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Entrepreneurial exit as a critical component of the entrepreneurial process: Theoretical development ☆

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ABSTRACT

By demonstrating the importance of entrepreneurial exit to the entrepreneur, the firm, the industry, and the economy I contend that our understanding of the entrepreneurial process is incomplete without the inclusion of entrepreneurial exit. I define entrepreneurial exit and demonstrate how this conceptualization provides concepts that are unique from those addressed by researchers in other domains; thus outlining a space for it within the literature. In each phase of the entrepreneurial process I explore the development of an exit strategy, reasons for exit and options for exit.

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1. Executive summary

> "Whether a privately held business is large or small, in a traditional field or exclusively in Internet commerce, newly started or generations old, it is owned by one or more individuals — and those owners all have one trait in common: They will someday leave that business. They may sell the business, they may close it down, or they may die in the saddle. But one way or another, exit they will!" ([Engel, P., 1999. What's your Exit Strategy?: 7 Ways to Maximize the Value of the Business You've Built. Prima Publishing, Rocklin, CA.], p. ix).

In this article I argue that entrepreneurial exit — the process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degree, from the primary ownership and decision-making structure of the firm — is an important part of the entrepreneurial process. A significant amount of previous entrepreneurship research suggests that the entrepreneurial process is complete when the new venture is created. However, "a central part of the new venture value creation efforts hinges on the ability to harvest that value at some point(s) in the future" (Holmberg, 1991, p. 203). In this article I develop the perspective that the entrepreneurial process is more than just the creation of a new venture and does not end with creation, but rather with the entrepreneurial exit. I also argue that not only is entrepreneurial exit an important process for entrepreneurs, it also has a significant effect on firms, industries, and the economy.

A number of entrepreneurs – perhaps the majority – initiate a business without much thought to an eventual outcome (King, 2002). Only forty-five percent of the 2004 *Inc.* 500 CEOs – the CEOs of the 500 privately held, fastest growing firms in the United States as identified by *Inc.* magazine – report that they started their companies with an exit strategy in mind (Inc. Magazine Online, 2005). In their survey of 364 CEOs of fast growing, privately held companies, PricewaterhouseCoopers reports that 65 percent of CEOs indicate they plan to leave their company within 10 years, yet 43 percent have done little or no exit planning (Dahl, 2005). Despite this fact, all entrepreneurs, in one way or another, will complete this process and habitual entrepreneurs may do so multiple times throughout their entrepreneurial career. Yet, we know very little about this process.

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In this article I define and set boundary conditions from which to explore entrepreneurial exit. Building upon the model proposed by Cardon et al. (2005) which utilizes a parenting metaphor to describe the phases of the entrepreneurial process, I examine exit at each phase by exploring the development of an exit strategy, the reasons for exit, and the options available. In addition, I propose that ownership (both equity and psychological) will affect the decision to exit, development of an exit strategy, and the options for exit. This research has implications for entrepreneurs, researchers, and educators.

2. Introduction

Even though it has received little research attention, I contend that entrepreneurial exit is a critically important component of the entrepreneurial process. In the past few years, scholars have developed a significant body of knowledge concerning other aspects of the entrepreneurial process. For example, previous entrepreneurship research has investigated opportunity identification processes (Ardichvili et al., 2003), start-up processes (Korunka et al., 2003), exploitation processes (Choi and Shepherd, 2004), team formation processes (Clarysse and Moray, 2004), and financing processes (Shane and Cable, 2002). Yet, little attention has been paid to exit processes. “The lack of research on entrepreneurial ‘exits’ is striking when compared with the attention that has been given to entrepreneurial start-ups” (Mason and Harrison, 2006, p. 69). “…one would expect that few events in the life of the entrepreneur, and for the firm itself, are more significant than the harvest” (Petty, 1997, p. 72). Indeed, many habitual (MacMillan, 1986) or serial (Ucbasaran et al., 2001) entrepreneurs will complete this process multiple times throughout their entrepreneurial careers and yet scholars know very little about this phenomenon (King, 2002; Wasserman, 2003).

Previous exit research has explored business exit, market exit, and CEO succession; however, this research has primarily focused on large, publicly traded companies (Wasserman, 2003) utilizing an economic, strategic, or financial theoretical lens and has focused on the impact to a firm's financial situation (e.g. stock price, market share) (Shen and Cannella, 2002). Because of the differences in level of analysis, theoretical perspective, and choice of dependent variables it is very difficult to extrapolate findings from this research to a theory of entrepreneurial exit. Therefore, a gap exists in the literature which examines how founders of privately held ventures make decisions to exit, develop exit strategies, and the options available for exit. I seek to begin to fill this gap with this article.

First, I define entrepreneurial exit, set boundary conditions, and demonstrate how this conceptualization provides concepts that are unique from those addressed by researchers in other domains (Busenitz et al., 2003). Next, I validate the relevance of entrepreneurial exit to the entrepreneurial process by exploring its importance not only to the entrepreneur, but also to the firm, the industry, and the economy. For the entrepreneur the exit is a liquidity event that allows him or her to take advantage of and engage in other opportunities; however, the implications of entrepreneurial exit go well beyond the individual. Third, I build upon the metaphoric phases of entrepreneurship (Cardon et al., 2005) to propose a model which includes entrepreneurial exit; thus outlining a space for it within the entrepreneurship literature. At each phase I explore the factors affecting the decision to exit, the development of an exit strategy, and the options for exit. In addition, I explore how varying degrees of ownership – both equity and psychological – impact the exit process. Finally, I explore the limitations and implications of entrepreneurial exit research.

3. Entrepreneurial exit — definition, boundary conditions, and importance

In this article I define entrepreneurial exit as the process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degree, from the primary ownership and decision-making structure of the firm. Utilizing the extant literature, I demonstrate how this conceptualization is unique from previous conceptualizations of exit in three specific areas — level of analysis, type of firm (privately held versus publicly traded), and dependent variable.

There are many different types of exit discussed in the literature. Decker and Mellewigt (2007) propose that exit might include any of the following — market exit (also referred to as strategic business exit and corporate restructuring [Bowman and Singh, 1993]), technological exit, or firm exit (closure of entire firms). Although there is a substantial amount of published research into these various types of exit, there are three areas (level of analysis, private versus public, and dependent variable) that distinguish this research from the conceptualization of entrepreneurial exit proposed in this article.

3.1. Boundary conditions

3.1.1. Focus upon the individual

The level of analysis in the extant exit literature is primarily conducted at the firm or industry level (e.g. Bowman and Singh, 1993); however, the focus in this article is upon the entrepreneur or founder, rather than the firm. The purpose is to understand how, when, and why the founders of firms make decisions about entrepreneurial exit. Although there has been criticism of the entrepreneur as the unit of analysis, understanding the designer of the firm is important to understanding the design (Sarasvathy, 2004a). As noted by Shane et al., (2003) the entrepreneurial process is initiated by individuals or teams of individuals; “…in other words, it springs ultimately, from human volition” (Baron, 2004, p. 169). Because individuals have unique motivations (Shane et al., 2003), intentions (Bird, 1988), options (McGrath, 1999), aspirations and goals (Sarasvathy, 2004a), as well as unique cognitive perspectives (Mitchell et al., 2002), a greater understanding of the entrepreneur will provide insight into the process of entrepreneurial exit. “If we are to develop real content in entrepreneurship, we need to focus our attention on understanding it from the point of view of the *entrepreneur*” (Sarasvathy, 2004b, p. 713).

3.1.2. Privately held firms

In addition, the current conceptualization is concerned with entrepreneurs in privately rather than publicly traded firms. Entrepreneurs in privately held firms retain a higher percentage of ownership (Wasserman, 2003), and, as founder-CEOs may have a centralized decision-making process, which provides them with a high level of control over decisions made in the firm. Although superficially it appears that there are significant similarities between entrepreneurial exit and CEO succession in publicly traded firms, the unique differences make it difficult to extrapolate from CEO succession finding to entrepreneurial exit (Wasserman, 2003). For example, CEOs in most large, incumbent organizations have very small equity ownership positions and a much higher degree of control imposed by a board of directors (Ucbasaran et al., 2003).

3.1.3. Dependent Variables

Third, the dependent variables in the extant exit literature are predominantly the rate of industry/firm change and firm performance – ROI, stock price, sales or market share after exit (e.g. Bowman and Singh, 1993) – whereas the dependent variables in entrepreneurial exit are likely to be tightly linked to the entrepreneur's perception of exit. Threshold theory (Gimeno et al., 1997) suggests that heterogeneity exits among firm founders and that they will find varying degrees of performance acceptable. Therefore, threshold theory, when applied to entrepreneurial exit, suggests that an entrepreneur's perception of exit might include factors other than harvested value (e.g. total payout). These might include speed of exit or quality of exit (e.g. confirmation that the firm will continue or that employees will be retained).

I contend that entrepreneurial exit is concerned with the exit decisions of the founder and attempt to demonstrate that this conceptualization is unique from those addressed by researchers because of three components: level of analysis, privately held versus publicly traded, and choice of dependent variable.

3.2. Importance of exit to the entrepreneur, the firm, the industry, and the economy

Entrepreneurial exit is, quite obviously, an important event for the founder. However, in this section I argue that it is also important to the entrepreneurial process because it has implications for the firm, the industry, and the economy. It is difficult to understate the importance of the exit to the entrepreneur. One could compare the exit process to an investor’s purchase of publicly traded stock (Petty, 1997). Investors purchase a company’s stock and watch the value increase over time thereby increasing the value of their own personal portfolio. Yet it isn’t until the stock is sold that gains (or losses) are actually recognized. Although a venture may create wealth for the entrepreneur during its lifetime, “a central part of the new venture value creation efforts hinges on the ability to harvest that value at some point(s) in the future” (Holmberg, 1991, p. 203). The sale of equity (one form of exit) allows the entrepreneur to realize some portion of the firm's wealth creation (Certo et al., 2001).

However, the exit is not only a liquidity event, but may also have profound psychological implications for the founder. The founder identifies an opportunity, sacrifices time, money, and energy, and makes commitments in order to get the firm off the ground. Entrepreneurs often refer to the venture as their “baby” (Cardon et al., 2005; Dodd, 2002) indicating that exit is more than the relinquishment of equity ownership, but also has psychological implications as well.

3.2.1. Importance of exit to the firm

The exit of the founder may also have strong implications, potentially either positive or negative, for the firm. On the positive side, an exit (such as an acquisition or an IPO) may infuse the firm with cash, new resources, and renewed energy (Haveman and Khaire, 2004). The firm may also realize additional benefit if the entrepreneur is replaced by a professional management team (Boeker and Wiltbank, 2005; Wasserman, 2003) including an infusion of specific management skills, the ability to raise more cash (Boeker and Wiltbank, 2005), expand into other product areas (Aldrich, 1999), and to increase legitimacy.

Conversely the departure of the founder may have negative affects on the firm. The bulk of this literature suggests that succession “…diminishes organizational performance, disrupts work routines, interrupts command, and increases employee insecurity” (Haveman and Khaire, 2004, p. 438). Hofer and Charan (1984) speculate that the nature of entrepreneurial firms, including a highly centralized decision making system and an over-dependence on one or two key individuals, makes the transition to professional management a precarious adventure. Other researchers have found that founder succession increased organization mortality (Carroll, 1984; Haveman, 1993). Whether a positive or negative event for the firm, one thing is for sure, the exit of the founder has a significant effect on the firm and is a key milestone in the organization (Rubenson and Gupta, 1996).

3.2.2. Importance of exit to the industry

Also, entrepreneurial exit has an impact on the industry in which the firm operates. There is a bulk of literature which explores the industry effect of initial public offerings (e.g. Akhigbe et al., 2003a), industry effects of acquisition (e.g. Otchere and Ip, 2006), and competitive affects of privately held acquisitions (e.g. Akhigbe et al., 2003b). Although a complete review of this literature is outside the scope of this article, the findings of Akhigbe et al. (2003a) provide one example. They found that during the acquisition of a privately held firm rival firms experience significantly positive valuation effects. Thus, entrepreneurial exit may impact the industry as it changes the competitive balance in the industry and provides value to rivals.

3.2.3. Importance of exit to the economy

Entrepreneurial exit may also have a significant effect upon the economy. Here I describe two specific effects. First, entrepreneurial exit may have a profound impact on regional economic development. Mason and Harrison (2006, p. 58) argue that

exit "…triggers a process of 'entrepreneurial recycling' in which the entrepreneurial team…channel a portion of their newly acquired wealth and time as well as their accumulated experience into other, often multiple, entrepreneurial activities with clear economic benefits." These economic benefits may include reinvestment of financial resources into other young companies, reinvestment of knowledge resources into other companies, new venture creation, strengthening local infrastructure, philanthropy, and endowment of community activities. In five in-depth case studies of Scottish entrepreneurial exits, Mason and Harrison (2006) found that after exiting the founders created substantially more companies (habitual entrepreneurship), acted as angel investors for a significant number of firms, founded a venture capital firm, contributed to the technological knowledge base, brought in international investment, and endowed community philanthropic efforts.

Secondly, as founders exit their business, the created wealth may become redistributed among a greater number of individuals (as in an IPO, employee-buy-out, or family business succession). Beneficiaries of an exit may also include employees who benefit financially through stock options and who then go on to create their own new ventures (Bahrami and Evans, 1995; Mason and Harrison, 2006). What is the magnitude of this transfer of wealth? We have little research to indicate the world-wide impact, but in the United States there are over 22 million privately-owned firms (U.S. Census Bureau, 2000) and approximately 9 million firms are in the middle-market sales arena with at least one or more owners who are 50 years old or older (Knott and McGrath, 2004). In the U.S. middle-market[1] for the first six months of 2006 there were 1879 mergers and acquisitions "disclosed", accounting for a $193 billion dollar transfer of wealth (Bernard and Kaplan, 2006). Approximately one-half of these transactions were privately held companies and seventy-six percent were cash-only transactions. In addition there were 3302 more transactions announced without public disclosure of the transaction value[2]. Therefore, a very conservative estimate of the transfer of wealth in U.S. privately held companies for the first six months of 2006 is $100 billion dollars.

In family-businesses alone the transfer of wealth is expected to reach $4.9 trillion dollars (Prisciotta and Weber, 2005) over the next twenty years. The transfer of economic wealth is important not only to the exiting entrepreneur, but transfers can create new firms, entire industries (e.g. business brokers, private equity firms, succession planning), and new ways of doing business (private-equity purchases versus strategic buyers).

Therefore, I argue that entrepreneurial exit is important not only to the entrepreneur, but that it also has a significant effect on the firm, the industry, and the economy. Yet, most of what we know about entrepreneurial exit has been completed by consultants (e.g. Minor, 2003) who, although intricately involved and aware of the challenges, may be less concerned with academic rigor (DeTienne and Cardon, 2007). When research becomes a less important objective, the published results from that research may not accurately reflect the phenomenon (Handler, 1989). As scholars, we should be concerned that when research is a secondary issue, there may be a high reliance on underdeveloped methodologies and single case generalizations rather than systematic analysis and theoretical rigor (DeTienne and Cardon, 2007). See Table 1 below for a summary of the research (both published and on-going) into entrepreneurial exit.

4. Entrepreneurial exit and the entrepreneurial process

4.1. The entrepreneurial process

The term "entrepreneurial process" has been used to describe a variety of processes ranging from start-up (Reynolds and White, 1997) to harvesting the business (Petty, 1997). However, most of the models have focused upon the nascent and early phases. For example, Reynolds and White (1997) suggest that the entrepreneurial process consists of four distinct phases — conception (the entire adult population), gestation (nascent entrepreneurs), infancy (fledging new firms), and adolescence (established new firms). Others refer to the entrepreneurial process as one that begins with the nascent entrepreneur and ends with the creation of the new venture (Korunka et al., 2003) or as one that involves "all the functions, activities, and actions associated with the perceiving of opportunities and the creation of organizations to pursue them" (Bygrave and Hofer, 1991, p. 14). A "process" is "a series of actions or operations conducing to an end (Gove 1986, p. 937)." Thus, these perspectives suggest that the entrepreneurial process is only concerned with the activities that lead to new venture creation and the end of the process is the creation of a new venture.

However, other perspectives suggest that entrepreneurship and the entrepreneurial process involves more than new venture creation (e.g. Brockner et al., 2004; Cardon et. al, 2005). For example Baron and Ward (2004) contend that the process includes everything from discovering opportunities to solving unexpected problems while running a new venture and Brockner et al. (2004) propose that the entrepreneurial process may include any of the following — idea generation, idea screening, procuring necessary resources, proving the business model, rollout, maturity, renewal and growth, and decline. Cardon et al. (2005) use metaphor to compare the entrepreneurial process to parenting which includes phases of conception, gestation, infancy, toddlerhood, childhood, growth, and maturity. In this article I adopt the view of these later scholars and propose that the entrepreneurial process is more than just the creation of a new venture and that process does not end with creation, but rather with the entrepreneurial exit. Thus, it is the exit, rather than the creation of a venture, that concludes the process. For how can we study processes of creation without an understanding of the linkages or relations among creation and other components of the process (Aldrich and Zimmer, 1986)?

[1] The middle-market is a term used to describe a wide range of merger and acquisition activity. The Alliance of Merger and Acquisition Advisors (AMAA) describes the middle-market as $1M to $100M transactions. Investment firms vary in their description of the middle-market. For example, Baird refers to the middle-market as those transactions less than $1 billion and FOCUS Enterprises refer to the middle-market as transactions between $5 million and $300 million.

[2] Experts estimate that the value of these undisclosed are most likely under $100 million each (Bernard and Kaplan, 2006).

Table 1
Published and on-going research in entrepreneurial exit.

Author(s) (Date)	Sample/data	Outcomes
Ronstadt, (1986)	Survey of 95 ex-entrepreneurs and 208 current entrepreneurs from Babson College alumni.	Under certain conditions, earlier starts in entrepreneurship are better than late starts. Anticipated starts are better than unanticipated ones. And, late unanticipated starts are particularly dangerous.
Holmberg, (1991)	20 surveys of CEOs in software ventures that had recently completed an IPO.	Surveyed founders regarding harvest strategies at three critical stages: enterprise start-up, immediately prior to IPO, after IPO.
Birley and Westhead (1993)	A list of 10,348 privately advertised sales, 2030 management buyouts, 748 mergers listed on the stock exchange, and 689 public listings.	Of the five exit routes examined, privately advertised sales was the most frequently used exit route; however, the market was served poorly by the professional advisors.
Petty et al. (1994a)	Conceptual	Harvest timing and planning are important. Entrepreneurs should anticipate the consequences of decisions made today on their ability to harvest the firm in the future.
Petty et al. (1994b)	Reviewed acquisition transactions valued between \$5 million and \$100 million from Mergerstat. Acquired names of 278 acquired venture-backed firms from Venture Economics.	The entrepreneur comes to the acquisition process somewhat naively and with expectations regarding exit that may not be satisfied. The firm also experiences a loss of momentum, if the deal is not consummated.
Petty (1997)	Conceptual	Harvesting firm value — the availability and effectiveness of the exit ultimately determines the value to be realized from the venture.
Rubenson and Gupta (1996)	Conceptual	Initial succession is appropriate at very different times in different organizations.
Engel (1999)	Conceptual	Many entrepreneurs don't maximize either the effectiveness with which they run their business, or maximize its value when they exit. It should be the first and last thing they think about.
Butler et al. (2001)	Examined 294 small and medium sized firms. Looked at age, employee #, competitor #, experience founding other business, level of education, and founder of business.	In firms where family members were seen as making a positive impact to the firm's performance, entrepreneurs were more likely to view family member succession as the likely outcome.
Hofer and Charan (1984)	Ten case studies on the transition process from Harvard Case Services.	A conceptual model that may be useful in overcoming the difficulties associated with transition from a one-person, entrepreneurial style of management to an organized, professional management team.
Boeker and Karichalil (2002)	Hypotheses were tested on 78 semiconductor producers in Silicon Valley. Data came from 3 large market research firms serving the semiconductor industry.	Founder departure increases with firm size, decreases with the founder ownership and board membership. Founders who work in research and development or who are CEOs are also less likely to leave.
Minor (2003)	12 former owner case studies	Few business owners adequately prepare for entrepreneurial exit because they are unable to resolve the conflicting and often overwhelming personal and emotional issues.
Wasserman (2003)	202 Internet companies listed on the Venture One Database.	Strong evidence of a linkage between Founder-CEO succession and the completion of both product development and each round of financing.
Haveman and Khaire (2004)	Magazines found in the U.S. from the industry's inception in 1741 to 1861.	Ideology is a strong moderator of the relationship between founder succession and organizational failure.
Prisciotta and Weber (2005)	Conceptual	Details concerns of small to middle-market business owners including raising capital to support the growth of a business and, deriving liquidity from the significant amount of wealth tied up in a business.
McGrath (2006)	3800 exiting firms in the Route 1 corridor of central New Jersey	In the 3800 exits, only 25% stemmed from disbanding. The bulk were the result of moves, parent firm strategy decisions, mergers and personal choices by founders.
DeTienne and Cardon (2007)	113 firm founders in two U.S. industry sectors	Utilizes the theory of planned behavior to explore how the founder's previous experience, age, and education (both level and type) affect the intention to exit.
Leroy et al. (2007)	172 micro-firms in Belgium as identified by Belfirst Database	Explores exit outcomes based upon intention, entrepreneur , characteristics, business, and industry variables.
Justo and DeTienne (2007)	340 Spanish Entrepreneurs — Collected during the GEM 2006 and 2007 data collections	Explores the impact that family situation (gender, number of children, marital status, and responsibility for aging parents or handicap child) have on entrepreneurial exit.
Wennberg et al. (2007)	1735 firms in the high tech and service industries in Sweden	Explores the impact of human capital on three exits (dissolution, harvest sale, and distress sale) and continuation
Wennberg (2008)	Forthcoming conceptual article	Entrepreneurial exit is a multi-faceted and multi-level phenomenon

In the work by Cardon et al. (2005) the authors briefly allude to entrepreneurial exit when they discuss adoption and foster care. They suggest that, similar to biological parents, founders may find themselves with a venture that they are unable or willing to nurture; therefore, they may hand over a new venture (or lose it) to individuals or firms who are better geared to manage it.

In the next paragraphs I expand upon the model proposed by Cardon et al. (2005) and propose a model that includes entrepreneurial exit; acknowledging that that entrepreneurial exit may occur at any time during the entrepreneurial process. That is, an entrepreneur could make a decision to pursue another opportunity (e.g. job opportunity, education, other new venture) and therefore his or her exit could occur before the firm is ever founded. Conversely, the entrepreneur might not consider exit until late in his or her life. At each phase I explore the factors affecting the decision to exit, the development of an exit strategy, and the options for exit. In addition, I explore how ownership – both equity and psychological – impact the decision, the development of an exit strategy, and the options for exit.

4.1.1. Ownership

An important caveat regarding entrepreneurial exit concerns the ownership of the venture. In the parenting metaphor it is unlikely that individuals would refer to "ownership of a child." However, in the context of the firm, ownership is a very important notion (Boeker and Wiltbank, 2005; Goodstein and Boeker, 1991). "Ownership has an important influence on the amount of power individuals and groups have in the organization" (Boeker and Wiltbank, 2005, p. 126). In scholarly research we most often consider ownership to be an equity-based notion (c.f. Wasserman, 2003). The amount of ownership in a firm usually refers to the percentage of equity a stakeholder has in the firm. At the time of new venture creation, the founders often own all of the company's equity (Wasserman, 2003). However, as the firm grows equity ownership will vary as founders may often use equity to develop partnerships (Reuer et al., 2006), secure funding (Mason and Harrison, 2006), and attract desirable employees through incentives (Graham et al., 2002). Equity may be perceived as a low-cost or bootstrap method of resource acquisition.

Ownership, however, may also include psychological ownership (Pierce et al., 2001; Pierce et al., 1991). Psychological ownership refers to a state of mind in which individuals feel as though they possess a particular object that then becomes an extension of their self or their identity (Pierce et al., 2001; Wagner et al., 2003). "The core of psychological ownership is the feeling of possessiveness and of being psychologically tied to an object" (Pierce et al., 2001, p. 299). Founders often have a strong psychological tie to the venture in which they have created even if they retain only a small equity ownership.

Pierce et al. (2001) identify three major influences on the degree of psychological ownership: (1) control of the organization, (2) intimate knowledge of the organization, and (3) self-investment (energy, time, effort, and attention). Previous research (e.g. Csikszentmihalyi and Rochberg-Halton, 1981) has shown that increased control over an object leads to feelings of ownership toward that object. Founders have a high degree of control over the activities and initial design of the firm due to their centralized decision-making process (Hofer and Charan, 1984). In addition the founders have a deep intimate knowledge of the organization. In most firms where the founder is still in the leadership role, it would be difficult to find an individual who has more knowledge of the firm (Wasserman, 2003). The more information and the better the quality of that information that an individual has about an object, the stronger the relationship will be between the object and feelings of ownership (Pierce et al., 2001). Finally, the more of oneself that an individual has invested into an organization the higher degree of ownership the individual will feel toward the organization; thus psychological ownership of the firm is a compelling and increasing force for firm founders.

In each of the phases of entrepreneurial exit discussed below I argue that both equity ownership and psychological ownership are important. The degree of both equity and psychological ownership in the firm is likely to change over time with equity ownership the highest at new venture creation and declining over time while psychological ownership is likely to be lower in the beginning and increasing over time. In the beginning phases of the firm the amount of self-investment (energy, time, effort, and attention) and intimate knowledge is less than it is as the firm grows. Individuals may become emotionally involved in their venture in such a way that their identity becomes the venture (Pierce et al., 2001). I argue that varying degrees of ownership have an impact on both the development of an exit strategy and the options for exit.

5. Entrepreneurial exit and the phases of the entrepreneurial process

5.1. Conception and gestation

The conception and gestation phases of the entrepreneurial process are preemergent (Cardon et al., 2005) and referred to as nascent entrepreneurship (Reynolds and White, 1997). In these phases the entrepreneur may begin to consider the idea of new venture creation, identify opportunities (Gaglio and Katz, 2001), and make decisions about whether to commit time and resources (Reynolds and White, 1997). During this phase individuals may use a systematic search process (Fiet, 2002), may serendipitously identify an opportunity they were not seeking, or may be pushed into entrepreneurship by circumstances (Wong et al., 2005).

5.1.1. Development of an exit strategy

Studies show that approximately half of entrepreneurs start their companies with an exit strategy in mind (Inc. Magazine OnLine, 2005). What then distinguishes between those entrepreneurs who develop an exit strategy early on and those that do not? One explanation is the varying motivations for new venture creation. Some entrepreneurs create a new venture as part of their lifestyle or as income-replacement while others have growth motives (Carland et al., 1984). Previous research has established that small business founders are distinguishable from entrepreneurial founders based upon their goals (e.g. Stewart et al., 1998). Small business founders tend to focus upon providing family income and entrepreneurial founders focus upon growth and profit. While small business founders "view the venture as an extension of their personalities", entrepreneurial founders are more likely to engage in systematic processes such as strategic planning (Stewart et al., 1998, p. 190). Therefore, it follows that founders with a growth or profit motivation are more likely to develop an exit strategy.

5.1.2. Reasons for exit

During both conception and gestation an entrepreneur could make the decision not to pursue the venture thus terminating the process. Drawing from the turnover literature I suggest that termination of the new venture creation process in the nascency phase may be due to at least three forces — alternative, calculative, or normative (Maertz and Campion, 2004). Alternative forces refer to those "alternative opportunities" (Maertz and Campion, 2004, p. 570) that entice an individual to leave their current endeavor and might include a job opportunity, educational opportunity, or the identification of another new venture opportunity.

Calculative forces refer to the chance that individuals will be able to achieve their "goals and values in the future at their current organization" (Maertz and Champion, 2004, p. 570). For the nascent entrepreneur these could include the realization that a product or service already exists, market demand is low, or a strong competitive environment which would make it more likely that the nascent entrepreneur would terminate the process. Finally, normative forces refer to the individual's perception of family or friends' expectations regarding the venture. Therefore, if the nascent entrepreneur has confided in and sought insight from friends and family she may be less likely to terminate the process.

5.1.3. Options for exit

In the conception and gestation phase individuals may, for the reasons listed above, decide to terminate or abandon their idea; thus, simply ending the entrepreneurial process. Many individuals toy with the idea of starting their own venture and the decision to terminate the idea doesn't prevent individuals from moving forward at some future point with a similar or completely unique idea.

In summary, the conception and gestation phases consist of the nascent entrepreneur beginning to consider the idea of creating a new venture. I argue that those entrepreneurs with growth motivations are more likely to develop an exit strategy in this phase. Reasons for exit in the conception and gestation phases may include alternative, calculative, and normative forces and the primary option for exit is termination or abandonment of the entrepreneur's idea.

5.2. Infancy

Cardon et al. (2005) refer to the first postemergence phase as infancy. In this phase, the venture is very vulnerable and requires a significant amount of attention from the entrepreneur. "In this newborn stage, there are greater threats to the ability to reach full maturity" (Cardon et al., 2005). Reynolds and White (1997, p. 6) refer to this phase as the "fledging new firm." During this phase the firm may be subject to both liability of newness (Stinchcombe, 1965) and liability of smallness (Aldrich and Auster, 1986) due to, among other considerations, limited resources such as specific knowledge, networks, customer relationships, and financing.

5.2.1. Exit strategy

It is during the infancy phase that entrepreneurs make important decisions that "imprint" the firm (Boeker, 1988; Kimberly, 1979; Stinchcombe, 1965). "There is the possibility, at least, that, just as for a child, the conditions under which an organization is born and the course of its development in infancy have nontrivial consequences for its later life" (Kimberly, 1979, p. 438). There are many conditions early in the life of the firm that may impact its ability to exit. For example, DeTienne and Cardon (2007) explore how the founder's previous experience impacts his or her intention to exit. Among the numerous start-up conditions that might imprint the firm, certainly the development of an exit strategy is one of the critical issues. Previous research has indicated that decisions by firm founders, specifically decisions about dominant strategy, have a lasting imprint on the strategic direction of the firm (Boeker, 1988). Therefore, the development of an exit strategy will impact not only the ability to exit but the exit routes available.

Goal theory (Locke and Latham, 1990) supports this proposition. The core premise of goal theory (Locke and Latham, 1990) is that "one's conscious goals affect what one achieves" (Latham, 2004, p. 126). The process of goal setting allows individuals to consider desired future states and ways to achieve those states (Bandura, 1986). Thus, if the entrepreneur develops an exit strategy in the infancy stage, she or he will be more likely to be able to exit and to achieve the desired exit.

Above I argued that founders with a growth strategy are more likely to develop an exit strategy than lifestyle or income-replacement founders. In addition as the firm begins to grow I argue that equity and psychological ownership issues are also part of the explanation. In the infancy phase equity ownership is high as the founders own most of the equity in the firm (Wasserman, 2003) and psychological ownership is low as founders have yet established a strong psychological bond with the firm. When the founder's equity ownership is high there is little pressure from other constituents (e.g. venture capitalists or other investors) to see a return on their investment; thus the need to consider an exit strategy is minimized. Without the pressure from other constituents entrepreneurs may have more of a tactical rather than strategic focus. With a limited number of hours in the day entrepreneurs may be focused upon the most pressing demands on their time (find a location, file necessary paperwork, apply for intellectual property protection, etc.) rather than the long-term strategic implications.

Thus, I argue that the entrepreneurs who develop an exit strategy early in the life of the firm imprint the firm in such a way that they are more likely to be able to achieve their exit goals. Why then don't all entrepreneurs develop an exit strategy in the infancy phase? I also suggest that the founder's high equity ownership in the infancy stage allow entrepreneurs to focus on day-to-day issues rather than long-term strategic issues such as entrepreneurial exit.

5.2.2. Reasons for exit

The reasons for exit in the infancy phase may also be due to the alternative, calculative, and normative forces (Maertz and Campion, 2004) described above in the conception and gestation phase. Alternative forces (those other opportunities that entice

an individual to leave their current endeavor) are still strong in the infancy phase as individuals have not made a strong psychological commitment to the firm. In addition, it is at this point in the entrepreneurial process the entrepreneur may recognize that a career in entrepreneurship is demanding and perhaps not the romantic adventure often glamorized in the media. Because individuals may not have a strong psychological commitment nor have they invested a significant amount of resources (time, money, or energy) into the venture, the decision to exit for an alternative opportunity is a primary reason for exit.

Calculative forces (the chance that individuals will be able to achieve their goals) also figure into the reasons for exit as the initial steps the entrepreneur has taken give them additional information to evaluate the venture's viability. For example the realization of a provisional patent or first round equity financing is a signal that the likelihood of achieving their goals is higher; thus decreasing the likelihood of exit in this phase. Conversely, the realization that a similar product exists or that the technology is unachievable is a negative signal. These negative signals that result in entrepreneurial exit are varied and many in the infancy phase as the entrepreneur begins to explore the feasibility of her idea.

Normative forces (the individual's perception of family or friends' expectations regarding the venture) are stronger in the infancy phase than in conception and gestation. As the entrepreneur takes positive steps toward new venture creation, more of his networks, friends, family, and colleagues will be aware of the new venture. In addition, it is during the infancy phase that entrepreneurs seek partnerships and develop working relationships, all of which make it more difficult to terminate or abandon the new venture.

5.2.3. Options for exit

I propose that there are primarily two types of entrepreneurial exit – failure and voluntary disbanding – in the infancy phase. Previous research has shown failure to be highest in this phase (Freeman et al., 1983). Despite the initial honeymoon phase (Fichman and Levinthal, 1991) enjoyed by many firms, the liabilities in the infancy phase result in a high exit rate. Other research indicates that exit may be voluntary and due to personal or other reasons. In a study of exits in a regional ecosystem, McGrath found that only twenty-five percent of exits were due to poor financial performance (McGrath, 2006). Instead, voluntary exits seem to comprise much of the exits (Mayer and Goldstein, 1961; McGrath, 2006; Ronstadt, 1986). "The bulk of exits were the result of moves, parent firm strategy decisions, mergers, and personal choices by the founders" (McGrath, 2006, p. 2). Other researchers (Mayer and Goldstein, 1961; Ronstadt, 1986) found that at least 20 percent of exits are due to personal, family, environmental, venture-related reasons, or other nonfinancial reasons such as other job opportunities or unwillingness to accept limited success.

In summary I argue that the firm is vulnerable in the infancy phase and subject to founder imprinting. Therefore it is intuitive that entrepreneurs would develop an exit strategy early in the life of the firm as they would be able to position the firm in a manner that provides more options for exit and makes it possible to achieve the desired exit. However, both equity and psychological issues impact the development of an exit strategy accounting for a portion of those entrepreneurs who do not develop an exit strategy. Alternative, calculative, and normative forces have a significant, although sometimes contradictory, impact on the reasons for exit. I also argue that entrepreneurial exit will be higher in the infancy phase of the entrepreneurial process and consist primarily of two routes: (1) failure and (2) voluntary disbanding.

5.3. Adolescence

As the firm survives infancy legitimacy increases and the firm enters what researchers refer to as the adolescence phase (Cardon et al., 2005). In this phase the primary process is that of growth (Reynolds and White, 1997). During this growth phase (which may include growth in sales, employees, and market share or resource acquisition) (Bamford et al., 2004) organizations begin to become more formalized instituting a formalized structure and institutionalization of rules and procedures (Lynall et al., 2003).

5.3.1. Exit strategy

Previously I argued that growth entrepreneurs are more likely to develop an exit strategy early in the life of the firm due primarily to the influence of other stakeholders. The number and influence of other stakeholders in the growth phase increases rapidly as the growing firm seeks an infusion of resources (e.g. financial and human). This argument is supported by empirical evidence which demonstrates that growth entrepreneurs use a more structured approach to organizing their business, begin planning earlier for the growth of the firm (Gundry and Welsch, 2001), and spend more time in guided preparation (Chrisman and McMullan, 2004). As the firm grows we would expect there to be increasing pressure on the growth entrepreneur to develop an exit strategy.

It is also important to note that as the firm grows, the founder increasingly develops a psychological attachment. Although this is true for both growth and lifestyle or income-replacement founders there is some evidence that psychological attachment is stronger for lifestyle or income-replacement entrepreneurs as they "view the venture as an extension of their personalities" (Stewart et al., 1998, p. 190). They may become emotionally involved in their venture to the point that it becomes part of their identity making it much more difficult for them to 'let go'. Thus, not only are they less likely to develop an exit strategy early in the life of the firm, they are less likely to consider one over time.

5.3.2. Reasons for exit

In growth ventures entrepreneurs often relinquish a portion of equity ownership in order to acquire needed resources. For example, entrepreneurs may relinquish a large percentage of equity for multiple rounds of funding (e.g. through a venture capitalist or angel

investor) or they may use stock-related incentives (stock options, stock grants, or stock ownership) to entice highly desirable employees (Graham et al., 2002). As the founder's equity in the firm becomes diluted, he or she has less control over decisions and may be in a position where other stakeholders could force an exit to bring in a professional management team. Conversely, the founder may desire an exit rather than serving a managerial role. Hambrick and Crozier (1985, p. 44) "found that a substantial proportion of the successful high-growth firms had brought in one or more senior level executives with big company experience to complement the owner-founder, or that the chief executive had willingly departed and had been replaced" (Hambrick and Crozier, 1985). Thus, in growth firms reasons for entrepreneurial exit may include forced exit or a desire by the entrepreneur not to assume a managerial role.

5.3.3. Options for exit

As the firm increases in size and develops legitimacy, the exit options for the growth oriented entrepreneur increase. Growing firms are attractive to private equity firms, strategic buyers, and as public offerings. Private-equity buyouts – one of the fastest growing exit routes (Berman, 2007; O'Sullivan, 2006) – are acquisitions by a managed pool of funds comprised of qualified investors. From 2004 to 2005 the number of private equity transactions grew by 13%; from the first half of 2005 to the first half of 2006 U.S. private equity transactions grew 19% (Bernard and Kaplan, 2006). In 2006 private-equity buyers spent $660B in private-equity buy-outs (Berman, 2007).

Although private-equity transactions are growing at a rapid rate, strategic buy-outs are still a popular exit route for entrepreneurs. Strategic buyers continue to look for firms that are a strategic fit (cost saving advantages and/or operational synergies) with the existing firm. A public offering is also a potential exit strategy for entrepreneurs. Although an IPO is often considered to be more of a growth strategy rather than a liquidity strategy, the offering does allow for the entrepreneur to extract the accumulated wealth (albeit over a longer period of time). In lifestyle or income-replacement firms the increasing psychological attachment has an impact not only on the development of an exit strategy but also on the type of exit that they may be willing to consider. For example, an exit that would allow the entrepreneur to remain involved with the firm (e.g. family member succession) may be more appealing than one that requires the entrepreneur to give up control of the firm. One of the concerns lifestyle entrepreneurs often have in exiting from the firm they have created is "What will I do after I have sold my business" (Minor, 2003).

In addition, the lifestyle founder may be concerned about how the firm will be managed if they leave. Not only do entrepreneurs have concerns about their 'baby', but many have developed long-term relationships with employees, customers, and suppliers and may be apprehensive about how these stakeholder groups will be managed once they leave (Minor, 2003). When David Sibbald (along with his co-founders) sold Atlantech to Cisco, his comments typified this perspective — "I still feel and have always felt a moral and ethical responsibility to ensure that the people who built Atlantech up had good, strong careers at Cisco" (Mason and Harrison, 2006, p. 62). The psychological attachment of the founder to the lifestyle or income-replacement firm make it more likely that when they do choose an exit it will be one that allows them to remain involved in the firm (e.g. family succession) and one that provides continuity for the firm and a potential payout for loyal employees (e.g. employee or management buy-out).

Thus, I have proposed that as the firm grows the options for exit increase. However, there is disparity in the goals of founders. Founders with growth goals may be more likely to have developed an exit strategy and may be more likely to consider an exit that provides a high payout while founders with lifestyle goals may be more psychologically connected to the firm and may be less likely to have an exit strategy. When founders with lifestyle goals do consider exit it may be an exit that allows them to either remain involved with the firm or ascertain that key stakeholders are taken care of.

5.4. Maturity

Over time the firm may reach a point where formalization and control through bureaucracy are the norm. "Job descriptions, policies and procedures, and hierarchical reporting relationships have become much more formal" (Lester et al. 2003, p. 343). Only a small percentage of growth firms reach maturity with the founder in place (Haveman and Khaire, 2004). Founders with a growth motivation are less likely to still be intricately involved in the organization. The founder may have decided to pursue another opportunity or may have exited in one of many ways noted above (failure, sale to an individual or firm, management buy-out, IPO, etc.). Therefore, many founders who developed an exit strategy may have already exited the firm.

5.4.1. Exit strategy

I argue that it is rare for the founder of growth firms to remain in control of the firm at maturity. Conversely, due to the high psychological attachment, early phase imprinting, and little outside pressure to develop an exit strategy the lifestyle or income replacement founder may find himself with a mature firm, no exit strategy, and few options available for exit.

5.4.2. Reasons for exit

Despite not developing an exit strategy the lifestyle founder will, in one manner or another, exit the firm. These reasons may include, among other things, a desire to harvest their investment, a need for liquidity, retirement, or even death. In the maturity phase the likelihood of bankruptcy is lower than at any other phase in the entrepreneurial process (Altman, 1993); thus, reducing the likelihood that entrepreneurs will exit due to failure.

5.4.3. Options for exit

A large number of the lifestyle and income-replacement founders expect to transfer their company to a key employee or a family member, but the reality is that this scenario plays out only about 20% of the time (Knott and McGrath, 2004; Minor, 2003).

Another option for lifestyle of income replacement founders is to sell their firm to another individual. This may involve the use of a local business broker. Although a viable option, this strategy is most often for firms at the lower end of firm valuation (DeTienne and Cardon, 2007). As Tom West, founder and former president of The International Business Brokers Association (IBBA) notes "the average price of a business that sells today goes for about $250,000 not including inventory or real estate" (Zahorsky, 2005: 1). Another option is to sell the firm to a strategic buyer. This option may take several years if the founder needs to make significant changes (e.g. groom a middle management team, restructure the accounting systems) to increase its marketability to strategic buyers (Minor, 2003). A final, although not very desirable, exit option is to liquidate the assets of the firm.

Consider the following real-world example. Spousal entrepreneurs David and Debbie Johanson[3] began their service-based, income-replacement business in 1983 as a result of being pushed into entrepreneurship. Due to extenuating circumstances the Johansons were unemployed and decided to start a business venture based upon David's previous experience working in his father's business. The firm grew consistently over time, but the Johansons never considered exit until thirteen years of dealing with employee problems, government regulation, rising insurance premiums, and growth pressures took a toll on their entrepreneurial passion. Many of the decisions made early in the life of the firm (legal structure, organizational structure, strategic decisions) limited their exit options. Since they had no family members to take over the firm only two realistic options remained — sale to another entrepreneur or liquidation. After a couple of painful years and with the help of a business broker, the Johansons did sell their firm, although they were saddled with several unfavorable provisions (e.g. tax burden, extensive non-compete clauses, owner financing).

In this section I have argued that few founders in growth firms remain in the firm as it reaches maturity. I also point out the reasons for and exit options available for founders of lifestyle or income replacement firms.

6. Implications

In this article I contend that entrepreneurial exit – the process by which the founders of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degree, from the primary ownership and decision-making structure of the firm – is one of the central issues in entrepreneurship, but one of the least understood. I contend that the entrepreneurial process, that begins with the nascent entrepreneur, is incomplete without understanding the final stage in the process — entrepreneurial exit.

I have argued that in the phases of the entrepreneurial process there are unique factors that affect a founder's exit strategy, reasons for exit, and the varying exit options. I propose that as the firm grows, there are more options available for exit. In the conception and gestation phase entrepreneurial exit consists primarily of the nascent entrepreneur making a decision to abort the process due to alternative, calculative, and normative forces. In the infancy phase I argue that the firm is vulnerable and subject to founder imprinting — particularly the development of an exit strategy. In addition, both equity and psychological issues impact the development of an exit strategy. In this phase I propose that entrepreneurial exit is high and consists primarily of failure and voluntary disbanding.

As the firm grows and its legitimacy increases (adolescence), there are more options available for exit. However the disparity in the goals of firm founders impact the options available such that founders with growth goals may be more likely to have developed an exit strategy and may be more likely to exit. Founders with lifestyle goals may be more psychologically connected to the firm and may be less likely to have an exit strategy or will have an exit strategy that allows them to either remain involved with the firm or ascertain that key stakeholders are taken care of. In the maturity phase a large percentage of growth motivated firm founders have either left the firm. For those founders of lifestyle of income replacement firms the options for exit are limited.

This work leads to several implications for entrepreneurs, researchers, and educators. As a field of inquiry, entrepreneurial exit is grounded in practice and exists because of the significance of its subject to entrepreneurs. And as evidenced by the substantial amount of discussion of entrepreneurial exit in the popular press (e.g. Dahl, 2005; Knott and McGrath, 2004; Parrish, 2005), the number of books published by consultants (e.g. Minor, 2003), and the significant number of entrepreneurs considering exit at any given time (Dahl, 2005), entrepreneurial exit is an increasingly important topic to practitioners. All entrepreneurs, whether they create lifestyle ventures or growth gazelles will ultimately make an exit. This exit may be voluntary or involuntary; it may be early or late in the life of the firm and it may take many forms. However, one thing is certain — they will exit. Therefore, a contribution of the current research for entrepreneurs is the identification of various factors that may imprint the firm and therefore impact the ability to exit and the options for exit.

One of the factors explored in depth is the development of an exit strategy. Obviously, as with other strategic decisions, the when and how of the exit may be modified over time, but I argue that the development of an exit strategy will increase the ability to exit and improve the number and the quality of the exit. However, this work is just the first step. Research must explore the other decisions (e.g. financing, legal structure, organizational structure) made early in the life of the firm and how those decisions imprint the firm; thus, impacting entrepreneurial exit.

For educators, there are two important implications. First, as entrepreneurship education is exploding across the world – from a handful of colleges and universities offering courses in the 1970s to over 1600 in the early 21st century – (Katz, 2003), educators are seeking to understand both the critical content and pedagogies (Kuratko, 2005). I argue that entrepreneurial exit is an important part of the entrepreneurship content and should be integrated into the entrepreneurship curriculum at all universities whether the focus is on technological entrepreneurship, small business management, or venture capital funded enterprises or whether the entrepreneur is interested in new venture creation in developing countries, the European Union, or North America.

[3] This example represents a real company that the author was involved in. The names have been changed, but all other information is factual.

Certainly there is also a role for entrepreneurial exit in courses whose primarily deliverable is a business plan. It is common knowledge that venture capitalists are interested in inclusion of an exit strategy in the business plan, but I contend that founders in bootstrapped ventures as well need to understand their exit and build that concept into the business plan.

For scholars, this research points out the lack of relevant literature and provides an important foundation for future research. First, it will be important to develop hypotheses around the ideas set forth in this article. What is the value in developing an exit strategy early in the life of the firm? Goal theory and entrepreneurial intentions are important theoretical lenses from which to explore this question. However, scholars have proposed that many entrepreneurs do not follow a linear, goal-setting process, but rather an effectuation process (Sarasvathy, 2001) when creating their venture. An interesting study would be to explore the relationship between processes of causation, effectuation, and entrepreneurial exit.

Another important area of research is to explore the founding conditions and determine which conditions imprint the firm and how that limits or expands the options available for exit. The work by consultants and existing case studies indicate that these might include legal structure, organizational structure, funding mechanisms, strategic plan, size of the founding team, and total initial investment. However, a scholarly approach to this question will be important to provide systematic analysis and generalizability. It is also probable that there are many other early stage decisions that have received little attention. In addition, we should ascertain whether these conditions are different for entrepreneurs of growth ventures and those in lifestyle ventures.

I have also argued that the amount of equity and psychological ownership vary over time and with different types of ventures. This is an important dimension of entrepreneurial exit because it provides the foundation for scholars to separate ownership and to 'tease out' the impact that passion (whether functional or dysfunctional) has on the entrepreneurial exit. Furthermore, there has been little research that has explored the exit routes for the entrepreneur. In this article I mentioned a few. But what about reverse IPOs, leveraged buy-outs, or a combination of exit routes? What conditions cause an entrepreneur to choose a particular exit? How does the process of determining an exit route change over time? In addition there may be very different cultural aspects of entrepreneurial exit across the world. A significant amount of research into cross-cultural entrepreneurial exit is necessary to better understand the processes, similarities, and differences.

7. Conclusions

> "Perhaps the most important piece of the initial business plan that is commonly overlooked by entrepreneurs is their exit strategy. It probably seems silly to spend much time thinking about how to liquidate your future interest in a business that doesn't yet exist. Yet, your exit strategy impacts many directions that you might choose in growing your business. Not considering your exit strategy early may indeed limit your options in the future. Remember: It is not a matter of if you will sell, or otherwise dispose of, your interest in this business. Your only decisions are when and how." (William Payne, Angel Investor, 2005).

Scholars in entrepreneurship search for entrepreneurship's distinctive domain (Phan, 2004; Venkataraman, 1997). Certainly since the admonishment by Aldrich and Baker in 1997 that there has been little progress in entrepreneurship, scholars have sought to better understand what is distinctive about entrepreneurship research. In his classic work, Venkataraman (1997: 120) argues that the distinctive domain of entrepreneurship should be defined "…in terms of the central issues that concern us as an invisible college." Alvarez and Busenitz (2001, p. 771) suggest that entrepreneurship scholars should address "interesting and important research questions that better explain and predict currently vague phenomena."

In this article I contend that entrepreneurial exit is critical to understanding the entrepreneurial process and therefore an important part of the distinctive domain of entrepreneurship research. I demonstrate how the questions and relationships are different than those examined by scholars in other disciplines (Busenitz et al., 2003), and the importance of entrepreneurial exit to the entrepreneur, the firm, the industry, and the economy. In addition, I examine the entrepreneurial process and the role that entrepreneurial exit plays in each of the different phases of the process. In conclusion, I make a call to entrepreneurship scholars to consider entrepreneurial exit as a critical component of the entrepreneurial process and I provide the initial foundation to do so.

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