

Artículo de investigación

The main reasons for the exit of entrepreneurs from business

Основные причины выхода предпринимателей из бизнеса

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E.A. Sverdlikova²¹**Abstract**

The purpose of the article is to study the reasons for the termination of entrepreneurial activity, as well as the accumulated experience of entrepreneurs leaving their business. Research on the principles and concepts of business termination became widespread in the late twentieth and early twenty-first century. At first, only Western European and American scientists were interested in this problem. Since 2005, the geography of researchers has expanded significantly. Our analysis is based on the consideration of monographs, articles in peer-reviewed scientific journals, published working papers and research reports. The article presents the characteristics of the main reasons and ways of entrepreneurs out of business. Author proposes their classification and systematization. The results of the study can be used in scientific research of entrepreneurship. They can be used in the educational activities of higher educational institutions. The results are of interest to existing entrepreneurs, helping them to properly build business exit programs.

Keywords: Exit from business, termination of business activity, sale, liquidation, bankruptcy

Аннотация

Целью статьи является изучение причин прекращения предпринимательской деятельности, а также накопленного опыта выхода предпринимателей из своего бизнеса. Исследования принципов и концепций прекращения предпринимательской деятельности получили широкое распространение в конце XX и начале XXI века. Сначала к этой проблеме проявляли интерес только западноевропейские и американские ученые. После 2005 года география исследователей существенно расширилась. Наш анализ основывается на рассмотрении монографий, статей в рецензируемых научных журналах, изданных рабочих документах и отчетах об исследованиях. В статье представлена характеристика основных причин и способов выхода предпринимателей из бизнеса. Автором предложена их классификация и систематизация. Результаты исследования могут быть использованы в научных исследованиях предпринимательства. Они могут применяться в образовательной деятельности высших учебных заведений. Результаты представляют интерес для действующих предпринимателей, помогая им правильно построить программы выхода бизнеса.

Ключевые слова: выход из бизнеса, прекращение предпринимательской деятельности, продажа, ликвидация, банкротство

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Introduction

Studies of entrepreneurship have become widespread, especially in the late XX and early XXI century. At the same time, the main attention was paid to such stages of the life cycle of entrepreneurs as the creation of their own business (its opening), the initial stage of a new enterprise and established enterprise. Much less attention of scientists and practitioners was paid to the problem of termination of entrepreneurial activity (exit of entrepreneurs from their business). At the same time, it is obvious that sooner or later every entrepreneur stops his activities. Therefore, going out of business is an integral part of a comprehensive understanding of entrepreneurship as an economic phenomenon. However, as indicated in (Peters, 2009) going out of business is the least understood part of entrepreneurship.

According to a researcher such as De Tienne (2010), the termination of entrepreneurial activity occurs when the following three conditions are simultaneously met: the owner must leave his own business, cease to be its owner and withdraw from decision-making in this business. It is important to note that the problem of going out of business is based on the study of the features and patterns of the relevant actions of the entrepreneurs themselves, and not on the problem of liquidation of the firms that they have created. As stated in paper (De Tienne & Cardon, 2012), many entrepreneurs start their activities without thinking about the end result, while others adhere to a fairly clear exit strategy already at the stage of creating their own business.

Our review of the literature on the problem of termination of business activity answers the following two questions:

- What are the main reasons for the exit of entrepreneurs from their business;
- What are the ways to stop business activities.

The purpose of the study, the results of which are presented in this article, was to analyze the reasons for the termination of entrepreneurial activity and ways exit of entrepreneurs from their business. In the process of work the information given in such scientific publications for the period from 1995 to 2019, as monographs, articles in peer-reviewed scientific journals, published working papers of research centers and published research reports was used.

The study is aimed at understanding the features of the termination of entrepreneurial activity characteristic of modern national economies. It allows you to get information about the reasons and ways out of business entrepreneurs. The availability of such information is of interest directly for entrepreneurs, as well as for government agencies and other organizations associated with the formation of plans, programs and forecasts for the development of the business sector. In addition, this article contributes to the discussion on the issue of business cessation.

Literature review

The greatest interest among the scientific studies devoted to the analysis of the reasons for going out of business are the following.

German researchers (Egeln et al., 2010) drew attention to the fact that even potentially successful entrepreneurs are forced to leave because of the crisis in the economy and problems in the markets. This is also indicated in the works (Wennberg & De Tienne, 2014; Aldrich, 2015), which emphasize the great influence of external factors that do not depend on the entrepreneur. These include global and local crises, the evolution of the balance of power in operating markets, declining demand, and changes in the institutional and regulatory environment. For example, the tightening of tax legislation or the increase in legal norms.

Intra-production reasons for entrepreneurs' exit from business are considered in the article (Stokes, 2002a). The main reasons include such as the inability of entrepreneurs to achieve their goals, financial collapse, difficulties in making current payments, including tax. One of the authors of this article in his book (Stokes, 2002b) expanded the list of reasons due to such as shortcomings in enterprise management, lack of own financial resources, low level of knowledge and competencies of the entrepreneur, as well as insufficient qualification of employees. In the study (Parastuty et al., 2016) along with the low level of managerial and entrepreneurial skills, attention is focused on the lack of leadership qualities of the entrepreneur. In the paper (Cardon et al., 2011) main reasons for going out of business are mismanagement, unrealistic planning and inadequate innovation. According to the authors (Ucbasaran et al., 2012) in many cases, the termination of activity is due to the fact that the existing efficiency does not correspond

to the minimum threshold of economic viability provided by the entrepreneur.

Some scientific studies have examined the termination of activities due to the desire of entrepreneurs to reduce risk and get money. Such an alternative to continuing their business and further work in competitive markets is described in detail, for example, in the article (Cefis & Marsili, 2011). This option of leaving entrepreneurship is interpreted by some researchers as a business harvest. This process can often represent the only chance for entrepreneurs to be rewarded for many years of hard work (Foo et al., 2009). Another similar reason is the sale of intellectual property, which the entrepreneur has developed (Wennberg & De Tienne, 2014).

Entrepreneurs often stop working because they are looking for better career opportunities, such as high-income jobs, additional education, migration, or other prospects (Bates, 2005). According to the authors of the article (Hessels et al., 2011) the most common career path is the subsequent paid employment. In many cases, the cessation of entrepreneurship is associated with the retirement of people (Harhoff et al., 1998).

In general, the analysis of the studies conducted so far has allowed to draw a conclusion about a wide variety of reasons for the termination of entrepreneurial activity, which puts forward the task of their classification among the actual ones.

Results and discussion

Let us focus on the most important studies that consider the main ways to stop entrepreneurial activity.

In the works (Egeln et al., 2010; Aldrich, 2015) a number of provisions, fundamental for understanding the exit of entrepreneurs from business, are substantiated. First, the output can be carried out in various ways. Secondly, its main result is the destruction of any relationship between the entrepreneur and his business. Third, the consequences of going out of business have an impact not only on the discontinued entrepreneur, but also on the company he created, the people working in it, as well as on many companies associated with this firm.

The paper (Balcaen et al., 2010) focuses on the difference between voluntary and forced exit from business. Thus it is concluded that given the high transaction costs of bankruptcy are the least preferred method of termination of business

activities. In article (De Tienne et al., 2015) such option of voluntary exit of the entrepreneur from business as its sale is considered. It focuses on aspects such as the entrepreneur's perception of the innovativeness of his business, analysis of motives, as well as direct decision-making. Of interest is the author opinion of the work (Cumming, 2008) that the sale is the most profitable way out of business entrepreneurs. This is especially true for firms that operate in niche markets, when large competitors are willing to pay a significant premium to buy such a firm from an entrepreneur (Deenitchin & Pikul, 2005).

In the study (Aldrich, 2015), the sale of a business by an entrepreneur to a third-party buyer is complemented by options such as buying it out by managers or employees, as well as mergers and acquisitions. It should be noted that mergers and acquisitions facilitate the transfer of advanced technologies and know-how, which is especially important in the case of innovative companies. Therefore, according to the authors of the article (Ucbasaran et al., 2012) innovative companies are subjects of mergers and acquisitions much more often than other firms.

In work (Van Teeffelen & Uhlaner, 2003) along with sale, such way of an exit from business as its transfer to family members is considered. It should be noted that this way, as shown in (Marjanski & Sulkowski, 2019) currently dominates in Poland. As the main way to stop business activity, it ensures continuity and preservation of business in the family. A detailed description of the process by which entrepreneurs transfer ownership of their company to one or more family members (most often their children) is given in article (Sharma, 2003). Liquidation of the business, in addition to the exit of the entrepreneur, also leads to the termination of the company in the markets. The choice of this option is determined by a wide range of factors formed by the vision of the situation from the position of the entrepreneur (Balcaen et al., 2012). At the same time, according to the authors of the study (De Tienne & Cardon, 2012), age of the owner of the firm acts as the main factor. They drew attention to the fact that older entrepreneurs may want to liquidate the firm regardless of its financial condition in connection with the planned retirement. Especially in the absence of a successor or buyer.

Conflicting views exist in the literature about the mutual relationship between the cessation of activity and the failure of the entrepreneur. The

first point of view is given, in particular, in the article (Coad, 2014). It argues that going out of business always refers to unviable enterprises, that is, to a clear failure in the activities of the entrepreneur. The second point of view is defended in the works (Knott and Posen, 2005; Leonetti, 2008), in which it is concluded that the phenomenon of cessation of entrepreneurial activity is not equivalent to failure in business. The second point of view is confirmed by the analysis of representative empirical data on American entrepreneurs, given in (Bates, 2005). This analysis showed that about one-third of entrepreneurs characterized their business at the time of exit as quite successful. It should be noted that for many fast-growing enterprises, their profitable sale is often considered as the main goal of the entrepreneur (Wennberg & De Tienne, 2014). In our opinion, based on the analysis of scientific literature, the second point of view is more reasonable.

As already noted, there are a large number of reasons for the termination of the activities of entrepreneurs in modern conditions. In our opinion, it is expedient to consider the aggregated reasons for the exit of entrepreneurs from business. The analysis carried out in the course of our research allowed us to combine all the main reasons for the termination of business activity into four classes (groups). Let us dwell on them in more detail.

The first class combines exogenous causes that directly affect business activity. It includes external institutional and organizational reasons in relation to enterprises, namely, state, regional and municipal policies, administrative barriers, changes in tax legislation, problems in interaction with control and Supervisory authorities, as well as crisis phenomena in the economy and problems in the markets.

The second class includes endogenous causes that reduce the efficiency of business activities and prevent the possibility of effective competition of entrepreneurs in the markets of goods and services. The main ones are: unprofitability of production, lack of necessary financing, difficulties of technological and managerial nature, various accidents and incidents.

The third class of reasons is due to the desire of entrepreneurs to make a profit or as indicated in a number of scientific papers mentioned in the literature review to remove the business harvest. That is, to cease operations and convert the

results achieved in the business, fixed assets and intangible assets into cash.

The fourth class includes personal reasons when entrepreneurs cease activities under the influence of factors not directly related to the production activities of their enterprises. These include health status, retirement, the need to devote more time to family problems, the desire to devote themselves to other activities, as well as the emergence of non-entrepreneurial earnings opportunities, such as the transition to employment.

As shown by the analysis of literary sources, currently there are a significant number of different ways to stop business. We suggest that when conducting research related to going out of business, consider a number of strategies for entrepreneurs to implement this process. Strategies differ in such essential features as options for exit from business, organizational forms and ways of termination of business activity. The analysis of previous studies and accumulated practical experience allowed us to identify two options, two organizational forms and five main types of business termination. Let us consider them in more detail. The first option of exit from business of the businessman provides continuation of functioning of the firm created by it earlier (in the same or in other market). The second option is associated with the liquidation of the company, that is, its departure into economic oblivion.

Two organizational forms of exit from business of the entrepreneur respectively are: voluntary termination of activity and compulsory termination of activity. The five types of implementation of the process are: sale, transfer to a new owner from his family members, bankruptcy, merger and acquisition.

Considering exit strategies can influence future decisions and behavior of existing entrepreneurs. Knowledge of these strategies allows entrepreneurs to plan their work, including the acquisition of resources, financing, development and risk appetite (Fauchart & Gruber, 2011; Wiklund, 2003).

Conclusion

The article presents the characteristics of the currently prevailing main reasons for the exit of entrepreneurs from business and ways to implement this process. The classification of reasons and systematization of signs of

termination of business activity proposed by the author are given.

Studies of the problem of termination of business activity is relevant at the present stage of business development, as it allows to reduce the negative consequences of this phenomenon, to reduce the economically unjustified liquidation of small and medium enterprises, to scientifically justify the assistance and support of entrepreneurs in critical situations.

The results of the work can be used in scientific research on the problem of termination of entrepreneurial activity. They can be used in the educational activities of higher educational institutions, in the preparation of bachelors and masters, in professional development, as well as by specialists of state and municipal authorities associated with the support of entrepreneurship. The results are of interest to existing entrepreneurs, helping them to build the right exit programs if necessary.

In order to reduce the level of entrepreneurs exit from business, it is expedient to implement measures to reduce excessive and unreasonable demands from tax and other regulatory authorities, eliminate administrative barriers, improve the business climate, facilitate access to financial resources and provide more opportunities to continue promising business in cases of problems (Kiseleva et al., 2019; Pinkovetskaia, 2019a; Pinkovetskaia et al., 2019; Pinkovetskaia, 2019b).

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