HOW ENTREPRENEURS VIEW AND USE PROPERTY: AN SME PERSPECTIVE

Sussie Morrish: University Of Canterbury, Christchurch, New Zealand
Deborah Levy: University Of Auckland, Auckland, New Zealand

Contact: Sussie Morrish, University of Canterbury, Department of Management, University of Canterbury, Private Bag 4800, 8140 Christchurch, New Zealand, (T) +64 3 3642987 ext. 3547,, (F) +64 3 3642020, Email: sussie.morrish@canterbury.ac.nz

ABSTRACT

Small to medium enterprise entrepreneurs are often resource-constrained and have to rely on personal resources to support business operations. Property is one of the major decisions that these entrepreneurs have to make. In this study we investigate how entrepreneurs view and strategically use property. We do so by conducting a two-part study involving a survey of 194 entrepreneurs and followed by in-depth interviews. We find that entrepreneurs use property strategically for business, financial and personal reasons throughout the life cycle of their business operations. This has managerial and policy implications for SMEs and advances our understanding of the interface between entrepreneurship and property.

BACKGROUND

Academic property research has tended to concentrate on the optimal allocation of real estate in institutional portfolios, with little attention given to property allocations within mixed business portfolios of small to medium enterprises (SMEs). Even more largely ignored in both property and entrepreneurship studies are the role of property and their strategic use in smaller business operations. This paper explores how SME entrepreneurs view and use property.

Property is one of, if not the most valuable asset in many business operations. This is even more important in SME settings as they are often leveraged to access finance for business growth and other marketing functions. While big corporations are conspicuous in their ownership and management of commercial properties, SMEs are less visible. This study bridges the gap in this area of study and addresses the scarcity of literature at the interface between property and SME research and their marketing implications. Findings from the study allows us to better understand how property contributes to the success or otherwise of SME operations.

RELEVANT ENTREPRENEURSHIP AND PROPERTY LITERATURE

SMEs are regarded as the engine of many economies but generally constrained by the scarcity of resources. Thus, it is generally known that entrepreneurs operating within the SME sector often rely on personal resources to support their business operations. In this setting, property (i.e. bricks and mortar) remains a valuable currency that could potentially assist SMEs in ensuring the growth, development and in extreme cases, the survival of their business. This study is designed to investigate the strategic role that property ownership plays in a portfolio of SMEs. In New Zealand, there are currently close to 350,000 SMEs compared to 1,600 enterprises employing 100 FTEs or more. The most recent Statistics New Zealand report shows that approximately 90% of enterprises employ 5 or fewer people and, SMEs account for approximately 60% of all new net jobs in the economy.

735
SMEs often start operations from the family home (i.e. the kitchen table or garage) until the business grows or established enough to be moved to an independent location. Nevertheless, businesses need premises and the decision as to location, ownership and expansion will often depend on the circumstances surrounding the business and the entrepreneur’s pre-disposition to property. A study by Morrish, Levy and Dong (2009) found that portfolio entrepreneurs use property strategically in business decision making. These decisions relate to finance, building space and other business related issues. They found evidence that portfolio entrepreneurs incorporate both business and personal wealth strategies in their approach to property ownership.

Entrepreneurship is a dynamic and changing field of research (Sarasvathy, 2001; 2004) that has attracted researchers from various academic disciplines in recent times. Shane and Venkataraman (2000) argue that it is “an important and relevant field of study” and that the contribution of scholars from different disciplines and the use of different methodologies would help to create a “systematic body of information about entrepreneurship”. This study is an attempt to add to this knowledge by examining how entrepreneurs perceive the role of property within a portfolio of SMEs.

Rosa and Scott (1999) reported that habitual entrepreneurs create and develop business groups for the following reasons: diversification into a new market, planned forced diversification into new markets to spread risk or to overcome potential adversity, unplanned (opportunistic) diversification into new markets, business creation as a challenge or a hobby, ownership of additional businesses to protect a new area or brand name, ring fence a geographical area, ring fence risk, add value to existing ventures owned by the entrepreneur, assist a friend or relative, launder money, profits or family assets, tax avoidance, cost cutting and enhance internal efficiencies. A number of these reasons have been highlighted in the property literature relating to the optimal allocation of real estate in institutional investment portfolios and a brief summary of this literature as it relates to the proposed study is set out below.

A number of studies have been undertaken in the extant property finance and investment literature relating to the optimal allocation of real estate in institutional investment portfolios. A review of these research findings highlights the importance of property in a number of ways: as a tangible asset which serves as collateral for loan purposes (e.g. Bradley, Jarrell and Kim, 1984; Titman and Wessel, 1988; Rajan and Zingales, 1995); to assist in the diversification of a mixed-asset portfolio (e.g. Hartzell, Hekman and Miles, 1986; Webb, Curcio and Rubens, 1988; Kallberg, Liu and Greig, 1996), to assist in the optimal allocation of an institutional portfolio consisting of property, stocks and bonds (Webb, Curico and Rubens, 1988; Kallberg, Liu, Greig, 1996); as a hedge against inflation (Hartzell, Hekman and Miles, 1986); as a production resource (Singer, Bossink and Putte, 2007; Heywood and Kenley, 2008) and as a strategy for enhancing competitiveness (Wills, 2008)

These studies highlight the benefits and the role of property within a large investment portfolio or corporation. Although the findings of this research may help to explain the role of property in the context of SME investment, few academic studies have investigated this directly. As outlined elsewhere, there is a dearth of literature specifically investigating the role that property plays within business portfolios. Morrish, Levy and Dong (2009) utilised data from interviews previously undertaken by Morrish (2008) as part of a larger research study which investigated how and why entrepreneurs become portfolio owners and how they structure, develop and manage the many challenges of having a portfolio of ventures and the different outcomes, not only at the venture level but also for the entrepreneurs themselves.

It was evident from their secondary analysis that property plays a significant role in a portfolio entrepreneur’s group of businesses. They found three primary motivations as to why portfolio entrepreneurs invest in property assets. These categories include in the main: finance and investment, business-related and personal purposes. Details of these are set out in the Table 1.

In addition to this, a relationship was also identified at three specific stages of the lifecycle of the portfolio as set out in Table 2. Property decisions vary as the business moves through the different stages of the business.
Table 1. Role of property in an entrepreneur’s business portfolio

<table>
<thead>
<tr>
<th>Finance and investment purposes</th>
<th>Business related purposes</th>
<th>Personal reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raising capital</td>
<td>Real estate asset to run the business from</td>
<td>Assist family member to enter a business</td>
</tr>
<tr>
<td>Accumulating profit</td>
<td>As a core business</td>
<td>Acquiring the family home (family assets)</td>
</tr>
<tr>
<td>Diversification and risk reduction</td>
<td>Exit strategy</td>
<td>Keep property assets for retirement income</td>
</tr>
<tr>
<td>Taxation reasons</td>
<td>Providing space for other business activities</td>
<td></td>
</tr>
<tr>
<td>Income production</td>
<td>Entry into business</td>
<td></td>
</tr>
</tbody>
</table>

Table 2. Role of property in the mixed portfolio life cycle

<table>
<thead>
<tr>
<th>Entry strategy</th>
<th>Mid strategy</th>
<th>Exit strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wealth creation</td>
<td>Complementary to core business</td>
<td>Retirement income</td>
</tr>
<tr>
<td>Collateral for loan purposes</td>
<td></td>
<td>Family inheritance</td>
</tr>
</tbody>
</table>

This study, although important in highlighting the strategic importance of property to portfolio entrepreneurs was based on interviews designed to collect information on a broad range of topics. The respondents were also limited to a small area of the south island of New Zealand. The present study builds on these findings by extending the methodology designed specifically for this purpose and to widen the sample of interviewees.

THE STUDY

The main aim of the research is to capture the views and perceptions of owners/founders of SMEs of the strategic role of property within their portfolio. The study employs a qualitative approach (by way of multiple case studies) to best explain the phenomenon being studied (Gartner and Birley, 2002). This is a two-part study consisting of a survey of 194 New Zealand SME entrepreneurs followed by in-depth semi-structured interviews with targeted entrepreneurs from the north and south island of New Zealand.

We find that approximately 50% (n=89) of respondents owned property related to their business, of these, 65% said property ownership has had an impact on business decision making and of those that owned business-related properties, approximately 90% said property had been a sound strategic business decision. Property has also been strategically used across the different life cycle stages of the venture. For example, at the pre-venture stage, property was used as a long-term investment, as a core component of a business and for income production. At the operational life of the business, property is used for business accommodation purposes, long-term investment and to accumulate profit. At the post venture stage, property was used for long-term investment, retirement income and to accumulate profit. Overall, property was significantly used for long term investment; business accommodation purposes; to accumulate profit; and for retirement income.
Interviews with entrepreneurs show that reasons for property purchase and development varied across the different stages of business operations. Our findings suggest that ownership of property is not only impacted by business strategy but also additional external factors, lifestyle and personal considerations together with specific property investment criteria. We classify the different factors affecting property decisions into a) personal/family issues e.g. retirement and succession) b) financial considerations (e.g. initial finance, investment and bank policy) and c) business operations (e.g. accommodate business, support growth and survival). We find evidence that entrepreneurs strategically use property throughout the different stages of their business operations. We propose a model (Fig 1.) based on the initial findings of the study that capture three major factors affecting property decisions: personal and family issues, business operations and financial considerations.

CONCLUSION AND IMPLICATIONS

This study advances theoretical understanding of the interface between SME operations/processes and strategic property management and development, enhancing our understanding of the value property brings to business. Understanding the dynamics that exist within this context has further practical implications for theory and practice. The study involved in-depth interviews with a number of entrepreneurs. By doing so, we collected information directly from the person responsible for making property related decisions and gain in-depth insights into their motivations. Triangulation method has allowed insights into the behaviour of SME entrepreneurs with regards to the role of their property assets. Additionally, applying a combination of finance literature and research studies relating to entrepreneurial behaviour adds to our understanding of the strategic value of property in entrepreneurial SME ventures.

The study also highlights the importance of understanding the life cycle effects of property investment as well as the importance of understanding the influence of personal requirements in business decisions. In addition the results of this study provide practitioners with a deeper insight into the way SMEs view, acquire, manage and dispose of property and have implications for setting up a property fund for SMEs, banking and fiscal policy, property funds and property development in relation to SME operations.
REFERENCES


