

Small Business Failure Rates and the New Zealand Retail Sector

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Abstract

Evidence from 220 small business start-ups in both managed and unmanaged shopping centres in New Zealand show that the difference in failure rates between the two are not significant when comparing similar definitions of failure, as defined by Watson and Everett (1996). Average annual failure rates range from 0.5% to 9.6% in this study compared with much larger government reported failure rates, thus supporting the notion that the actual small business failure experience requires closer and more detailed examination before the 'risk of failure' for small businesses can be understood. This study suggests that small business failure rates would be best modelled and reported on a sector by sector basis, which would provide a more accurate assessment of failure rates as well as a deeper understanding that 'discontinuance' is not necessarily 'failure' and not, therefore, to be confused with a risk measure.

Small Business Failure Rates and the New Zealand Retail Sector

Introduction

Small businesses are more predominant in New Zealand than in many other countries (Ministry of Economic Development Statistics, 2001). This makes it important to accurately capture small business statistics for policy reasons. As suggested by Bannock & Doran (1980), the worst gap in British statistics, and indeed in virtually all other countries, is in statistics on new enterprise formations (births) and failures (deaths). The “death” or failure of a small business does not generally become public knowledge and this can result in ambiguity as to whether a small business has actually failed or not. As information is not made readily available, researchers generally use one of several proxy events of failure. Confusion has stemmed from the existence of more than one failure proxy in literature. This has been exacerbated by confusion over how the estimated failure rates should be interpreted.

This study uses shopping centre data, and suggests that it may be possible to aggregate failure rates within identifiable small business sectors. It is suggested that, where statistically appropriate, a sector-by-sector understanding of failure rates would greatly enhance the perception of ‘likelihood of failure’ as a risk factor. The small business literature has shown us that across the small business sector, data are usually widely spread and the ‘small business experience’ across many measured dimensions varies greatly. It seems logical, therefore, to build our understanding of small business, including our understanding of failure rates, on a sector-by-sector basis, where statistically appropriate. Care must be taken, therefore, not to generalize about the small business experience from one sector to the next. This study expands on our understanding of small business failure in shopping centres (Watson and Everett (1999)) into New Zealand by further comparing failure rates between the ‘managed’ and ‘unmanaged’ shopping centres. We find that the New Zealand shopping centre failure rates are similar to those in Australia, that published government failure rates are much higher than the experience of this study and, therefore, somewhat

misleading, and that extending our understanding of failure rates to the shopping centre sector by use of managed shopping centre data seems appropriate.

Background

Obstacles to knowing true small business failure rates include the lack of reliable data, different yardsticks for what defines failure and differing definitions of what constitutes a small business. The first obstacle is the lack of reliable data available on small business enterprises (Bannock & Doran, 1980; Lindsay et al 201; SEAANZ, 2001). This problem is complicated further in the face of failure rates because once a small business has ceased operating; information concerning the business rests with the owner. Also, there is no systematic reporting procedure on small business failure like there is with larger counterparts, especially listed companies. Furthermore, as Bannock & Doran (1980) have suggested information relating to the death of small businesses is particularly difficult to obtain. Due to this lack of reliable data on small business failures, reported failure rates are predominantly biased, if available at all.

The second obstacle encountered in disclosing accurate small business failure rates is how failure is defined. Watson and Everett (1999) (hereafter referred to as W&E) found certain measures of failure to be biased. Bankruptcy and discontinuance of business are two extreme measures of failure in that industries with large capital commitments will experience high bankruptcy failure rates, but low discontinuance of business failure rates. Numerous studies have reported failure rates for which Watson and Everett classified the failure measure as biased. These studies include: Burderl, Preisendorfer et al (1992); Churchill (1952); Ganguly (1985); Hutchinson, Hutchinson and Newcomer (1938); Phillips and Kirchoff (1989); Stewart and Gallagher (1986); Fredland and Morris (1976); and Lowe, McKenna and Tibbits (1991). The failure definition used will dramatically influence the failure rate captured. Hence the importance of how failure is defined. A further bias observed in previous research is that the failure definition employed depended on the nature of the data available, W&E (1999).

The third significant problem experienced in accurately reporting small business failure rates is defining a small business. One congressional committee in the USA was presented with 700 such definitions (White, Bennett, and Shipsey 1982). For the

purposes of this paper, a small business is defined by Ang's (1991) popular agency-based definition which considers that small business poses most of the following characteristics: It has no publicly-traded securities; the owners have undiversified personal portfolios; limited liability is absent or ineffective; first-generation owners are entrepreneurial and prone to risk-taking; the management is not complete; the business experiences the high cost of market and institutional imperfections; relationships with stake holders are less formal; and it has a high degree of flexibility in designing compensation schemes. This definition also encapsulates the way the New Zealand Ministry of Economic Development defines a small business.

The Failure Definitions Used

An evident problem with small business failure statistics, discussed earlier, is the absence of a failure definition that accurately captures small business failure rates. Since the calculation of failure rates is highly influenced by how failure is defined (Hanes, 1991) it is important that the failure measure is not biased. However, no single definition of failure is generally accepted as being the best to use in all circumstances (Bruno & Leidecker, 1998). Thus a variety of definitions have been used in the past.

W&E have long analysed failure definitions (1993, 1996, and 1999) and in their 1996 study they used five warranted failure definitions to capture small business failure rates. This paper will utilise those same measures. The other unwarranted failure definitions are discussed in detail in W&E (1996) and will therefore not be discussed here. The first definition of failure employed is the slightly wider definition of bankruptcy, being that of *bankruptcy or ceased operations at a loss to creditors* proposed by Dun and Bradford (1974). This deems a business to have failed when operations are ceased with a loss to creditors or legal bankruptcy declared. However, bankruptcy is an extreme measure of failure and would fail to represent small business failure rates alone. This measure examines only a cohort of failed firms and typically provides no information on the population of small businesses (W&E, 1999).

The second definition employed to capture failure rates is *to prevent further losses*, when only businesses ceasing or sold to prevent further losses are deemed to have failed. This definition suggested by Ulmer & Neilson (1947) also encompasses

bankruptcy and ceased operations at a loss to creditors. However, this definition is perhaps the most difficult measure to obtain information on, because it requires knowledge concerning the owner-managers' financial situation.

The slightly broader measure of failure proposed by Cochran (1981) is *failure to "make a go of it"* where "failure should mean inability to 'make a go of it', whether losses entail one's own capital or someone else's, or indeed, any capital". This definition is classified as the middle of the road definition by W&E (1999) and incorporates the prior two measures. It appears to be the most relevant, yet it is subjective and a considerably broader measure of failure.

The fourth and broadest definition utilised is *discontinuance of ownership*. This measure considers every business that has closed or experienced a change in ownership to have failed, regardless of whether it continues to operate under the new owner or whether the sale or closure was due to reasons that would not necessarily entail failure, such as an owner retiring (W&E, 1996). This, being the broadest definition, encapsulates the previous four definitions and realises the highest failure rate.

The final and most ambiguous definition is *discontinuance of business* (Fredland and Morris, 1976), which unlike the others it is not a subset of the previous definitions. This measure only considers small businesses that have ceased to operate as failed (Reynolds, 1987). *Discontinuance of business* is the most common definition used in past studies and is the least homogeneous.

These five definitions above were those justified and utilised by W&E (1996, 1999) and will all be employed to capture the small business failure rates in this study because no one definition has a stand alone advantage.

Motivation

To overcome the obstacle of limited reliable data available on small business enterprises W&E (1996) captured failure rates of small businesses operating within managed shopping centres in Australia. In managed shopping centres, the tenancy agreement exists between the management of the shopping centre and the owner-

manager of each small business operating within the centre. Due to its contractual obligations, a small business must first meet the criteria set by management before an agreement is signed. Subsequently the business is accountable to the centre's management, being subject to performance evaluations and monitoring. When needed, the management may be called on to offer advice and guidance. Managed shopping centres have access to information concerning all current, and past small businesses from tenancy agreements. Tenancy agreements entail the precise date of start-ups and failures can be identified. Also, all business start-ups and failures are captured irrespective of their duration. Furthermore, the manager of the centre is more likely to provide the reason of failure in an unbiased manner than a failed small business owner who tends to offer a more subjective reason for failure.

W&E (1996) collected failure rates from 5,196 small businesses within 51 managed shopping centres across Australia and reported significantly low failure rates. W&E suggested "lower failure rates can be credibly explained by the suggestion that it is the process of tenant selection (and the constant monitoring of tenants with advice being offered where necessary) which is at least partially responsible for the reduced failure rates in managed shopping centres".

The aim of this study is to test whether failure rates of small businesses operating in managed shopping centres are significantly different from failure rates of small businesses not operating in managed shopping centres in New Zealand. If the two are not significantly, then accurate and reliable small business failure rates within managed shopping centres would be able to be used to represent other shopping centre based small business failure rates where the data may not be available. Furthermore, this could imply that the results captured by W&E accurately represent all shopping centre based small business failure rates in Australia.

A further issue of interest that is addressed in this study is whether 'incubating' small businesses minimises risk of business failure. Government agencies, financial institutions and others groups with an interest in small business are increasingly interested in ways of minimising risk of business failure. 'Incubating' small enterprises is an option currently being considered where the small enterprises operate within a managed environment. The main objective of this paper – to test whether

failure rates of small businesses operating in managed shopping centres are significantly different from failure rates of small businesses not operating in managed shopping centres will shed light on this issue.

Data and Data Collection

More than 95% of all enterprises in capitalist countries are typically small businesses, regardless of how a small enterprise is defined (McMahon et al, 2000, p.41). Additionally, in New Zealand the contribution that is made by the small business sector is relatively significant to the overall economic situation (Lindsay et al, 2001). According to the Ministry of Economic Development in New Zealand (2001), 97% of businesses are small, with these small businesses accounting for 39% of the New Zealand economy and employing 45% of New Zealand's full-time workers. With small businesses making up 39% of the New Zealand GDP, it is important that the extent of New Zealand small business failure is measured accurately.

To obtain accurate and reliable data, this study uses data provided by shopping centres in New Zealand. Shopping centres keep records of past and present small business tenants and from the tenancy agreements accurate information is provided on small business start-ups and failures within the shopping centres. Furthermore, the owner or managers of the shopping centres are more likely to report the reason for failure in an unbiased manner with consistent judgment. However, it must be noted that the cause of failure report by the manager or owner may vary from that of the small business owner.

The centre's owner or manager were asked to provide the following information: (i) The name of each businesses; (ii) the type of small business; (iii) the date the business commenced; (iv) the date sold/ceased if applicable; (v) where applicable, the primary reason for the closure or change in ownership, being bankruptcy, avoidance of further loses, failure to "make a go of it", retirement or ill health, realisation of a profit, unknown, or other; and (vi) any clarifying or additional comments. Each survey (refer to Appendix A) was undertaken in an interview environment between the manager or owner and the interviewer (the authors).

The data was obtained from four independent shopping centres in three different cities in New Zealand covering the period 1994 to 2002. Only small businesses in shopping centres that took the form of Ang's (1991) small business were included in the data. Furthermore, the small businesses ranged from retail, service, and food businesses. The first centre (Mall A) opened in 1994. The small businesses that commenced in Mall A in 1994 were considered new start-ups. These combined with other start-ups through to 2002 made up 66 start-ups from Mall A. The second shopping centre (Mall B) underwent reconstruction in 1994 and all leases were up for evaluation. All the new and continuing leases from 1994 were considered new start-ups, totalling 74 start-ups from 1994 to 2002. The third centre (Mall C) also had to renew all leases at the end of 1993 and therefore the small businesses continuing were considered new start-ups, making a total of 42 start-ups including new ones throughout the time period. The final centre (Mall D) underwent structural changes, which resulted in the sale of each premise in which the small businesses within the shopping centres operated. Due to this significant change in Mall D, all continuing small businesses operating in 1994 were considered start-ups, totalling 38 start-ups from 1994 to 2002. The final data set consisted of 220 small business start-ups.

There is a unique aspect about the centres used in this study. Mall A and Mall B are "management-dependent" shopping centres in the sense that the small businesses operating within these centres are accountable to the centre's management team. That is, given the leasing agreements formed with each business manager, shop owners were answerable to management. More specifically, each small business has to report their performance to management monthly. In contrast, Mall C and Mall D are "management independent". Mall C was an open plan centre and the premises were leased from a landlord who had no other relations with the small businesses operating within the open plan centre. In 1994 Mall D, under the Unit Titles Act 1972, sold each shop premise to individuals who consequently had no requirements to report to management. Therefore, the small business within Mall C and Mall D take the characteristics of New Zealand small businesses not operating in managed centres, hence not subject to control or monitoring from management.

We are interested to see if failure rates of small businesses operating in managed shopping centres are significantly different to failure rates of small businesses not

operating in managed shopping centres. To facilitate this objective, malls A and B are combined to form the management dependent small businesses and malls C and D are combined to form the management independent small businesses. Tests were carried out to test whether the failure rates captured in the managed centres were significantly different to those captured in the unmanaged centres. From the significance tests a view can be reached as to whether sufficiently similar information on small businesses obtained within managed shopping centres can be used to represent small businesses not in managed shopping centres. If there is no significant difference, the two groups can be further combined to reveal small business failure rates for New Zealand under the various definitions.

Methodology and Results

Data compiled from the surveys of the four malls is summarised in Table 1 by reason for sale or closure. The final data set contained 220 small business start-ups of which 50 percent (111) were sold or liquidated over the period 1994 to 2002.

TABLE 1
Reason for Sale or Closure

Reason for Sale or Closure	NUMBER					PERCENT				
	Mall A	Mall B	Mall C	Mall D	Combined	Mall A	Mall B	Mall C	Mall D	Combined
Bankruptcy	1	3	0	2	6	1.5	4.1	0	5.3	2.7
To prevent further losses	17	7	7	13	44	25.8	9.5	16.7	34.2	20.0
Did not "make a go of it"	11	1	3	12	27	16.7	1.4	7.1	31.6	12.3
Retirement or ill health	0	1	0	0	1	0	1.4	0	0	0.5
To realise a profit	2	1	0	1	4	3	1.4	0	2.6	1.8
Other - not failed	8	5	12	1	26	12.1	6.8	28.6	2.6	11.8
Other - failed	0	0	3	0	3	0	0	7.1	0	1.4
Total sales or closures	39	18	25	29	111	59.1	24.3	59.5	76.3	50.5
Continuing businesses	27	56	17	9	109	40.9	75.7	40.5	23.7	49.5
Total start-ups	66	74	42	38	220	100	100	100	100	100.0

If reasons for sale or closure were unknown to the shopping centre manager (manager in the case of mall A and mall B) or centre owner (in the case of mall C and D) they were included in the category 'did not make a go of it'. The manager or owner felt this was the most likely explanation that captured the sale or closure of those small businesses. "Other – not failed" were those businesses that were considered not to have failed and "Other – failed" were those businesses that were deemed to have failed. The other reasons for sale or closure are self-explanatory. The reasons for sale

or closure of each firm (Table 1) were then grouped under the five definitions of failure discussed earlier: Bankruptcy, to prevent further losses, failed to “make a go of it”, discontinuance of ownership or discontinuance of business, as shown in Table 2.

TABLE 2
Reason for Sale or Closure Grouped by Failure Definition

Reason for Sale or Closure	Definitions of Failure				
	Bankruptcy/ loss to creditors	To prevent further losses	Failed to "make a go of it"	Discont. of ownership	Discont. of business
Bankruptcy	6	6	6	6	6
To prevent further losses		44	44	44	26
Did not "make a go of it"			27	27	5
Retirement or ill health				1	0
To realise a profit				4	0
Other - not failed				26	10
Other - failed			3	3	1
Totals	6	50	80	111	48
% of total sales and closures	5%	45%	72%	100%	43%

Table 2 demonstrates that the definition of failure used affects the reported failure rates. The broader the definition, the higher the likely failure rate; the narrower the definition, the lower the likely failure rate. As discussed earlier, the first four definitions of failure are subsets of each other. However, this does not apply to the last definition, discontinuance of business, because it captures 43 per cent of total sales and closures, whereas discontinuance of ownership captures 100 per cent of sales and closures.

Table 3 presents the average annual failure rates over the period 1994 to 2002 for all malls, using the various definitions of failure presented in Table 2. The failure rate each year for a given definition is calculated as follows:

$$p = x / n$$

Where:

p ? sample proportion of failed businesses;

x ? number of businesses failing in a given period;

n ? number of businesses in the sample, i.e. the sum of the number of continuing businesses, businesses sold or ceased for reasons other than that specified by the given definition, and the businesses that failed during the period.

In Table 3, just like more businesses are considered to have failed when broader definitions of failure are used, there are also more business start-ups. This is because of the treatment of data relating to businesses sold during the sample period. For instance, when a business is sold for any reason and the new owner continues its operations, this change in ownership is considered to be a new start-up under the *discontinuance of ownership* definition of failure. However, it would not be considered a new start-up if failure was defined as *failed to “make a go of it”* unless the discontinuance of ownership was due to the seller not meeting any of their objectives. Furthermore, this same sale could only be considered a new start-up under the *disposed of to prevent further losses* definition if the failure to “make a go of it” was due to financial reasons. Moreover, the change in ownership can only be considered a new start-up under the *bankruptcy* definition of failure if the sale was not only to prevent further losses, but more specifically due to bankruptcy. On the other hand, if discontinuance of business is used to define failure, none of the sales would be considered as indicative of a new business start-up. Hence, there is a considerable difference in both the number of business failures and of business start-ups between the definitions.

The failure rates reported in Table 3 vary considerably from one definition of failure to the next. Defining failure as the *discontinuance of business*, the average failure rate was reported as 4.2 percent. As predicted, the greatest failure rate was obtained using the most general *discontinuance of ownership* definition with an average failure rate of 9.6 percent per year. Narrowing the definition to those that had *failed to “make a go of it”* resulted in a decrease in the annual failure rate to an average of 7.0 percent. Considering only those business that had ceased or been sold *to prevent further losses* saw the rate drop further to 4.4 percent, with a mere 0.5 percent on average per annum for those that were sold or ceased due to *bankruptcy*.

TABLE 3

Combined Sample: Average Annual Failure Rates by Definition for the period 1994-2002 (%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	Totals
Bankruptcy/loss to creditors										
New Start-ups	121	6	13	9	11	6	8	10	5	189
Failed	0	0	0	0	0	2	1	2	1	6
Ceased - Not Failed	5	7	9	4	8	9	17	7	6	72
Continuing	116	115	119	122	125	120	110	111	109	1047
Percent Failed	0.0	0.0	0.0	0.0	0.0	1.5	0.8	1.7	0.9	0.5
Disposed of to prevent further losses										
New Start-ups	121	5	13	9	12	7	11	15	6	199
Failed	3	1	5	3	8	7	10	11	2	50
Ceased - Not Failed	2	5	4	3	1	5	11	3	6	40
Continuing	116	115	119	122	125	120	110	111	109	1047
Percent Failed	2.5	0.8	3.9	2.3	6.0	5.3	7.6	8.8	1.7	4.4
Failure to "make a go of it"										
New Start-ups	121	5	17	11	13	9	14	14	5	209
Failed	5	6	11	7	10	12	13	15	1	80
Ceased - Not Failed	0	0	2	1	0	1	11	1	4	20
Continuing	116	115	119	122	125	120	110	111	109	1047
Percent Failed	4.1	5.0	8.3	5.4	7.4	9.0	9.7	11.8	0.9	7.0
Discontinuance of ownership										
New Start-ups	121	6	15	11	15	10	14	22	6	220
Failed	5	7	11	8	12	15	24	21	8	111
Continuing	116	115	119	122	125	120	110	111	109	1047
Percent Failed	4.1	5.7	8.5	6.2	8.8	11.1	17.9	15.9	6.8	9.6
Discontinuance of business										
New Start-ups	121	6	13	10	13	6	8	14	5	196
Failed	5	2	8	4	6	5	8	8	2	48
Ceased - Not Failed	0	5	3	2	4	8	13	5	5	45
Continuing	116	115	119	122	125	120	110	111	109	1047
Percent Failed	4.1	1.6	6.2	3.1	4.4	3.8	6.1	6.5	1.7	4.2

Before interpreting the failure rates and their significance for New Zealand, it is important to distinguish whether there is a difference in the reported failure rates within managed centres and unmanaged centres. If no significant difference is discernable, then the small businesses operating in managed centres can represent

New Zealand small businesses not operating in managed centres. Hence the combined data in Table 3 is justified and can be used to represent other small businesses. To carryout the significance test, management dependent small business failure rates are compared to management independent small business failures to determine whether W&E's suggestion - that the process of tenant selection and the constant monitoring of tenants with advice being offered where necessary would result in managed shopping centres having lower failure rates. The question is whether less guidance and supervision would result in higher failure rates for the small businesses. More specifically, management dependent failure rates (mall A + mall B) are tested using the two tailed t-test at a 5 percent significance level to see if they are significantly different to management independent failure rates (mall C + mall D), shown in Table 4, (refer to appendix B for the methodology of the management dependent and management independent means).

TABLE 4
Results of the Analysis of Failure Rates within Management Independent and Dependent Centres

Definition of failure	Mean		t-value	5% level of sign.
	Management Dependent (Mall A, Mall B)	Management Independent (Mall C, Mall D)		
Bankruptcy/loss to creditors	0.5	0.6	0.06	1.96
Disposed to prevent further losses	3.4	6.9	0.74	1.96
Failed to "make a go of it"	4.8	12.5	1.24	1.96
Discontinuance of ownership	6.8	16.7	1.74	1.96
Discontinuance of business	2.7	8.0	1.41	1.96

All the t-values fall within the significance level in the two-tailed test. This means that H_0 which suggest no difference between the two types of centres is accepted under all definitions of failure. Further individual tests were carried out testing mall A with mall C and then mall D. There was still no significant difference between the failure rates captured in the centres. Furthermore, the failure rates of mall B revealed no significant difference to those failure rates captured in mall C and mall D. The suggestion that small business failures in managed shopping centres are lower compared with non-managed centres lacks statistical significance. Moreover, failure

rates in managed centres are similar to those in unmanaged centres. Another inference that this result shows to be false is that ‘incubating’ small businesses minimises risk of business failure.

With the absence of statistical significance between management dependent and management independent centres, failure rates within the four shopping centres can now be analysed together to reveal New Zealand shopping centre based small business failure rates as shown in Table 3. Table 5 shows a summary of the mean failure rates (from Table 3) of all four centres combined. Also determined are the 95 percent confidence intervals surrounding each of the failure definitions. The confidence interval shows that if one takes repeated random samples from the population and constructs the 95 percent confidence interval for each of the sample means, 95 percent of these confidence intervals will contain the true unknown population mean.

TABLE 5
95% Confidence Intervals around per annum Failure Rates and W&E (1996) Failure Rates

	Mean	95 Percent Confidence Interval	W&E's mean
Bankruptcy/loss to creditors	0.5	0.1 - 0.9	0.7
Disposed to prevent further losses	4.4	3.2 - 5.6	2.3
Failed to "make a go of it"	7	5.5 - 8.5	4.1
Discontinuance of ownership	9.6	7.9 - 11.3	9.4
Discontinuance of business	4.3	3.1 - 5.5	3.9

From this table we can see that:

- ? Over the period 1994-2002, *bankruptcy or loss to creditors* averaged a 0.5 percent failure rate per annum. It is interesting to note that similar failure rates are observed when *bankruptcy or loss to creditors* averaged failure rate per annum, 0.5 percent, are compared to W&E’s *bankruptcy or loss to creditors* averaged failure rate per annum, 0.7 percent. This paper will not attempt to analyse whether failure rates differ between countries. However, it is a possible area for future research.

- ? If *disposed to prevent further losses* is used to define failure, the average failure rate is 4.4 percent per annum. *Disposed to prevent further losses* is subsequently higher than *bankruptcy* as it incorporates failure by bankruptcy.
- ? Under the definition *failed to “make a go of it”* the average failure rate is 7.0 percent per annum.
- ? The average failure rate for *discontinuance of ownership* is 9.6 percent per annum. This is the highest failure rate observed because it not only incorporates the previous three failure measures but also includes all businesses sold or ceasing to operate. Note too that *discontinuance of ownership* captures all the reasons for sale or closure in both clusters of data making this similarity more salient.
- ? Finally, the average failure rate for *discontinuance of business* is 4.6 percent per annum.

Comparison to New Zealand reported failure rates

The New Zealand Ministry of Economic Development (2001) reported New Zealand failure rates from small enterprises from the period 1995 to 1999. Of all the small businesses that started up in 1995, the Ministry of Economic Development reported 29 percent failed. Comparing this to our small business start-ups in 1994, (not comparable in years, but in start-up failures) no definition demonstrated such high failure rates, with our highest failure rate reported under the widest failure definition; *discontinuance of ownership* at 4.1 percent. Ministry of Economic Development reported 44 percent failed into the year 1997. Comparing this to our reported failures, under the broadest definition, and only 18.3 percent failed to the year 1996 (combining 1994’s failure rates with 1995’s and 1996’s). Furthermore, Ministry of Economic Development reported 60 percent failed from 1995 to 1999. Again comparing this to our failure rates from 1994 to 1998, under the widest definition, and only 33.3 percent are reported to have failed.

The reported failure rates in this study are significantly lower than those reported by the New Zealand Ministry of Economic Development. This is a vital comparison as the failure rates used by the Ministry of Economic Development influence future policy decisions made by the Government, financial institutions and other groups with

an interest in small businesses. Furthermore, the Ministry of Economic Development suggests that its failure statistics are generally perceived to under-report failure.

Conclusions

The approach taken in this study resembles that taken by W&E (1996). W&E's study attempted to clarify the misconceptions concerning small business failure in that small business failure rates are overstated. The average failure rates reported by W&E were lower than those of previous studies. However, W&E suggested the process of tenant selection and the constant monitoring of tenants with advice being offered when necessary could credibly explain the lower failure rates.

The data presented here included shopping centres that were management dependent in which the small businesses operating within the centres were subject to tenant selection, monitoring and constant advice. In contrast, the other shopping centres in this study were management independent in that the small businesses operating within the centres were not exposed to monitoring and tenant selection and were not accountable to management. The failure rates captured within these centres were not statistically different from one another. The absence of statistical significance between failure rates within managed centres and failure rates within unmanaged centres is interesting. First, it may show that W&E's results do not apply for New Zealand. Yet, we also find relatively low failure rates and therefore agree with W&E that, for shopping centres at least, failure rates are indeed lower than both common perception and government reported rates.

The managed shopping centre effect demonstrated in this study is that the failure rates of small businesses operating within a managed centre are similar to those businesses not in a managed environment. Therefore, one can question the argument that 'incubating' small enterprises minimises risk of business failure. On a more positive note, the failure rates in this study captured from shopping centres in New Zealand were significantly lower than those of the Ministry of Economic Development. This could imply that the risk of small business failure is less than that has been previously perceived, at least in shopping centres.

The problem of the availability of reliable data on small businesses, even more difficult in the case of failure rates, could now be addressed in the case of small businesses operating in shopping centres in general: managed and unmanaged. We conclude that monitoring, control and tenant selection of small businesses operating in managed shopping centres do not significantly reduce failure rates in New Zealand. It is conceivable retail small business failure rates could be extrapolated from the managed shopping centre data. Further research would be needed to establish 'High Street' failure rates to confirm this suggestion.

The reporting of high small business failure rates may have come from the nature of the data, the forced failure definition utilised and simply the lack of reliable data available. The results reported in this study, which addresses these issues, shows significantly lower failure rates than the figures published by the New Zealand Ministry of Economic Development, (2001). Since policy and, to some extent, entrepreneurial activity is driven by its perceived riskiness, including the risk of failure, it is helpful to understand more detail in the reported failure rate statistics. This study suggests that small business failure rates could be modelled and reported on a sector by sector basis, which would provide a more accurate assessment of failure rates as well as a deeper understanding that 'discontinuance' is not necessarily 'failure' and not, therefore, to be confused with a risk measure.

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Appendix A: Data Collection Instrument

Title:
Uni vert.eps
Creator:
FreeHand 7.0
Preview:
This EPS picture was not
with a preview included in
Comment:
This EPS picture will print
PostScript printer, but not
other types of printers.

SMALL RETAIL BUSINESS SURVEY

For each small business operating within your managed shopping centre, PAST AND PRESENT, could you please complete the following:

1. Shop number: _____.
 2. Type of business (e.g. clothing retailer, music store, café): _____
_____.
 3. Date commenced: _____
 4. Date sold or ceased (if applicable): _____
 5. If this business has been sold or ceased, what was the PRIMARY REASON for the closure or change in ownership? *Select from the following:*
 - ? Bankruptcy
 - ? Avoidance of further losses
 - ? Failure to “make a go of it” (i.e. did not satisfy some of the owners’ objectives)
 - ? Retirement or ill health
 - ? Realisation of a profit
 - ? Unknown
 - ? Other (please specify below)
 6. Any extra or clarifying comments: _____
-

Appendix A

Mall A & Mall B Sample: Average Annual Failure Rates by Definition for the period 1994-2002 (%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	Totals
Bankruptcy/loss to creditors										
New Start-ups	85	0	8	4	5	3	4	4	2	115
Failed	0	0	0	0	0	2	1	0	1	4
Ceased - Not Failed	0	0	4	2	5	4	8	4	1	28
Continuing	85	85	89	91	91	88	83	83	83	778
Percent Failed	0.0	0.0	0.0	0.0	0.0	2.1	1.1	0.0	1.2	0.5
Disposed of to prevent further losses										
New Start-ups	85	0	8	5	5	3	6	8	3	123
Failed	0	0	4	2	5	4	6	5	2	28
Ceased - Not Failed	0	0	0	1	0	2	5	3	1	12
Continuing	85	85	89	91	91	88	83	83	83	778
Percent Failed	0.0	0.0	4.3	2.1	5.2	4.3	6.4	5.5	2.3	3.4
Failed to "make a go of it"										
New Start-ups	85	0	11	6	6	5	8	8	2	131
Failed	0	0	7	4	6	7	8	7	1	40
Ceased - Not Failed	0	0	0	0	0	1	5	1	1	8
Continuing	85	85	89	91	91	88	83	83	83	778
Percent Failed	0.0	0.0	7.3	4.2	6.2	7.3	8.3	7.7	1.2	4.8
Discontinuance of ownership										
New Start-ups	85	0	11	6	7	6	8	12	5	140
Failed	0	0	7	4	7	9	13	12	5	57
Continuing	85	85	89	91	91	88	83	83	83	778
Percent Failed	0.0	0.0	7.3	4.2	7.1	9.3	13.5	12.6	5.7	6.8
Discontinuance of business										
New Start-ups	85	0	8	4	5	3	4	8	2	119
Failed	0	0	4	2	4	2	4	5	1	22
Ceased - Not Failed	0	0	0	0	1	4	5	3	1	14
Continuing	85	85	89	91	91	88	83	83	83	778
Percent Failed	0.0	0.0	4.3	2.2	4.2	2.1	4.3	5.5	1.2	2.7

Mall C & Mall D Sample: Average Annual Failure Rates by Definition for the period 1994-2002 (%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	Totals
Bankruptcy/loss to creditors										
New Start-ups	36	6	5	5	6	3	4	6	3	74
Failed	0	0	0	0	0	0	0	2	0	2
Ceased - Not Failed	5	7	5	2	3	5	9	3	5	44
Continuing	31	30	30	31	34	32	27	28	26	269
Percent Failed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.1	0.0	0.6
Disposed of to prevent further losses										
New Start-ups	36	5	5	4	7	4	5	7	3	76
Failed	3	1	1	1	3	3	4	6	0	22
Ceased - Not Failed	2	5	4	2	1	3	6	0	5	28
Continuing	31	30	30	31	34	32	27	28	26	269
Percent Failed	8.3	2.8	2.9	2.9	7.9	7.9	10.8	17.6	0.0	6.9
Failed to "make a go of it"										
New Start-ups	36	5	6	5	7	4	6	6	3	78
Failed	5	6	4	3	4	5	5	8	0	40
Ceased - Not Failed	0	0	2	1	0	0	6	0	3	12
Continuing	31	30	30	31	34	32	27	28	26	269
Percent Failed	13.9	16.7	11.1	8.6	10.5	13.5	13.2	22.2	0.0	12.5
Discontinuance of ownership										
New Start-ups	36	6	4	5	8	4	6	10	1	80
Failed	5	7	4	4	5	6	11	9	3	54
Continuing	31	30	30	31	34	32	27	28	26	269
Percent Failed	13.9	18.9	11.8	11.4	12.8	15.8	28.9	24.3	10.3	16.7
Discontinuance of business										
New Start-ups	36	6	5	6	8	3	4	6	3	77
Failed	5	2	4	2	2	3	4	3	1	26
Ceased - Not Failed	0	5	3	2	3	4	8	2	4	31
Continuing	31	30	30	31	34	32	27	28	26	269
Percent Failed	13.9	5.4	10.8	5.7	5.1	7.7	10.3	9.1	3.2	8.0