

ICSB Gazette

The Global Leader Supporting Micro-, Small and Medium Enterprises

Monday, April 20, 2020. Issue 64

Exiting a Business

Written By: The Global Entrepreneurship Monitor (GEM)



INTRODUCTION

In any dynamic entrepreneurial society it is inevitable, in order to promote and benefit from entrepreneurship, that some of these ventures will fail. Few or no business exits may therefore indicate low startup activity. Moreover, perceptions about starting a business may also be directly related to how easy it is seen to be to end a business. If

ending a business is expensive and difficult, or even socially or culturally unacceptable, this may act as a strong barrier to starting a business in the first place.

It was noted in Chapter 2 that entrepreneurs contribute to or even lead structural change in an economy, since their new ventures reflect changing tastes, disruptions, new technologies and processes as new sectors are born and grow. The converse of this is the closure of businesses that no longer produce or provide what people are prepared to buy, or in the way that they want to buy it. When this happens, startups and closures become important components in the process of structural change, which (eventually) improves productivity and living standards, by releasing resources from the production of goods and services that no longer have a market in favour of those that do. Entrepreneurs may then apply this experience to a new venture or new employment opportunities, while continuing as a stakeholder in entrepreneurship — if not as entrepreneurs then perhaps as advisors, investors or customers.

Reasons for ending involvement in a business can be positive or negative. Positive reasons can include the chance to sell the business, the lure of a job or other opportunities elsewhere, planned exit or retirement. Negative reasons can include a lack of profitability, failure to access finance, or the burden of taxation or bureaucracy, or simply human factors such as changing personal circumstances. Exiting a business does not mean that businesses do not continue. Indeed, evidence from the GEM Adult Population

Survey (APS) shows that, in some economies, more than half of businesses continue after the individual has exited.

EXITING A BUSINESS IN 2019

The GEM APS asks whether the individual has, within the past 12 months, sold, shut down or quit a business they owned and managed. Subsequent questions enquired whether that business then continued after they quit, and for what reason they quit.

The expectation was that rates of exiting would be closely correlated with levels of Total early-stage Entrepreneurial Activity (TEA), and indeed there was some evidence of this in 2019.¹ Figure 7.1 shows the level of exits, alongside the rate of TEA, for economies in GEM 2019. The figure demonstrates that low exits typically occur alongside low TEA, and high exits alongside high TEA.

Taken together, for five of these 50 economies, the proportion of adults who discontinued, sold or quit a business they had owned and managed is less than 2%, or one in 50. Four of these five are from Europe & North America (Spain, Italy, Belarus and Slovenia, plus Japan). However, for nine of these 50 economies, the proportion of adults who had quit a business was 8% or more, including six economies in the Middle East & Africa (Qatar, the United Arab Emirates, Oman, Jordan and Saudi Arabia) and two from Latin America & Caribbean (Ecuador and Chile) plus Canada.

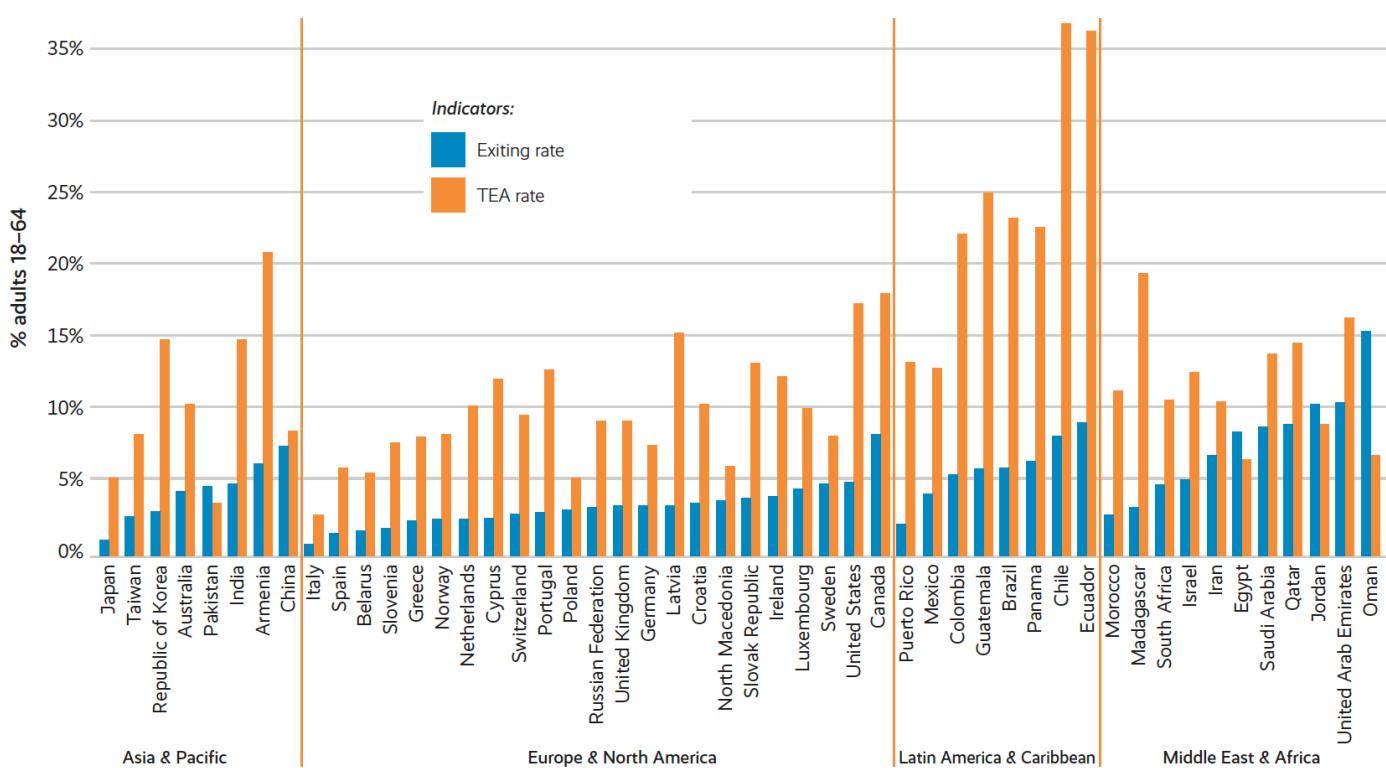


Figure 7.1

Exiting rates (% adults) and TEA Source: GEM Adult Population Survey, 2019

EXITING AND DISCONTINUANCE

As noted in Chapter 1, an individual exiting a business as owner-manager does not necessarily mean that that business discontinues. That business may be sold or passed along to someone else, could be merged or taken over, or continued in some other form. The GEM APS asks those individuals who reported exiting a business whether that business continued after they left, or not, with the results shown in Figure 7.2.

The level of continuation as a proportion of exits varies from less than two in 10 in Morocco, South Africa, Egypt, Belarus and Greece, to more than a half in Switzerland, Portugal, Luxembourg, Sweden and Canada. The highest rate of continuation is in Switzerland, where more than six out of 10 of those exiting a business reported that the business continued. This variation may reflect the nature and size of the business, or the ease of transferring the business to someone else.

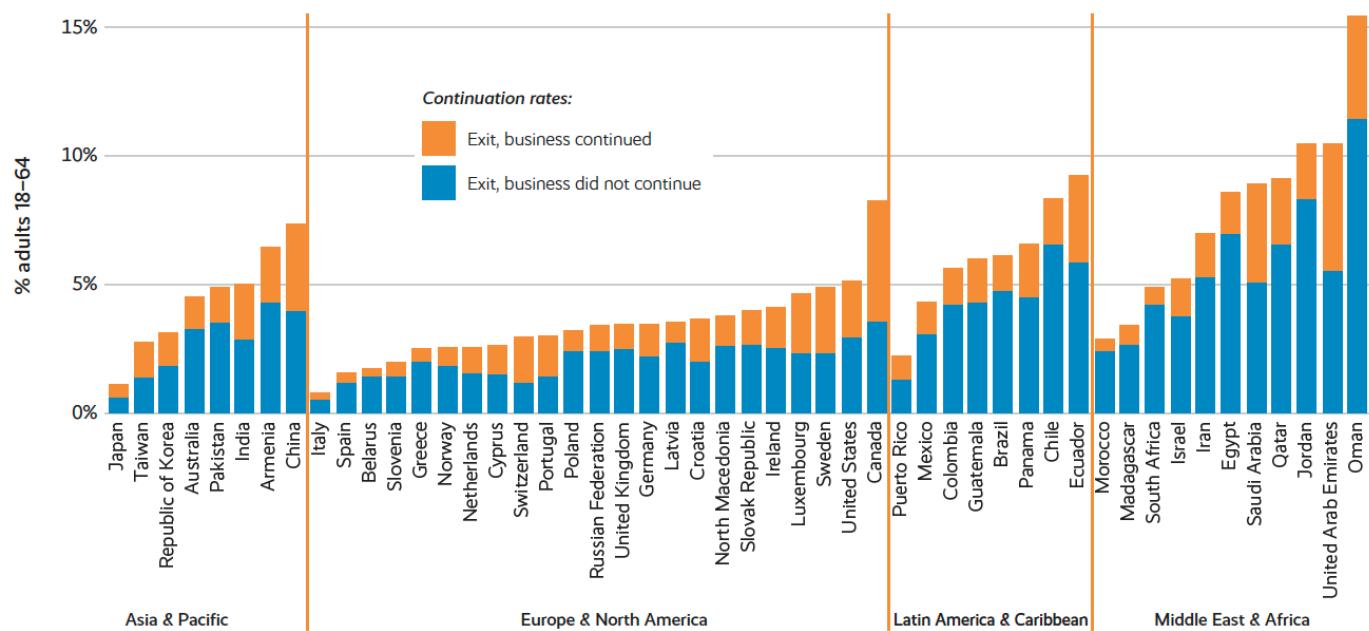


FIGURE 7.2 Proportion of adults exiting a business, and those within that reporting that the business did, or did not, continue

(both % adults) Source: GEM Adult Population Survey, 2019

REASONS FOR EXITING A BUSINESS

There are many reasons for exiting a business as owner-manager, from seizing the opportunity to sell the business, or retirement, or the lack

of profits, to having had enough of taxes and government bureaucracy. Respondents in the GEM APS who had exited a business as owner-manager in the last 12 months were asked to choose the most important from a list of reasons, or to provide their own. These are summarized in Table 7.1, grouped as positive or negative.²

Figure 7.3 summarizes reasons given by respondents for exiting their business into positive and negative for the 50 economies in GEM 2019. Less than one in 10 exited a business for reasons categorized as positive in Jordan, Morocco or Pakistan. However, many did have positive reasons to exit, including more than one in two in Sweden and Norway. Apart from these latter two countries, the majority of business exits were for negative reasons.

While understanding the factors involved in starting and running a business is the primary focus of GEM's research, the reasons for exiting a business can also be an important indicator of the health of entrepreneurship within economies. The relative ease of exiting a business may also be an

Positive	Negative
Opportunity to sell	Not profitable
Another job or business opportunity	Financial problems
Planned exit	Family/personal reasons
Retirement	Incident
	Taxes/government bureaucracy
	Don't know/no reply

TABLE 7.1

Reasons given for exiting a business

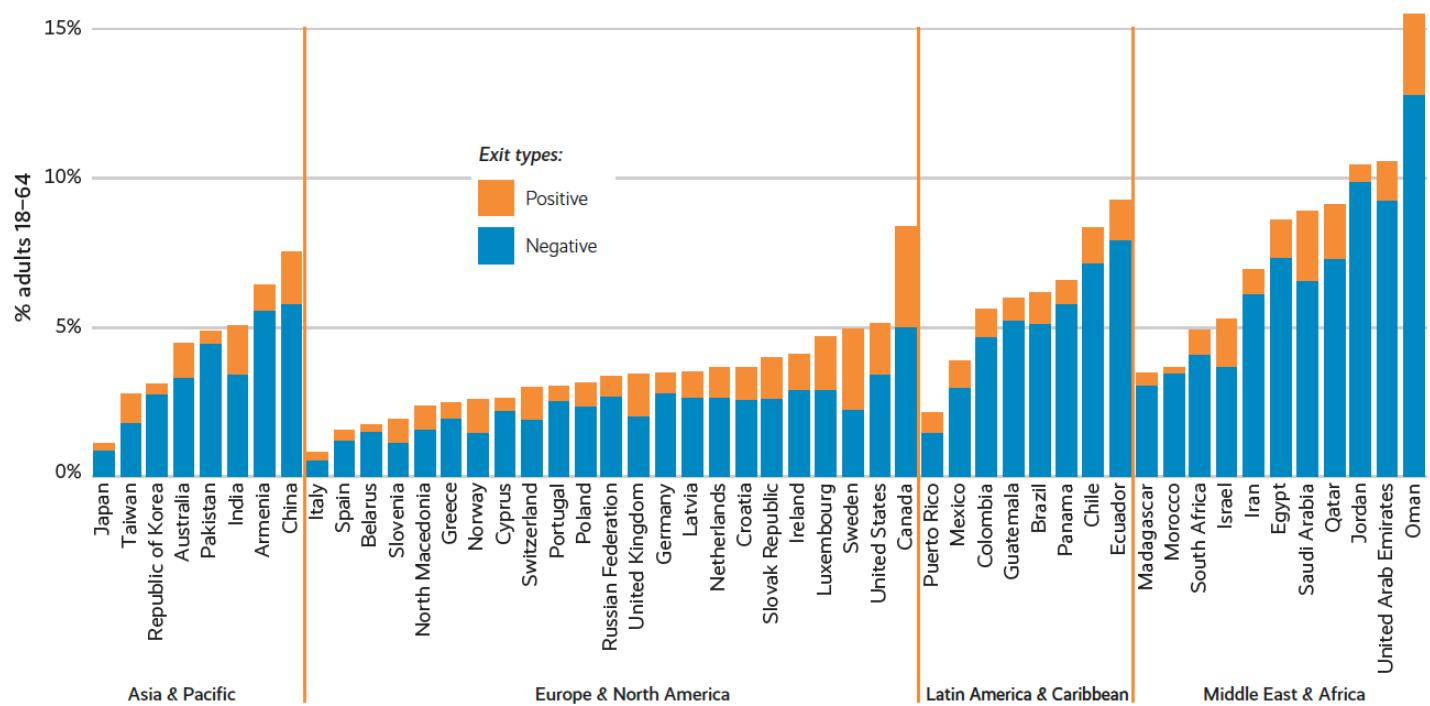


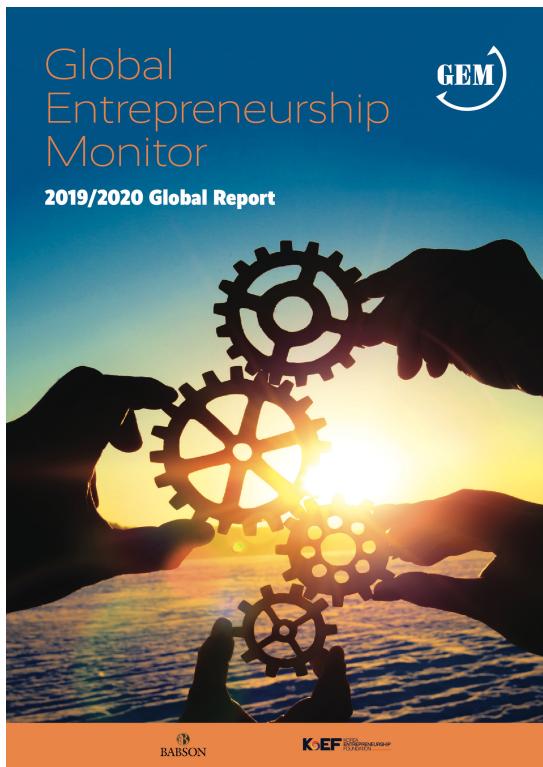
FIGURE 7.3 Positive or negative exits within total business exits (both % adults) Source: GEM Adult Population Survey, 2019

important influence on the level of new starts in individual economies.

This chapter has shown considerable variation in the level of exits among economies, closely related to the level of starts. While less than 2% of adults had exited a business in five of the 50 economies, exits reached 8% or more in nine economies, including six from the Middle East & Africa region, two from the Latin

America & Caribbean region, plus Canada. Although a majority of exits were for what was classed as negative reasons, in many economies a significant proportion (and, in five economies, a majority), of businesses continue after the individual has exited. There are two economies (Sweden and Norway) where more people exited a business for positive than for negative reasons.

About the Author:



The Global Entrepreneurship Monitor (GEM) has been keeping its finger on the pulse of the state of entrepreneurship since 1999, both in terms of the state of the entrepreneurial mind-set, motivations, activities and ambition, and the national framework conditions required to allow entrepreneurship to flourish in an economy. In this, GEM's "coming of age" 21st year, entrepreneurship is in the spotlight as never before, with multiple governments increasingly focused on putting into place policy frameworks and mechanisms to drive and promote entrepreneurship. Fifty economies participated in the GEM 2019 Adult Population Survey (APS), including 11 from the Middle East & Africa, eight from Asia & Pacific, eight from Latin America & Caribbean, and 23 from Europe & North America. Five of these economies are classified as low-income level, 12 as middle-income and the rest as high-income. Over 150,000 individuals participated in extended interviews as part of the GEM research in 2019. This is the solid evidence base for the GEM findings that are presented in this report...[Read the full report here](#)



About the International Council for Small Business (ICSB)

The ICSB Gazette is a weekly edition of a key topic that ICSB will showcase. The content is varied from research, practice, policy, and education. The editors of the ICSB Gazette is Mr. Kyle Lyon, ICSB Junior Project Manager and Mr. Skye Blanks, ICSB Junior Project Manager He will be soliciting ideas and articles from ICSB members world-wide.



Skye Blanks

Editor, ICSB Gazette

Skye is the Junior Project Manager at the International Council for Small Business (ICSB) in Washington, D.C. and an Editor of the ICSB Gazette.

ICSB Executive Director Comment:

This ICSB Gazette issue is featuring an article from The Global Entrepreneurship Monitor (GEM) 2019-2020 Report

Contribute:

Have a topic you would like to see or an article to share? Please submit for consideration to
skye@icsb.org

ICSB Gazette