakabuski, B.A. (Hons.), President/Président directeur général
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Appendix E
Lloyd Houlden Research Fellowship

FOR IMMEDIATE RELEASE

CANADIAN INSOLVENCY FOUNDATION ANNOUNCES 2012 LLOYD HOULDEN RESEARCH FELLOWS

CALGARY, ALBERTA – May 8, 2012 - The Canadian Insolvency Foundation[1] is pleased to announce that the Lloyd Houlden Research Fellowship has been awarded for 2012 to Professor Gordon Hunter of the University of Lethbridge and to Professor Nick Milanovic of Carleton University.

A presentation of the awards will be made at 8:30 a.m. at the Greenwood Inn in Calgary on May 8th, and at 8:30 a.m. at the Metro Toronto Convention Centre on May 16th. The presentations will be made in Calgary and Toronto in conjunction with the Insolvency and Restructuring Forums held by the Canadian Association of Insolvency and Restructuring Professionals.

Dr. M. Gordon Hunter is Professor of Information Systems in the Faculty of Management at The University of Lethbridge, Alberta, Canada. He has also been appointed Visiting Professor, Faculty of Business, Computing and Information Management, London South Bank University. Professor Hunter has previously held academic positions at universities in Canada, Hong Kong, and Singapore.

His research paper will identify issues surrounding the insolvency process related to small businesses. Each year 139,000 new businesses are formed in Canada, with about 30% failing within one year, and with only 25% still in operation after 9 years. Given these statistics the question arises, what are the issues involved in the small business insolvency process? Are there common issues surrounding these processes? Can factors be identified that will assist insolvency professionals?

Nick E. Milanovic holds a Master of Laws degree from the University of Toronto. He was called to the Bar in the Province of Ontario in 1996. Prior to joining the Faculty at Carleton University, Nick practiced labour law in Canada for approximately a decade. He has participated in litigation at all levels of Canada's court and administrative law systems and in landmark international trade and human rights litigation in the United States of America. Nick has also testified before federal and provincial parliamentary committees on both domestic and international matters.

Professor Milanovic's paper will look at the impact of Parliament's having added section 65.12 of the BIA and section 33 of the CCAA in 2008, which specified that the full force of the collective agreement remained in effect during an insolvency proceeding. His essay will review the status of collective agreements in bankruptcy law prior to the reforms and analyze the incentives created by the reforms by examining new case law and conducting interviews and a survey of insolvency professionals. The culmination of his research will be utilized to determine if the amendments have unduly interfered with or prevented the successful rescue of businesses subject to an insolvency proceeding.

The $20,000 scholarship, to be shared by Professors Hunter and Milanovic, is named after Hon. Lloyd Houlden, Q.C., a distinguished retired Justice of the Court of Appeal of Ontario. It is awarded annually to support "an original analysis of innovative ways to improve the insolvency system, a historical analysis of particular features of the system or an exploration of any other insolvency-related idea." Authors from any part of the insolvency community – practicing trustees and lawyers, as well as academics and students – are eligible to apply.

For further information, contact:

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mark.yakabuski@cairp.ca

[1] The Canadian Insolvency Foundation is a not-for-profit organization founded by the Canadian Association of Insolvency and Restructuring Professional with membership drawn from all stakeholders in the insolvency community. It is dedicated to research and education related to insolvency and bankruptcy legislation and practices, both corporate and personal, and to the skills of restructuring, refinancing, corporate rescues and turnarounds.