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Exit of Entrepreneurs from Business: Reasons and Strategies

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Abstract

Cessation of business has received insufficient attention in the works of domestic and foreign scientists. However, sooner or later, each entrepreneur ceases to operate. The purpose of the study is to analyze the main reasons and ways of cessation of business, as well as assess shares of exit from business for certain reasons in economically developed countries.

As the initial data, we used the results of the Global Entrepreneurship Monitoring Project for 2018, as well as the data presented in scientific publications. In the process of the study, a classification of the reasons for cessation of business has been proposed and the values of indicators characterizing these reasons have been estimated. Business exit strategies based on various options, forms and methods for implementing relevant processes have been considered.

Originality and scientific novelty of the study: it shows that in most economically developed countries exogenous causes do not have a big impact on entrepreneurs to terminate business; entrepreneurial activity cessation is largely due to endogenous and personal reasons; every thirteenth entrepreneur goes out of business with the aim of turning assets accumulated in the course of business activity into cash resources.

The study is aimed at understanding the reasons and strategies of cessation of business. It has scientific and practical significance, because it offers new data about peculiar features of entrepreneurial activity termination, as well as the share of certain reasons for business termination.

The data is of interest to entrepreneurs, as well as government agencies and other institutions responsible for making plans, programs and forecasts for the development of the business sector. This article continues the discussion on the issue of termination of business.

Keywords: Entrepreneurship, Termination of entrepreneurial activity, Going out of business, Strategies, Entrepreneurial activity monitoring.

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Introduction

Cessation of business activities by entrepreneurs (also called exit from their own business) is one of the most difficult problems they face. The correct solution to the tasks associated with this process should ensure an effective exit from the business and help get the most out of it, since a business organization is the most valuable financial asset for most entrepreneurs, which they created and to which they devoted a significant part of their lives. It is essential that these critically important and complex tasks are among those that entrepreneurs are least prepared for, since in most cases they encounter them only once in a lifetime. Entrepreneurs may have long-term experience in managing their business, but they usually have no experience in terminating operations. Cessation of entrepreneurial activity is currently attracting much less attention of researchers than other stages of the business life cycle. However, it is obvious that someday every entrepreneur will cease to operate. Given the above, the problem of termination of business is significant and relevant.

Some aspects of cessation of business are dealt with in the following publications based on empirical data from the USA (Bernard & Jensen, 2007), Sweden (Box, 2008), France (Bellone et al., 2008), Great Britain (Disney, Haskel & Heden, 2003), Spain (Esteve-Pérez & Manez-Castillejo, 2010) and Germany (Wagner, 2010).

The reasons for the termination of business are discussed in the following publications. The great influence of external factors making entrepreneurs terminate their operations is described in studies (Egelin et al., 2010; Wennberg & De Tienne, 2014; Aldrich, 2015). These include global and local crisis phenomena, changes in the correlation of forces in operational markets, a decrease in demand, as well as changes in the institutional and regulatory sphere. For example, a tax boost or tightening legal regulations.

In the article (Stokes & Blackburn, 2002), inability of entrepreneurs to solve scheduled tasks, certain financial difficulties, and impossibility of current payments, including tax payments are viewed as the main reasons. One of the authors of this article supplemented these reasons with shortcomings in enterprise management, lack of necessary resources, low level of knowledge and competence of entrepreneurs, as well as employees' insufficient qualifications (Stokes, 2002). In the article, (Parastuty et al., 2016), the authors focus on the lack of leadership qualities in entrepreneurs. In the article (Cardon, Stevens & Potter, 2011) mismanagement, unrealistic planning, and inadequate innovations are attributed to the reasons of business cessation. According to the authors of article (Ucbasaran et al., 2012), business cessation is caused by the fact that the level of profitability of the enterprise does not correspond to the threshold of economic viability provided by the entrepreneur.

Some publications analyze the reasons of entrepreneurial activity cessation related to the entrepreneur's desire to turn the results of many years of work into cash resources. This alternative to continuing a risky business is often called harvesting. It is described in detail, for example, in studies (Cefis & Marsili, 2011; Foo, John & John, 2009). In many cases, this alternative may be the only chance for entrepreneurs to receive rewards for many years of hard work. Many people go out of business because they have found the best opportunities for leading their life. For example, highly profitable employment, getting additional education, migration to other regions (Bates, 2005), as well as retirement.

Ways of cessation of business are discussed in the following publications (Balcaen et al., 2012) focuses on the difference between a voluntary and forced exit from the business. It is concluded that bankruptcy is the least preferred way to terminate business given high transaction costs (De Tienne, McKelvie & Chandler, 2015) considers the sale of the business as an option of a voluntary exit of the entrepreneur from the business. According to the author of (Cumming, 2008), this is the most profitable way for entrepreneurs to go out of business. Van Teeffelen & Uhlaner (2003) considers the transfer of the business to family members as a way out. It should be noted that this way currently dominates in Poland, as (Marjanski & Sulkowski, 2019) shows. Being the main way to terminate entrepreneurial activity, it ensures continuity and preservation of the business in the family.

The analysis of the published works showed that they have failed to present a comprehensive analysis of the reasons for business termination and ways out of business.

Methodology and data

According to De Tienne (2010), termination of entrepreneurial activity occurs when the following three conditions are fulfilled: the owner leaves his own business, ceases to be its owner and withdraws from making decisions in the business. It is important to note that the problem of going out of business is to be based on the study of characteristics and patterns of entrepreneurs' actions, rather than on the problem of liquidation of the firms that they created.

Four principles of termination of entrepreneurial activity are substantiated in researches (Aldrich, 2015; De Tienne & Cardon 2012):

- most entrepreneurs start their activities without thinking about the final result, only a few adhere to a clear exit strategy from the stage of creating a business;
- exit from business can be carried out in various ways;
- destruction of any relationship between the entrepreneur and his business is the main result of cessation of business;
- consequences of cessation affect not only the entrepreneur who ceased operations, but also the enterprise he created, the people working in it, and also many organizations associated with the enterprise.

We aimed to analyze the main reasons and patterns of cessation of business, as well as assess the share of exit from business for various reasons in economically developed countries. The following tasks were solved in the research:

- the classification of the main reasons for cessation of business has been proposed;
- the number of cases of termination for each class of causes has been estimated in proportion;
- exit strategies for entrepreneurs have been systematized;
- exit strategies that can be implemented at present have been defined.

The data from the scientific publications from 1995 to 2019 on the issue of termination of business were used for the research: monographs, articles in peer-reviewed scientific journals, published working papers of specialized organizations and published research reports.

Socio-economic research on the projects of the Global Entrepreneurship Monitor is of great importance in the study of modern entrepreneurship in different countries. These surveys include a large number of indicators describing activities of business-owners.

In the study, we used the data of the corresponding project for 2018 (Global Entrepreneurship Monitor, 2019) devoted to reasons of entrepreneurial activity termination. A relative share of entrepreneurs who terminated business because of certain class of reasons against the total number of all who terminated business in the year under review was defined to assess the share of exits for each class of reasons. The study was based on the data from nine large economically developed countries located in Europe (5 countries), Asia (2 countries) and North America (2 countries). The corresponding data for Russia were also used for comparative analysis.

Classification of reasons for cessation of business

As noted above, there is a large number of reasons for the cessation of business in present-day conditions. In our opinion, it seems useful to consider the aggregated reasons for entrepreneurs to go out of business. The analysis carried out in the course of the research allowed us to combine all main reasons for the cessation of entrepreneurial activity in four classes (groups). Let us dwell on them in more detail.

The first class combines exogenous (external) reasons that directly affect entrepreneurial activity. These include institutional and organizational reasons external to enterprises: national, regional and municipal policies, administrative barriers, changes in tax legislation, problems in interacting with control and supervisory authorities, as well as crisis phenomena in the economy and market problems.

The second class includes endogenous (internal) reasons that reduce the efficiency of entrepreneurial activity and hinder effective competition of entrepreneurs in markets of goods and services. The main ones are: lack of necessary knowledge and competencies in entrepreneurs, wrong goals and objectives of the activity, unreasonable risk, low profitability of production, lack of necessary funding, technological and managerial difficulties, low qualification of employees, various accidents and incidents in the process of work.

The third class of reasons is connected with the desire of entrepreneurs to eliminate risks associated with activities in a competitive environment and receive a one-time profit that would compensate them for the investments and labor costs for creating and developing their business. That is, to cease operations and transform existing fixed and current assets, as well as intangible assets and know-how into cash resources.

The fourth class includes personal reasons when entrepreneurs cease operations under the influence of factors not directly related to production activities of their enterprises. These include the following. Firstly, health deterioration, retirement, a need to devote more time to family matters, such as caring for elderly relatives, children or grandchildren. Secondly, the desire to get involved in other activities, including social or political activities, to receive additional education, or to participate in other business projects. The appearance of the opportunity to earn money as an

employee, not as an entrepreneur is the most common cause. In this case, the experience gained in the process of entrepreneurial activity can be used.

Assessment of levels of termination of business for four classes of reasons.

To assess the levels of termination of entrepreneurial activity for four classes of reasons described above, indicators were used that characterize the relative share of entrepreneurs who exited business for these reasons in the total number of all entrepreneurs who ceased activities in the year under review.

Table 1 presents the relative share of entrepreneurs who ceased their activities due to reasons of four classes. It presents indicators calculated on the basis of the data obtained in the process of Global Entrepreneurship Monitoring for 2018 of nine large economically developed countries.

Table 1. The proportion of causes for termination of entrepreneurial activity, %

Countries	Classes			
	first	second	third	fourth
England	5.6	29.2	8.9	56.3
USA	8.2	38.6	6.7	46.5
Spain	1.6	58.3	9.6	30.5
South Korea	4.1	52.5	6.6	36.8
Japan	0	54.1	2.7	43.2
Italy	21.1	36.9	2.6	39.4
France	11.3	54.7	3.5	30.5
Germany	6.3	40.2	4.1	49.4
Canada	3.7	41.3	23.9	31.1
average	6.9	45.1	7.6	40.4

Source: Compiled by the authors

The data in column 1 show a relatively low level of cessation of entrepreneurial activity due to the negative influence of exogenous (external) reasons typical for economically developed countries. The only exception is the figure for Italy – 21.1%. The share of entrepreneurs who ceased operations for these reasons in the remaining eight countries does not exceed 11.3%. The average value for the countries under review is 6.9%.

The highest proportion of entrepreneurs who ceased business for reasons of the third class was registered in Canada (almost 24%). In other countries, this indicator is significantly lower (below 10%). The average value of the indicator for the countries under review is 7.6%.

Endogenous (internal) and personal reasons affect the cessation of entrepreneurial activity in economically developed countries to a much greater extent. Thus, endogenous reasons account for 36.9% to 58.3% of entrepreneurs who ceased their business in the absolute majority of the countries. The only exception is England, where this figure is significantly lower – 29.2%. The average value of this indicator in all the countries reaches 45.1%. The average value of the indicator due to personal reasons is slightly lower (40.4%). The figures for the fourth class of reasons range from 30.5% to

56.3% of the total number of entrepreneurs who ceased their activities in 2018. Notably, the highest value was registered in England.

A comparative analysis of indicators characterizing cessation of entrepreneurial activity in the countries in question and in Russia showed the following. In Russia, the share of exogenous reasons is 4.0%, which is slightly lower than the average for economically developed countries. However, this indicator is close to the values for South Korea and Canada. The value of the indicator in the third class is more than two times lower than the average value shown in table 1. At the same time, it approaches the indicators in France, Japan, and Italy. The largest difference in the share of entrepreneurs who ceased operations in Russia (6.9%) and in the countries under consideration is observed in personal reasons.

Endogenous reasons have left their competitors far behind – 85.9%. That is, they are six times the sum of the indicators for the first, third and fourth classes. It should be noted that the endogenous reasons for cessation of entrepreneurial activity in Russia have significantly higher values compared to the large economically developed countries.

This situation, in our opinion, is due to financing difficulties, lack of investment, poor technological and technical support, as well as insufficient preparation of many entrepreneurs for independent business in comparison with the countries in which entrepreneurship has been developing for a longer time than in Russia.

Business Termination Strategies.

As the literature review and the analysis of the practical experience have shown, there are currently a significant number of diverse options for terminating business. When conducting research related to the cessation of business, we suggest considering a number of strategies that systematize actions of entrepreneurs in the process.

The proposed strategies differ in such essential features (elements) as variants, organizational forms and patterns of terminating business. In our opinion, it seems appropriate to single out two variants, two forms and five patterns of terminating entrepreneurial activity. Let us dwell on them in more detail.

Two variants of terminating business:

1. Continuation of operations of the company created by the entrepreneur (in the same or in another market). In this case, change of ownership takes place.
2. Liquidation of the company, that is, its departure into economic nonexistence.

Two organizational forms of terminating business:

1. Voluntary termination in accordance with the entrepreneur's wish.
2. Forced termination in accordance with decisions of judicial, tax and other bodies.

Five patterns of terminating business:

1. Sale of the enterprise to its managers, employees or third-party private individuals and organizations.
2. Transfer of the business to a new owner from among members of the entrepreneur's family.

3. Closure of the enterprise and its exclusion from the state register.

4. Bankruptcy.

5. Merger or takeover.

The results of the logical analysis of the compatibility of the elements stated above are given in table 2. It presents all existing combinations of variants (column 1), organizational forms (column 2) and patterns (column 3) of terminating business. There are 20 different combinations of elements. Column 4 of the table indicates a degree of probability of each combination of elements. A plus sign indicates a possibility of business termination, a minus sign respectively indicates its absence. Each combination of elements, which can theoretically be implemented, corresponds to one of the strategies. Ten possible strategies are indicated in column 5 by letters.

Table 2. Business Termination Strategies

Variants	Organization forms	Patterns	Possibility	Strategy
1	2	3	4	5
1	1	1	+	A
1	1	2	+	B
1	1	3	-	
1	1	4	-	
1	1	5	-	
1	2	1	-	
1	2	2	+	C
1	2	3	-	
1	2	4	+	D
1	2	5	-	
2	1	1	-	
2	1	2	-	
2	1	3	+	E
2	1	4	+	F
2	1	5	+	G
2	2	1	-	
2	2	2	-	
2	2	3	+	H
2	2	4	+	I
2	2	5	+	J

Source: Compiled by the authors

Let us consider in more detail possible business termination strategies obtained as the result of logical analysis.

Strategy A involves a voluntary sale by the entrepreneur of the business. Strategy B consists in a voluntary transfer of the business to the entrepreneur's family members. Strategy C involves a forced transfer of the business to the entrepreneur's relatives in the event of his death (without a will) or loss of legal capacity. Strategy D involves preserving the enterprise after bankruptcy (a transfer to new owners). Strategy E involves voluntary closure of the enterprise by the entrepreneur. Strategy F is associated with closure of the enterprise through bankruptcy at the request of the entrepreneur. Strategy G provides for a voluntary exit from business through a merger or takeover of the business. Strategy H is associated with closure of the enterprise by decision of the court or authorized bodies. Strategy I involves closure of the enterprise by a court decision in a bankruptcy process. Strategy J is connected with a court decision on a merger or takeover of the business.

Business termination strategies are needed to plan and predict such processes. Understanding possible strategies is of interest to all entrepreneurs, as it helps to reduce the negative consequences of business termination if a need arises. In addition, these strategies can be used by entrepreneurs who wish to cease operations to make a profit through a profitable sale of their own enterprise. It should be noted that taking into account possible strategies of business termination is necessary for entrepreneurs in making decisions on resources, financing, development, and risk appetite (Fauchart & Gruber, 2011; Wiklund, Davidsson & Delmar, 2003).

Conclusions

The article presents a description of the current main reasons and opportunities for entrepreneurs to cease operations. The author offers a classification of reasons and a typology of strategies of cessation of entrepreneurial activities.

The scientific novelty of the study is as follows:

- a classification of the reasons for the cessation of business is proposed;
- four classes of exit reasons are described and the values of indicators characterizing the share of entrepreneurs who left business for each class in the total number of entrepreneurs who ceased their activities are evaluated;
- it is shown that in most economically developed countries exogenous causes do not have a big impact on the exit of entrepreneurs from business;
- it has been proven that cessation of entrepreneurial activity in economically developed countries is largely due to endogenous and personal reasons;
- it is shown that every thirteenth entrepreneur leaves business with the goal of turning the assets accumulated in the process of his activity into cash;
- in Russia, exit from business is mainly due to endogenous reasons (85%);
- the systematization of strategies for terminating business activities is proposed;
- ten main possible cessation strategies are considered.

The results of the study are of particular importance for the theory and practice of entrepreneurship in Russia. The results of the work can be used in scientific research on the issue of termination of entrepreneurial activity. They can be used in educational activities of higher education institutions, in the preparation of bachelors and masters, in advanced training, as well as in training specialists of state and municipal government bodies related to entrepreneurship support. The results are of interest to entrepreneurs, as they can help them to properly build business cessation programs if necessary.

The study is aimed at understanding reasons and strategies of terminating business. It provides new data on the specific features of termination of entrepreneurial activity, as well as shares of various reasons for it. The data are of interest to entrepreneurs, as well as government agencies and other organizations that make plans, programs and forecasts for the development of the business sector. In addition, this article contributes to the discussion on the issue of termination of business.

Investigation of termination of entrepreneurial activity seems relevant at the present stage of entrepreneurship development, since it helps to reduce negative consequences of this phenomenon, reduce economically unjustified liquidation of small and medium enterprises, as well as scientifically substantiate the assistance and support of entrepreneurs in critical situations.

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