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Entrepreneurs' perceived exit performance: Conceptualization and scale development

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ABSTRACT

Recently, research on entrepreneurs who exit their firms has intensified. Scholars agree that the outcome of such entrepreneurial exits needs to be assessed based on the individual entrepreneur's perception and on multiple dimensions. Yet, to date we lack theory and measures that capture this outcome, which we define as entrepreneurs' perceived exit performance (PEP). This study introduces a theoretical framework for the PEP construct and develops a scale to measure it along four dimensions: personal financial benefits, personal reputation, employee benefits, and firm mission persistence. We discuss the wide applicability of the scale and a variety of research opportunities.

Executive summary

Scholars have identified numerous factors to determine how entrepreneurs can successfully found or grow a venture; research on the success of founders who have exited their venture, however, is still scarce (Wennberg and DeTienne, 2014). This is surprising as entrepreneurs' departure from the firm they helped create—referred to as entrepreneurial exit—is an event that is eventually inescapable for founder-manager entrepreneurs (DeTienne and Cardon, 2012). Hence, it is of central concern to every individual entrepreneur.

Thus far, scholars have only few means to assess the outcome of an entrepreneurial exit—may it be successful or not—, which is one reason for the scarcity of research in this area. Extant research measures the outcome based on financial or on categorical success indicators such as the realized exit route (e.g., acquisition, buyout, liquidation). Scholars, however, argue that exiting entrepreneurs do not merely aim at financial outcomes, but also at other dimensions of success, such as reputational gains, employee benefits, or continued pursuance of the firm's mission (Dalziel, 2008; DeTienne et al., 2015; Graebner et al., 2010; Graebner and Eisenhardt, 2004). Moreover, scholars emphasize that the outcome of exit events needs to be assessed based on the individual entrepreneur's perception (DeTienne, 2010). However, so far, we lack theory and validated scales that capture entrepreneurs' perception of the exit outcome.

To close this gap and enable future research, we conceptualize the construct of perceived exit performance (PEP) and develop and validate a scale to measure it. Our definition of PEP captures entrepreneurs' perception of the exit outcome, different perceived levels of success, and financial and non-financial outcomes. We establish entrepreneurs' PEP with four dimensions: personal financial benefits, personal reputation, employee benefits, and firm mission persistence. To develop, test, and validate the PEP scale, we follow proven scale development procedures (e.g., DeVellis, 2012; Johnson and Morgan, 2016) and build on an extensive literature review

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and three consecutive studies. Those studies draw on 29 interviews and two unique samples with a total of 203 entrepreneurs with exit experience.

By introducing a theoretical framework and by offering a validated scale for the PEP construct, our study enables scholars in entrepreneurship and related domains—for the first time—to differentiate in a reliable way between successful and unsuccessful exits from the individual entrepreneur's perspective. Our scale provides scholars with a methodological toolkit to advance research based on large-scale empirical data. Consequently, our scale might help answer the determinative question: What makes an exit successful from an entrepreneur's perspective? Furthermore, researchers using our scale might also be able to clarify various other questions raised in this study. Given that our scale reflects both the vernacular of entrepreneurs and their reality, its application will help unveil important insights—not only for scholar, but also for entrepreneurs, investors, and decision makers shaping the institutional environment.

1. Introduction

Scholars acknowledge that the departure of entrepreneurs from the firm they helped create—commonly referred to as entrepreneurial exit—is a critical event. It might be the end of an individual's entrepreneurial activity or the starting point of a new one (DeTienne, 2010; DeTienne et al., 2015). This study focuses on entrepreneurs who left their firm voluntarily or due to external forces. We do not equate such an exit with a failure as it might as well represent a success (Cefis and Marsili, 2012; Headd, 2003).

At the heart of recent research lies the following basic belief: an entrepreneurial exit is an individual-level phenomenon, it needs to be distinguished from a firm exit (it still can coincide temporally), and it comprises multiple dimensions that individual entrepreneurs can perceive both as a positive and a negative outcome (Aldrich, 2015; DeTienne and Wennberg, 2016; Wennberg and DeTienne, 2014). Extant research has developed theories to enhance our understanding of distinct exit routes and strategies (DeTienne et al., 2015; Wennberg et al., 2010), of exit intentions and paths (Cefis and Marsili, 2012; Dehlen et al., 2014; DeTienne and Cardon, 2012), or of differentiations between successful exits, business closure, and failure (Bates, 2005; Headd, 2003; Jenkins and McKelvie, 2016; Lee and Lee, 2014). This research stream helps delineate the phenomenon of entrepreneurial exit more clearly from firm exit (Aldrich, 2015) and from exit performance from the investors' perspective (e.g., Dai et al., 2012).

Although assessing individual-level outcomes of entrepreneurial exit events is deemed important to discern successful from unsuccessful exits (Dalziel, 2008; DeTienne and Cardon, 2012; Wennberg and DeTienne, 2014), extant theory is rather restricted by its focus on financial outcomes. It also strongly relies on categorical success indicators such as the realized exit route (e.g., acquisition, buyout, liquidation) (Lee and Lee, 2014; Marvel et al., 2016). In contrast, DeTienne (2010, p. 205) suggests that “dependent variables in entrepreneurial exit are likely to be tightly linked to the entrepreneur's perception of exit.” Thus far, however, we lack theory and measures that capture entrepreneurs' perception of the exit outcome and focus on the entrepreneurs themselves. This is particularly surprising since an exit event is the final step of an individual's entrepreneurial process and hence represents a natural moment to assess its outcome.

Our study addresses this research gap. By proposing a novel conceptualization of the outcome of the exit event from the entrepreneur's individual perspective, we extend theory on entrepreneurial exit in several ways. First, we introduce a theoretical framework for the construct of perceived exit performance (PEP). Building on and complementing extant entrepreneurship literature, we derive a conceptualization of PEP capturing the entrepreneur's perception of the exit outcome, different perceived levels of success, and financial and non-financial outcomes. We establish PEP as consisting of four dimensions: personal financial benefits, personal reputation, employee benefits, and firm mission persistence. With this, we expand extant theory on entrepreneurial exits which—in contrast to this study—focuses on decisions, processes, or intentions leading to the exit or on success criteria such as exit routes or financial outcomes (Wennberg and DeTienne, 2014). We also contribute to the entrepreneurship literature as we advance its aim to understand entrepreneurial phenomena from the individual's point of view (Sarasvathy, 2004; Venkataraman, 1997). Second, this study contributes to entrepreneurship research methodologically by offering a conveniently applicable scale to examine an exit event's outcome in a more granular way. Drawing on an extensive literature review, 29 interviews, and two unique samples with a total of 203 entrepreneurs with exit experience, we conduct three studies to devise the PEP scale. Third, by developing theory and measurement instruments for PEP, we add to the important debate that aims to differentiate successful from unsuccessful exits (DeTienne et al., 2015) and enable scholars—for the first time—to arrive at such a delineation based on the individual entrepreneur's perspective and not only on publicly observable phenomena. Finally, we present diverse research opportunities and provide first insights into the usefulness of the PEP measure. We show how exit planning and entrepreneurs' prior industry-related experience can enhance the exit performance in selected dimensions. In sum, our study's conceptualization and scale might offer answers to the determinative question: What makes an exit successful from an entrepreneur's perspective?

2. Conceptual background

2.1. Entrepreneurial exit

Entrepreneurial exit commonly refers to “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” (DeTienne, 2010, p. 204). Following this view, scholars have recently begun to focus on exits of individual entrepreneurs. Yet, we know little about entrepreneurs' perception of the exit outcome. Prior works have developed conceptual models and typologies of individual exit routes (DeTienne et al., 2015; Wennberg et al., 2010), demonstrated the importance of exits for further