

Business Exit Research Concept Paper Among Small and Medium Enterprises Entrepreneurs in Malaysia

¹Wan Nur Azlina Ibrahim, ^{*2}Soaib Asimiran, ³Arnida Abdullah, ⁴Zulkornain Yusop

¹³Faculty of Educational Studies, Universiti Putra Malaysia, UPM Serdang, Selangor, Malaysia

²Faculty of Economics and Management, Universiti Putra Malaysia, UPM Serdang, Selangor, Malaysia, soaib@upm.edu.my

⁴Faculty of Economics and Management, Universiti Putra Malaysia, UPM Serdang, Selangor, Malaysia

Abstract

The phenomenon of exiting a business is one of the critical phases for entrepreneurs because this action indicates the end of a business. Strategies to exit business including ownership transfer, firm sale and liquidation. There is a lack of research on business exit phenomenon through business sale in Malaysia, thus, this concept paper aimed to discuss the exit of SME entrepreneurs via this specific route. The paper assesses secondary data from many databases (Google Scholar, Science Direct, Springer, and Wiley) between 2006 and 2020. Based on 11 collected findings, business exit phenomenon was revealed to be an essential part of the entrepreneurial development process. Understanding of exit business route is imperative to explore novel opportunities in business that would enable them to improve the growth and profitability of their business. Therefore, this paper concluded, it is crucial for entrepreneurs to be alerted on this phenomenon as it would help them to plan business exit more efficiently.

Keywords: Business exit, concept paper, entrepreneurs, small and medium enterprises.

Introduction

Entrepreneurs are individuals (or groups) who can recognise a business opportunity when others perceive it as a distraction or disturbance. Thus, they design business by offering new products or services with a market value in a community or place (Hustedde, 2018; Kang & Uhlenbruk, 2006). Entrepreneurship is the act of entrepreneurs penetrating new markets with new or existing goods or services or business-oriented projects (Lumpkin & Dess, 1996). The phenomenon of exiting a business should be viewed as part of the entrepreneurial development phase as this action opens up fresh opportunities for entrepreneurs to be explored or created before those opportunities are exploited for profit (Pisoni & Onetti, 2018).

This phenomenon needs to be examined by researchers because it is one of the critical phases in the realm of entrepreneurship that will determine the end of a business (Kang & Uhlenbruck, 2006). Therefore, many

researchers recommend that the phenomenon of exiting a business be studied because this element is indispensable in the business life cycle (Pisoni & Onetti, 2018; Albert & DeTienne, 2016; DeTienne & Wennberg, 2016). Little research has been conducted on exiting a business in Malaysia or other nations in Southeast Asia. The phenomenon of exiting a business is an area that symbolises negativities and is less discussed by researchers in the field of entrepreneurship in Malaysia (Asmawi & Faridah, 2015). Considerations related to the phenomenon of exiting a business in Malaysia instead concentrate on the failure of firms in terms of financial administration and competitiveness as the chief cause of failure of some firms to maintain business and exit the market (Ahmad, 2019; Auzzir et al., 2018).

Further, studies in Malaysia's entrepreneurship field are mostly based on theory without acknowledging the entrepreneur's viewpoint. Most studies centre more on the factors that impact the success of micro business in

Malaysia by paying attention to psychological factors such as entrepreneurial orientation, personal characteristics and competencies, as well as entrepreneurial leadership (Al-Shami et al., 2020). Therefore, in this study, the researchers examined the phenomenon of exiting a business and the specific exit route chosen by the entrepreneur, specifically the sale of the business.

The phenomenon of exiting a business among SME entrepreneurs is typically associated with the failure of a business even if the business is not declared bankrupt. Accordingly, many entrepreneurs in Malaysia refuse to share information about the phenomenon of exiting a business because this phenomenon is considered a negative thing. Entrepreneurs think that leaving the business is equivalent to a business failure and does not stimulate the growth and development of SMEs in Malaysia.

Statistics revealed that 606,988 businesses did not renew their business in 2017 and 572,228 businesses in 2018. The data for both years are high when compared to the number of businesses that did not renew their business in 2016 (277,054) and 2015 (272,527 businesses) (Kementerian Pembangunan Usahawan, 2019). These statistics recorded that many existing SME entrepreneurs did not renew their business registers. These data confirmed an increase in the number of SME entrepreneurs exiting a business, as they encounter difficulties maintaining or expanding their businesses.

Therefore, this article attempted to investigate the phenomenon of exiting a business among SME entrepreneurs in Malaysia and the background associated with the phenomenon. The data in this article could increase the knowledge of entrepreneurs about the phenomenon of exiting business and improve the awareness of entrepreneurs about “exiting business” so that they are prepared to exit the business. It is imperative as exiting the business can occur at any time to entrepreneurs and firms (Pisoni & Onetti, 2018; Kang & Uhlenbruck, 2006; Alipour, 2020). The findings could contribute to a literature review on the phenomenon of exiting a business among SME entrepreneurs in Malaysia and improve the entrepreneurial advancement of SME entrepreneurs in Malaysia. Apart from that, entrepreneurs can set an initial plan for exiting a business by formulating their business strategy

(De Tienne, 2016). Researches that promote the perception of how entrepreneurs decide to exit the business, select exit routes, and identify the factors that influence those routes can increase the number of entrepreneurs who exit with success rather than failure.

There are positive and negative consequences for entrepreneurs who decide to exit a business. The action of an entrepreneur of exiting the business (e.g., acquisition or IPO) can contribute cash, new resources and renew the energy or spirit of the firm. Firms also gain extra benefits if the old management group is replaced with a more competent administration group that can offer specific management skills and abilities to facilitate cash flow, expand into other or new product sectors, and increase legitimacy. Nevertheless, the actions of entrepreneurs exiting a business can also negatively influence firms such as reduced organisational performance, interrupted work routines, confusion of instructions, and increased employee insecurity (DeTienne, 2010).

This article could guide studies related to the phenomenon of exiting a business in the future. This study also could improve the knowledge of researchers and helps the development of academic knowledge that could be a scholarly means to other researchers on the topics discussed.

Literature Review

Definition of entrepreneur and entrepreneurship

Entrepreneurs are individuals or business owners who seek to generate value by creating and developing economic activities and identifying and exploiting new products, processes, or markets (Ahmad & Seymour, 2008; Ahmad & Hoffman, 2008). According to the Kementerian Pembangunan Keusahawanan (2019), an entrepreneur is an individual who takes responsibility and risk to start, develop and grow a firm or business by mobilising resources into something new, which brings universal profit and prosperity.

Entrepreneurship is a phenomenon linked to entrepreneurial activity (Ahmad & Hoffman, 2008). Entrepreneurship also reflects a dynamic process in recognising, organising and

exploiting business opportunities (Kementerian Pembangunan Usahawan, 2019). Based on that definition, entrepreneurs tend to exploit new business opportunities that feel worthwhile because if one is successful on that decision, entrepreneurs will reap profits and share those risks with investors, partners, community and others (Hessels, 2018).

Definition of small and medium enterprises

Small and Medium Enterprise (SME) differs legally across countries in particular because the

“small” and “medium” dimensions of a firm are related to the size of the domestic economy, cultural and social dimensions of the country (Perusahaan Kecil dan Sederhana Malaysia, 2017). Perusahaan Kecil dan Sederhana Malaysia (2017) defined Small and Medium Enterprise (SME) as firms that employ or have employees of up to 249 people with micro-enterprises (1 to 9), small enterprises (10 to 49) and medium enterprises (50 to 249). In Malaysia, a business is classified as a Micro, Small and Medium as shown in Table 1.

Table 1. *Definition of SMEs according to the National Entrepreneur and SME Development Council (MPUPK) based on operating size*

No.	Categories	Micro	Small	Medium
1	Manufacturing	Annual sales are less than RM300,000 OR number of full-time employees less than five people.	Annual sales from RM300,000 to less than RM15 million OR from 5 to less than 75 employees	Annual sales from RM15 million to not more than RM50 million OR from 75 to not more than 200 employees
2	Services and Other Sectors	*(across both categories)	Annual sales from RM300,000 to less than RM3 million OR from 5 to less than 30 employees	Annual sales from RM3 million to not more than RM20 million OR from 30 to not more than 75 employees

Source: SME Corporation Malaysia (2013)

The theories involved in the formation of the conceptual framework of the study

Theory of planned behavior

The model Theory of Planned Behaviour foregrounds the central factor as the determination to perform a behaviour based on one's interest (Ajzen, 1988 as cited in Ajzen, 2005), and it works as the best predictor of the planned or to be performed behaviour (Ajzen and Fishbein, 1980 as cited in Ajzen, 2005).

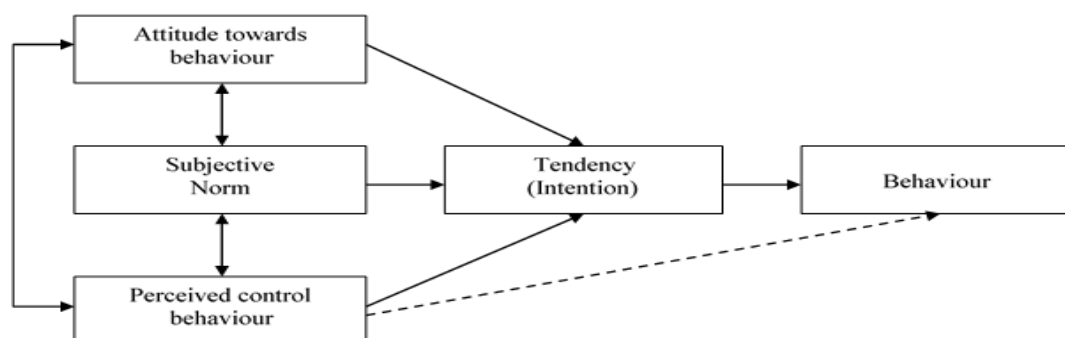


Figure 1. *Theory of planned behavior*

The Theory of Planner Behaviour by Ajzen (1988) as cited in Ajzen (2005), shows three crucial factors determining actual intention and behaviour. Three variables precede intention formation: the attitude towards a targeted

behaviour, subjective norms, and perceived behavioural control that are significant in forming a person's intention before committing a behaviour (either planned or will be done (Ajzen, 1988 as cited in Ajzen, 2005). Intention

can change over time, as stated in Ajzen (1988) as cited in Ajzen (2005), which means the longer the time is given, the greater the probability of unforeseen events resulting in a change in intention.

The accuracy of predictions often decreases in line with the period between intention measurements and behaviours studied or observed by Ajzen (1988) as cited in Ajzen (2005). Therefore, there is undoubtedly an event that causes the entrepreneur to sell his business now. Also, there is a possibility of a change in

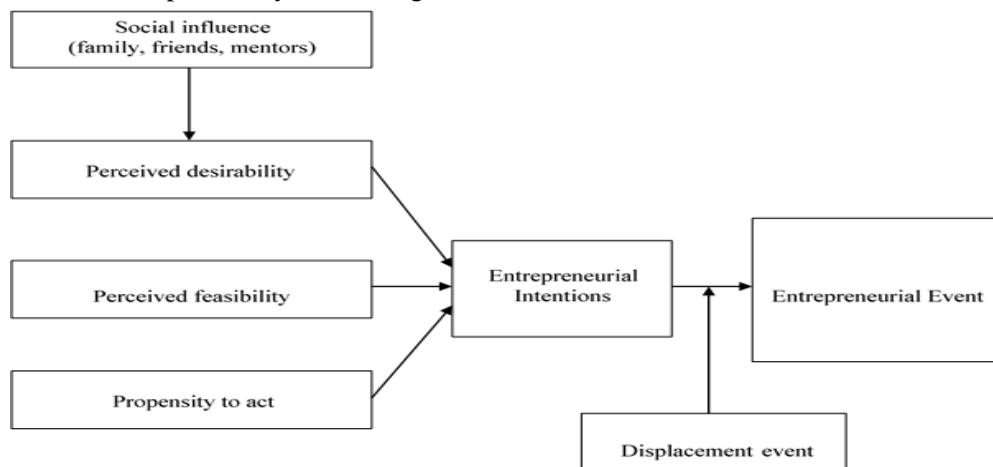


Figure 2. Shapero and Sokol's (1982) Entrepreneurial event model adapted from Krueger et al. (2000); Kuehn (2008); Hisyamuddin (2010)

According to Krueger et al. (2000), the entrepreneurial intention is formed due to the interaction between personal or individual factors with contextual factors. Such communications influence an individual's perceptions of his or her ability and interest to behave as targeted. This behaviour is termed by Shapero and Sokol (1982) as a "displacement event". A displacement event is conceptualised as a favourable situation; for example, an opportunity is given to a person to engage in a business or a negative situation, for example, being fired, or a neutral situation, such as a change that occurs in a person's life, such as, graduation. Displacement will make the individual interested in considering different "ways out" that the entrepreneur may choose to exit the business (Shapero & Sokol, 1982).

Social cognitive theory

In Social Cognitive Theory, individual factors (cognitive, affective, and biological), behavioural patterns, and environment mutually influence a person's life (Bandura, 1999). According to this theory, human beings are the

intention of exiting a business. It applies too to the exit plan that has been set during the business growth or maturity phase.

Entrepreneurial event theory model

In the Entrepreneurial Event Theory Model, Shapero and Sokol outlined three fundamental variables that drive individual determination in entrepreneurship until establishing a business. The principal variables are perceived desirability, perceived feasibility and propensity to act (Krueger et al., 2000).

triggers or catalysts and products of social systems, while the environment is not a monolithic entity which means it is not difficult to change. Social Cognitive Theory distinguishes between three types of environmental structures: the introduced environment, the selected environment, and the constructed environment in which these different forms of environment influence the level of agency implementation.

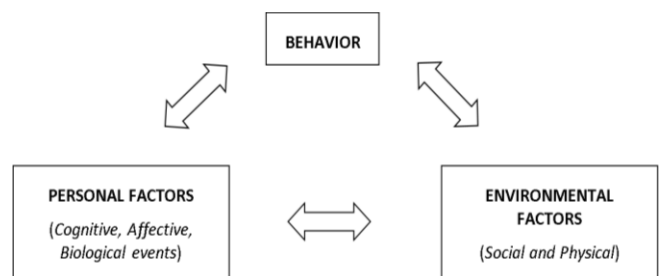


Figure 3. Model of triadic reciprocal causation

This theory also cultivates personal qualities which allow a person to take advantage of current opportunities. They can develop their destiny (Bandura, 1997). These three elements, specifically human, environment and behaviour, are variables in the Model of Triadic Reciprocal Causation (Bandura, 1999).

Entrepreneurial process model

The entrepreneurial process model was developed, considering the criticism of Walsh and Cunningham (2016). According to Walsh and Cunningham (2016), their research on Entrepreneurial Learning Theory explains that non-continuous experience during the entrepreneurial process stimulates a form of learning that is personally and professionally vital for entrepreneurs. The phenomenon of exiting a business by entrepreneurs is a discontinuous event. Accordingly, to understand the learning associated with exiting a business, it is crucial to examine whether the learning reported by entrepreneurs is applied when they decide to exit the business or not.

The conceptual framework of the process of exiting a business

Based on the theory and the literature review, it can be concluded that the phenomenon of exiting a business is not a separate stage of development, but the phenomenon is part of the stage of entrepreneurial development. While entrepreneurs may start a new business after they leave the business or have owned another business before leaving, a complete entrepreneurial process begins with entry into the business or business establishment, business journey (growth and maturity), and exit the business. Hence, exiting a business behaviour can be conceptualised as a final phase in the entire entrepreneurial process for a new business as described in the entrepreneurial process model below.

Exit Process

The process by which entrepreneurs define their collective experience (Entrepreneur's Sense-Making)

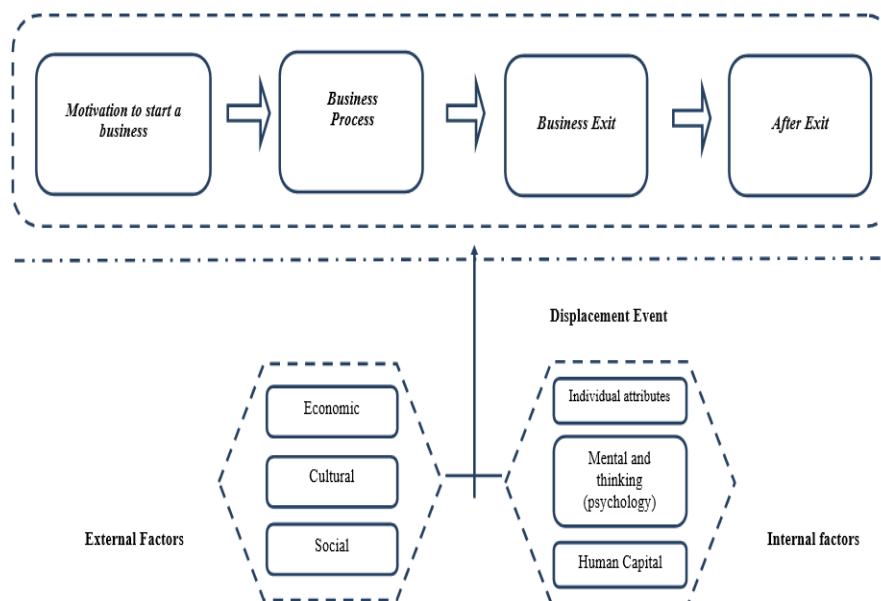


Figure 4. *The conceptual framework of the phenomenon of business exit*

Conclusion and Future Studies

This research developed a conceptual framework based on previous studies on the phenomenon of exiting a business among SME entrepreneurs in Malaysia. The sweeping conclusions confirmed that business exit phenomenon was revealed to be an essential part of the entrepreneurial development process.

Nevertheless, there is still a lack of investigations on the phenomenon of exiting business from secondary sources. Although there is literature regarding entrepreneurship in Malaysia, studying the phenomenon of exiting a business by entrepreneurs requires additional studies. Further, there is a lack of findings on exiting a business by SME entrepreneurs in Malaysia. Preceding studies have shown that entrepreneurs who do not provide an initial plan

to exit the business will risk business failure and bankruptcy. The researcher developed this concept paper to improve the entrepreneurial development process of SME entrepreneurs in Malaysia by investigating the background related to the phenomenon of exiting the business by entrepreneurs. This paper could guide SME entrepreneurs to apply exit strategies competently to drive the growth of their business.

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