

Ratio Working Paper No. 214

## **Small business exit: Review of past research, theoretical considerations and suggestions for future research**

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**Forthcoming as:**

**DeTienne, D. & Wennberg, K. (2014). Small business exit: Review of past research, theoretical considerations and suggestions for future research. In S. Newbert (Ed). *Small businesses in a global economy: Creating and managing successful organizations*, Westport, CT: Praeger.**

Keywords: Entrepreneurship, Exit

JEL CODES: M13, L26

*"The end of life can't be just wealth"*  
*-Aristotle*

Although entrepreneurial exit has been recently defined as “the process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degree, from the primary ownership and decision-making structure of the firm,”<sup>i</sup> exit research has a broader foundation. Exit varies on a least two dimensions – small firm exit and small business owner exit. Thus, the current research has examined scenarios wherein both firms and small business owners exit the market. These exits may be the result of both poor and strong performance.<sup>ii</sup> That is, poorly performing firms might exit the market through bankruptcy or liquidation due to financial reasons.<sup>iii iv</sup> Strong performing firms might be acquired and subsumed into an existing organization or broken apart for their assets (e.g. intellectual property). In each of these cases the small business owner also exits entrepreneurial activity (at least with the object firm).

Alternately, the small business owner may exit the firm while the firm remains an on-going entity – most often through founder succession<sup>vvi</sup> or harvest.<sup>vii viii</sup> Founder succession may be planned (e.g. family succession)<sup>ix</sup> or it may be forced (as could happen through loss of control from equity funding).<sup>x</sup> Harvesting refers to the process of cashing in an investment (in this case the investment of the entrepreneur’s time, money, and energy) and realizing the full value of that investment.<sup>xi</sup> This type of exit is most often deliberate on the part of the founder and can be attributed to planned exit strategies, retirement, a desire to pursue different interests, or a better or different use of resources.

Finally, some researchers argue that a small business owner may make the decision to close one firm and open another (entrepreneurial recycling)<sup>xii</sup> or close one and focus upon

another in their portfolio of firms.<sup>xiii</sup> That is, the firm may exit the market, but the small business owner remains involved in entrepreneurial activity. Therefore, researchers examining small business exit may examine several different levels of analysis – the firm, the founder (individual), or a combination of both.

In addition, the exit of entrepreneurs and firms may impact other actors and institutions including competitors, industries, regions, and economies.<sup>xiv</sup> In small business, this might include family members, friends, the community, and the balance of competition. For example, Mason and Harrison<sup>xv</sup> found that exit triggers a process of entrepreneurial recycling wherein cashed-out entrepreneurs use their new wealth to engage in the creation of other new ventures, equity funding for other local ventures, and philanthropy. Using individual level data for 24 countries, Hessel et al.<sup>xvi</sup> show that exit substantially increases the probability of being involved in new entrepreneurial activity. Thus, while researchers investigate a single level of analysis, the impact of exit has the potential to impact several levels. In this next section we turn to the different theoretical perspectives employed by exit scholars.

### **Theoretical perspectives on exit**

Exit can be researched through different theoretical perspectives, such as those posited in economics, sociology, organization studies, or more generally in entrepreneurship research. To some extent, research in these perspectives builds upon each other. Therefore, an important reason for distinguishing among these perspectives is that each adopts different assumptions on, for example, economic and/or social embeddedness, individual agency and rationality, and level of analysis. For example, studies from a macro sociological perspective have long touched upon different routes of exit, but tend to equate exit with low organizational performance. Conversely, studies in organization and strategic management have investigated the role of financial performance in the exit of new firms, but seldom

address exit as a potentially volitional decision of small business owners.<sup>xvii</sup> These assumptions have to be taken into account when trying to understand and reconcile the empirical evidence accumulated on small business exit.

Different strands of the literature have tended to focus on one assumption over another; thus, theories focusing solely on a single level of analysis have less explanatory power for the exit phenomenon. Wennberg<sup>xviii</sup> argued that three theoretical areas are relevant for the study of the entrepreneurial and small business exit: economic career choice theory, strategy and organizational studies, and entrepreneurship research. Table 1 briefly summarizes these key theoretical perspectives on exit. We examine each of these in the paragraphs which follow.

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INSERT TABLE 1 HERE  
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Economic career choice theory and small business exit

A large body of research from labor and micro economics has addressed the choice of entry into, and exit from, entrepreneurship. A characteristic of this research is a focus on the individuals' occupational choices – specifically the conditions under which they choose to sell their labor on the job market as waged employees or employ themselves by starting a business. Since it is assumed that labor can be employed elsewhere, exit from entrepreneurship is most often considered a voluntary decision and not necessarily a sign of failure of the business or of the individual as entrepreneur small business owner. This is mirrored by the use of the terms 'entry' and 'exit' – as opposed to 'success' and 'failure'. Compared with entry, there are fewer studies that deal explicitly with exit. One reason might be that most economic studies of entrepreneurial choice (entry and exit) are based on the logic that individuals make choices that maximize their life-time incomes; thus, determinants of

exit become less of an issue since the logic implies that people will switch in and out of entrepreneurship if future income streams change.

One example is the self-employment choice model presented by Evans and Jovanovic.<sup>xix</sup> This is an influential article which examines small business choices under liquidity (capital) constraints. They find that small business owners are limited to capital that is about one and one-half times their wealth; thus, not all individuals who desire to become a business owner can because they are constrained as to start-up capital. The wealthier are more inclined to become entrepreneurs and have more opportunities to enter into and exit entrepreneurship. A large body of work has discussed the Evans and Jovanovic model in light of other empirical material and replicated the findings, including articles where wealth is replaced with inheritance<sup>xx xxii</sup> or lottery windfalls.<sup>xxii</sup> Other researchers argue that capital availability is, by and large, a function of an individual's human capital, and that the whole question of liquidity constraints is therefore little more than a question of omitted variables.<sup>xxiii xxiv</sup>

Van Praag<sup>xxv</sup> distinguishes between compulsory and voluntary exits and tests her model on the NLSY data used by Evans and Jovanovic. Her results show different predictors of voluntary and compulsory exits such that individuals who started their ventures while employed were less likely to exit voluntarily and those who started their ventures while unemployed were more likely to compulsory exit. In other work related to unemployment and career choice researchers found that while unemployment might lead to self-employment, the failure rates are higher than those who enter during periods of employment<sup>xxvi</sup>. In addition receiving unemployment benefits reduces the likelihood of entering into self-employment.<sup>xxvii</sup> Gianetti and Simonov<sup>xxviii</sup> investigated 61,151 Swedes who engaged in any type of self-employment activity between 1990 and 1995 and found that economic performance, the individual's age, and local economic conditions were the major determinants of exit from

entrepreneurship. To summarize, career choice economics indicates that individuals have several opportunities wherein to employ their labor and entrepreneurship is simply one alternative among many occupations; however, as noted above research has shown that career choice economics has identified some constraints to the logic (e.g. wealth, employment, age). Because individuals will make choices that maximize their life-time incomes, they may enter and exit entrepreneurship if future income potential changes. See Table 2 below which provides additional evidence and more in-depth discussion of economic career choice, organization theory and strategy, and entrepreneurship studies.

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INSERT TABLE 2 HERE  
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Organizational theory, strategy, and small business exit

Most research from this perspective has tended to focus on why some organizations survive while others are disbanded. To a significant extent, organizational theory overlaps with the more macro-oriented organizational ecology stream of research, an area where exit by entrepreneurs and established firms is of key concern. Although this literature has primarily focused upon the firm as the unit of analysis, in several studies the individual emerges as important as well. Several researchers<sup>xxxix xxx xxxi</sup> have explained how the pertinent question for organizational theorists – why some organizations survive while others die – can be examined through the decisions and strategic initiatives of key individuals within or outside the organization.<sup>xxxii</sup>

At the firm level, low exit rates have been positively associated with larger initial capital investment,<sup>xxxiii</sup> more employees,<sup>xxxiv</sup> greater innovativeness,<sup>xxxv</sup> and the presence of growth strategies.<sup>xxxvi xxxvii</sup> Strong and geographically-close competitors<sup>xxxviii</sup> and low switching costs<sup>xxxix</sup> are negatively related to low exit rates. For example, Cefis and Marsili<sup>xl</sup>

demonstrate that an innovation premium exists; that is, firm survival is lowest among small, young, non-innovative firms. Among innovative firms survival of small and young firms is comparable to other size and age classes and always higher than for non-innovators. There is also ample evidence from the organization theory literature on small business exit that new firm exit rates first raise and then decline, indicating a liability of adolescence. Liability of adolescence was a term coined by Bruderl and Schussler<sup>xli</sup> to explain their findings that new firms survive initially because of their initial stock of resources which they can draw upon. They argue (in contradiction to Stinchcombe who favored a liability of newness), that rather than declining monotonically with age, new firms survive initially and failure rates climb during adolescence.

In addition, Mitchell<sup>xlii</sup> investigated 141 new firms and 274 diversifying entrants in seven U.S. medical product markets. Despite the preconception that new firms are more likely to failure, Mitchell found that *ceteris paribus* new firms were no more likely than diversifying entrants to exit, but that they were less likely to sell their firm. Mitchell's findings that entrepreneurs are less likely to sell their firm are interesting in that they suggest that entrepreneurs are attached to their ventures in excess of the economic value that can be earned from divesting them. Cardon et al.<sup>xliii</sup> also notes that entrepreneurs often refer to the venture as their "baby". Conversely, it is possible that less profitable firms can subsist for many years, or as in van Witteloostuijn's<sup>xliiv</sup> model of organizational decline, "inefficient firms might outlast efficient rivals". Under-performing, highly persistent firms have been referred to as chronic failures,<sup>xlv</sup> the living dead,<sup>xlvi</sup> failure-avoidance organizations,<sup>xlvii</sup> and permanently failing organizations.<sup>xlviii</sup> DeTienne et al.<sup>xlix</sup> (2008) notes that reasons for the existence of under-performing highly persistent firms include how munificent the environment is, the organization's previous track record of success, the firm's collective efficacy, and the founders' personal investment and other options available to them.



Thus, we note that organization theory and strategy theories provide insights into small business exit. However, the work by the scholars noted just above indicates that organization theory and strategy alone do not provide a complete model of exit. We now turn to the current entrepreneurship literature and explore how entrepreneurship – the examination of the intersection of individuals and opportunities<sup>1</sup> – provides a different perspective on small business exit.

#### Entrepreneurship theories and small business exit

A key feature of entrepreneurship theory is that entrepreneurship occurs at the intersection of individuals and opportunities, in that entrepreneurship is generally conceptualized as individuals pursuing entrepreneurial opportunities to create new ventures.<sup>li</sup> Several researchers have explicitly mentioned that for new ventures, the firm can be considered ‘an extension’ of the small business owners.<sup>lii liii</sup> Yet, a problem in entrepreneurship research has been the lack of distinction between failure and exit, i.e., the difference between attempting to keep a business open but failing to do so, and the deliberate closure or successful sale of a business.<sup>liv</sup> Furthermore, as noted above, exit operates on several levels of analysis: for example the small business owner may exit (e.g., by selling and leaving the business) while the firm persists, signifying exit at the individual but not the firm level; or the small business owner may close the business but continue being a small business owner by starting a new business, i.e., through serial entrepreneurship.<sup>lv</sup>

The recent entrepreneurship literature shows development toward theory-driven models. For example, Shepherd et al.<sup>lvi</sup> present a micro-level theoretical model that distinguishes between ‘natural’ (evolutionary) and ‘manageable’ (strategic) mortality patterns of new firms. According to the model, survival is dependent on the firm’s novelty vis-à-vis the market, its product, and its management. Mortality risk decreases as the venture’s novelty

in each of the three dimensions is eroded by information search and dissemination processes, or risk reduction strategies taken by small business owners.

Another theory-driven approach to new firm survival was Cooper et al.'s<sup>lvii</sup> study of 2,994 firms belonging to the National Foundation of Independent Businesses. Cooper and colleagues built a theoretical framework through the examination of human and financial capital perspectives. Their work examined how initial human and financial capital impacts three different outcomes: failure, marginal survival, and high growth. General human capital did not differentiate between the outcomes except for women were less likely than men to be involved with a high growth venture. Number of founding partners contributed to growth (but not survival) and having parents who owned a business contributed to survival (but not growth). Amount of initial financial capital contributed to both growth and survival. The predictions of Cooper and colleagues were later replicated by Dahlqvist et al.<sup>lviii</sup> on a representative sample of 7,256 new Swedish firms. Their results confirm the importance of general human capital, management know-how and industry affects on the probability of continuation among new ventures, as well as the importance of financial and general human capability on the economic performance of new firms.

Headd<sup>lix</sup> investigated perceptual measures of success among 12,185 firms in the 1996 Characteristics of Business Owners Survey, a representative sample of all U.S. firms started between 1989 and 1992. He found that after four years in business, half of all businesses had exited, however one-third of all exiting entrepreneurs considered their firm to be 'successful'. Headd also found that factors characterizing exiting firms such as lack of initial resources, started by a young entrepreneur, etc., did not differ between what the entrepreneurs themselves perceived as 'successful' or 'unsuccessful' exits. A conclusion of the study was that searching for factors associated with firm exit is less meaningful since a high proportion of exiting entrepreneurs seem to consider this a satisfactory outcome. Another conclusion was

that entrepreneurs' goals and time horizons at the onset of their firms are likely to diverge: some may want a life-style business; some are trying to build a high-growth firm that they can divest of in a few years, and others desire to avoid unemployment, etc. This interpretation receives support from DeTienne and Cardon's<sup>lx</sup> study of exit strategies among 189 entrepreneurs. They found that common human capital variables such as age, education and experience were related to what specific exit strategy the entrepreneurs envisioned; thereby concluding that entrepreneurs have different motivations and thresholds that impact their exit strategy. Another study by Wennberg et al.<sup>lxi</sup> followed 4,463 Swedish firms started in 1994 until their culmination or until 2002 and found that the same human capital variables were also associated with the eventual exit outcome (merger, employee buy-out, liquidation, retirement).

Thus, while career choice models adopt an economic perspective and organization theory and strategy primarily adopt a firm level perspective, the entrepreneurship literature is more likely to adopt a perspective which includes the importance of the owners and how the owners (or individuals) interact with the opportunity. As Pavone and Banerjee<sup>lxii</sup> note the destiny of the firm is intimately linked to that of the owners. We are not suggesting career choice models and organization theory and strategy models are not relevant; simply that it is difficult to establish a theory of small business exit and not include the owner or founder.

We now return to our sample of 31 published articles on small business exit covering each of the three theoretical perspectives, and we examine the current state of the exit literature more closely, propose research to address the gaps, and provide insights for practicing small business owners.

### **Major themes and future research**

In this next section we identify five major themes. We believe the bulk of research in small firm exit over the next decade will (and should) focus upon these themes in order to begin to

develop a coherent body of knowledge that will not only increase our understanding of the phenomenon, but will also provide practical guidance. Although much of the extant research has utilized the theories outlined above, scholars will need to expand their theoretical perspectives in order to address these issues and concerns. In the paragraphs that follow we propose additional perspectives that will help scholars to better understand small business exit. The five major themes include: 1) further delineation of the exit/failure constructs, 2) exit and performance, 3) exit strategy and exit routes, 4) post-exit implications and concerns, and 5) macro- and regional implications of firm exit. See Table 2 for reference, specific level of analyses, and primary topics in the extant literature.

#### Further delineation of the exit/failure constructs

There are clear indications in the literature that exit from small business ownership is not the same as ‘failure’. Bates<sup>lxiii</sup> and Headd<sup>lxiv</sup> found about one-third of discontinued business owners characterize their firms as successful at closure. Ucbasaran and colleagues<sup>lxv</sup> surveyed a representative sample of 767 entrepreneurs in Great Britain and found that among the entrepreneurs that had closed down a business, close to a third considered their last business to be “a success”. In a study of Japanese small firms, Harada<sup>lxvi</sup> found that small firm exits occur because of both economic difficulties and non-economic issues such as age, gender, and type of funding. Even among distress-related exits Balcaen et al.<sup>lxvii</sup> noted that only 41% of firms exited through a court driven exit procedure (mainly bankruptcy) while 44% were voluntarily liquidated and 14% were acquired, merged or split. The difficulty is in how we “categorize” these exits. Are voluntary liquidations failures? If one sells the firm or merges with another are these failures?

Firms may exit due to many factors—some of which are related to failure and some which are not. For example, Oertel and Walgenbach<sup>lxviii</sup> show that the exit of a partner substantially decreases the survival chances of an organization and that founder exits decrease

survival chances of an organization more than partner exits. And clearly firms exit the market for individual related reasons such as retirement, discovery of new opportunities, death, divorce, declining interest, etc. For example, Van Praag<sup>lxix</sup> found that age of the small business owner, industry experience, and starting a venture while employed reduces the risk of both compulsory and voluntary exit. However, starting a venture while unemployed increases the risk of both types of exits. And Harhoff et al.'s<sup>lxx</sup> study of 11,000 West German firms suggests that firms with owners approaching retirement have high incidence of voluntary exits. These and other findings indicate that failure and exit are two distinct concepts; yet, the guiding assumption in the bulk of the literature is that the disappearance equates with failure. Through in-depth case studies, qualitative inquiry, and ultimately large empirical studies this area of research is ripe with possibilities for researchers. For small business owners this research provides a welcome respite from the majority of articles which have assumed that exit equates with failure. Certainly exit rates are high in the new or adolescent phase of the venture, but this could be construed as a positive outcome as many small business owners have voluntarily exited the firm. Greater understanding of the conditions and decisions that lead to failure and exit will be highly beneficial for small business owners.

#### Exit and performance

A key finding in our literature review is that initial resources and current performance of a small firm are strong factors shaping the involuntary exit decision. For example, Becchetti and Sierra<sup>lxxi</sup> find the degree of relative firm inefficiency has significant power in predicting bankruptcy. Customers' concentration, strength, and proximity of competitors also contribute to bankruptcy. While this fact is hardly surprising, it does indicate the importance for future work in disentangling the effect of performance from that of other factors. Empirical studies need to control for current earnings if they are to say anything about exit, or preferably, use

some type of decomposition analyses or simultaneous estimation technique to ascertain the true determinants of exit. A study using such a simultaneous technique is the previously noted work of Gimeno et al.<sup>lxxii</sup> who outlined and tested a threshold model of firm continuation. According to this model, a venture is terminated due to lack of performance below a critical threshold. Gimeno and colleagues point to a number of limitations with their original study that future work should address. Since their study was very broad, spanning all types of businesses in all industries all over the U.S., the results might have been affected by unobserved heterogeneity. This would be remedied by controlling for more specific institutional or environmental effects. For example, researchers might consider socio-geographic or cultural factors, or consider testing the model on a single industry or population of entrepreneurs. In addition, the Gimeno et al. study measured economic performance as money taken out of a firm. This did not allow the study to distinguish between low performance and entrepreneurs that reinvest most of their profit to foster future growth and profitability. Here we've noted a few, of the many, research opportunities regarding entrepreneurs' performance thresholds.

In another study, Wennberg et al.<sup>lxxiii</sup> demonstrated that both successful and unsuccessful firms exit the market. However, many questions remain to be answered. For example, Wennberg and Wiklund<sup>lxxiv</sup> found in their study of 25,529 Swedish knowledge-intensive firms that 78% of sold firms performed above the population average. They termed these seemingly successful sell offs 'exit by success'. In the literature to date, there are still no investigations of the firm founders of such firms post-sell off. How is the financial net worth of these individuals compared to before they started their firms? And in subjective terms, do these individuals evaluate their sold firm as 'personal success' or 'personal failure'<sup>lxxv</sup> and what are the factors associated with such evaluations?

Bates suggests that a key reason for choosing to discontinue a successful firm is the availability of alternative opportunities. These might include creation of a new venture, returning to wage employment, returning to education, or a multitude of other potential opportunities. We have very little understanding of these factors and why entrepreneurs might leave a successful venture. Is it simple boredom? The need for a challenge? The need to contribute to society in a different manner? The desire to create rather than to manage? Family issues? Partnership conflict? Or could the reasons be related to institutional factors (potentially unobserved by the layman) such as increasing regulatory impact, globalization, or changes in tax laws?

#### Exit strategy and exit routes

Several recent studies have examined exit routes. In particular the literature discusses Initial Public Offering (IPO), acquisition, employee buy-out, management buy-out, family succession, independent sale, liquidation, and discontinuance.<sup>lxxvi lxxvii lxxviii lxxix</sup> For example, Cumming<sup>lxxx</sup> related venture capital control rights to two types of exit: IPO and acquisition. The research by Balcaen et al.<sup>lxxxi</sup> examined rates of different types of exit including bankruptcy (41%), voluntary liquidation (44%), acquisitions and mergers (14%). Ryan and Power<sup>lxxxii</sup> examined actual exits in Ireland and Scotland and found family succession accounts for 35% of exits in Ireland (22% in Scotland); sale of the firm accounts for 49% of exits in Ireland (66% in Scotland); and shutdown accounts for 16% of firms in Ireland (12% in Scotland).

Clearly, there are country-level differences; however, it is also important that scholars clearly state what is meant by the terms used in the literature. Does the term “shutdown” used by Ryan and Power have the same meaning as voluntary liquidation used by Balcaen et al.? In order to do cross-country comparisons we must, where possible, develop standard

terminology. In addition, as the world-wide economic situation changes, new modes of exit (e.g. partial exits, private equity) are emerging.

Furthermore, there has been a call to better understand exit strategies. For example, in their study of U.S. firms in the electrical measurement and surgical medical instruments DeTienne and Cardon<sup>lxxxiii</sup> (2012) examined a range of possible exit strategies including liquidation, independent sale, family succession, employee buy-out, acquisition, and IPO and found entrepreneurs have different exit strategies based on previous entrepreneurial experience, industry experience, age, and education level.

DeTienne et al.<sup>lxxxiv</sup> examined the same exit strategies in their 2013 study of U.S. firms in plastic products and software industries and found perceived innovativeness of an opportunity, motivational considerations, decision-making approach, and team size impacts the choice of exit strategies. These studies suffer from single industry and single country limitations, but the arguments surrounding the importance of exit strategies as well as their findings that differences exist for individuals and firms with differing exit strategies is interesting. Their argument for studying exit strategies (as opposed to actual exit) revolves around the idea that if an exit strategy develops early in the life of the firm it may drive future firm development and thus have an impact on the entire entrepreneurial life cycle. The question is does the exit strategy drive the future development of the firm? Does it impact the accumulation of initial resources thereby imprinting the firm in such a manner as it is less receptive to change? For example, if the small business owner makes a decision early in the life of the firm that family succession is his or her exit strategy, does that impact other exit possibilities? What if no successor emerges or the intended successor is not interested? Can the firm change exit strategies? What limitations might it encounter? Not only are these practical questions, but may also have impact on the entire entrepreneurial process.

Post-exit implications and concerns



An additional area of research that has had little attention in the literature is the question of what happens after the exit. Although there has been literature that examines the effect of founder exit or succession on the firm, very little of this work has been conducted with the small firm (see Wasserman<sup>lxxxv</sup> for an exception) and almost none has examined the impact on the small business owner. These issues can range from personal identity issues (who am I without the firm, what do I do now?) to the impact of the small business owner's new wealth (do I reinvest in other start-ups, begin again, share with family members, or invest in other investments?). In their study of how exits relate to subsequent engagement, Hessels et al.<sup>lxxxvi</sup> found that a recent exit increases the probability of being involved at multiple levels of entrepreneurial engagement. They also found that the probability of re-engagement in entrepreneurship after the exit is higher for males, for persons who know an entrepreneur, and for persons with a low fear of failure.

Shepherd's<sup>lxxxvii</sup> research into grief after failure may provide important theoretical considerations for the exited small business owner as well. Do small business owners who exit their business grieve? How is this grief different than that for a failure? Are their other emotions related to the exit? Kushnir<sup>lxxxviii</sup> (1984) claimed that individuals from dissolved businesses have stronger feelings of inequity and anxiety, and more disagreement with and aggression toward the partner. The tendency exists to blame an ex-partner for failure. To further this line of research, scholars might draw upon theoretical perspectives in sociology and psychology which examine the results of dramatic changes in a person's financial situation (e.g. winning the lottery or inheritance) to explore exit. Is harvesting a venture different from other inflows of cash? Does it matter that the small business owner has invested time, money, and energy into the investment?

In addition to small business owner implications from firm exit, there may also be implications at the industry (e.g. how does exit of a single firm affect the competitive

landscape); the economy (e.g. how does exit impact unemployment); and societal-level outcomes (e.g. how does an exit impact philanthropic efforts). We address these issues in this next section.

#### Macro- and regional implications of firm exit

Our review suggests that exit rates are strongly tied to overall economic conditions. Everett and Watson<sup>lxxxix</sup> (1998) explored the impact of macro-economic factors on small business mortality and found that economic factors are associated with between 30% and 50% of small business failures, depending on the definition of failure used. Failures are positively associated with interest rates (failure as bankruptcy) as well as unemployment (failure as discontinuance). Buehler et al.<sup>xc</sup> studied geography and macroeconomic conditions in Switzerland and found that bankruptcy is lower in the central municipalities and in regions with favorable business conditions (lower corporate taxes, lower unemployment and high public investment). This research has important implications for policy makers and entrepreneurs.

For policy makers, it is important to understand the impact of decisions to “incentivize” entrepreneurs. Rather than policies that have an impact in the long run (e.g. receiving a tax credit on the next year’s tax return), policy makers might be more inclined to develop policies which create new small businesses and allow for small business expansion in the short term (such as lowering corporate taxes or making capital available). For small business owners this research points out the importance of locating in areas with favorable business climates and in areas with an entrepreneurial infrastructure. While this decision is fairly obvious in a country such as the United States where each state, and even municipality, has differing tax laws, incentive programs, and infrastructure, this decision is more complicated in countries wherein policy decisions are made by a single governing body. For example, in the United States an oil discovery company may choose to locate in Texas,

Oklahoma, or North Dakota due to tax laws, incentives, regulation and entrepreneurial infrastructure rather than in California, Oregon, or Michigan (which likely have oil and gas reserves as well) but significant regulation and high taxes.

However, in the long term firm exits may also hold implications for societal-level outcomes. Mason and Harrison<sup>xci</sup> studied five successful Scottish entrepreneurs that had used their newly acquired wealth, together with their network and business experience, to engage in other entrepreneurial activities, notably starting new business ventures, investing in other businesses, and philanthropic efforts. Aviad and Vertinski<sup>xcii</sup> investigated all Canadian plants in the foodstuffs and manufacturing sectors in 3,908 local Census Subdivisions (small geographical areas) from 1983 to 1998. They found that the exits of older firms increase entry rates of new firms, and that on average, new entrants were more productive. Although Hoetker and Agarwal<sup>xciii</sup> (2007) find that exit impairs the ability of other firms to draw on knowledge generated by the firm, firm exits provide spillover benefits to other firms. These three initial studies indicate that exit could positively impact new firm creation, funding availability, philanthropic donations, and the competitive landscape. We look forward to similar studies which examine potential positive implications of exit.

## **Conclusions**

According to PrivCo<sup>xciv</sup> (a major source for business and financial data on major, non-publicly traded corporations) private worldwide middle-market exits (i.e., those between \$2 million and \$500 million) reached \$805 billion in 2011. In addition, due to a latent supply of baby boomer businesses coming into the market, the improving economic climate, increased buyer demand due to recovering stock portfolios, and the slowly improving lending situation, there will be a significant increase in the number of exit transactions over the next decade.<sup>xcv</sup>

<sup>xcvi</sup> Yet, as scholars, our understanding of this phenomenon is clearly deficient.

In this chapter we have outlined different theoretical perspectives on small business exit, and described the evidence from various empirical studies. We have argued that exit is a multi-faceted phenomenon spanning different levels of analysis. The empirical studies have amassed a number of research findings that seem to be consistent across different countries and contexts. Yet, there are still several inconsistencies in the findings. Many of these could be the result of confusion in the interpretation and specification of the dependent variable of scrutiny (exit), ad-hoc usage of theoretical predictors from different levels of analyses, and researchers relying on survey data with underreporting biases. Our review points toward several interesting paths for future research, including further delineation of the exit/failure constructs, exit and performance, exit strategy and exit routes, post-exit implications and concerns, and macro- and regional implications of firm exit. It is our desire that future research will begin to disentangle the existing research and future scholars will embark on this interesting and timely field of study.

**Table 1: Theoretical perspectives on exit**

<b>Research area</b>	<b>Level of analysis</b>	<b>Key assumptions</b>	<b>Key contributions</b>
CAREER CHOICE ECONOMICS	Individual	Exit is a swift decision – labor can be employed elsewhere	Entrepreneurship is a <b>choice</b> among alternative occupations
ENTREPRENEURSHIP	Individual / Firm	Firms are founded by individuals or teams with volitional control of their venture	The <b>individual-firm interface</b> is important
STRATEGY & ORGANIZATION THEORY	Firm	Focus on exit as failure – organizations are resource dependent entities	Exit is often preceded by <b>failure-avoiding</b> strategies

**Table 2: Prior studies on small business exit—from 1984 to 2013**

Reference	Primary Topic	Level of Analysis	Findings	Theoretical Perspectives
Kushnir, 1984	Social-Psychological factors (equity, mood, evaluation of self and partner, level of agreement) associated with the dissolution of business partnerships	Individual	Individuals from dissolved businesses have stronger feelings of inequity and anxiety, and more disagreement with and aggression toward the partner. Tendency exists to blame ex-partner for failure. Most prominent reasons given for the dissolution were inequity and personality incompatibility.	Entrepreneurship
Ronstadt, 1986	Studies ex-entrepreneurs who have returned to work force.	Individual	Financial reasons, 31%, Venture reasons 15%, Personal/Family reasons 11%. All other exits (41%) were a combination of the above.	Career Choice / Entrepreneurship
Schary, 1991	Probability and type of exit. A firm may leave an industry in at least three ways: through merger, vol liq, or bankruptcy.	Firm	Results suggest that type of exit is not related to profitability, there is some heterogeneity across forms of exit, and information about firm characteristics alone is not sufficient to predict all forms of exit.	Strategy / Organization Theory
Bruderl, Preisendorfer, & Ziegler, 1992	Factors that influence the mortality of 1849 new businesses in Germany	Individual Firm	Both individual and firm characteristics important determinants of business survival.	Strategy/ Organization Theory
Holtz-Eakin, Joulfaian, & Rosen, 1994	Why do some individuals survive as ents and others do not? Do liquidity constraints increase failure?	Individual	The effect of an inheritance raises probability of survival by about 1.3% points. For those that survive an inheritance is associated with nearly 20% increase in sales.	Career Choice
Gimeno, Folta, Cooper, & Woo, 1997	Why do some firms survive while other firms with equal economic performance do not	Firms Individual	Individuals with low performance thresholds may choose to continue their firms despite comparatively low performance.	Entrepreneurship
Sullivan, Crutchley, & Johnson, 1997	The motives behind managers' choice towards voluntary liquidation	Individual	Motives toward voluntary liquidation related to firm distress, agency conflicts and potential for shareholder gain.	Economics / Strategy / Career Choice

Everett & Watson, 1998	Explores the impact of macro-economic factors on small business mortality.	Firm	Econ. factors are assoc. with between 30%-50% of small business failures, depending on the definition of failure. Failure pos. assoc. with interest rates (failure as bankruptcy) and unemployment (failure as discontinuance), lagged employment rates (failure as to prevent further losses) and with current and lagged retail sales.	Strategy / Organization Theory
Harhoff, Stahl, & Woywode, 1998	Relationship between legal form, firm survival and growth in 11,000 West German firms.	Firms	In all sectors firms under limited liability have higher growth and higher insolvency. Firms with owners approach retirement have high hazard of voluntary liquidation	Strategy / Organization Theory
Pennings, Lee, & Van Witteloostuij 1998	Examines the effect of human and social capital upon firm dissolution	Individual Firm	Industry tenure, firm tenure, social capital all negatively related to firm exit	Strategy / Organization Theory
Bates, 1999	A nationwide analysis of U.S. Asian immigrants and their exit from small businesses	Individual	Highly educ. Asian owners are more likely to exit SE and exit from retail and personal services is high. Suggests that SE is a form of underemployment among Asian immigrants	Strategy / Organization Theory / Entrepreneurship
Carrasco, 1999	A study of the factors influencing decision to enter into S/E and likelihood of remaining in business.	Individual	Unemployt leads to S/E but those who enter SE while unemployed have higher failure rates. Receiving unemployt ben. reduces the likelihood of entering into S/E. Better educated and middle-age are more likely to switch.	Economics / Career Choice
Taylor, 1999	Examines voluntary exits and bankruptcies	Individual	Most S-E exits are voluntary exits and not bankruptcies. S-E persistence pos. related to length of work experience, quitting the prior job, and wealth. Neg related to prior unemployment.	Economics / Career Choice
Bachkaniwala, Wright, & Ram, 2001	Forms of succession (second gen., MBO, trade sale, shutdown) in ethnic minority family business	Firm Family	Internal factors (preparation of heirs, nature of relationships, planning and control activities) and external factors (alternative employment opps. for offspring, business growth) affects forms of succession	Strategy / Organization Theory / Entrepreneurship

Becchetti & Sierra, 2002	Determinants of bankruptcy	Firm	The degree of relative firm inefficiency has sig power in predicting bankruptcy. Customers' concentration, strength, and proximity of competitors also contribute to bankruptcy	Strategy/ Organization Theory
Haveman & Khaire, 2002	Does founder succession hurt or help the organization?	Firm Individual	Ideology is a strong moderator between founder succession and org failure. Ideology conditions the impact of mgrl roles and org affiliations on failure following founder succession.	Entrepreneurship
Van Praag, 2003	Quantify the person-specific determinants of survival duration in self-employed white males	Individual	Age and ind. Exp. are neg related to exit; both compulsory (c.) and voluntary (v.). Occupation exp. is neg related to exit. Starting while employed reduces risk of both exit and v. exit. Starting while unemployed is pos related to exit and c. exit. Failure is pos related to all exits.	Strategy/ Organization Theory / Entrepreneurship
Bates, 2005	An analysis of U.S. ents. who made deliberate decisions to close "successful" firms	Firm Individual	Decisions to discontinue operations are shaped by opp. costs, switching costs, and availability of alternative opps. Alt. opps. are identified as a key reason for choosing to discontinue successful firms.	Strategy/ Organization Theory / Entrepreneurship
Cefis, & Marsili, 2006	The relationship between innovation and the survival of firms in the Netherlands	Firm	An innovation premium exists. Firm survival is lowest among small, young, non-innovative firms. Among innov. firms, survival of sm. and young firms is comparable to other size/age classes and higher than for non-innovators.	Strategy/ Organization Theory
Harada, 2007	Examines exit behaviour of Japanese small firms and their managers.	Firms Individual	Small firm exits occur because of both econ difficulties in their business (economic-forced exit) and non-economic-forced exit. Prob. of econ-forced exit is higher if the mgr is young and male, the firm has loans and sales are decreasing	Strategy/ Organization Theory / Entrepreneurship
Cumming, 2008	The relationship between European Venture Capital contracts and exits	Firm	VC control rights (board control, fight to replace the founder, use of common equity rather than preferred, majority boards) related to type of exit (IPO or acquisition)	Entrepreneurship
Stam, Thurik, & van der Zwan, 2010	Explores exit before start-up (ex-ante) due to market expectations and after start-up (ex-post) due to real	Individual	Ents in the US less likely to exit before actual start-up and more likely to exit from started ventures than ents in Europe. Other moderating factors are welfare state regime, locating in a rural or urban area, and on the individual level	Entrepreneurship



	market selection processes		tolerance of risk and self-employed parents.	
Wennberg, Wiklund, DeTienne, & Cardon 2010	Conceptual model and test of entrepreneurial exit routes	Individual Firm	Entrepreneurs exit from both firms in financial distress and firms performing well. Human capital factors and failure-avoidance strategies differ substantially across the four exit routes.	Entrepreneurship
Hessels, Grilo, Thurik, & van der Zwan, 2011	Whether, how a recent entrepreneurial exit relates to subsequent engagement	Individual	A recent exit incr. the probability of being involved at five levels of ent. engagement. The probability of re-engagement in entrepreneurship after exit is higher for males, for persons who know an entrepreneur and for persons with a low fear of failure.	Entrepreneurship
Balcaen, Manigart, Buyze, & Ooghe, 2012	Firm level determinants of 6118 Belgium distress-related exits (firm's rev cannot cover opp. exp., debt, and/or taxes)	Firm	41% of firms exited through a court driven exit procedure (mainly bankruptcy), 44% were voluntarily liquidated and 14% were acquired, merged or split.	Strategy / Organization Theory
Buehler, Kaiser, & Jaeger, 2012	Geographic determinants of firm bankruptcy in Switzerland.	Firm	Bankruptcy is lower in the central municipalities and in regions with favorable business conditions (corp.taxes and unemployment are low and public investment is high).	Strategy / Organization Theory
DeTienne & Cardon, 2012	Entrepreneurs' intentions to exit by a range of possible exit paths	Individual	Ents intend to pursue diff. exit paths based on ent exp (pos for IPO, neg for ind. sale, liq.), ind exp (pos for EBO), age (pos for liq.), and educ (pos for IPO, Acq, neg for fam succ)	Entrepreneurship
Oertel & Walgenbach, 2012	Studies the effect partner exits have on the survival of SMEs. Firm size, legal form, indust, and change moderate	Firm	Partner exits inc the mortality risk of orgs. This effect is moderated by size, legal form and industry affiliation. Harmful effect increases if partner was involved in founding.	Strategy / Organization Theory
Robb & Watson, 2012	Prior studies have reported that female underperform male-owned firms but key demogr diff may be problem.	Individual Firm	Using longitudinal database with more than 4000 ventures, and analyzing 4-year closure rates; return on assets (ROA); and a risk-adjusted measure there is no difference in the performance of female- and male-owned new ventures.	Strategy / Organization Theory Entrepreneurship

Ryan & Power, 2012	What factors influence the business exit choice from the owner-manager's perspective	Individual	Size, location, sector, gender, exit plan, intentions affect exit. Actual exits from Ireland and (Scotland): Fam succ 35% (22%); Sales 49% (66%); Shutdown 16% (12%)	Entrepreneurship
DeTienne, McKelvie, & Chandler, 2013	Entrepreneurial exit strategies: Model development and an empirical test	Individual	Strategies are grouped into 3 higher-level categories (i.e., financial harvest, stewardship, and cessation). An initial test indicates differences among the 3 groups.	Entrepreneurship

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