

# Why Do Entrepreneurs Quit the Business? A Study of Disengagement and its Implications

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## ABSTRACT

Entrepreneurial exit is a little-studied yet foundational element of the entrepreneurial life cycle, involving both voluntary and involuntary termination of business ownership. This research performs a systematic review of 25 Scopus-listed articles to investigate factors driving entrepreneurial exits and their consequences. The results identify the interaction of internal, organizational, and external factors in determining exit choices. Personal motives, such as economic aspirations and balance between work and personal life, drive exits, and organizational performance and market circumstances have a part in shaping results. The study indicates significant categories of exits, such as strategic and reactionary, and their meanings for entrepreneurs, companies, and economies. The findings emphasize the need for forward-thinking exit plans, facilitating policies, and further study on cultural and contextual dimensions. This integrated review contributes to the knowledge of entrepreneurial exit, providing valuable insights for policymakers, practitioners, and academics in promoting sustainable entrepreneurship.

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## 1. INTRODUCTION

Entrepreneurial ventures are widely viewed to be the drivers of innovation, economic growth, and job creation. However, while most of the literature on entrepreneurship emphasizes business start-up and growth, entrepreneurial exit remains a comparatively under-theorized area. Entrepreneurial exit, or how successful entrepreneurs disengage from their businesses [1], [2], is an important phase that impacts the individual entrepreneur directly as well as the broader economic environment. Determining why entrepreneurs leave their businesses is fundamental in the process of

developing successful entrepreneurship strategies [3].

Entrepreneurs exit their businesses due to a variety of reasons, ranging from economic distress and strategic mismatch to individual reasons and environmental forces. Voluntary exits are driven by potential for better returns or lifestyle motives, whereas involuntary exits are precipitated by external forces such as economic downturns or competitive duress [2], [4]. Regardless of the motivation, entrepreneurial exits can determine industry lifespans, reshape market forces, and affect the economic worth of small

and medium-sized enterprises (SMEs) globally [1], [5].

This study aims to provide an overarching literature review of entrepreneurial exit drivers and their implications by synthesizing and summarizing results from Scopus-indexed studies. By doing so, it hopes to bridge the literature gap prevalent in overlooking the importance of the exit stage of the entrepreneurial lifecycle. This review also identifies trends and patterns to inform academic research as well as entrepreneurial practical strategies for entrepreneurs, policymakers, and support organizations.

The research contributions further the growing debate on entrepreneurial dynamics, pointing out that entrepreneurial exit is not a destination but a transformation which can bring new opportunities and challenges. The research also offers valuable suggestions on how entrepreneurs can plan for improved exits, thereby making transitions smoother and diminishing the adverse effects on stakeholders.

The paper begins with the definition of the conceptual framework of entrepreneurial exit and then a summary of the main findings of the literature. In the discussion section, it goes on to describe the implications of these findings, and it provides recommendations for future practice and research. Through an analysis of the multifaceted nature of entrepreneurial exits, the study highlights that they are a key component in entrepreneurship research.

## 2. LITERATURE REVIEW

### 2.1 Defining Entrepreneurial Exit

Entrepreneurial exit is a complex process influenced by individual, organizational, and environmental factors, marking a transition rather than an endpoint. It can be voluntary, involving strategic planning, or involuntary due to external pressures. Entrepreneurs nearing retirement face identity shifts and well-being challenges, with women prioritizing sustainability and family, while men focus on growth [6].

Earnouts help manage acquisition uncertainties by aligning buyer and seller interests [7]. Life satisfaction influences voluntary retirement, whereas declining work ability may force exits [8]. In social entrepreneurship, exit decisions are shaped by power dynamics and competition [9]. Gendered perspectives reveal that women's exits are often driven by domestic pressures, challenging the notion of voluntary exits [10].

### 2.2 Classifications of Entrepreneurial Exit

Entrepreneurial exits are multifaceted, encompassing financial exits, strategic sales, succession planning, and closures due to failure. Financial exits, particularly through mergers and acquisitions (M&A), have become a prevalent strategy for start-ups, often driven by the opportunity to realize value through acquisition by larger firms. This trend is linked to the increasing opportunity cost of going public and the rise of oligopoly power, as dominant companies acquire start-ups to insulate themselves from market competition [11]. Patterns in M&A include technology-focused expansion, location-based scaling, synergy-driven, and potential-focused acquisitions [12]. Strategic sales, often motivated by corporate restructuring or market consolidation, maximize value through synergies and credible alternatives [13]. Succession planning is crucial in family businesses, ensuring continuity through ownership transfer to heirs or professional managers [14]. Meanwhile, business closures due to failure stem from financial, operational, or competitive challenges, leading to voluntary liquidation or bankruptcy [14].

### 2.3 Gaps in Existing Literature

Despite growing interest, gaps remain in the study of entrepreneurial exits. First, there is limited research on the long-term impacts of exits on entrepreneurs' careers and personal well-being. Second, the role of cultural and institutional contexts in shaping exit strategies is underexplored, particularly in emerging economies. Lastly, there is a need for more empirical studies examining the interplay between

technological advancements and entrepreneurial exits in the digital era.

### 3. METHODS

The research is designed to address the overarching question: "Why do entrepreneurs exit businesses, and what are the implications of such exits?" To answer this, a systematic and structured review of the literature was conducted, focusing on peer-reviewed articles indexed in the Scopus database. This approach enables the identification of patterns, trends, and gaps in the existing body of knowledge, providing a robust foundation for analysis and interpretation. The data collection process involved a rigorous search of the Scopus database, utilizing keywords such as "entrepreneurial exit," "business closure," "business failure," "exit strategy," and "entrepreneurship." Boolean operators and truncation techniques were applied to refine the search. Filters were used to include only peer-reviewed journal articles published in English up to 2023. The screening process involved reviewing article titles and abstracts for relevance, followed by a full-text review of 25 selected studies to ensure they met the inclusion criteria.

To maintain the quality and relevance of the selected studies, specific inclusion and exclusion criteria were applied. Included articles focused on entrepreneurial exit and related factors, contained empirical methodologies, and examined the implications of exits on individuals, organizations, or economies. Excluded studies addressed unrelated entrepreneurship topics, had incomplete methodologies, or were non-peer-reviewed publications. The selected articles were analyzed using a thematic analysis approach, involving data extraction of key information, thematic coding into categories such as personal, organizational, and external factors, and synthesis to identify patterns and trends. The findings were validated by cross-referencing results across multiple studies to ensure consistency and reliability.

## 4. RESULTS AND DISCUSSION

### 4.1 Factors Influencing Entrepreneurial Exit

Entrepreneurial exits are influenced by a complex interplay of personal, organizational, and external factors. Personal factors such as motivations, health, and life circumstances are critical drivers of exit decisions. Entrepreneurs often face burnout, seek work-life balance, or pursue new ventures, leading to voluntary exits. Age and personal financial goals also play significant roles in these decisions. Organizational factors, including business performance, profitability, and scalability, are pivotal. Declining revenues or operational inefficiencies often result in involuntary exits, while successful firms may facilitate exits through acquisitions or strategic sales. External factors like market dynamics, economic downturns, technological disruptions, and competitive pressures significantly influence exit decisions. Regulatory changes and policy uncertainties further impact these choices.

#### 4.1.1 Personal Factors

Entrepreneurial burnout is a significant issue, with chronic stressors leading to exits. Burnout affects individual well-being and economic outcomes, necessitating strategies to mitigate its impact. Entrepreneurs nearing retirement face identity shifts and well-being challenges, with health concerns and financial pressures influencing exit decisions. Gender differences also play a role, with women prioritizing sustainability and family, while men focus on growth [6]. Effective stress management and work-life balance are crucial for preventing burnout and supporting business sustainability.

#### 4.1.2 Organizational Factors

Organizational performance, including profitability and scalability, influences exit decisions. Successful firms often facilitate financial exits through acquisitions or strategic sales [6]. Declining revenues or operational inefficiencies can lead to involuntary exits, highlighting the

importance of maintaining business performance [8].

#### 4.1.3 External Factors

Market dynamics, such as economic downturns and technological disruptions, are significant external drivers of entrepreneurial exits. Regulatory changes and policy uncertainties also influence entrepreneurs' decisions to exit, underscoring the need for adaptive strategies.

#### 4.2 Types of Entrepreneurial Exit

The reviewed studies classified exits into voluntary and involuntary categories. Voluntary exits, often seen as strategic, included financial exits, strategic sales, and succession planning. Involuntary exits, driven by external pressures, typically involved business closures due to failure. A few studies also highlighted hybrid cases where entrepreneurs exited under partially voluntary circumstances, such as accepting acquisitions to mitigate financial risks. Entrepreneurial exits can be categorized into voluntary, involuntary, and hybrid cases, each driven by different motivations and circumstances. Voluntary exits are often strategic, involving financial exits, strategic sales, and succession planning, while involuntary exits typically result from external pressures leading to business closures. Hybrid cases occur when entrepreneurs exit under partially voluntary circumstances, such as accepting acquisitions to mitigate financial risks. Strategic sales and succession planning are common voluntary exits, particularly among entrepreneurs nearing retirement, where the mode of entry influences the exit strategy—family successors tend to favor family succession, while buyers prefer sales [15]. In certain jurisdictions, legal frameworks like India's Insolvency and Bankruptcy Code, 2016, enable solvent but non-viable businesses to exit without financial distress [16]. Involuntary exits often stem from external pressures, including low familial support and financial obstacles, increasing the likelihood of business closure [17]. Hybrid exits serve as a risk mitigation strategy, where entrepreneurs accept acquisitions to reduce

financial risks, navigating between voluntary and involuntary motivations. The communicated reason for exit significantly impacts acquisition price and business perception [18].

#### 4.3 Implications of Entrepreneurial Exit

Entrepreneurial exits impact individuals, organizations, and the economy. For entrepreneurs, exits can provide financial gains and opportunities for new ventures or retirement [6]–[8]. However, involuntary exits often cause emotional distress, financial loss, and identity shifts, particularly near retirement [6], [19]. Organizationally, strategic exits enhance reputation, while abrupt closures disrupt continuity and stakeholder trust [20]. Co-founder exits can either weaken or strengthen team dynamics [20]. Economically, exits drive market restructuring and innovation, but high failure rates expose systemic inefficiencies, necessitating policy interventions [19].

#### DISCUSSION

The findings accentuate the multidimensional nature of entrepreneurial exit, as a result of an interaction of individual, organisational, and external variables. Consistent with [4], [6], [8], which emphasizes the complexity of exit choices, the thematic analysis revealed that while individual reasons have a tendency to trigger exit considerations, organisational and external influences subsequently determine the phenomena.

Common to the perceptions was the contrast between strategic and reactionary exit. Strategic exits, when there was long-term planning, were associated with favorable outcomes for entrepreneurs and companies. Reactionary exits, which were brought about by crises or external shocks, highlighted weaknesses in business resilience and risk management. The opposition here is for the purpose of highlighting the need for entrepreneurs to adopt proactive exit strategies.

The literature discovered a gap in the perspective of the roles of cultural and institutional context in entrepreneurial exit. Research in developed economies had been

prevalent in earlier literature, leaving emerging markets underresearched. Institutional conditions, including social context, legal environments, and availability of support institutions, have wide-ranging impacts on the process of exits and require further attention.

#### **Implications for Policy and Practice**

##### ***Implications for Policymakers and Practitioners***

The results are of relevance for policymakers and practitioners. Policies in entrepreneurship should include not only starting businesses but sustainable growth and planning for exits too. An investment in succession planning, money advice, and mental health support may help entrepreneurs deal with exits in a better manner. The implication for practitioners is that they stress the importance of risk assessment, diversification, and business agility in their advice.

##### ***Gaps and Opportunities for Future Research***

Despite the learning, the review found that there were areas of deficiency in literature. Future studies need to explore the long-term effects of exits by entrepreneurs on individuals and society, particularly in the underrepresented communities. Additionally, innovative technologies such as artificial intelligence and blockchain, which are revolutionizing exit strategies, are a worthwhile area of study.

## **5. CONCLUSION**

Entrepreneurial exit is a multifaceted process motivated by a subtle combination of personal, organizational, and environmental factors. This study highlights the diverse reasons for entrepreneurial exits, ranging from the quest for personal growth and returns to negative external pressures like economic downturns and regulatory changes. The impacts of entrepreneurial exits are far-reaching, affecting not only the entrepreneurs but also businesses, stakeholders, and the broader economy.

Strategic planning-based voluntary exits result in favorable outcomes, while reactionary ones expose strengths of vulnerability and lack of adaptability. The findings highlight the imperative for proactive planning for exit, succession plans, financial readiness, and mental health support. Practitioners and policymakers must address these elements in order to realize sustainable entrepreneurship and business exit transitions.

In addition, this study identifies gaps in the literature, in this case, related to cultural and institutional influences on entrepreneurial exits in emerging economies. Future research has to explore these areas and examine the impact of emerging technologies on exit strategies. By filling these gaps, scholars can contribute to a more comprehensive understanding of entrepreneurial exits and their implications, hence contributing to the establishment of resilient and responsive entrepreneurial ecosystems.

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