



Making sense of entrepreneurial exit strategies: A typology and test



Dawn R. DeTienne^{a,1}, Alexander McKelvie^{b,*}, Gaylen N. Chandler^{c,2}

^a Colorado State University, United States

^b Department of Entrepreneurship & Emerging Enterprises, Whitman School of Management, Syracuse University, United States

^c Center for Entrepreneurship, Wichita State University, United States

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ABSTRACT

Entrepreneurial exit is a major event in the development of a venture. However, we have little understanding of the factors that drive the development of an important pre-cursor to exit: the exit strategy of the founder. Based on the existing literature, we develop a typology of entrepreneurial exit strategies consisting of three higher-level exit categories (i.e., financial harvest, stewardship, and voluntary cessation) and develop an initial test of our typology. Specifically, we examine entrepreneurs' perceived innovativeness of their opportunity, motivational considerations, decision-making approach, founding team, and firm size. Our results show different predictors for each of the three exit strategy types and represent a significant contribution to the understanding of exit strategies in new ventures.

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1. Executive summary

Entrepreneurial exits, and in particular exit strategies, are an important part of entrepreneurship. For instance, in 2012, world-wide merger and acquisitions (M&A) activity reached \$2.6 trillion. Of this, \$858 billion were firms valued at under \$500 million (mid-market M&A) (PricewaterhouseCoopers, 2013; Thomson Reuters, 2013). In many of these mid-market firms, the founder is still at the helm and is seeking an exit. Further, it is estimated that 40% of family business owners (ranging from 60 to 80% of all businesses worldwide) expect to retire by 2017, but only 41% plan to pass the business to the next generation (Mass Mutual, 2007). In addition, in the U.S. alone in 2012, over 700,000 small businesses closed (Small Business Administration, 2013). This transfer of wealth, whether it be from M&A activity, family business succession, business closure, or other types of exit (e.g. initial public offering), is substantial and warrants scholarly examination.

In this manuscript, we examine entrepreneurial exit strategies—the mode through which the entrepreneur intends to exit the firm. Exit strategies are often developed at a stage when many of the important imprinting and future orientations of the firm are formed.

* Corresponding author at: 721 University Ave., Syracuse NY, 13244, United States. Tel.: +1 315 443 7252.

E-mail addresses: dawn.detienne@business.colostate.edu (D.R. DeTienne), mckelvie@syr.edu (A. McKelvie), Gaylen.chandler@wichita.edu (G.N. Chandler).

¹ Tel.: +1 970 631 5930.

² Tel.: +1 316 978 5253.

Thus, they provide a lens through which to examine the entire entrepreneurial process including the entrepreneur's subsequent actual exit from the firm. As with other early stage strategies, entrepreneurial exit strategies influence future decisions and behaviors.

We identify the exit strategies presented in the literature (i.e., IPO, acquisition, independent sale, employee buyout, family business transfer, liquidation, and discontinuance) and condense them in a typology of three higher order exit strategies: financial harvest, stewardship, and voluntary cessation. We identify relevant predictor variables at the individual and firm-level and test their relationship with our exit strategy typology.

Our results demonstrate unique predictors for the exit strategy types. For example we find that entrepreneurs with financial harvest exit strategies are more likely to perceive their initial opportunity to be highly innovative and to follow a causation-based decision making process. Those with a stewardship exit strategy are less likely to be concerned with extrinsic rewards and are motivated by autonomy. They have smaller founding teams but employ larger numbers of employees. Founders who create ventures with a liquidation or discontinuance exit strategy (e.g., voluntary cessation) perceive their product to be less innovative, have fewer employees, and are less likely to utilize a causation-based decision making process.

In summary, we provide greater depth to exit strategy categories. While actual exits are important, the early stage and founders' on-going actions and decisions are often influenced by exit strategies. Our work suggests important differences between financial harvest, stewardship, and voluntary cessation exit strategies and is the first research to provide a systematic analysis of the factors that will predict the type of exit strategies different founders will pursue.

"So like the North Star guiding Columbus across the Atlantic to America, your definition of success should be used as your strategic heading. It launches you off in the right direction, helps keep you on track, but also illuminates the way when you feel uncertain or feel you are off track... every stage of the entrepreneurial life cycle becomes clearer and easier to take if you know precisely what you plan to do with the business in the end." (Price, 2012)

2. Introduction

Entrepreneurial exit has recently emerged as a central topic in entrepreneurship research (DeTienne, 2010). Exit research has primarily addressed three issues: 1) the importance of construct definition due to exit's multi-level nature (i.e., exit of firms from the market and exit of founders from the firm) (Wennberg, 2008), 2) the critical distinction between exit and failure (Bates, 2005; Headd, 2003; Wennberg et al., 2010), and 3) the various routes of entrepreneurial exit (Wennberg, 2008; Wennberg et al., 2011). It is the third area (i.e., exit routes) in which our manuscript makes its primary contribution. However, rather than examining actual exit, as has been typical in previous research, we examine entrepreneurial exit strategies. An exit strategy is the mode through which the entrepreneur intends to exit the firm. This is different from research on entrepreneurial exit that focuses on an empirically measurable exit "event" after exit has taken place (Headd, 2003; Wennberg et al., 2010).

An examination of early exit strategies of entrepreneurs, which are often developed at a stage when many of the important imprinting and future orientations of the firm may be formed, is key to understanding not only the entrepreneur's actual (subsequent) exit from the firm but also the entire entrepreneurial process (Boeker, 1989; Brush, et al., 2008; Fauchart and Gruber, 2011). As noted by Brush et al. (2008: 160), "the formation of a new venture requires crucial strategic choices... and activities that determine the ultimate success of the fledgling firm." As with other early stage strategies, entrepreneurial exit strategies are likely to influence future decisions and behaviors, including resource acquisition, funding, growth, and risk-taking propensities (DeTienne, 2010; Fauchart and Gruber, 2011; Wiklund et al., 2003). Thus, insight into early stage entrepreneurial exit strategies not only increases our understanding of the ultimate exit, but also provides critical information regarding new venture development and processes. In addition, in their critical review of entrepreneurial exit research, Wennberg and DeTienne (2014) identify exit strategies as one of the four key research issues for the next decade.

The objective of this manuscript is to provide an in-depth examination of entrepreneurial exit strategies, develop a typology surrounding these strategies, and draw upon both individual and firm-level variables to conduct an early test of the typology. This work is not driven by a single theoretical perspective, rather, we choose variables based on the relevant entrepreneurship and entrepreneurial exit literature. We make two key contributions to the literature. First, our typology and categorization of each of the prominent entrepreneurial exit strategies identified in the literature into three higher-level categories provides a more summative understanding about entrepreneurial exit in general and exit strategies in particular. It also provides a framework for future research. Second, we provide an initial empirical test of our typology. Our results suggest different predictors for each of our categories, thereby providing initial evidence of the usefulness of our categorization scheme.

The manuscript proceeds as follows. We begin with the literature review from which we develop our typology. We then develop hypotheses followed by an initial using a sample of 189 private firms in two industries in the United States. Finally, we discuss our results and implications for future scholarship.

3. Entrepreneurial exit and exit strategies

3.1. The importance of entrepreneurial exit and exit strategies

Entrepreneurial exit refers to "the process by which the founders of privately held firms leave the firms they helped to create" (DeTienne, 2010: 203). Exit is increasingly recognized as being important to scholarship and practice. One reason for this importance

is that exit can have substantial financial implications. For example, in 2012, private worldwide middle-market exits (i.e., those between \$2 million and \$500 million) reached \$858 billion (PricewaterhouseCoopers, 2013; Thomson Reuters, 2013). In addition, the development of an exit strategy—the mode through which the entrepreneur plans to exit—is becoming more important for several economic and demographic reasons, including a latent supply of businesses coming into the market over the next several years (BizBuySell Insight Reports, 2013). Discussing the situation in New Zealand (where more 50% of small and medium enterprises [SMEs] are owned by someone over 50 years old), Rosanowski (2011: 58) comments: “Remember that there are many owners of these businesses who are planning to exit in the next five to 15 years, which means there’s going to be an increase in the seller’s market... Setting up goals now will help you make your business more attractive... You might find that there are some obstacles to exiting your business, but develop a strategy to get around these.” In this competitive market, developing an exit strategy will be critical as it will allow founders to evaluate their personal goals and objectives and set a direction to achieve their desired exit.

3.2. The state of the literature on entrepreneurial exits and exit strategies

According to Peters (2009: 4), “Exits are the least understood part of investing and entrepreneurship. Very little has been written about exits—the emphasis is usually on starting, financing and growing technology companies.” However, scholars have recently begun to accumulate a body of knowledge surrounding exit, although little academic literature has addressed the development, evolution, and measurement of exit strategies (see DeTienne and Cardon, 2012 and Ryan and Powers, 2012 for exceptions). This may be because actual exit is a measurable event that can be easily captured empirically, whereas an exit strategy is a future-oriented intention that can evolve over time, making it much more difficult to measure. However, as is often the case in the social sciences, that which is difficult to capture (in our case, exit strategies) may be critical to understanding the phenomenon (i.e., entrepreneurship).

To more fully understand entrepreneurial exit strategies, we analyze the current state of knowledge regarding entrepreneurial exit. While not exhaustive of all the research on entrepreneurial exit, it provides a summary of the current state of the literature. In developing this outline, we identify different types of exit strategies, provide insight for our typology, and develop potential variables for an initial test. The results of our examination are in Table 1 below. To identify this literature, we searched Business Source Complete (a proprietary EBSCO Publishing database that provides full-text journal articles from more 2000 peer-reviewed journals) using the search terms “exit” and “exit strategy” coupled with the terms “business,” “entrepreneur,” and “founder.”

Of the articles we identified, only five (Brown and Coverly, 1999; Bruce and Picard, 2006; DeTienne and Cardon, 2012; Kearney, 2008; Ryan and Powers, 2012) examined exit strategies. Three of those five (Brown and Coverly, 1999; Bruce and Picard, 2006; Kearney, 2008) investigated the extent to which entrepreneurs have an exit strategy. For example, Brown and Coverly (1999) examined “planners” and “non-planners” in regard to succession intentions. Bruce and Picard (2006) looked at 4311 Canadian businesses, finding that 71% intend to exit within 10 years and that 35% have some type of exit strategy. On the other hand, DeTienne and Cardon (2012) examined exit intentions, the extent to which entrepreneurs have an exit strategy. Similarly, Ryan and Powers (2012) examined specific exit strategies (i.e., family succession; sales, including trade sales, other sales, and management buyout; and shutdowns) in Ireland and Scotland. These five manuscripts offer further support for the importance of exit strategies and detail specific exit strategies that entrepreneurs might pursue.

Given the limited literature on exit strategies, we turned to the more general category of entrepreneurial exit. One stream of research employs large databases to distinguish between survival and different types of exits. In a large study of U.S. census information, Headd (2003) found that 50% of firms survived four years, 17% closed but were considered successful, and 33% closed and were considered unsuccessful. This study was one of the first to distinguish between successful and unsuccessful closures. Similarly, Wennberg et al. (2010) examined Swedish firms and found that both firms in financial distress and firms performing well exit from the market. Balcaen et al. (2012) examined 6118 distress-related exits in Belgium and found that 41% filed for bankruptcy, 44% liquidated voluntarily, and 14% were acquired. Other researchers have examined exit routes within venture capital (VC) investments. For example, Cumming (2008) examined 223 European VC investments and identified ongoing firms (16%), IPOs (14%), acquisitions (33%), buy-backs (8%), and write-offs (16%). Essentially, the bulk of this work clarifies the differences between failure and exit and notes that firms exit via many different exit paths, including identifying voluntary liquidation as a choice even for distressed firms. Overall, our examination of the entrepreneurial exit literature helped us to organize and classify previous focal areas of the literature into basic exit strategies (i.e., IPO, acquisition by a company, sale to an individual, employee buyout, family succession, liquidation, and discontinuance).

4. Exit strategies and the development of a typology

The literature highlighted provides a framework for three types of exit strategies: 1) financial harvest strategies such as an IPO or acquisition by another company resulting in substantial value accrued to the entrepreneur (Cumming, 2008; Poulsen and Stegemoller, 2008); 2) stewardship strategies such as family succession, employee buyout or sale to an individual (Ambrose, 1983; Hernandez, 2012; Zellweger and Astrachan, 2008) resulting in pro-social and pro-organizational behaviors which allow the founders to have influence over the future and long-term viability of the firm; and 3) voluntary cessation strategies such as liquidation and discontinuance (Harhoff et al., 1998; Schary, 1991) which allow the founders to disband a venture when the primary activity ends or changes or when the firm fulfills the purpose for which it was formed. In this section we expand upon the perspectives above and develop a typology using founder characteristics and motivation, firm characteristics, and start-up decisions to help us classify exit strategies.

Table 1
Previous studies examining different exit routes and/or strategies.

Authors	Sample	Exits/exit strategies examined	Findings
Ambrose (1983)	53 owners of business exits from 1976 to 1981 in Nebraska, USA	Family business succession liquidation	83% transferred to children/grandchildren 17% liquidated
Åsterbo and Winter (2012)	376 distressed (Z- score less than .5) firms in 16 industries in the U.S.	Bankruptcy/liquidation Survival Acquisition	16% bankruptcy/liquidation 70% survived 14% acquired
Balcaen et al. (2012)	6118 distress-related exits in Belgium	Bankruptcy Liquidation Merger & acquisition	41% bankruptcy, 44% voluntary liquidation, 14% M&A Bankruptcy, voluntary liquidation, and M&A are fundamentally distinct exit routes for distressed firms.
Bates (2005)	1425 firms entrants between 1989 and 1992 who had exited their business by 1996	Successful closures Unsuccessful closures	Among firms doing business in 1992, 36% had closed down by 1996; 38% of those were successful closures.
Birley and Westhead (1993)	10,348 business advertised for sale in the Financial Times between 1983 and 1989	5 exit routes: sale to a third, independent party; sale to another business; sale to management or emps, public quotations, and liquidation	Of those sold: private and advertised sales accounts for 72% of sales; 9% public listing; 5% merger; 14% MBO
Brown and Coverly (1999)	21 owners/managers in East Anglia, UK	Planning vs not planning for succession	38% have a succession plan (even an informal one). 62% do not have a succession plan.
Bruce and Picard (2006)	4311 Canadian Federation of Independent Business	Exit and succession	41% intend to exit within 5 years, and 71% intend to exit within 10 years. 28% have an informal exit strategy, and 7% have a formal exit strategy.
Cumming (2008)	223 VC investments from 1996–2005 in 11 European countries	IPO Acquisition Buybacks Write-offs On-going entities	32 IPOs, 74 acquisitions, 17 buy-backs, 64 write-offs, 36 on-going Strong VC control rights (type of equity, right to replace CEO, majority board seats and voting, drag along rights, redemption, antidilution, % of ownership, lead investment value, prior rounds) associated with higher probability of acquisitions and lower probability of IPOs and write-offs
DeTienne and Cardon (2012)	189 U.S. firms in electronic measurements and surgical medical instruments	Exit strategy? Exit path—family member transfer, independent sale, acquisition, employee buyout, IPO, liquidation	IPO pos. related to education, acquisition pos. related to having an exit strategy, family succession neg. related to education, employee B/O pos. related to industry experience, independent sale neg. related to entrepreneur experience, liquidation neg. related to entrepreneur experience and pos. related to entrepreneur age

Harada (2007)	1743 Japanese small business owners who had exited their firms in 2001 and 2002	Reasons for exits	Despairing perception of business (economic reasons) 38% Age of the manager 20% illness/injury 15% Diminished motivation 7% Bankruptcy 2%
Harhoff et al. (1998)	10,902 West German firms from all major sectors of the economy	Voluntary liquidation Insolvencies (forced liquidation)	Total mortality: 10% of all firms Insolvency 2.7% of all firms, Voluntary liquidation 7.4% of all firms For firms under 2 years old: Mortality 20.6% Insolvency 6.8%, voluntary liquidation 13.8%
Headd (2003)	Subset of 6 million new business starts from 1989 to 1992—Census	Survived after 4 years Closed and successful Closed and unsuccessful	Survived after 4 years, 50%; closed and successful, 17%; closed and unsuccessful, 33%
Hessels et al. (2011)	350,000 observations from 24 countries from 2004–2006 who participated in the GEM	Entrepreneurial exit and entrepreneurial engagement	Entrepreneurial exit increases the likelihood of engagement after the exit.
Kearney (2008)	Australian small business owners	Exit strategy	47% have an exit strategy.
Poulsen and Stegemoller (2008)	1074 IPOS and 735 acquisitions from 1995 to 2004	IPO Acquisition	Of the 53% without a strategy, 22% plan to walk away. Firm characteristics contribute to decision of IPO vs acquisition. IPO tend to have higher growth, higher valuation ratios, face greater capital constraints, few intangible assets, and more likely to be headed by VC investors.
Ryan and Powers (2012)	236 owner-managers of small firms in Ireland and Scotland	Owner-manager exit strategy Family succession Sales (includes trade sales, other sales, management buy-out) and shutdown	Ireland (Scotland) Family succession 35% (22%) Sales 49% (66%) Shutdown 16% (12%)
Schary (1991)	The cotton textile industry, 1924–1940 61 firms	Merger Voluntary liquidation Bankruptcy	Of the 61 firms in operation in 1924, 43 exited by 1940. 14 (33%) acquired/merged; 16 (37%) exited voluntarily; 13 (30%) filed bankruptcy
Wennberg et al. (2010)	1735 new ventures and their founders	Entrepreneurial exit Liquidation and firm sale for both firms in financial distress and those performing well	Entrepreneurs exit from both firms in financial distress (distress liquidation, distress sale) and firms that are performing well (harvest liquidation, harvest sale).
Zellweger and Astrachan (2008)	Investigation of family firms	Sale of ownership stake	The likelihood of a sale of ownership stake is negatively related to emotional value—the difference between financial payout and the price the owner is willing to accept.

Table 2
A typology of exit strategies.

	Financial harvest exit strategies	Stewardship exit strategies	Voluntary cessation strategies
<i>Founder characteristics and motivation</i>			
Age	Younger due to lower opportunity costs		
Education	More education	Less education	
Extrinsic rewards	Motivated by financial reward or desire to establish a profitable firm	Less motivated by financial reward	
Desire for autonomy		Strong desire to be independent and retain control of the company	
<i>Firm characteristics</i>			
Size of founding team	Larger founding team	Smaller founding team due to the desire to maintain control	More likely to be a self-employed individual
Innovativeness	Technology protected by IP		Less likely to be protected by IP
Size of firm	Focus on efficiency keeps number of employees at a minimum	Focus on employees results in larger firm	Focus on income-substitution, supplementing, or lifestyle results in fewer employees
<i>Start-up decisions</i>			
Causation-based decision process	Planning based approach including development of a business plan and goals		Less likely to engage in long-term planning

4.1. Founder characteristics and motivation

Founder characteristics and motivations have been shown to differentially impact financial harvest, stewardship, and voluntary cessation strategies. For example, in their study of highly competitive/high growth industries, DeTienne and Cardon (2012) found that entrepreneurial experience was positively related to IPO and acquisition intentions and negatively related to independent sale and liquidation intentions. In addition they found that entrepreneurial education was positively related to IPO and acquisition intentions but negatively related to family succession.

Using social identity theory, Fauchart and Gruber (2011) argue that considerable variance exists in regard to individual entrepreneurial basic social motivation. They state that some founders desire to “make money and build their own financial wealth”, while others prefer to “advance the community” or “advance a particular cause” (Fauchart and Gruber, 2011: 941). They are, of course, not the first to identify different motivations of business founders (c.f. Carland et al., 1984; Kunkel 2001; Wiklund et al., 2003). In one of the first typologies, Carland et al. (1984) clarified the distinction between entrepreneurs and small business owners and argued that growth motivations are one of the key delineators between the two with entrepreneurs more likely than small business owners to grow their venture, a position supported by Kunkel (2001).

Financial rewards have often been viewed as a primary motivation and underlying assumption in the entrepreneurship literature (Campbell, 1992; Schumpeter, 1961). Shepherd and DeTienne (2005) identify financial rewards as a predictor for identification of opportunities. Those entrepreneurs primarily motivated by financial rewards are likely to seek opportunities that provide financial harvest exits such as IPOs and acquisitions which allow for the greatest financial payback to the entrepreneur (Cumming, 2008; Poulsen and Stegemoller, 2008). Their work suggests that both acquisitions and IPOs are the most lucrative exit for founders and other investors. The implication of this is that those motivated primarily by financial rewards are likely to seek financial harvest exits.

Other researchers indicate that there are alternatives to financial gains. For instance, Gao and Jain (2012) argue that the central assumption of a financial orientation does not fully explain the complexity of human actions and researchers have offered steward-

Table 3
Hypotheses development and results.

	Financial harvest		Stewardship		Voluntary cessation	
	Hypotheses	Results	Hypotheses	Results	Hypotheses	Results
<i>Founder characteristics and motivation</i>						
Extrinsic motivation	Positive	ns	Negative	**		
Motivation for autonomy			Positive	*		
<i>Firm characteristics</i>						
Size of founding team	Positive	ns	Negative	*	Negative	ns
Perceived innovativeness	Positive	***			Negative	*
Number of employees			Positive	**	Negative	*
<i>Start-up decisions</i>						
Causation-based Decision Processes	Positive	***			Negative	**

***p < 0.001; **p < 0.01; *p < 0.05; ns = not supported (p > 0.05) (all 2-tailed tests).

All significant relationships were in the directions hypothesized.

ship theory as an alternative (e.g., Davis et al., 1997; Gao and Jain, 2012; Hernandez, 2012). Stewardship theory (as differentiated from stakeholder theory) focuses on “pro-social behavior” (Hernandez, 2012: 172) in which “pro-organizational, collectivistic behaviors have higher utility than individual” (Davis et al., 1997: 25) behavior. Hernandez's (2012) work indicates that some entrepreneurs develop an ongoing sense of obligation or duty to others within the firm and their motivations are directed to the collectivist, rather than personal, objectives. This perspective is observable in the study by Zellweger and Astrachan (2008) who note that the likelihood of a sale of ownership stake is negatively related to emotional value—the difference between financial payout and the price the owner is willing to accept.

In Table 2 below we provide a summary of our typology outlining the specifics of founder characteristics and motivation.

4.2. Firm characteristics and start-up decisions

Firm characteristics also vary among the three types of exit strategies. Kunkel (2001) distinguished between high- and low-growth ventures, suggesting that the low-growth category can be further delineated into income substitution, income supplementing, and hobby/lifestyle firms. These firms are more likely to be small business, owned and managed by a self-employed individual, and are likely to be shut down once they have met the need for which they were designed. They are less likely to be protected by intellectual property rights (Carland et al., 1984). Table 1 provides three such examples. Consistent with this observation, research indicates that a significant number of business owners plan to walk away from their firms (22% of Australian firms, (Kearney, 2008), 16% of Irish firms and 12% of Scottish firms (Ryan and Powers, 2012), and 13% of firms under two years of age (Harhoff et al., 1998)). A voluntary cessation strategy is unlikely to be formalized even though individuals expect that they eventually will shut down.

In contrast, financial harvest exit strategies are often positively related to planning-based approaches (Fauchart and Gruber, 2011) to firm formation (e.g. causation), larger founding teams (Poulsen and Stegemoller, 2008), higher levels of innovation (Cefis and Marsili, 2012), and a focus upon cost-effective mass product methods. Those with financial harvest exit strategies are likely to have developed their strategy early and, partially due to the presence of outside funding, have formally articulated and disclosed their strategy.

Finally, those with stewardship strategies are likely to have a smaller founding team due to their desire to maintain control and autonomy. They are likely to have a less formalized strategy due to feelings of immortality, lack of succors, and fear of retirement (Brown and Coverly, 1999).

See Table 2 below for a summary of our typology outlining the specifics of individual and firm-level characteristics. In summary, we emphasize that we do not view financial harvest, stewardship, or voluntary cessation strategies to be completely mutually exclusive. That is, we understand that even in a financial harvest strategy, there can be a concern for others' and the firms' well-being, and in a stewardship strategy, there can be a desire to achieve financial gain. Our purpose in categorizing exit strategies this typology is to deliberately contrast them to enable a clearer exposition.

5. Typology and hypothesis development

The objective in this section is to examine our categorization (i.e., financial harvest, stewardship, and voluntary cessation) of common exit strategies by developing and testing frequently used predictor variables identified both from the literature in Table 1 and in the general entrepreneurship literature. We reiterate that theoretical development in entrepreneurial exit is scant and there is not a single theoretical perspective to guide our selection of variables. As a result, not all variables are hypothesized as having a relationship with each category of exit. Following the previous literature we use collective lessons to develop our hypotheses. See Table 3 below for details regarding our development of the hypotheses. We begin by developing hypotheses for those most likely to consider a financial harvest strategy.

5.1. Financial harvest exit strategies

We propose that financial harvest exit strategies include both IPOs and acquisitions. Research suggests that entrepreneurs and investors in growth-oriented ventures tend to harvest by either conducting an IPO or by being acquired by another company (Bayar and Chemmanur, 2011; Brau et al., 2003). “These transactions are comparable, since they represent significant shifts in ownership structure, a channel for raising capital, and a means of liquidation for owners” (Poulsen and Stegemoller, 2008: 81). In an IPO, a firm offers shares of stock to the general public, thus moving from a private to a public company. When a firm is acquired, another firm (often a public firm) purchases all of the outstanding shares (Poulsen and Stegemoller, 2008), making it more likely that the entrepreneur can harvest more (or all) of his or her investment.

Here, we hypothesize the relationship between financial harvest strategies and the entrepreneur's extrinsic motivation and perception of innovativeness of the initial opportunity as well as the size of founding team and the decision-making process utilized. The logic of our hypotheses follows the thinking for predictors of high growth firms (e.g., Beckman et al., 2007; Schwienbacher, 2008; Wiklund et al., 2003).

5.1.1. Extrinsic motivation

Understanding entrepreneurial motivation is a critical factor in understanding new venture creation (Herron and Sapienza, 1992; Kuratko et al., 1997). As noted above, much of the literature in entrepreneurship and economics relies on extrinsic motivation as a primary motivation for entrepreneurial behavior (Campbell, 1992; Kuratko et al., 1997; Schumpeter, 1961). Extrinsic motivation

comes from outside the individual and, in the entrepreneurship literature, is often operationalized as personal wealth acquisition, income generation, and financial rewards (Kuratko et al., 1997; Shepherd and DeTienne, 2005). We argue that individuals who focus on the extrinsic motivation of financial rewards are more likely to pursue a financial harvest exit strategy (Bayar and Chemmanur, 2011; Brau et al., 2003).

5.1.2. Size of the founding team

The entrepreneurial start-up team—defined as “the ‘top team’ of individuals who is responsible for the establishment and management of the business” (Vyakarnam et al., 1997: 2)—may comprise a single individual or a group of individuals. Research indicates that teams are significantly more likely to create growth ventures than individual entrepreneurs (Brush et al., 2001; Feeser and Willard, 1990; Friar and Meyer, 2003; Utterback et al., 1988). In addition to achieving higher growth levels, Beckman et al. (2007) found that size of the top management team had a significant and positive effect on receiving venture capital financing and completing an IPO. Larger teams bring a broader resource base (Chandler et al., 2005) and provide a supportive context for innovative actions (Aldrich and Kim, 2007). Additionally, larger founding teams must—by necessity—be more focused on financial performance. Whether founding members receive a portion of equity in the firm or draw a salary, the new venture must return large enough financial rewards to attract and later compensate a larger number of individuals. The logic follows then that size of the founding team will be positively related to a financial harvest strategy.

5.1.3. Perceived innovativeness

Perceived innovativeness refers to how innovative the entrepreneur believes his or her idea to be. We argue that the entrepreneur's perception of innovativeness (rather than de facto innovativeness) is more likely to be related to the development of a financial harvest exit strategy because of the entrepreneurs' risk/reward expectations and the willingness to invest greater resources. First, because innovative opportunities carry additional risk, the expected returns from bearing that risk are also higher. A positive relationship between innovation and firm performance has been well documented in the innovation literature (Chaney et al., 1991; Cohen, 2010; Kleinschmidt and Cooper, 1991; Thornhill, 2006).

Second, entrepreneurs who perceive their idea to be more innovative may be willing to risk more resources in order to receive a greater reward. As Bates (2005) notes “it is the entrant with the more positive expectation of new-firm performance who makes the larger initial firm investments.” The research into the types of opportunities entrepreneurs pursue demonstrates different resource inputs and processes as part of pursuing high versus low innovative opportunities (Samuelsson and Davidsson, 2009). Thus, those who perceive their initial idea as highly innovative may invest greater resources with the expectation of greater reward. Thus, founders who perceive the innovativeness of their initial business idea to be high will likely develop a financial harvest exit strategy.

5.1.4. Causation-based decision making

Although many different decision-making approaches have been discussed in the literature, in this section, we develop the hypotheses based upon the causation approach to entrepreneurship identified by Sarasvathy (2001). According to Sarasvathy (2001), a causation-based decision making approach includes market research, competitive analyses, long-term planning and forecasting, and formal management practices. In causation-based approaches, the entrepreneur “starts with the end in mind,” selects options based on profit maximization, collects information to try to predict the future, uses pre-existing knowledge, gathers resources, and develops and implements a plan to accomplish the objective (Sarasvathy, 2001). This notion is relevant to exit strategies because developing a strategy and following a defined path to get there is the “traditional” approach to decision making. We therefore argue that founders using causation will likely develop a financial harvest exit strategy to maximize the expected financial returns.

This discussion leads to our hypothesis in regard to financial harvest exit strategies:

H1. Financial harvest exit strategies will be positively related to a) an extrinsic reward motivation, b) size of founding team, c) the perception of a highly innovative opportunity, and d) the use of causation-based decision-making processes.

5.2. Stewardship exit strategies

Stewardship exit strategies are pro-social and pro-organizational strategies which allow the founders to have influence over the future and long-term viability of the firm. Stewardship theory suggests that those entrepreneurs with a strong stewardship perspective are more likely to opt for strategies that allow them to choose a successor from a subset of individuals who are likely to “take care of their baby.” That is, entrepreneurs have decision-making autonomy—freedom, independence, and discretion to make strategic decision (Hackman and Oldham, 1976). We include family business succession, employee buy-out and independent sale in stewardship strategies.

Family business succession refers to the process through which family owners transfer the ownership of their firm to one or more family members, often the owners' children (Sharma et al., 2003). Family firms have a strong emotional attachment (Gómez-Mejía et al., 2007), and the most important reference point when framing major strategic decisions (e.g., exit or succession) is the loss of socioemotional wealth—the “non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty” (Gómez-Mejía et al., 2007: 106). In family successions, the founder has the opportunity to help select the successor, and there is potential for the entrepreneur to be engaged after exit as a trusted family member, advisor, board member, or financier (Neubauer, 2003).

An employee buyout is also a stewardship-based exit strategy. The National Center for Employee Ownership (NCEO) defines an employee buyout “as the purchase of a majority interest in a company by that company’s employees.” This type of exit allows entrepreneurs to reward “the loyal people who helped them build their business” (Smiley and Bixler, 2004: 2). The process of selling the company occurs over a period of time in which the entrepreneur can maintain autonomy and some equity (thereby ensuring the firm is in good hands) and also take care of employees through a reward system.

An independent sale is one that primarily occurs in the low-end market, often using a business broker, and is generally used by firms with venture valuations under \$5 million (DeTienne and Cardon, 2012; Zahorsky, 2005). Research (e.g., Wiklund et al., 2003) has demonstrated that the importance of employee well-being to these businesses. While the entrepreneur generally exits the organization and retains little on-going control, an independent sale exit strategy gives the entrepreneur the final decision regarding to whom to sell the business.

With regard to stewardship exit strategies we hypothesize relationships with motivation, size of the founding team, and number of employees. Due to a paucity of existing literature focusing on stewardship exit strategies and other factors such as the innovativeness of the opportunity, we do not include them in these hypotheses.

5.2.1. Extrinsic and autonomy motivation

Stewardship theory suggests that “pro-social” attitudes and care for others involved in the organization take precedence over personal financial gain (Hernandez, 2012). Entrepreneurs that prefer non-monetary rewards (Miller et al., 2012) tend to allocate resources differently than founders with monetary goals (Dunkelberg et al., 2013); thus, those with high levels of extrinsic motivation are less likely to pursue stewardship activities (Davis et al., 1997). Although research has identified several non-financial founder motivations, “autonomy... is typically considered one of the key motivation factors influencing the decision to pursue an entrepreneurial career” (Schjoedt, 2009: 621–622; Kolvereid 1996; Kuratko et al., 1997; Wiklund et al., 2003). Autonomy refers to “the degree to which the job provides substantial freedom, independence, and discretion to the individual in scheduling the work and in determining the procedures to be used in carrying it out” (Hackman and Oldham, 1976: 258).

We suggest that entrepreneurs motivated by obtaining a high degree of autonomy are more likely to consider a stewardship exit strategy. It is autonomy that gives these founders the discretion to determine the exit strategy that will best serve their pro-social and pro-organizational goals. In order to fulfill the implied psychological contract, entrepreneurs must be autonomous and retain control of the organization so that it does not get into the hands of individuals who would use it for short-term financial gain. Thus, the motivation for autonomy will be positively related to stewardship strategies and extrinsic motivation will be negatively related.

5.2.2. Size of the founding team

Similar to the argument regarding autonomy, the size of the founding firm for those with a stewardship exit strategy is likely to be smaller because founders who desire autonomous decision making are likely to maintain both equity and decision-making authority by minimizing the number of other founders. For example, founders who ultimately want to be able to reward employees through an employee buyout are more likely to form a smaller team so that they are able to make that decision. In his examination of Inc. 500 firms Hartman (1986) noted that working in larger teams leads to more in-fighting, disharmony, and a slower decision process. Thus, if an entrepreneur has a stewardship perspective and ultimately wants to be able to consider the welfare of other stakeholders, he or she will form a smaller founding team.

5.2.3. Number of employees

Finally, we expect firms with more employees to have greater concern for those employees. This is a fairly simple argument in that larger firms (viewed as having more employees) will imply that there are more stakeholders to consider. In line with stewardship theory, founders with more employees will have a greater focus on what is best for the entire organization and on the needs for the set of stakeholders within the organization even at the expense of personal gain (Davis et al., 1997). We suggest that the greater the number of employees, the larger the entrepreneur’s concern for ensuring their well-being and thus the higher the likelihood that such founders will pursue stewardship exit strategies. This behavior is especially important in new or young firms, where employees will have played a more important role in firm development and where self-identity with the firm will be higher (Ashforth et al., 1998; Baron et al., 1999). These issues lead to our hypothesis related to stewardship exit strategies:

H2. Stewardship exit strategies will be negatively related to a) an extrinsic reward motivation and b) size of the founding team, and positively related to c) a motivation for autonomy and d) number of employees.

5.3. Voluntary cessation exit strategies

We group both liquidation and discontinuance into voluntary cessation. Voluntary cessation exit strategies are exits in which the entrepreneur disbands the venture (different from bankruptcy wherein the entrepreneur has little choice). These are low-risk strategies. When the primary activity ends/changes, the principal may simply walk away from the venture.³ As noted earlier, voluntary cessation is fairly common and research has shown that given the entrepreneur’s goals and intentions they are often seen as positive

³ We acknowledge that this may be a U.S. centric definition and view of liquidation and discontinuance. As such, not all exit strategies will be applicable in all countries.

closures (Bates, 2005; Headd, 2003). In this section we hypothesize the relationship between voluntary cessation exit strategies and the size of founding team, number of employees, perceived innovativeness, and use of causation.

5.3.1. Size of founding team

Firms that pursue voluntary cessation strategies often include sole proprietorships as it is unlikely that such ventures neither need resources or skills from more than a single founder (Feesser and Willard, 1990), nor do they provide enough income to support more than one individual. As such, these firms offer little in terms of the potential for financial gains. Furthermore, from a stewardship perspective, these firms offer little to “pass along” to other potential stakeholders. Thus, we argue that the size of the founding team will be negatively correlated with voluntary cessation strategies.

5.3.2. Number of employees

We also anticipate that it is unlikely that firms pursuing voluntary cessation exit strategies will provide substantial employment for others. When these firms have needs outside their capabilities (e.g., website development, bookkeeping) it is likely that they will utilize family and friends or outsource the work rather than employ individuals. Similar to the argument for having a small founding team, there is little of value to pass along to stakeholders post-exit. Thus, entrepreneurs with voluntary cessation strategies are easier to walk away from. Hence, we expect the number of employees to be negatively related to voluntary cessation strategies.

5.3.3. Perceived innovativeness

Founders of firms with a voluntary cessation exit strategy generally create ventures to meet a temporary need or desire. Many of these firms are likely to be small ventures whose purpose is to augment income or provide additional revenue rather than to create long-term sustainability. We acknowledge that these ventures can occasionally become lucrative or intriguing enough that the founders may decide to pursue them on a full-time basis. As a consequence, given the probable intent of these ventures, they are likely to be based on replications of existing business models and practices (i.e., imitative as opposed to innovative opportunities). There is probably little likelihood of reaping substantial financial returns, so the entrepreneur does not invest in risky new technologies or innovative efforts that would not pay off (Samuelsson and Davidsson, 2009). Thus, we expect that level of innovativeness will be negatively related to voluntary cessation strategies.

5.3.4. Causation-based decision making

Using a similar argument as for innovativeness, it is unlikely that individuals creating these small ventures will utilize causation-based decision-making approaches. Rather, it seems far more likely that individuals creating these types of businesses will utilize low-cost experiments (McGrath, 1999) and test the market with a minimal entry approach. For example, a golf enthusiast may offer lessons to family and friends or post a notice on Facebook that he or she is offering lessons. Customers will develop organically, and once the individual meets his or her goal (e.g., purchasing a new set of clubs, taking a trip to the U.S. Open, earning a lifetime membership at a country club) or the effort exceeds the benefit (e.g., the individual no longer has time to golf for fun or spend time with family), the entrepreneur may no longer offer the service. Thus, we expect that entrepreneurs with a voluntary cessation-based exit strategy will not utilize causation-based decision making. These arguments lead to our final hypothesis:

H3. Voluntary cessation exit strategies will be negatively related to a) founding team size, b) number of employees, c) a perception of a highly innovative opportunity, and d) the use of causation-based decision-making processes.

6. Methods

This study was conducted using a cross-sectional survey methodology. The sampling frame came from the 2005 Dun & Bradstreet directory, which contained contact information and secondary data, such as start-up date, employment figures, revenues, and Standard Industrialization Classification (SIC) codes. We selected two four-digit industry codes—plastic products (SIC 3089) and prepackaged software (SIC 7372). This resulted in a nation-wide sample frame of 1500 two- to five-year old firms. These industries were selected as they contain a large number of start-up firms and have experienced different types of exits over the past few years. For instance, the prepackaged software industry accounts for a significant portion of all IPOs (IPO Vital Signs, 2012), and there have been recent IPOs and acquisitions in the plastic industry as well (e.g., Berry Plastics Group and Dash Multi Corp). As

Table 4
Categories of entrepreneurial exit strategies – factor analysis.

	Financial harvest	Stewardship	Voluntary cessation
Acquisition	.644	.199	–.086
IPO	.871	–.045	–.025
Independent sale	–.037	.876	–.070
Employee buy-out	.208	.763	–.002
Discontinuance	–.131	–.081	.929
Liquidation	–.004	–.001	.942

Bold entries signify which category the individual exit strategies belong to.

such, the choice of these industries allows us to capture potential variance in exit strategies beyond many industries in which some exits, such as financial harvest strategies, may not be relevant or likely. Further, studying two industries allowed us to have some control over industry influences and also reduce a substantial portion of potential heterogeneity.

We eliminated 354 firms because of bad addresses, resulting in an effective mailing list of 1146 firms. Overall, 196 firms responded with usable results, resulting in a response rate of 17.1%. This response rate corresponds with other response rates for new venture research (e.g., DeTienne and Cardon, 2012). We further reduced this number to 189 due to internal non-response for the core dependent variables (i.e., exit strategies). We examined the potential for non-response bias and found that there were no significant differences between respondents and non-respondents (both across the entire sampling frame and the usable responses) or with respect to employment levels, revenue levels, and industry representation ($p > .10$). We limited our sample to firms that were five years or newer to reduce the instability of recall data.

The 189 firms that we used in our analyses were, on average, 3.8 years of age and had 14.42 full-time employees. Of the founders responding, 79% were male. In addition, 56% of the responding companies were in the plastic products industry (SIC 3089), and the remaining 44% were in the prepackaged software industry (SIC 7372). Further, there were no industry-based differences in terms of evaluating the validity and reliability of our measures.

6.1. Measurement

6.1.1. Dependent variables

The main dependent variables in this study are entrepreneurs' exit strategies. As noted above, we distinguish between exit strategy and actual exit. However, we build upon current entrepreneurship exit research (reviewed in Section 3 above) examining the variety of potential exit routes considered by entrepreneurs. Respondents were asked to indicate on a five-point Likert scale, on which 1 = "Highly unlikely" and 5 = "Highly likely," "the likelihood of each of the following exit strategies." These strategies included 1) transfer of ownership to family members, 2) independent sale, 3) sale to another company, 4) employee buyout, 5) IPO, 6) discontinuance of the venture, and 7) liquidation of assets. Respondents provided information on all seven of the potential exit strategies. In other words, they were not forced into choosing only one exit strategy. However, respondents often displayed a strong preference for one exit strategy over the others (i.e., scoring a 5 for one exit strategy and a 1 for the other strategies). For our analyses, we combined each of the individual exit strategies into their respective category and calculated an average score on the five-point scale.

We examined the appropriateness of our grouping of the exit strategies into three categories of exit by carrying out a principal component analysis (PCA) with Varimax rotation using all seven exit strategies. The factors loaded in accordance with our expectations, with the exception of the family business transfer variable. We had theorized family business transfer to load with employee buyout and the independent sales factor. Instead, the family business transfer exit strategy loaded negatively with acquisition. This is perhaps not surprising given the strong negative correlation between the two variables ($r = -.240$, $p < 0.01$). Although we conducted further empirical examinations concerning the potential fit of the family business transfer variable with the employee buyout and independent sales variables, including path modeling that had good fit for the entire set of exit strategies (chi-square = 38.1; $df = 11$; $p < 0.000$; GFI = 0.95; IFI = 0.90; CFI = 0.90), we chose to remove family business transfer from this category and our analyses, despite its importance to stewardship (as noted above). We return to this decision in the discussion later and run some post hoc analyses on this particular type of exit strategy. We re-ran the PCA without family business transfer and the total variance explained was 73%. Further, each of the remaining six exit strategies loaded into their expected factor (i.e., three factors total) and cross-loading were below 0.21. We present these results in Table 4.

6.1.2. Independent variables

We captured two types of founder motivation. Our measures are based on established measures which were developed and validated by Kuratko et al. (1997) and tested (with minor modifications) by DeTienne et al. (2008). In their examination of "the effects of extrinsic motivation on the persistence decisions for under-performing firms" DeTienne et al. (2008: 529) report one identifiable factor with factor loadings from .74 to .85 and a Cronbach's alpha of .85. The wording of our items for extrinsic motivation replicates the

Table 5
Descriptive statistics and correlations.

Variable	M	s.d.	1	2	3	4	5	6	7	8	9	10	11
1. Gender	.80	.40	–										
2. Founder age	48.69	10.98	.064	–									
3. Education	3.89	.94	–.001	.011	–								
4. Founding team	1.97	1.08	.020	–.115	.096	–							
5. Number of employees	14.39	22.23	.051	.089	–.012	.423**	–						
6. Extrinsic motivation	4.83	1.51	.000	–.247**	–.116	–.011	.070	–					
7. Motivation for autonomy	5.81	1.17	.018	–.078	–.096	.047	.061	.438**	–				
8. Innovativeness	3.03	1.84	–.022	–.028	.265**	.108	–.058	.022	–.011	–			
9. Causation	3.31	.85	–.036	–.045	–.054	.257**	.162*	.138	.202**	.000	–		
10. Financial harvest exit	2.66	.95	.067	–.143	.206**	.189**	.057	.074	.255**	.373**	–		
11. Stewardship exit	2.17	.93	–.060	.092	–.202**	–.059	.218**	–.080	.143*	.012	–.095	.060	–
12. Voluntary cessation	1.96	1.15	–.027	–.008	.072	–.193**	–.230**	–.042	–.087	–.188**	–.160*	–.143*	–.094

Notes: N = 189 for all variables. Gender is a binary variable (1 = male, 0 = female). ** $p < 0.01$; * $p < 0.05$ (2-tailed tests).

DeTienne et al. (2008) work. The wording of the items for autonomy is directly from the Kuratko et al. (1997) manuscript with minor modifications. For example, we eliminated one item for low factor and loading and reworded another from “to control my own employment destiny” to “to be in control of my own future.” We reworded this item because the Kuratko et al. (1997) wording was not as applicable to our sample of high tech firms.

Respondents in our survey were asked, “With respect to your current organization, please indicate how motivated you were by each of the following factors.” Extrinsic motivation was measured by a four-item scale ($\alpha = .88$). A representative item is “To acquire personal wealth.” Motivation for autonomy was measured by a three-item scale ($\alpha = .85$). A representative item is “To be independent.”

We captured *founding team members* and *number of employees* via self-reported data as part of the survey. For the number of founding team members, founders were asked, “At startup, how many individuals had both ownership and involvement in managerial decision making?” For the number of employees, founders were asked how many full-time employees they had. These data were validated by the data available in the Dun & Bradstreet directory. There was a strong correlation between these two sources of data ($r = .756, p < .000$) for the number of employees.

The items measuring *causation* were assessed using five-point Likert-type scales. Respondents were asked to “Please consider the start-up phase of your venture and indicate the degree to which you agree or disagree with each of the following questions.” We used seven items validated by Chandler et al. (2011) ($\alpha = .78$). A representative item is “We organized and implemented control processes to make sure we met objectives.” See Chandler et al. (2011) for a complete list of items.

We used a single item on a six-point scale to capture the *perceived innovativeness of the entrepreneur's opportunity*. Entrepreneurs were asked, “Which of the following best describes your initial product/service?” There were six potential responses: 1) “A replication of existing products/services used in similar applications,” 2) “A new application for an existing product/service with little or no modification,” 3) “A minor modification to an existing product/service,” 4) “A significant improvement to an existing product/service,” 5) “A combination of two or more existing products into one unique product/service,” and 6) “A product/service that is new to the world.” Responses varied from low on the innovativeness scale (“A replication of existing products/services used in similar applications”) to high on the innovativeness scale (“A product/service that is new to the world”). Although there are numerous measures of innovativeness, we elected to use the entrepreneurship measure developed by Fiet (2002). This measure is similar to the oft-used six-category scheme proposed by Booz Allen Hamilton (Kleinschmidt and Cooper, 1991), but the wording (and implied meaning) of the categories are different. In addition, the Fiet (2002) measures have been adopted elsewhere in entrepreneurship research (e.g., DeTienne and Chandler, 2007). While there may be benefits to validating this measure using secondary sources to “objectively” capture the innovativeness of the opportunity, we believe it is the founder's perception (rather than the objective measure of innovation) that is important to understanding exit strategies. As part of our tests for this scale, we also re-ran our analyses using alternate orders of the responses (i.e., switching responses 2 and 3 and responses 4 and 5). There were no differences.

6.1.3. Control variables

We were able to reduce the need for some of the most common control variables through our sampling methodology, including having a strict focus on firm age and potential industry differences. However, we wanted to use controls that might capture any potential variance related to the type of exit strategy a founder might pursue. First, we measured the *gender of the founder* as gender has been shown to affect the development of firm goals, such as growth intentions and the pursuit of growth (Cliff, 1998; Davidsson and Honig, 2003; Jennings and McDougall, 2007). These goals may in turn affect the potential exit strategy. Respondents were asked, “What is your gender?” and responses included male and female. Second, we included the *age of the founder*, which has often been used as a proxy for the entrepreneur's experience (Davidsson and Honig, 2003; Gimeno et al., 1997). Founder age has been linked to entrepreneurial behavior and risk propensity (Levesque and Minniti, 2006), which might have an impact on exit strategy. Respondents were asked, “What is your age range?” and responses included less than 25 years old, 25–34 years old, 35–44 years old, 45–54 years old, 55–64 years old, and more than 64 years old. We converted a categorical variable into a numerical variable based on mean age within the category (i.e., the second category of 25–34 years old was converted to an age of 30). Third, we also controlled for education level which has often been shown to have a positive impact on new venture creation (Block et al., 2013), new venture performance (e.g., Chandler and Jansen, 1992; Cooper et al., 1994; Florin, 2005), and type of venture started (e.g., Backes-Gellner and Werner, 2007). DeTienne and Cardon (2012) find that education is related to both an IPO and acquisition exit strategy. Respondents were asked, “What is the highest education level you have achieved?” The responses included did not complete high school; high school or GED; some college or technical school; bachelor's degree; master's degree; and Ph.D., M.D., or equivalent.

7. Data analysis and results

7.1. Main results

A correlation matrix of the variables used in the analysis is included in Table 5. The correlations among the variables are moderate to low, suggesting limited potential for distortions due to multicollinearity. The two exceptions are the relatively large relationship between extrinsic motivation and autonomy ($r = .44$) and between founding team member size and number of employees ($r = .42$). There may be a suppressor effect for the analyses that include both of these variables. It is important to note that the mean scores for the exit strategy categories vary, with financial harvest being the most popular exit strategy followed by stewardship and then voluntary cessation. The mean scores of these exit strategies are perhaps not surprising given the nature of the industries in the study, for

Table 6
Hierarchical regression results.

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Financial harvest	Financial harvest	Stewardship	Stewardship	Voluntary cessation	Voluntary cessation
Gender	.075	.100	-.085	-.097	-.036	-.042
Founder age	-.219**	-.215**	.100	.013	.047	.054
Education	.200*	.131 †	-.071	-.058	.070	.114
Founding team size		.017		-.184*		-.048
Number of employees		.056		.323***		-.209*
Extrinsic motivation		-.009		-.233**		-.016
Autonomy motivation		.042		.185*		-.017
Innovativeness		.348***		-.026		-.227**
Causation		.305***		.033		-.155*
ΔR^2		.254		.144		.141
F-change stat		7.899***		4.375**		3.619**
Model R ²	.034	.297	.020	.163	.009	.145
Model adj. R ²	.023	.256	.001	.104	-.010	.095
F-statistic	3.113*	7.178***	1.059	3.315**	.465	2.891**

Notes: N = 189. For the sake of parsimony, only full model results are presented.

ΔR^2 and F-change stat refer to changes in explanatory power over and above base model of control variables of gender, founder age and education. Standardized coefficients presented.

***p < 0.001; **p < 0.01; *p < 0.05; †p < 0.10 (all 2-tailed tests).

which there may be high capital costs and development times that could promote the pursuit of financial payoffs over other exit strategies.

Both dependent and independent variables for this study came from a single source, so the results could be contaminated by common method bias. To help reduce the threat of common method bias, we used two approaches. First, from a procedural perspective, we followed established guidelines to mitigate the risk of common method bias by using altering anchor scales and reverse-coded items, intermixing items, and using validated measures to reduce the likelihood of ambiguous and unclear wording in our items (Podsakoff and Organ, 1986; Podsakoff et al., 2003). The altering anchors were notably different between the independent and dependent variables, which is the main area of concern for methods bias.

Second, from a detection perspective, we used a number of statistical tests, including Podsakoff et al.'s (2003) robust latent factor test. This method involves conducting a path analysis similar to a confirmatory factor analysis using three different models: 1) where all of the measurement indicators are loaded on a singular construct; 2) where the measurement indicators are loaded onto their own (intended) latent constructs; and 3) where an additional common latent construct that links the other latent constructs. Our results⁴ provide some statistical support for our arguments in regards to common method bias. However, given our research design, it is not possible to discount the potential impact of common method issues. We discuss this in greater depth in the limitations section.

Further, given the low correlations among variables and the low variance inflation factors (all below 1.35) in our regressions, there is low risk for multicollinearity. In addition, we examined potential industry differences based on scale formation, including preference for exit strategy. We found no statistically significant differences.

We used hierarchical regression analysis to investigate the hypothesized relationships. The dependent variables were the three categories of exit strategies. In each case, we entered the control variables of gender, education, and age as the first grouping of variables. We then entered the independent variables. Our results are displayed in Table 6. The change in explanatory power statistic (ΔR^2) and change in F-statistic refer to the additions over and above the control variables.

First, all three full models were statistically significant (see Models 2, 4 and 6 in Table 6). This shows that the effects of motivation, size, causation, and perceived innovativeness are important predictors of the exit strategy categories. Further, we found that the control variable of founder age was significantly (and negatively) related to financial harvest strategy. Thus, younger entrepreneurs are more likely to choose a financial harvest exit strategy. This has important implications for understanding the choice of exit strategies in new firms and resonates well with the literature on the role of age in the entrepreneurial process (i.e., Levesque and Minniti, 2006). The gender of the founder did not have a statistically significant effect on any of the dependent variables. Not surprisingly, education level is positively related to a financial harvest strategy. Individuals with a higher education level have greater expectations for higher rewards due to opportunity costs (e.g. DeTienne and Cardon, 2012).

The first set of hypotheses focused on financial harvest exit strategies. The results for these tests are in Model 2 of Table 6. We hypothesized that extrinsic motivation (H1a), founding team size (H1b), innovativeness of the opportunity (H1c), and use of causation (H1d) would be positively associated with financial harvest exit strategies. All of the results were in the hypothesized direction, but only two variables (causation and innovativeness) were statistically significant. This provides support for H1c and H1d. H1a and H1b did not receive support.

Our second set of hypotheses concerned stewardship exit strategies. We argued that pursuing stewardship exit strategies would be negatively related with extrinsic motivation (H2a) and founding team size (H2b) and positively related with motivation for

⁴ Our findings are that the second model showed the greatest fit (Chi-square/df = 172.6 / 74 = 2.33; RMSEA = 0.08; CFI = 0.90) compared to model three (Chi-square/df = 209.9 / 77 = 2.75; RMSEA = 0.10; CFI = 0.86) and model one (Chi-square/df = 535.7 / 77 = 6.97; RMSEA = 0.19; CFI = 0.52).

autonomy (H2c), and number of employees (H2d). We found statistical support for all four of our hypotheses in regard to stewardship exit strategies. These results are presented in Model 4 of Table 6.

Our third and final set of hypotheses dealt with voluntary cessation exit strategies. These results can be found in Model 6 of Table 6. We proposed that founders who pursued voluntary cessation exit strategies had a negative relationship with founding team size (H3a), number of employees (H3b), level of innovativeness (H3c), and the use of causation-based decision-making processes (H3d). We found support for three of our hypotheses: the number of employees (H3b), innovativeness (H3c), and use of causation (H3d). We did not find support for the size of the founding team (H3a).

8. Discussion

8.1. Implications

Entrepreneurial exit strategies are an important aspect of the entrepreneurial process not only because of the ultimate impact on the entrepreneur's actual (subsequent) exit, but also because exit strategies are often developed early in the life of the firm when many of the future orientations of the firm may be formed. Early exit strategies, therefore, are likely to influence subsequent decisions and behaviors. The goal of this manuscript was to explore in greater depth these exit strategies. To that end we provide a current review of the state-of-the-literature (Table 1), develop a typology which organizes the current research regarding founder characteristics and motivation, firm characteristics, and start-up decisions into three types of exit strategies (Table 2). These include financial harvest strategies which are expected to result in substantial harvest value for the entrepreneur; stewardship strategies which provide the founders the opportunity to have influence over the future and long-term viability of the firm and its employees; and voluntary cessation which provides for the ability to disband a venture when the primary activity ends or when the firm fulfills the purpose for which it was formed. Finally, we draw upon the relevant predictors identified in the typology development to develop hypotheses and conduct an initial empirical test. We begin with a discussion of the findings.

In H1, we developed the argument that financial harvest exit strategies would be positively related to the founder's extrinsic motivation, a larger founding team, the founder's perception of the innovativeness of the firm's first product, and the use of causation-based decision-making processes. The hypotheses and matching results are summarized in Table 3. Both perception of innovativeness and use of causation were statistically significant and positive. This implies that entrepreneurs who believe they have found or have developed a radically new innovation are more likely to employ a financial harvest exit strategy. In addition, they are more likely to use "traditionally" espoused, prediction-based, decision-making processes to follow what they might believe is "best practice." In other words, entrepreneurs may employ causal rationality to get the most out of their innovative business ideas. This finding is consistent with that of Fauchart and Gruber (2011) who use social identity theory to suggest that some founders value traditional, planning-based, business school approaches to new venture creation.

We believe that the finding that causal reasoning is positively related to financial harvest strategies (and not to stewardship and negatively related to voluntary cessation) is one of the more interesting findings from our research. Since the publication of Sarasvathy's (2001) seminal work on causal and effectual processes associated with entrepreneurial formation, scholars have sought to understand how these different processes relate to differing firm outcomes. However, in this research the finding that innovativeness and causation are both related to financial harvest strategies leads us to consider an alternative perspective—that of institutional theory. The empirical evidence has demonstrated that many entrepreneurs feel institutional forces pressuring them to write business plans (Honig and Karlsson, 2004) and that many potential investors expect to see business plans as part of any financing process. Further, many potential investors may place great emphasis on the logic and rigor applied to firm development (Murnieks et al., 2011). As such, these alternate explanations regarding the expectations and institutional pressures coming from outside the firm as part of any potential financial harvest exit may provide further reasoning explaining the link between causation and the choice of exit strategy. Thus, future research should examine this relationship between causation, innovativeness, and financial harvest exits more fully. We did not find a positive significant relationship for founder's extrinsic motivation or for a larger founding team as we had suggested in H1. In the case of founding team, it is interesting that size of the founding team and financial harvest exits are positively correlated (see correlation matrix); however when tested along with causation and innovativeness, the size of the founding team is no longer significant. However, there appears to be important relationships among other variables. For example, those who follow a causal process may identify the need for more founding team members.

We were surprised to find that the founder's extrinsic motivation was not related to financial harvest exit strategies. Entrepreneurs who perceive they have an innovative idea may be driven by "the thrill of the chase." That is, they desire a financial harvest exit not because of the extrinsic reward, but rather because of some a need for achievement, power, or self-actualization. Certainly one could imagine that serial or habitual entrepreneurs who have already achieved a certain degree of financial stability might be interested in creating a financial harvest venture for the thrill of it (see Spivack et al., 2014). In H2, we developed the arguments that founders with stewardship exit strategies would be less motivated by extrinsic motivation, have smaller founding teams, be motivated by autonomy, and have larger number of employees. All four of these hypotheses were supported (see Table 3). These findings are consistent with (and add to) that of Graebner and Eisenhardt (2004) who, in their inductive study of technology ventures, argued for the seller's side of the acquisitive process. They find that personal factors such as the firm leaders' acquisition interest (interest in selling) and personal motives (failure avoidance, desire to limit stress) impact what they refer to as "acquisition as courtship" (Graebner and Eisenhardt, 2004: 366). In particular, our conceptualization of stewardship strategies mirrors their finding that a seller's decision may be driven by the need to be a good steward to friends and family who have invested in the company.

Our largest concern in the area of stewardship exits was our original conceptualization that family business exits would be similar to the other stewardship exits (employee buy-out and sale to an individual). We argued this because family firms generally make strategic decisions based on the family's affective needs, such as identity, binding social ties, and emotional attachment, over making purely financial decisions (Cómez-Mejía et al., 2007; LeBreton-Miller and Miller, 2009). However, family business exit appears to be different. Perhaps it is because while family business has a strong stewardship perspective, founders' desire to have influence over the future and long-term viability of the firm may be internally directed. That is, their perception of how to manage their stewardship concerns might be focused primarily upon the family and succession issues within the family. Our findings suggest that the predictors of family business succession are not significantly related to founder motivation, founder and firm characteristics, or start-up decision making.

Two possibilities arise from this non-finding. First, our results could be a function of our specific data such as family business not being well-represented in our choice of industries or that high-tech businesses are not ideal for family business transfer. To examine this we returned to the data and examined the means of the different strategies identified by entrepreneurs. We find that transfer of ownership to family members had a higher mean than IPO, employee buy-out, liquidation, (2.05 versus 1.72, 1.87, and 1.88 respectively) and similar to discontinuation (2.08). Only acquisition and sale to an individual had higher means (3.68 and 2.68). In addition, we asked this question in the survey: "Is this a family-owned firm?" Forty-eight percent of individuals responded "yes". While this measure may not be appropriate to use for data analysis (most family business research articles use multiple measures of family business reflecting ownership and control), it does signify that many of our respondents view themselves as family businesses and that respondents were willing to choose family business as a viable option. That leads to the second possibility for this non-finding which is that we simply did not collect the measures that lead to family business transfer. While this is disappointing for us, it reinforces the notion that family business transfer is significantly different than other exit strategies and that simply extrapolating what we know from exit research to family business may not be a wise application. For example, family business scholars (e.g. Salvato et al., 2010), have called for research into exit (as opposed to a singular focus upon succession), but our results indicate that the use of other exit strategies in family firms may be more complex than we initially proposed.

Consistent with our hypotheses, we found that entrepreneurs with a stewardship perspective are less motivated by extrinsic rewards and more motivated by autonomy. We believe that this is due to a pro-social, pro-organizational perspective from which individuals' desire more than extrinsic rewards—they want the freedom and independence to make decisions about the future of their firms. The finding that smaller founding teams are also related to the stewardship perspective reinforces this notion. There are many interesting possible extensions to this research. As educators we find that this sentiment of a stewardship perspective is reflected stronger in our classrooms now than it has ever been, which makes us contemplate what this means for entrepreneurial activity and exit in particular. Will today's founders be less likely to exit ventures or will they be more discerning to whom they sell or transfer the venture? Will institutions (e.g. venture capital firms focused on stewardship outcomes or private equity) arise to meet the growing demand for infrastructure to meet the demands of these founders? These are interesting and potentially critical questions for future researchers.

Finally, in our third hypothesis we state that voluntary cessation exit strategies will be related to smaller founding teams, fewer employees, lower perception of innovativeness, and less application of causation decision making processes. With the exception of the size of the founding team, each of these hypotheses was supported and is consistent with our arguments regarding size and type of ventures that might be reflected in this type of exit strategy. This is an understudied area of entrepreneurial exit. Every year in the U.S. alone around seven hundred fifty thousand ventures exit the market. A very small percentage of these are due to bankruptcy. These micro firms and the associated entrepreneurial churning (Pe'er and Vertinsky, 2008) that occurs as a result are a neglected, but potentially important area of study. These exits have impact not only on individuals, but families, markets, and communities. We were somewhat surprised that we did not find smaller founding teams in ventures with voluntary cessation exit strategies. It is possible that ventures started with a voluntary cessation strategy in mind may be designed to take advantage of a short window of opportunity, and that the number of founders is not related to the length of the window of opportunity.

This research provides novel contributions to the literature. We develop a typology which begins with differences among seven different types of exit and begins to coalesce them into a coherent framework (please see Table 2). Our finding that there are differing predictors for each category of exit strategy is novel and interesting, including where some of the predictors show opposite directionality (e.g., innovativeness being positive for financial harvest but negative for cessation). Combined, our typology begins to show some structure to the findings based on the extant research on entrepreneurial exit and types of entrepreneurs. Obviously there is much more work to be done. For instance, there may be other factors that we did not examine (e.g. early resource commitment and funding) that may be a part of an individuals' choice of financial harvest exit strategy. In contrast, stewardship exit strategies may be related to other factors that fit under the rubric of commitment to other stakeholders such as firm mission, customer base, or even investor relations. As noted above, more research must be done to understand how, and if, family business transfer fits into this typology.

8.2. Limitations and future research

Our research is subject to a number of limitations, as is all research. Each of these limitations opens other doors for future research. One limitation is the cross-sectional nature of the data. This issue is most critical when research attempts to predict causally related variables that may involve reverse causality (e.g., strategy causes performance). The nature of our variables is not entirely causally related to time. However, temporality may become important in the sense that we 1) rely on entrepreneurs' recall and their founding processes and 2) are not able to capture changes to intended exit strategies over time. We attempted to limit potential recall bias by focusing on young firms (i.e., between two and five years old). Also, given the mean scores and standard deviations for the different

exit strategies, we are confident that we were able to tap into entrepreneurs' early stage exit strategies. We nevertheless suggest that future research employ more longitudinal approaches to capture the processes and motivations of entrepreneurs at the initiation of their firms and over time. Doing so may capture potential alterations to exit strategies over time (i.e., beyond startup) and may best be done using other methods. This may help to provide novel insights into the specific mechanisms by which exit strategies change over time (e.g., based on performance feedback, growth, or challenges) as well as further examine the exact timing of the development of an exit strategy. In addition, this type of research would allow researchers to examine how (and if) those strategic decisions imprint and impact the firms' future decision-making abilities. For example, does the decision to develop a stewardship strategy limit the likelihood that the firm would be able to complete an acquisition or an IPO, or does the strategic decision to follow a financial harvest strategy negatively impact the likelihood of completing an employee buyout? Are founders locked into a specific strategy or to what extent do they revise their strategy over time? Also, how does the decision to engage in family transfer versus selling to an external party affect the firm (see Wennberg et al., 2011 for a specific discussion of this point)? Answers to these questions are sorely lacking in the literature.

A second limitation relates to the sample. A strength of our dataset is that we were able to eliminate a portion of the noise variance by limiting our sample to two specific industries (i.e., plastics and prepackaged software) in which differing types of exit have been shown to take place. Therefore, these industries are theoretically and practically relevant to the study of exit strategies. However, studies of other industries, such as personal services, may not have such exit variety, especially for financial harvest exits. This also limits the generalizability of our work to other industries, such as those in which there may be very different exit strategies employed. For instance, the two industries we study may be seen as having financial harvest with relatively high barriers to entry and relatively high capital costs. Additionally, our sample includes firms that are relatively large for startups (the mean size was 14.4 full-time employees). As such, there may be a low number of very small firms pursuing alternate exit strategies.

In addition, as mentioned in Section 4 above, we cannot entirely discount the potential of suppressor effects or common method issues with our self-reported cross-sectional dataset. The suppressor effect in particular appears to be present for the role of extrinsic motivation in understanding stewardship exit strategies. Extrinsic motivation is not correlated ($r = -.080$, n.s.) with stewardship exit strategies, but is quite strongly correlated to autonomy motivation ($r = .438$, $p < 0.01$). The inclusion of extrinsic motivation in our regressions concerning stewardship increased the coefficient of autonomy motivation (from $r = .116$, $p < 0.10$ to $\beta = .185$, $p < 0.05$). This demonstrates symptoms in line with a suppression effect (Maassen and Bakker, 2001; MacKinnon et al., 2000; Pandey and Elliott, 2010). We did not remove the suppressor variable due to its importance in our typology which could weaken the predictive power of the models, and could result in providing inaccurate estimates of the key parameters (Pandey and Elliott, 2010). However, this does suggest that future research better understand the role of different types of motivation and their impact on exit strategies.

Further, the research design of this paper opens up for the potential for common method bias. We undertook some procedural and statistical tests to help detect and reduce the effect of common method bias. However, it is not possible to entirely discount some method bias in our study. This is one reason for our suggestion that more longitudinal data collection about exit strategies be carried out. Collecting data from multiple sources would also help to overcome these limitations of our research design. It is also important to note that we do not have direct measures of financial harvest and stewardship strategies; rather these are higher level constructs that we develop based upon the previous literature review and our results. We acknowledge the need for further research to more deeply examine these issues as part of our typology. Finally, the single item measure for the independent variable perceived innovativeness should be further tested to ascertain that the single-item measure is acceptable. Wanous et al. (1997) conducted a meta-analysis to test the use of a single-item variable for overall job satisfaction and their work is an exemplar for testing perceived innovativeness.

While offering initial insight into the development of entrepreneurial exit strategies, this is an initial step. Much work remains regarding the exit strategy categories and the factors that lead to them. For example, researchers might want to examine if funding sources (e.g. venture capital, angel investment, debt, and bootstrapping) or level of funding affects exit strategies. In addition, the type of business (e.g. service-based, retail-based, and online-based) might impact the exit strategy. We encourage researchers to examine these and other factors related to our higher level categorization scheme. Thus, despite our findings which begin to provide some logic to these differences in a more systematic way, there may be other factors, specific moderators, or context specific factors that can help to further understand entrepreneurs' choice of exit strategies.

9. Conclusion

Our research set out to provide novel contributions to the literature regarding the development of a typology that begins to categorization entrepreneurial exits. We provide new insights into how individual- and firm-level factors relating to the entrepreneur's motivation, decision-making process, opportunity, team size and number of employees affect the development of an exit strategy. In doing so, we are able to build upon the studies that address the entrepreneurial process and types of entrepreneurial firms in society by extending the literature into an important, but previously overlooked area. Further, we provide greater depth in regard to exit strategy categories. While actual exits are important, the early stage and founders' ongoing actions and decisions are often based upon intended exit strategies. One can rarely pick up a business magazine without seeing some comments regarding the importance of developing an exit strategy, yet we as scholars know very little about this process. Our work suggests important differences between financial harvest, stewardship, and voluntary cessation exit strategies and is the first research (of which we are aware) to offer a systemic analysis of the factors that will predict the type of exit strategies different founders will pursue.

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