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Selling, passing on or closing? Determinants of entrepreneurial intentions on exit modes

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Abstract:
Exit is an important part of the entrepreneurial lifecycle. In contrast to numerous previous studies on entry, however, little attention has been paid to entrepreneurial exit, and much less on exit modes thus far. Using a recent original survey data on small business owners in New Zealand, where a large majority of them prefer selling their firms when they exit, we empirically investigate the determinants of intended entrepreneurial exit modes: selling out, succession, or closure. Estimation results of multinomial logit analysis suggest that the intention to sell the business is significantly affected by the size and performance of the firm, the involvement of family and how the owner entered the business. Moreover, we find that the intention to liquidate the business is significantly affected by the size and performance of the firm and partly by family involvement in the business.

Key words: entrepreneurial exit, liquidation, small and medium enterprise (SME), New Zealand

Introduction

Entrepreneurial exit is an important part of the entrepreneurial lifecycle (Brockner *et al.*, 2004). To date, numerous empirical researches have been made on the factors of entrepreneurial start-ups. However, less attention has been paid to entrepreneurial exit. Indeed, few papers address the choice of exit modes of entrepreneurs. Existing research frames entrepreneurial exit mostly as business exit, i.e. the discontinuation of the business implying business failure (Bruederl *et al.*, 1992). However, there is an emerging stream of research that acknowledges that entrepreneurial exit may as well result in a successful outcome for the business as well as for the entrepreneur (Wennberg *et al.*, 2010; Amaral *et al.*, 2007; Bates, 2005).

In this paper, we argue that the exit of the entrepreneur and the exit of the firm should be conceptually differentiated although the entrepreneur and the firm are interdependent entities. For example, an entrepreneur exits from his or her firm while the firm continues its operation, when he or she sells the firm to another owner or passes the firm on to family members or core employees (i. e. business succession). However, entrepreneurs and firms can exit at the same time when the former decide to liquidate their firms – voluntarily or compulsory. In this paper, we distinguish between these three exit modes – selling, passing on, and closing – resulting from the combinations of entrepreneurial and firm exit.

Among these three modes, business succession has been extensively investigated mainly in the field of family firm research. Bjuggren and Sund (2002) argue that intrafamily succession should be the preferred route for business ownership transfer because only family members can generate competitive advantage by accumulating the distinctive knowledge that is needed to run the firm successfully and tap into the resources of the family's social network. Empirical evidence, however, shows high failure rates of intergenerational succession (Davis & Harveston, 1998; Kets de Vries, 1993; Ward, 1987; Handler, 1992; Morris *et al.*, 1997). There is a perceived need to explore exit routes other than succession that dominates the academic literature. There is growing evidence that the owners of small and medium enterprises (SMEs) increasingly intend to exit from their businesses by selling them instead of passing them on (Bruce & Picard, 2006). Beside the intentions of the SME owners themselves, the descendants increasingly wish to have the firms sold to relieve them from succession pressure (Sten, 2006), partly because entrepreneurs should take higher risk than employees.

From this background, we need to better understand the factors that determine entrepreneurial exit mode intentions other than passing the firm on. There is a particular dearth of evidence on selling or liquidating the business as alternative exit routes. This paper contributes to the emerging stream of research on the factors that contribute to the choice of exit routes. The research question of this paper is "what factors determine SME owners' intentions to sell or liquidate the firms instead of passing them on to the successors". Thus, we empirically investigate the effects of the firm's and owner's characteristics on the choice of selling or closing the firm as alternative exit modes to business succession.

The research question is investigated using a sample of 284 independent SMEs in New Zealand. All of the firms in the sample intend to exit their firms within five years. It is characteristic of SME owners in New Zealand that a large majority of them prefer selling their businesses to other exit modes.

A major contribution of this paper is to explore entrepreneurial exit intention as a multidimensional phenomenon that considers multiple exit routes and acknowledges individual factors and firm characteristics as possible determinants of exit route choices. Previous research has predominantly distinguished between continuation and discontinuation of the firm based on the firm's economic performance (Bruederl *et al*., 1992), but has neglected the perspective of the entrepreneur as an important decision-maker. Entrepreneurs might not only find varying degrees of performance acceptable (Gimeno *et al*. 1997), but consider factors other than personal financial gain as important such as speed or quality of process (DeTienne, 2010). In this paper, we build on recent work by Wennberg *et al*. (2010) that conceptualises entrepreneurial exit as a complex career choice rather than the result of a simple success vs failure equation. While Wennberg *et al*. (2010) have investigated the factors that contribute to the actual exit outcome, this paper focuses on the determinants of the entrepreneurs' intended exit route. By providing empirical evidence on the determinants of exit intentions, this paper contributes to a better understanding of the motivations of entrepreneurs in the exit process.

Another contribution of this paper is to examine the factors that lead to business liquidation as a *preferred* exit route of the entrepreneur. There is a particular dearth of research on entrepreneurs who chose to voluntarily liquidate their businesses. Amaral *et al*. (2007) refer to this exit route as "divestment choice" and Wennberg *et al*. (2010) as "harvest liquidation", acknowledging that firms might be liquidated even if they are still profitable. Entrepreneurs have their individual thresholds for business performance and might not necessarily reflect the economic performance of the firm (Gimeno *et al.*, 1997). This form of exit route might be particularly applicable to small business owners that face retirement. Though we cannot clearly distinguish the motivation for business liquidation, we can at least focus on the voluntary liquidation as an exit route preferred to selling or passing the business on to someone else.

The remainder of this paper is organized as follows. The next section provides a review of previous empirical literature on the determinants of exit modes. In Section 3, we present some operational hypotheses for the empirical analysis. Section 4 gives a detailed discussion of the data source and descriptive statistics of sample firms. Section 5 shows and discusses the results of the analysis, and Section 6 consists of a summary of the main findings along with concluding remarks.

Literature review on entrepreneurial exit routes

The survival of family firms is considered to be an important economic issue (Shanker & Astrachan, 1996; Westhead & Cowling, 1998). Bjuggren and Sund (2002) argue that intrafamily succession should be the preferred route for business ownership transfer because only family members can generate competitive advantage by accumulating the distinctive knowledge that is needed to run the firm successfully and tap into the resources of the family's social network. Empirical evidence, however, shows high failure rates of intergenerational succession (Davis & Harveston, 1998; Kets de Vries, 1996; Ward, 1987; Handler, 1992; Morris *et al.*, 1997). As a result family firm succession has attracted considerable interest in an attempt to address the gap between the theoretically claimed importance of family firm survival and their high failure rate in practice.

In a recent systematic review of the extant literature on family firm succession, de Massis *et al*. (2008) have developed a comprehensive model of factors preventing intra-family succession. They address three causes of failed succession: (1) the potential family successor declines the management role, (2) the current management rejects potential family successors, or (3) the current management decides against family succession despite willing and capable successors being available, because the firm is not seen as financially viable or sufficiently rewarding. As antecedent factors preventing intra-family succession, they point out individual factors, relation factors, context factors, process factors and financial factors.

In cases where intra-family firm succession is problematic or not achievable, alternative options of ownership transfer are available to owners of independent firms (Howorth *et al*., 2004; Stokes & Blackburn, 2002; Cromie *et al*., 1995; Wright & Coyne, 1985). Firms can be liquidated – either compulsory or voluntarily – or sold through a trade sale or an initial public offering (IPO). While IPOs are not generally considered to be feasible except for a few firms with high growth potential backed by venture capitalists (Poutziouris, 2002), trade sales are regarded as unattractive if the identity of the firm should be maintained in the future (Scholes *et al*., 2007).

Alternatively, management buy-in (MBI) and management buy-out (MBO) provide the possibility of continued independent ownership that allow the owners to realize their investment: MBI and MBO describe the transfer of ownership to external and internal management, respectively (Scholes *et al*., 2007; Scholes *et al*., 2008). These two options are of particular interest for small firm owners. Recent evidence suggests that they are increasingly considered by owners of private firms as viable exit routes (Howorth *et al*., 2004; Bachkaniwala *et al*., 2001; Scholes *et al*., 2008).

Building mostly on agency theory as well as theories of trust and negotiation, previous literature suggests that successful ownership transfer is more likely to occur where the relationship between vendors and purchasers of firms is characterized with high level of trust and low information asymmetries and where previous owners continue to be involved after the transfer (Howorth *et al*., 2004). Information sharing is considered to be an important factor which in turn is influenced by the owner’s type (i. e. if he or she founded, inherited or bought the firm), governance structure (i.e. proportion of non-family management, outside directors or venture capitalists) and the objectives (i.e. long-term survival, family agenda) of the firm (Scholes *et al*., 2007; Scholes *et al*., 2008).

Despite the fact that liquidation and sale are accepted in the academic literature as entrepreneurial exit options, there is a dearth of empirical evidence relating to selling or closing the firm as alternative exit options that are available to business owners. This paper therefore contributes to the emerging stream of research on entrepreneurial exit other than intra-firm succession. More specifically, the research question of this paper is “what factors determine the intentions of small firm owners to sell or liquidate the firm instead of passing it on someone in the family or firm". There are perceived needs to understand the determinants of intended exit modes in order to adequately address the motivations of business owners in the exit process and thus to improve the efficiency in entrepreneurial exit decisions. Further, we will extend this research from family firms to independent non-family firms.

Determinants of exit modes

Firm size:

We consider firm size to be an important factor in determining entrepreneurial intention on exit modes. Evidence from family firm research suggests that, the smaller the firm size, the less likely it is that descendants intend to take over the business (Stavrou, 1999). Venter *et al*. (2005) argue that potential successors perceive small firms as not sufficiently rewarding in the future in financial as well as non-financial terms. Moreover, the probability of finding a suitable buyer is likely to decrease with firm size as well.

With regard to the mindset of small business owners, the higher prevalence of lifestyle businesses amongst small firms that focus on satisfying personal needs of the owner-manager rather than on business performance and growth makes it difficult to sell the firm (Martin *et al*., 2002). Low going-concern value of firms makes liquidation more likely as compared to high going-concern value, which is generally associated with larger firms and would be lost by liquidating the firm (Balcaen *et al*., 2009).

Further, it can be argued that, the smaller the firm, the less likely it is that liquidation would involve strong opposition from stakeholders including banks, suppliers, customers, and possibly employees. We may similarly argue that smaller firms bear smaller amount of sunk cost at liquidation and thus are easier to liquidate. In this regard, smaller firms have a "higher freedom of action" as compared to larger firms (Balacaen *et al*., 2009, p. 15). The above arguments suggest the following hypothesis:

H1: Owners of smaller firms are more likely to intend to close their firms than to sell or pass them on.

Entry modes:

We argue that firm entry mode is a further important determinant of entrepreneurial exit modes. According to Sharma (2003), the owner's emotional attachment to the firm is the most cited impediment to successfully passing the firm on. This is considered to be particularly strong for the founders of the firms, which results in a strong desire to maintain their involvement in the business they created (Landsberg, 1988; Harveston *et al*., 1997). However, more recent evidence suggests that owner-founder are not universally resisting retirement, but are rather concerned to protect personal and family wealth by ensuring continuation of the firm through family members (Westhead, 2003). In addition to maintaining their own involvement, maintaining the identity and tradition of their firm in the future might be of equal importance to owner-founders. In this case, a business sale is less likely to occur (Scholes *et al*., 2007). The owners who have purchased the firm, however, might be more likely to view the firm as a tradable asset with an interest to harvest their investment. Personal career or wealth considerations might outweigh the considerations of maintaining the firms' identity and traditions (Dyer & Handler, 1994). This argument is summarized in the following hypothesis:

H2: Owners who founded the firms by themselves are less likely to intend to sell them than those who purchased them.

Family firm:

The above argument can also be applied to family firms. In this study, family firms are defined as those whose owners regard them as such and which involve family members of the owners in management. In this sense, the firms that were founded by the current owners or those in which family members are involved in ownership are not necessarily family firms. We may assume that the owners of family firms are more likely to wish to pass their firms to internal successors when they exit than to sell or close them, as far as they have such potential successors in the management. This is because the emotional attachment of the owners to the firms is expected to be particularly high when they regard their firms as family firms. Therefore, we propose the following hypothesis:

H3: *Owners who regard their firms as family firms are less likely to intend to sell or close them than to pass them on to internal successors, as far as such successors are available in the management.*

METHODOLOGY

Empirical model and variables

In the following part, we will test our hypotheses by empirical analysis based on our original survey data. We employ multinomial logit model to estimate the effects of different factors on the choice of exit modes by small business owners. Thus, the dependent variable is the probability of the choice of each exit mode (*selling* = 1, *passing* on (succession) = 2, or *closing* = 3), where we regard the second exit mode "succession" as the baseline outcome and estimate the factors by which the other modes are chosen compared to the baseline.

Independent variables comprise the characteristics of firms and their owners. Table 1 explains the definitions of these variables. Firm characteristics are represented by 1) firm size measured as the number of employees in natural logarithm (*lnfirmsize*), 2) the dummy variable for family firms (*family*) defined here as those that are regarded by owners as such and that have family members in management, 3) the dummy variable for limited liability companies (*company*), 4) the trend of sales during the preceding year (*trend_sales*), and 5) the trend of profit rate during the preceding year (*trend_profit*). The characteristics of owners include 1) the dummy variable for founder (*founder*), 2) their age in 2007 (*ownerage*), 3) the dummy variable for female owners (*female*), and 4) the dummy variable for ethnic minorities (*minority*).

The performance variables *trend_sales* and *trend_profit* are interchangeably included in the model due to expected high correlation between them. Thus, we will estimate the multinomial logit model in two specifications: with *trend_sales* and with *trend_profit*. There variables measure the latest trend in business performance prior to the survey, which may affect the preference of owner-managers with regard to exit modes.

In accordance with our hypotheses, we consider *lnfirmsize*, *founder*, and *family* to be the most important variables for the choice of exit modes and use the others as control variables. Thus, we can describe our estimation model as follows:

Pr (*exitmode* 1, 2, 3)= *f* (*lnfirmsize*, *founder*, *family*, *controlvariables*)

Based on the hypotheses, we expect that *lnfirmsize* has negative and significant impact on the choice of closing (H1), *founder* has negative and significant impact on the choice of selling (H2), and *family* has negative and significant impact on the choices of selling and closing (H3), compared to succession.

In the following analysis, we focus on those owner-managers of small businesses who intend to exit from their business within five years. This is because those without exit intentions should be excluded from the analysis and exit intentions with longer time span may not be credible. However, with such an extraction, we should take the possibility of sample selection bias into consideration, if the intention to exit within five years is not randomly given, but relies on specific characteristics of firms or their owner-managers. Given such a sample selection, estimated results can be biased (Heckman, 1979).

To cope with this problem, we employ later sample selection promit model (Wynand and Van Praag, 1981) as a robustness check: In the first step, the propensity of intended early exit (within five years) is regressed on some firm and owner characteristics with a probit model. Then, in the second step, we estimate the propensity of choosing "selling" as the exit mode compared to succession ("passing on") again with a probit model, taking the results of the first step into consideration. The probit model in the second step includes the same variables used in the above multinomial logit model. Thus, the second step does not analyze the choice among three options (selling, passing on, and closing) using multinomial logit model, but a binary choice between selling and passing on[1]. In this estimation, we exclude from the sample the owner-managers preferring closure as the exit mode. Hence, we cannot check the sample selection bias with regard to Hypothesis 1 regarding the choice of closure.

The probit model of the first step on the determinants of intended early exit includes the characteristics of both owners (*ownerage*, *female*, *minority*) and firms (*lnfirmsize* and *trend_sales* or *trend_profit*). Moreover, we introduce four industry dummy variables for manufacturing (*d1*), construction (*d2*), wholesale and retail (*d3*), and other services (*d4*)[2] in

[1] This is because a two-step procedure with a probit model in the first step and a multinomial logit model in the second step is not yet developed. Hence, as a second-best solution, we employ later the sample selection (two-step) probit estimation by excluding a third option.

[2] Other service industries include 1) accommodation, cafes and restaurants, 2) transport and storage, 3) communication services, 4) finance and insurance, 5) property and business services, 6) education, 7) health and community services, 8) cultural and recreational services, and 8) personal and other services.

order to control for possible sectoral differences in exit intentions. The reference group that is not included in the model comprises agriculture, forestry and fishing as well as electricity, gas, and water supply industries.

Table 1: Definition of Variables

Variable	Definition
exitmode	Choices of entrepreneurial exit modes: 1 = *selling*, 2 = *passing* on to an internal successor (succession), 3 = *closing*
lnfirmsize	Number of employees in natural logarithm
founder	Dummy variable taking 1 if the owner is the founder of the firm, 0 otherwise
family	Dummy variable taking 1 if the owner regards the firm as a family firm and his or her family members are in management, 0 otherwise
company	Dummy variable taking 1 if the firm is a limited liability company, 0 otherwise
trend_sales	Trend of sales during the preceding year measured by 5-point Likert scale (from 1: significantly increased to 5: significantly decreased)
trend_profit	Trend of profit rate during the preceding year measured by 5-point Likert scale (from 1: significantly increased to 5: significantly decreased)
ownerage	Age of the owner in 2007
female	A dummy taking 1 if the owner is female, 0 otherwise
minority	A dummy taking 1 if the owner belongs to ethnic minorities, 0 otherwise
d1	Dummy variable for the manufacturing industry
d2	Dummy variable for the construction industry
d3	Dummy variable for the wholesale and retail industries
d4	Dummy variable for other service industries

Sample and data

Our empirical analysis is based on one wave of a longitudinal survey of SMEs in New Zealand. The study defines SMEs as the firms with less than 100 employees (Cameron & Massey, 1999). New Zealand's business population comprises approximately 470,000 'economically significant' businesses (Ministry of Economic Development, 2010), of which 99% are classified as SMEs according to our definition. The sample used in the study was drawn from the database of APN Infomedia, a commercial provider of business-to-business information in New Zealand.

The study followed Dillman's (2000) Total Design Method (TDM) in choosing the sample and in developing, designing, and pilot-testing the questionnaire. The unit of analysis of this study was at the individual level, hence all mailouts were addressed to the owners and/or managers of firms who are expected to respond to the survey. For the 2007 wave the questionnaire was sent to 5,500 independent small business owners in New Zealand of which 797 were unreachable or ineligible. We obtained 1,361 effective responses. The response rate of 29% is as high as the average response rate of 27% for surveys of this type involving small firms (Barttholomew & Smith, 2006).

From these responses, we excluded inadequate answers that select no or more than one exit modes with exit intention or select any exit mode despite no exit intention, and then selected those owners who intend to exit from their firms within five years. Thus, we obtained a sample of 284 owners of small businesses, who intend to exit in the foreseeable future, for our empirical analysis. It is noteworthy that 40% of the respondents (after excluding inadequate answers) prefer early exit within five years.

Table 2: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
selling (exitmode=1)	284	0.715	0.452	0	1
passing (exitmode=2)	284	0.204	0.404	0	1
closing (exitmode=3)	284	0.074	0.262	0	1
firmsize*	280	9.10	10.7	0	72
founder	274	0.533	0.500	0	1
family	278	0.270	0.445	0	1
trend_sales	262	2.68	0.940	1	5
trend_profit	258	2.81	0.923	1	5
company	274	0.708	0.456	0	1
ownerage	282	55.5	9.75	30	84
female	282	0.291	0.455	0	1
minority	284	0.123	0.329	0	1

* The values in natural logarithm are used in the empirical analysis.

* Industry dummies are omitted from the table.

Sample statistics are summarized in Table 2. Regarding the modes of exit, 71% of business owners in our sample intend to sell their firms to a third party in order to raise funds, while 20% intend to pass them on to internal successors (family members or core employees). Only 7% plan to close them within five years. The number of employees is 9 on average. The largest firm in the sample has 72 employees, so that our sample comprises considerably small businesses. A majority of the sample firms (53%) were founded by the owners themselves rather than bought or inherited by them. Family members are in the management in 42% of the sample firms, but only two-thirds of them (27% of the whole sample) are regarded by the respondents as family firms. Limited liability companies account for 71% of the cases. The owners were on average 55 years old when they responded to the questionnaire. 29% of the respondents are female. 12% belong to ethnic minorities.

Estimation results

Table 3 shows the estimation results of the multinomial logit model. The baseline outcome is succession (passing on), so that these results demonstrate the determinants of intended entrepreneurial exits through selling or closing the firm as compared to passing it on to an internal successor. The upper and the lower half of the table correspond to the choice of selling and closing, respectively. Specifications (1) and (2) differ in included performance variable (*trend_sales* or *trend_profit*). The numbers of observations are smaller than the sample size (284) due to missing values in some variables. The values of likelihood ratio (LR) are 64 and 71, which suggest sufficiently good model fit. Pseudo R-square is above 0.2 in both specifications, so that the explanatory power of our model is sufficiently high for such a micro data analysis.

Both specifications show similar results. With regard to owner-specific variables, *founder* and *ownerage* have negative and significant effects on the choice of selling the firm, suggesting that the owners who started up the firm by themselves and senior owners are less likely to choose to sell the firm than those who bought or inherited the firm and younger owners. Thus, Hypothesis 2 is supported. On the contrary, these variables have no significant effects on the choice of closing the firm. The variables *female* and *minority* show no significant effects for both choices.

Table 3: Empirical Results (Multinomial Logit Model)

Basic outcome = exitmode 2 (passing)		
Variables/specifications	(1)	(2)
exitmode=1 (selling)		
lnfirmsize	-0.791 (-2.66)***	-0.656 (-2.29)**
founder	-1.14 (-2.57)***	-1.16 (-2.61)***
family	-0.906 (-2.13)**	-0.878 (-2.08)**
trend_sales	-0.585 (-2.57)***	
trend_profit		-0.461 (-2.15)**
company	-0.814 (-1.39)	-0.650 (-1.14)
ownerage	-0.0484 (-1.97)**	-0.0525 (-2.11)**
female	-0.374 (-0.82)	-0.381 (-0.83)
minority	0.316 (0.39)	0.318 (0.39)
constant	8.98 (4.72)***	8.49 (4.65)***
exitmode=3 (closing)		
lnfirmsize	-2.09 (-4.13)***	-2.09 (-4.02)***
founder	0.259 (0.34)	0.259 (0.33)
family	-1.38 (-1.73)*	-1.28 (-1.57)
trend_sales	-0.366 (-0.97)	
trend_profit		-0.155 (-0.39)
company	-1.20 (-1.44)	-0.981 (-1.18)
ownerage	-0.00648 (-0.16)	-0.0112 (-0.26)
female	-0.173 (-0.23)	-0.512 (-0.61)
minority	1.15 (1.08)	1.09 (1.03)
constant	4.99 (1.70)*	4.13 (1.35)
Log likelihood	-124.3	-121.8
LR chi2(16)	70.9***	64.5***
Pseudo R2	0.222	0.209
Observations	230	226

* Z values in parentheses. Level of significance: *** 1%, ** 5%, * 10%.

It is noteworthy that firm-specific variables significantly affect the choice of exit modes rather than owner-specific variables. The variable *lnfirmsize* has negative effect on the choice of both selling and closing compared to succession. This result suggests that the owners of relatively large firms are less likely to intend to close or sell their firms than passing them on to their successors compared to the owners of smaller firms. It supports Hypothesis 1 partially with regard to the choice between succession and closure. Hypothesis 3 is also supported by the results that the coefficients of the variables *family* are negative and significant[3]. In sum, our empirical results support all hypotheses.

Moreover, the results show that the owner-managers of the firms that performed well tend to prefer selling the firms to internal succession[4], while recent business performance does not affect the choice between closure and succession. The empirical results presented above are robust in different specifications (with different combinations of independent variables).

Robustness check with sample selection model

In this section, we check the robustness of the empirical results of the multinomial logit regression by using a sample selection probit model explained above. In the first step, the factors of early exit intentions (within five years) are examined using a probit model. In the second step, we estimate again the determinants of preferred exit modes with another probit model that comprises the same independent variables as the previous multinomial logit model, taking the correlation of the error terms of both probit estimations into consideration.

Table 4 shows the estimation results of the probit model with sample selection. Specifications (1) and (2) include *trend_sales* and *trend_profit* as performance variables, respectively. In the first step, we find that owner-specific characteristics (*female*, *minority*, and *ownerage*) significantly affect the intention of exit within five years, while firm characteristics (*lnfirmsize* and *trend_sales*) have no impact on the preference of early exit. Specifically, older owners, female owners, and those belonging to ethnic minorities tend to prefer early exit compared to other types. Moreover, we find that owners' preference of early exit significantly differs across industres. It is interesting that firm characteristics that significantly affect the choice of exit modes in the second step have no impact of the choice of early exit. On the contrary, owner-specific factors significantly affect the choice of early

[3] Its effect on the choice of closure is slightly insignificant in the specification 2 with *trend_profit*. However, it turns out to be significant after excluding owner-specific variables (*female*, *minority*, and *ownerage*) from the model.

[4] Negative coefficients of these performance variables mean positive impacts because of the reverse measurement (from 1: significantly increased to 5: significantly decreased).

exit but have no impact on the choice of exit modes. These results are robust in different specifications of both probit models.

Table 4: Empirical Results (Probit Model with Sample Selection)

Variables/specifications	(1)	(2)
2. Step: exit by selling		
lnfirmsize	-0.415 (-2.57)***	-0.354 (-2.29)**
founder	-0.620 (-2.51)**	-0.601 (-2.41)**
family	-0.498 (-2.06)**	-0.478 (-2.02)**
trend_sales	-0.310 (-2.46)**	
trend_profit		-0.248 (-2.12)**
company	-0.381 (-1.24)	-0.304 (-1.02)
ownerage	-0.0261 (-0.90)	-0.0325 (-1.33)
female	-0.200 (-0.67)	-0.247 (-0.86)
minority	0.212 (0.46)	0.196 (0.43)
constant	4.91 (2.46)**	4.98 (3.05)***
1. Step: early exit		
lnfirmsize	0.0733 (1.02)	0.0907 (1.26)
trend_sales	0.00390 (0.97)	
trend_profit		0.0696 (1.03)
ownerage	0.0599 (8.11)***	0.0585 (7.94)***
female	0.352 (2.58)***	0.375 (2.73)***
minority	0.351 (1.80)*	0.320 (1.65)*
d1	0.689 (2.43)**	0.761 (2.62)***
d2	0.511 (1.68)*	0.523 (1.70)*
d3	0.894 (3.40)***	0.923 (3.40)***
d4	0.742 (2.87)***	0.816 (3.06)***
constant	-3.97 (-7.51)***	-4.13 (-7.65)***
Log likelihood	-375.3	-374.4
LR chi2(8) (2. Step)	30.3***	27.1***
LR test of independent equations (rho=0)	0.04	0.15
observations (1. step)	508	505
observations (2. step)	205	204

* Z values in parentheses. Level of significance: *** 1%, ** 5%, * 10%.

Although the preference of early exit significantly depends on some variables that are included in the model of intended exit mode choice, sample selection bias is rejected by LR test, since the correlation between the independent equations (rho) is not significantly different from zero. However, comparing the results in Table 4 with those in Table 3, we find that the coefficient of *ownerage* is no more significant in the probit model of exit mode choice, after controlling for the determinants of early exit intentions. Therefore, owner's age is an important determinant of the intended exit timeline rather than exit mode choice.

DISCUSSION

Findings are discussed along five themes that emerged from the analytical results:

Exit as a career choice

Overall our results provide evidence that business owners have different exit mode intentions, including the intention to voluntarily liquidate the business, contributing to an emerging stream of research that considers entrepreneurial exit as a career choice rather than a result of failed performance (Wennberg *et al*., 2010). When entrepreneurial exit is conceptualised as a career choice it shifts the focus to the individual as a decision maker allowing a greater understanding of the *"how, when, and why"* of the exit process (DeTienne, 2010, p.204). Further a career choice perspective acknowledges that the exit of the entrepreneurs from their firm and the exit of the firm itself are two separate albeit interrelated phenomena and that the notion of success vs failure of the exit process needs a more nuanced consideration. As such, even the liquidation of the business might still be an exit route that some business owners consider to be a successful outcome for themselves as in the case of a harvest liquidation (Wennberg *et al*., 2010).

Intention of business liquidation not affected by firm performance

While the majority of business owners in our sample intend to sell their business, a small proportion indicated that they intend to voluntarily liquidate their business. Confirming our hypothesis our results suggest that firm size significantly affects the intention to liquidate the business. This means that the smaller the business, the more likely it is that the business owner intends to liquidate it. However, the intention to liquidate the business instead of selling it or passing it on is not affected by the performance of the firm. This result allows for different interpretations: Firstly, business owners have different thresholds as to when they find performance acceptable (Gimeno *et al*., 1997). Given that our measure of firm performance was a self-reported trend of sales and profit during the preceding year, it can be argued that our result is a reflection of individual performance thresholds rather than economic performance of the firm. Secondly, the goals and ambitions of the business owner have to be considered. DeTienne (2010) argues that business owners with a lifestyle or income replacement goal are unlikely to have an exit strategy and few options available particularly at a mature stage of the entrepreneurial lifecycle. Business owners might thus liquidate their business to harvest its assets as long as the business is profitable.

Importance of selling the firm

Overall, the majority of business owners in our sample (71%) intend to sell their firm within the next five years with the aim to harvest the economic value. Given that the average age of respondents was 55, it seems that these business owners attach high importance to the ability of the firm to secure retirement by generating funds from selling the firm. In a market for selling SMEs, only the ones that show strong performance, significant assets, are operating in niche markets and have a value between £250,000 and £3million are considered to be ‘saleable’ (Martin et al., 2002). Considering the prevalence of lifestyle or income replacement businesses amongst SMEs these thresholds might be difficult to achieve for the majority of SMEs. Small business owners, however, seem to attach considerable importance on harvesting the economic value of the firm to generate retirement savings (Battisti, 2008). In this case, business owners with unrealistic ideas about the value and saleability of the firm and with no appropriate exit planning are potentially vulnerable with regard to their retirement provisions.

Our results show that owners who have started up the firm are less likely to intend to sell the firm. It can be argued that the owner’s emotional attachment to the firm and their desire to maintain involvement in the business (Sharma, 2003) as well as maintaining identity and tradition of the firm (Scholes *et al*., 2007) hinder sale as an exit route. In addition to entry mode, firm size and firm performance impact on the respondent’s preference to sell the firm. While firm size has a negative effect on the intention to sell, firm performance has a positive one.

Owner age affects willingness to exit rather than choice of exit mode

Empirical evidence on the influence of owner age on exit has been mixed and it has been argued that the conceptualisation of exit as failure and the lack of distinction between different exit routes have contributed to inconsistent findings (Wennberg *et al*., 2010).

DeTienne and Cardon (2010) found that the intention to liquidate the business and the intention to pass the firm on to family members is positively related to the age of the business owner. While we did not find a relationship between owner age and their intention to liquidate the business, our results show that owner age has a negative impact on the choice of selling the business as an exit route. This finding seems to contradict Wennberg *et al.* (2010) who found that age was positively related to selling the business under harvest as well as financial distress conditions i.e. to avoid liquidation or bankruptcy. Results of our robustness check, however, indicate that owner age has no longer an influence on the intention to sell the business after controlling for owner age as a determinant of the exit timeline. This finding suggests that age does not necessarily influence business owners' intention of how to exit, but when to exit. Specifically, older owners prefer an early exit within the next five years.

Exit timeline and choice of exit mode

Considering exit as a career choice shifts the focus to the relevance of owner characteristics in the exit process. Interestingly, our results show that, while characteristics of the owner significantly affect the exit timeline, only the entry mode of the owner affects the choice of exit mode, i.e. selling the firm compared to passing it on or closing it. Characteristics of the firm, however, affect the choice of entry mode, but not the exit timeline.

CONCLUSION AND IMPLICATIONS

A major contribution of this paper is to explore entrepreneurial exit intention as a multidimensional phenomenon that considers multiple exit routes and acknowledges individual factors and firm characteristics as possible determinants of exit route choices. Previous research has predominantly distinguished between continuation and discontinuation of the firm based on the firm's economic performance (Bruederl *et al*., 1992), but has neglected the perspective of the entrepreneur as an important decision-maker. A contribution of this study is the identification of firm and owner characteristics that are significantly associated with different intentions on exit modes. Further, this study contributes to a better understanding of business liquidation as an exit route for small business owners which is an area that is currently under-researched. Closing the business has been predominantly discussed from the perspective of business failure, i.e. bankruptcy. However, business closure might be the result of deliberate decision that is not caused by distress (Wennberg *et al*., 2010).

Implications for policy and business assistance

While considerable support is available for start-up firms, support for firms at their final stage of ownership lifecycle is rare. Relatively little is known how to support these firms – especially if they choose an exit route other than succession. Our results stress the growing importance business owners place on harvesting the economic value of their business for retirement purposes. While business sale is a desirable outcome for a growing number of business owners, prior evidence, however, suggests that, only a minority achieve a satisfying outcome. Creating awareness for exit planning amongst SME owners and providing targeted assistance might become important areas for policy development.

Implications for further research

Future research might benefit from a longitudinal approach to examine the relationship between exit intentions and actual exit outcome for the business owner as well as the business itself and the factors that contribute to a successful exit process. Our work indicates that owner characteristics like gender and ethnicity significantly affect the exit timeline. These linkages have not yet been explored in the literature.

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