Narrating the entrepreneurial exit: Evidence from Austria

Problem statement

A substantial number of start-ups and entrepreneurs have to deal with “exit“. However, compared to the vast number of studies on entrepreneurial entry, little attention is given to entrepreneurial exit (DeTienne 2010). Exit is defined as the process in which a firm goes out of the market (firm exit) or an entrepreneur leaves the firm he or she has founded (entrepreneurial exit). Most research on exit deals with firm exit utilizing firm-level data (e.g. Fortune, and Mitchell 2012; Doi 1999) and only to a small extent with entrepreneurial exit (e.g. Unger, Rauch, Frese, and Rosenbusch 2011; Colombo, and Grilli 2005). In this paper, we take a stance on the perspective of the entrepreneur.

At the individual level, entrepreneurs may decide to exit from their firms for various reasons. Entrepreneurs may do so voluntarily in order to reap the rewards of their entrepreneurial activity, for example by selling their firms. They may also face situations in which they involuntarily exit by closing down activity or declaring bankruptcy (Wennberg, Wiklund, DeTienne, and Cardon 2010).

One third of the entrepreneurs perceive their exit as success, especially if the exit was planned as part of their strategy (Headd 2003). In the case of unsuccessful exit, entrepreneurs often bear high costs of failure (Politis, and Gabrielsson 2009), financially (Cope 2011), psychologically (Shepherd 2003) and socially (Collewaert 2012). Interestingly, many entrepreneurs who exit from their founded firms do not lose their entrepreneurial spirit, regardless of the conditions of exit. They still have plans to set up a new venture or join another entrepreneurial team (Stam, Audretsch, and Meijaard 2008).

In this paper, we investigate entrepreneurs who have experienced an entrepreneurial exit and still have the intention to re-engage to entrepreneurial activity, or have already done

so. This experience is not only beneficial for the entrepreneurs themselves, but also for the economy, as they may utilize the experience in subsequent entrepreneurial activities. We analyze how the reasons for and ways to exit influence re-engagement in entrepreneurial activity.

Theoretical basis

Entrepreneurs exit from their founded firms for various reasons, namely alternative reasons, normative reasons, calculative reasons and strategic reasons (DeTienne 2010; Maertz Jr, and Campion 2004; Watson, and Everett 1996). The alternative reasons are related to better opportunities, such as setting up a more prosperous venture, gaining alternative employment, returning to education, migrating and other prospective opportunities (Bates 2005). The normative reasons refer to the pressures derived from the expectations regarding the firm. These pressures may come from the entrepreneur him- or herself, family members, friends or other parties. However, the motivation to comply with these expectations may vary. In a firm founded and managed by a team, goal differences, team conflicts and lack of trust primarily drive members to exit (Khan, Breitenecker, and Schwarz 2014) and have an impact on the longevity of the firm (Hellerstedt, Aldrich, and Wiklund 2007). The most cited reason for an entrepreneur to exit is the condition (performance) of his/her firm (Wennberg, and DeTienne 2014). This refers to calculative reasons (e.g. preventing greater losses, raising capital) and strategic reasons (e.g. expanding the business) (Watson, and Everett 1996).

There are different routes to exit. Firstly, an entrepreneur may exit through selling his ownership to other parties such as employees, suppliers, family members or strategic partners and leaving the firm, while the firm still exists in the market or merges with another company. In the case of substantial changes in the firm (name, operation, location), de-registration of the legal entity of the firm may occur. Secondly, an entrepreneur may exit by closing or liquidating the firm. In some cases, entrepreneurs have to declare bankruptcy.

However, many entrepreneurs avoid bankruptcy by adding equity, selling assets and paying off loans (Bottazzi, Grazzi, Secchi, and Tamagni 2011) due to the social, psychology and financial consequences they have to bear.

Previous research indicates that the way how an entrepreneur exits his/her firm is often associated with the firm performance and his/her time-risk preferences (Wennberg, Wiklund, DeTienne, and Cardon 2010). Entrepreneurs of high performing firms tend to exit through harvest selling, where the firm continues to operate. Conversely, in low performing firms entrepreneurs tend to exit through the mechanism of a distress sale to prevent greater losses and avoid bankruptcy (van Witteloostuijn 1998), or distress liquidation, which includes bankruptcy.

Summing up, performance is arguably critical not only as a reason to exit but also as a determinant of the way to exit (DeTienne 2010). Parker (2013) also shows that performance of the past entrepreneurial firm is associated with the performance of subsequent entrepreneurial activity. However, the positive impact diminishes over time.

Research design and setting

A qualitative study approach is applied to examine the phenomena of the entrepreneurial exit for several reasons. Firstly, the qualitative method is useful to build theory and to focus on under-researched ideas (Eisenhardt, and Graebner 2007). Secondly, qualitative research offers the contextual embedment when studying a specific phenomenon within a population (Marshall, and Rossman 1999). Thirdly, qualitative data offer description of rich detail in the ability to answer “how” and “why” questions (Yin 2009).

We drew participants from Austrian firms, which were founded during 2010 and experienced entrepreneurial exit during 2013 and the first half-year of 2014. We then selected participants who have the intention to re-engage in or are in the process of re-engaging in entrepreneurial activity. We were challenged by difficulties to get respondents to participate

in this study. This difficulty has been encountered by scholar in the field of entrepreneurial exit. However we managed to have six cases of entrepreneurial exit.

All participants are male, between 26 and 46 years old. They have diverse educational backgrounds. All participants had working experience and were familiar with the industry of their business before they founded their firms. The interviewed participants consist of team entrepreneurs and solo entrepreneurs. Their firms were operated in diverse industries. Entrepreneurs exited from their founded firms with varying financial conditions, namely gain, loss and even. Each type of condition is represented by two cases.

We interviewed the entrepreneurs in the second half-year of 2014, deploying a narrative approach by asking them to narrate their entrepreneurial experience from the start and leading up to their current activities. We chose this narrative approach, because we tried to avoid resistance from participants in case they perceived the exit as a failure event. Interviews were conducted in a face-to-face interview in a one-on-one setting, which lasted between 60-90 minutes. Interviews were transcribed in smooth verbatim by the interviewers. Transcriptions were then analysed, employing qualitative content analysis supported by QCAmap software (Mayring, and Fenzl 2013). Three researchers coded the transcriptions independently to achieve better interpretive validity. We applied two steps of coding and revised the coding to achieve reliability. Further, we built main categories in order to analyse the results.

Results

The exit experiences of participants illustrate that the process of exit is a complex situation in varying degrees. Our study shows that the entrepreneurs exit from their founded firms due to a combination of personal and firm-related factors comprising alternative, calculative and normative reasons. Concerning the reasons of exit in the infancy stage of a firm, our results support DeTienne (2010). Personally, all those entrepreneurs discovered other activity opportunities to pursue, which encouraged them to exit. Interestingly, all

entrepreneurs narrated the normative reasons with emphasis ranging from having no more passion about the firm and pressure of not taking high risk. Our findings extend the normative reasons proposed by DeTienne (2010).

Concurrently, entrepreneurs encountered firm-related problems concerning product, market, organization, financial and strategy. Interestingly, for some entrepreneurs, the red thread of all those problems is rooted in the realization that they do not have sufficient experience to deal with the encountered problems of their firms. For example, they were surprised by the complexities of the market, which they were already familiar with before founding the firm. Of all team-founded firms, entrepreneurs narrated the problems and conflicts within team members from disagreement on firm strategy to competency of team members as the sources of conflicts.

All participants narrated their circumstances, which lead to choosing a way to exit from their founded firms. They exited by selling their shares to their partners, liquidating, being acquired by another company, and being merged with another company of their own. Some exits resulted in the discontinuation or closure of the firms but some firms still exist in the market. Sale and acquisition lead to the continuation, whilst liquidation and merger lead to the closure of the firm's legal entity. This confirms the findings of Wennberg, Wiklund, DeTienne, and Cardon (2010) on the association between firm performance and ways to exit.

Conclusions and implications

The implications of this study are three-fold. Scientifically, this study contributes to the limited literature on the entrepreneurial exit concerning reasons and ways to exit in young firms and the re-engagement in entrepreneurial activity. Practically, for entrepreneurs, the study of the exit will lead to a better understanding of entrepreneurial exit. For policy makers, this study will contribute to the development of regulations or incentives to give entrepreneurs a "second chance", as well as to promote entrepreneurship.

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