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Review on exit of entrepreneurial members

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Abstract. With the development and growth of the enterprise,the environment for companies is changing.The ability of the entrepreneurial members may not meet the development of the companies. Therefore, entrepreneurial members are not static, but dynamic.On the basis of the existing research, this paper collates the relevant literature of the exit part of entrepreneurial members in order to sum up the reasons, ways and effects of the withdrawal of members of new enterprises.

1. Reasons for the withdrawal of entrepreneurial members

Entrepreneurs see start-ups as their own "children"[1].Because entrepreneurs invest a lot of time, money, energy and work to shape the opportunities they discover.Exiting is not just a transfer of ownership, but it has a profound effect on the heart of the entrepreneur.As a result, entrepreneur do not lightly withdraw from the enterprise they have created. However, in real entrepreneurial activities, there may be a possibility that the founder will withdraw at every stage. The following will introduce the reasons for the founder's withdrawal from the four stages of the start-up from the budding period, early childhood, growth period to maturity.

1.1 Business ideas brewing period

The idea of the entrepreneurial process is that the company has not yet formed[1] and is known as an emerging company[2] .At this stage, founders may begin to think about the ideas of new business creation, recognize opportunities[3], and make decisions about whether to invest time and resources into it[2]. During this period, individuals may use the systematic search process, may accidentally discover opportunities they have not previously discovered, or may be forced to start a business.Therefore, during this period, there is generally no time for entrepreneurs to consider quitting. However, some research scholars have shown that nearly half of entrepreneurs have the idea of an exit strategy when they start a business[4].

So what's the difference between the founder who has an exit strategy idea and the founder who does not exit the strategy idea? Dawn R. DeTienne[5] shows that one of the explanations is that the motivation of the founder to start a business is different. The founders of small businesses regard entrepreneurship as their way of life and are more concerned with the income that entrepreneurship brings to families, while entrepreneurs have the desire to allow the company to continue to develop and pay more attention to the development and profitability of the company.Entrepreneurs of small companies see entrepreneurship as an extension of their personal characteristics, and entrepreneurs are more willing to engage in the process of the system, such as strategic plan. Therefore, Dawn R. DeTienne[5] believes that entrepreneurs who are motivated by development and profitability are more likely to formulate exit strategies.

During the gestation period, the entrepreneur may make a decision not to take risks and give up. Dawn R. DeTienne[5] outlines the three reasons for giving up at this stage, namely choice, calculation, or follower, based on the literature of Maertz and Campbell[6].The power of choice refers to the "choice of opportunity"[6] That is, the temptation to leave the current activity includes opportunities for work, education, or the discovery of a new entrepreneurial opportunity. The power of calculation refers to the opportunity for individuals to achieve their goals or values in the current organization[6]. The power of the follower refers to the entrepreneur's family or friends 'view of

their own business.

1.2 Enterprise early childhood

The company that has just appeared is called the early childhood of the company[1]. At this stage, start-ups are very vulnerable and require a lot of attention from entrepreneurs. "In the nascent period of an enterprise, there are many threats that hinder the development of an enterprise"[1]. Reynolds and White[2] Consider the enterprises of this period as "new enterprises with growing wings." During this period, enterprises may have two tendencies, one is new tendencies and the other is small tendencies. The reasons for these two tendencies are constrained by limited resources, such as specific expertise, networks, customer relationships and financial support.

The founder's exit strategy during this period, Dawn R. DeTienne[5] believes that the same as the gestation period for entrepreneurial ideas, that is, the founders of corporate growth strategies are more likely to formulate exit strategies than founders who regard entrepreneurship as a lifestyle. In addition, with the establishment of the company, Dawn R. DeTienne[5] also believes that the issue of equity and psychological property rights is one of the explanations.In the early years of the company, when the founder owned most of the company's equity rights, the equity rights were high and when the founder had not established a strong psychological link with the company, the psychological property rights were low. When the founder's equity is high, the founder has less pressure from other people(such as VC or other investors) who need to get a return from the company; Therefore, there is less need to consider exit strategies. Therefore, Dawn R. DeTienne[5] believes that when the founders of a company's early childhood have high equity rights, they will devote more time and energy to each day's problems rather than long-term strategic issues, such as the founder's withdrawal.

In the early childhood of the company, the reason why the founder withdrew, Dawn R. DeTienne[5] is still classified as the founder's choice, calculation, and follower power[6]. The power of choice is still strong in early childhood because founders have not made enough psychological commitment to the company. In addition, founders of this period may realize that entrepreneurship is not as good as the media described, and entrepreneurship requires a lot of effort. Because individuals may not have a deep psychological commitment to the company and individuals have not invested a lot of resources(time, money or energy) in the company, the decision to opt out of the opportunity is the main reason for quitting.The power of calculation also calculates the reason for quitting, that is, the initial entrepreneurial pace of entrepreneurs gives them additional information to assess the feasibility of starting a business. Positive messages give founders a reason to continue their business. The negative signals may lead to the founder's withdrawal and allow the founder to think about the feasibility of entrepreneurial ideas. The power of the follower is stronger at this stage than in the gestation period. When the founder formally step into the company's creation , the founder's network, friends, family, and colleagues will be aware of the founder's newly created company. In addition, at this time, founders may need to seek partnerships and develop working relationships, all of which make it more difficult for founders to interrupt and abandon new ventures.

1.3 Enterprise growth period

When the company survives from early childhood, the company enters what scholars call the growth period[1]. During this period, the first issue for companies was development[2]. During this development period(including the growth of sales, employees, market share, and resource acquisition capabilities of the company), the organization began to make the organization more standardized and organized by setting rules and processes.

Dawn R. DeTienne[5] stated before that due to the influence of other shareholders, developing entrepreneurs are more inclined to formulate exit strategies in the early stages of the company. During the growth period, the influence of other shareholders has increased rapidly because growing companies need to seek external resources(such as economy and manpower). This argument is supported by empirical evidence that developing entrepreneurs use a more structured

approach to managing their business, begin planning how the company develops and spend more time on guidance preparation[7]. With the development of the company, Dawn R. DeTienne[5] predicts that there will be more pressure on developing entrepreneurs to formulate exit strategies.

At the same time, it should be noted that with the development of enterprises, founders and enterprises have gradually increased psychological ties. The same is true for founders who see entrepreneurship as a way of life. Some studies have also found that they have stronger psychological ties to those who see entrepreneurship as an extension of their personal abilities. Therefore, for them, they can not easily exit the company, and they are less likely to formulate exit strategies.

In the growing stage of the enterprise, entrepreneurs often give up some of their ownership rights to obtain the required resources. For example, founders may obtain a variety of funds (such as venture capital or angel investors) by giving up a large portion of equity ownership or may attract particularly desirable employees using equity incentives(equity trading franchises, equity grants, or equity ownership). With the dilution of the founder's ownership of the company, the founder's control over the company has gradually diminished to the point where other equity owners can allow the founder to withdraw from the company and introduce a professional management team.

1.4 Enterprise maturity

With the passage of time, the enterprise has reached the stage where various behaviors have been standardized. This stage is called the mature period of the enterprise. "The description of responsibilities, policies, procedures, and hierarchical relationships have been very standardized". Only a small number of companies in the development period can transition to maturity[8]. The founders with growth motives will hardly stay in the organization(already out of the company). The founder may decide to seek other entrepreneurial opportunities or may have withdrawn due to the above reasons(failure, selling the company to an individual or company, full acquisition by management, IPO). As a result, many of the founders who have developed exit strategies may have already left the company.

Dawn R. DeTienne[5] believes that in the mature period of the company, the possibility of founders who have the desire to grow up in the company is already very small. On the contrary, entrepreneurs who rely on entrepreneurship as a means of survival have less exit strategies in the early stages and have formed a high degree of psychological connection with the company. At the mature stage of enterprise development, there is no exit strategy and no exit selectivity.

Although entrepreneurs who rely on entrepreneurship as a way of living do not have exit strategies, entrepreneurs may still leave the company. Reasons include wanting to reap your investment, want to change jobs, retire or even die. In the mature period of the enterprise, the possibility of bankruptcy of the enterprise is less likely than in other stages; As a result, founders are less likely to quit because they fail.

2. Way to exit an entrepreneurial member

Karl Wennberg, Johan Wiklund, Dawn R. DeTienne, Melissa S. Cardon's [9] research provides the academic community with four conceptual exit methods for founders to withdraw from the company(high price sales; Low price sales; Liquidation; Low price liquidation), and these four methods are also influenced by founder human capital(experience, education, and age) and failure avoidance strategies(starting external work at the same time, reinvesting). The founder's experience has increased the founder's withdrawal from the company by selling the company at a high price, but it does not affect the other three exit methods. The age of the founder increases the founder's withdrawal from the company by selling the company at a high or low price, but it does not affect the withdrawal method of liquidation. Educated founders are more likely to leave the business at a lower price than to continue to run it. The founder's simultaneous external work reduces the founder's withdrawal from the company by liquidating and selling the company at a low price, but does not affect other exit methods. Finally, the founder's reinvestment in other companies at the

same time to avoid failures reduces the chances of exiting.

3. Impact of withdrawal of entrepreneurial members

Member turnover For companies, Dawn R. DeTienne[5] pointed out that the founder's withdrawal has a great influence on the company. The potential may be positive or negative.

On the positive side, the withdrawal of founders(such as acquisitions or IPOs) may bring more cash, new resources and new vitality to the company[8]. Companies may achieve additional benefits by leading a professional management team[10] includes injecting special management skills, raising more funds[10], expanding to other product areas and enhancing corporate legitimacy.

In addition, the withdrawal of the founder may also have a negative impact on the company. Most of the literature indicates that the successor "... reduces organizational performance, disrupts work processes, interrupts orders, and increases employee insecurity"[8]. Hofer and Charan[11] speculated that the nature of start-up companies, including a highly centralized decision-making system and an over-reliance on one or two key players, made the transition to a professional management enterprise risky. Lowell W. Busenitz[12] said that the managers dismissed by VC may have private and unique information, which may lead to the problem that they can not quickly find successors to add value to the company. Private founder information may not exist in a valid market[13]. However, Cable and Shane[13] believe that finding a market for founder replacement managers is inefficient. So under the premise of market inefficiency, founder exit has a negative impact on the company for a long period of time. Other researchers found that the founding heirs increased tissue mortality[14].

Regardless of whether the founder's withdrawal has a positive or negative impact on the company, one thing is certain: the founder's withdrawal has a major impact on the company and is a landmark event for the organization[15].

For the industry, Akhigbe[16] found that there was a clear positive valuation effect when acquiring the experience of competitors in privately held companies. Thus, an entrepreneur's withdrawal may affect the industry as a whole, as it changes the industry's competitive balance and provides value to competitors.

For the economy as a whole, the withdrawal of founders may have a significant impact on the overall economic environment. Dawn R. DeTienne[5] describes two effects. On the one hand, the withdrawal of the founders has a significant impact on the development of the local economy. Mason and Harrison[17] believed that quitting "... triggers a series of" entrepreneurial recycling "processes in which the entrepreneurial team begins to acquire wealth and time while accumulating experience and gaining economic benefits. These economic benefits include reinvesting economic or intellectual resources into new companies or charities. On the other hand, as the founder of the company exits the company, the wealth it creates may be redistributed among more individuals(such as IPO, employee acquisitions, and family business heirs). The benefits of the founder's withdrawal also include employees benefiting from options and starting their own companies[17]. Every year, the activities of mergers and acquisitions of companies have incurred high transfer costs. Transfer costs not only have a major impact on the incumbent companies, but also on the creation of new companies, even the entire industry(such as commercial bankruptcy, private equity companies, succession plans) and new ways to conduct business(personal equity purchases VS buyers).

Therefore, the withdrawal of founders not only has an important impact on entrepreneurs, but also on enterprises, industries and the entire economy.

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