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tendances Trends

Understanding the Continuation of Firm Activities when Entrepreneurs Exit their Firms: Using Theory of Planned Behavior

Forthcoming, Journal of Small Business Management

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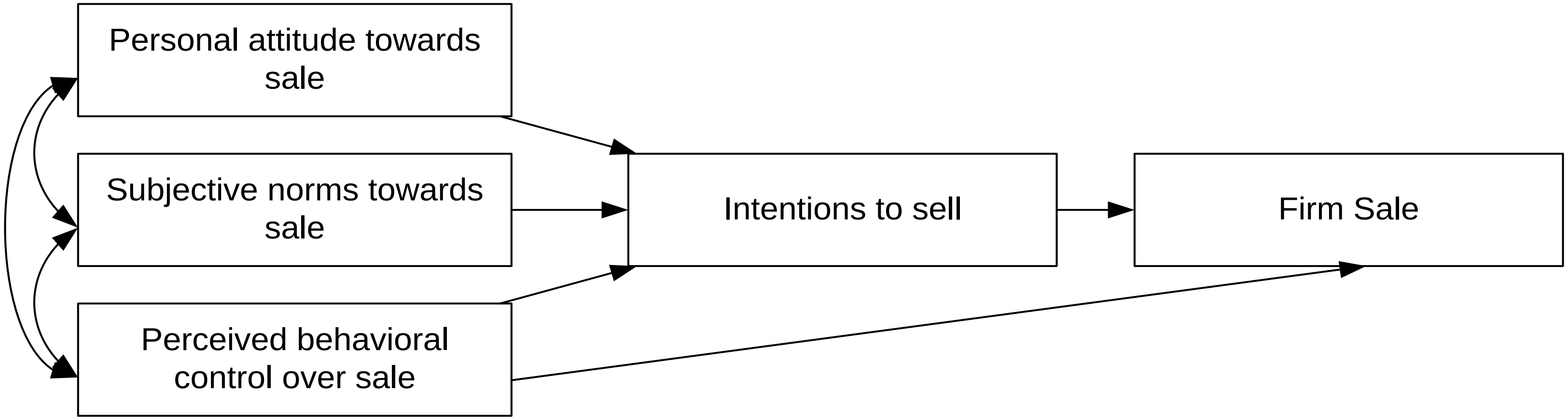
What happens with a firm when the E leaves?

- Voluntary entrepreneurial exits
  - *Sell* company versus *liquidate* company

- Sale: full (economic) transfer of ownership
  - To family, employees, or external parties
  - Either shares or (significant part of) the assets
- Liquidation : *voluntary* closure
  - excluding bankruptcy (involuntary exits)

Theory of Planned Behavior, applied to firm sale



Intention to sell driven by…

- E’s personal attitude towards sale
  - Is firm sale appealing to E?
    - Is sale out of free will?
    - How strongly is E attached to firm (psychological owner)?
- Subjective norms towards sale
  - Decision to sell is supported by close environment (family, friends,…)
    - Depends upon number of employees, family firm
- E’s perceived behavioral control over sale
  - The sale of the firm seems feasible to E
    - Driven by E’s education and experience

Research setting

- Random sample of 447 entrepreneurs exiting micro-firms in Belgium between 2001 and 2006
  - Employed 10 employees at most at exit
  - Sampled from population of exited entrepreneurs
- Mail questionnaire (with phone contacts)
  - 197 respondents (30%)
    - Exclude 22 bankruptcies
- 67 (**38.3%**) of firms sold, 108 (61.7%) liquidated

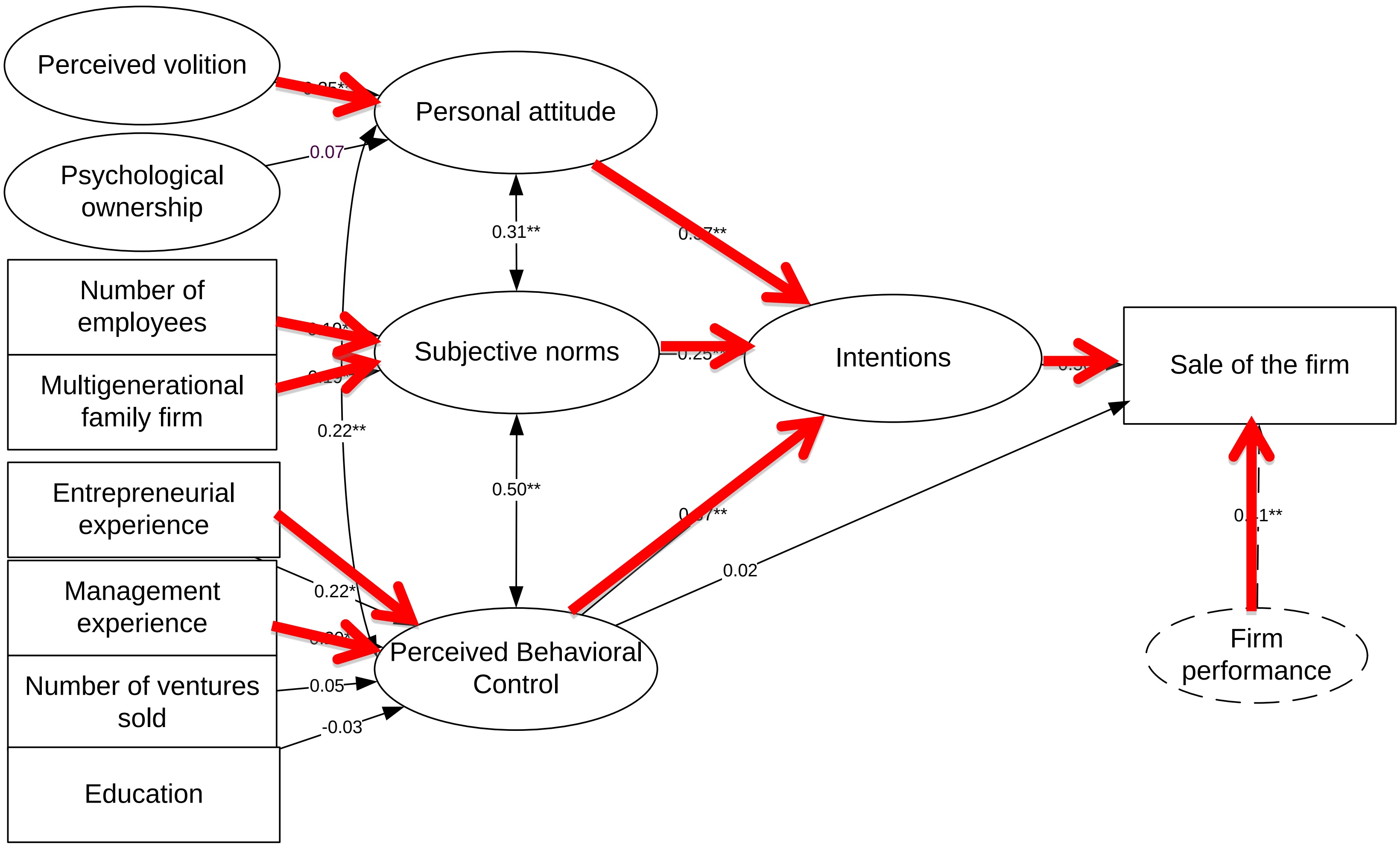
Firm characteristics

- Average company age: 22 years
- 22.4% limited liabilities companies
  - Remainder one-person company
- Active in
  - agriculture (22 percent)
  - construction (13 percent)
  - retail or wholesale (29 percent)
  - hotels and restaurants (11 percent)
  - services (15 percent)
- Average employment at exit: 2,2 employees
- 47% of firms multi-generational family firm

Characteristics of entrepreneurs

- 66 % male
- Average age entrepreneur: 53 years
- Years experience in running own business: 17.2
- Years experience in management: 10.1
- Education level
  - 11 percent elementary school
  - 62 percent high school
  - 23 percent university or college degree or higher.
- 11% had previously sold a firm (max 4 firms)

Model largely confirmed



Conclusions

- Almost **3 in 5** micro-firms do *not* survive E’s exit
- Firm sale is a “planned behavior”
  - Implicit “planning” by E is important
- Higher likelihood of selling (vs. liquidating) if
  - E’s exit is voluntary
  - E’s entrepreneurial and managerial experience
  - The firm employs more employees
  - The firm is multigenerational
- Firm performance is positively related to sale
  - However, E’s don’t recognise this link (blind spot)

Likelihood of selling is *not* impacted by

- E's psychological ownership
- E's education level
- E's specific previous experience with selling a firm

- industry
- company age
- year of exit

Implications

- E’s are driving force of a firm being sold upon exit
- E’s should learn that selling a firm is a complicated task, one they should be highly motivated and committed to undertake to increase their chances of bringing such a project to completion.
- But this is possible in all sectors, at all firm ages
- Focus on E’s, and not only on firm, when designing transfer policies
  - Awareness, training, coaching