

**BUSINESS EXIT CONTEMPLATION:
A Study of SME Owners in Indonesia**

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ABSTRACT

A business exit is an important stage in entrepreneurship activities. This stage is an integral part of the entrepreneurial process because it is through this stage that entrepreneurs leave the business they own and remove themselves from the ownership and decision structure of their business (DeTienne 2010). Understanding business exits is important because it provides a foundation from which entrepreneurs can begin in order to maximise the value of their investment (Petty 1997). Further, it can explain the overall picture of the entrepreneurship activities by providing knowledge of various processes, behaviours and trigger factors that may be involved.

Based on an extensive literature review and the collection of empirical evidence, this study investigates the extent to which a Small and Medium Enterprise (SME) owner's human capital, entrepreneurial orientation (EO), firm performance and psychological ownership are related to one's contemplation to exit his or her business. In addition, this current study of business exit explores whether these factors influence an individual's intention to exit the business through a process of contemplation. Much of the literature on business exits have highlighted this phenomenon from the perspective of exit planning and timing, types of exit strategies or options, and behavioural aspects of business exits through intentions. However, no studies to date have highlighted or explicitly discussed what factors may trigger the contemplation of an SME owner to exit his or her business. Although previous studies have highlighted that certain factors could influence an owner's intention to exit (DeTienne & Cardon 2010; Leroy et al. 2007), these studies have not explicitly examined whether there is a prior stage of an exit intention. It is important that the contemplation of business owners to exit their business be examined because business exits can be problematic for some entrepreneurs in understanding the effort and time that they have provided to the business. Further, it is also important to investigate whether an owner's contemplation to exit influences one's intention to exit the business since no studies to date have provided a justification to this behavioural aspect. Therefore, in order to expand the perspective of the business exit literature, this study investigates the exit contemplation of SME owners in an Indonesian context.

Since there is still very limited evidence that can provide a complete picture of business exits, this study provides empirical evidence to show that personal- and business-related variables are related to an entrepreneur's contemplation to exit the business and how these variables also influence one's intention to exit. A survey research method is used to empirically test the hypotheses pertaining to this study. The samples employed in this present study are owners of SMEs in Indonesia. Further, 310 Indonesian SME owners were identified through the database of the Indonesian Ministry of Cooperatives and Small and Medium Enterprises (MCSME). Hierarchical multiple regression analyses using the Statistical Package for Social Science (SPSS) are used as means of statistical method to analyse the data obtained in this study.

The present study followed the suggestion from Baron and Kenny (1986) in assessing the relationships that involves independent, dependent and mediating variables. Based on the analysis of the present study, the findings suggest that human capital, EO, firm performance and psychological ownership variables are related to an entrepreneur's contemplation to exit. This means that these variables can trigger an entrepreneur's contemplation to exit his or her business. In measuring the direct relationship of these variables with exit intention, it was found that most of them were significantly related to entrepreneur's exit intention. This study found that business owners' exit contemplation significantly mediated most of the human capital, EO and firm performance variables. This means that these variables can influence business owners' intention to exit via the process of contemplation. Nevertheless, only one psychological ownership variable (social status) had a significant indirect effect on exit intentions via exit contemplation while other variables (control of the company and goal achievement) had no significance. This indicates that business exits can be psychologically problematic for a business owner who has invested significant effort into his or her business.

This thesis makes a number of contributions and has several important implications, especially for the Indonesian government, educators and other business intermediaries such as financial institutions that benefit from the information provided by this study with regard to the behavioural aspects of Indonesian SME owners to the important issue of business exits. This study also contributes to the business exit literature by providing

evidence that exit contemplation exists as a prior stage that mediates the relationship between personal- and business-related variables with exit intention. Thus, this current study of business exit contemplation has made significant contributions.

STUDENT DECLARATION

I, Mohammad IQBAL, declare that the DBA thesis entitled 'Business Exit Contemplation: A Study of Small and Medium Enterprise Owners in Indonesia' is no more than 65,000 words in length including quotations and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

Mohammad IQBAL



03/03/2015

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CONTENTS

Abstract.....	<i>ii</i>
Student Declaration.....	<i>v</i>
Acknowledgements.....	<i>vi</i>
List of Abbreviations.....	<i>xiii</i>
CHAPTER 1 Introduction.....	<i>1</i>
1.1 Background to the Research	1
1.2 Research Problem	3
1.3 Objectives of the Study	4
1.4 Contribution to Knowledge	4
1.5 Statement of Significance.....	5
1.6 Scope of the Research	9
1.7 The Organisation of the Thesis	9
CHAPTER 2 Literature Review: Entrepreneurship, Business Exits and Small and Medium Enterprises (SMEs)	<i>11</i>
2.1 Introduction	11
2.2 Entrepreneurship Definitions and Concepts	11
2.2.1 Entrepreneurship Definition	11
2.2.2 Entrepreneurship Concepts	13
2.2.3 The Emergence of Behavioural Concepts in the Entrepreneurship Domain	16
2.2.4 The Emergence of Strategic Management Concepts in the Entrepreneurship Domain	18
2.2.5 Family Business as the Boundary of the Entrepreneurship Domain	21
2.3 Business Exits as an Important Focus in Entrepreneurship	25
2.3.1 Business Exit Definitions	27
2.3.2 Understanding Options for Business Exits	28
2.3.3 Business Exits in the Current Literature	34
2.3.4 Management Succession as a Focus in Family Business and Business Exits Literature	39
2.4 SMEs: The Important Role	41
2.5 Definitions and Characteristics of SMEs	43
2.5.1 Definitions of SMEs	43
2.5.2 Characteristics of SMEs	45
2.6 An Overview of Entrepreneurship Activities: The Indonesian Context	47
2.6.1 SMEs in Indonesia and Government Support	49
2.6.2 Entrepreneurial Behaviour in the Indonesian Context	54
2.7 Summary	59
CHAPTER 3 Research Framework	<i>61</i>
3.1 Introduction	61
3.2 The Relevance of Human Capital to Business Exit.....	61
3.3 The Relevance of EO to Business Exit.....	63
3.4 The Relevance of Firm Performance to Business Exit.....	65
3.5 The Relevance of Psychological Ownership to Business Exits	67
3.6 The Relevance of Intentional Theories to Business Exit.....	69
3.7 Exit Contemplation: Linking the Organisational Change Concept to Business Exit	73
3.8 Hypotheses Development	76
3.8.1 Human Capital	76
3.8.2 Entrepreneurial Orientation	78
3.8.3 Firm Performance	80
3.8.4 Psychological Ownership	81
3.9 Conceptual Framework	83
3.10 The Operationalisation of Variables	84
3.10.1 Demographics and Human Capital	86
3.10.2 Entrepreneurial Orientation	87

3.10.3 Firm Performance	87
3.10.4 Psychological Ownership	88
3.10.5 Exit Contemplation	89
3.10.6 Exit Intention	90
3.11 Summary	90
CHAPTER 4 Research Methods	92
4.1 Introduction	92
4.2 The Mail Survey	92
4.3 The Population and Sample	93
4.3.1 The Sample	94
4.3.2 Sample Size and Statistical Power	96
4.4 Pilot Test	96
4.5 Questionnaire Design and Administration	97
4.5.1 The Initial Mail-Out	98
4.5.2 Follow-Up Procedure	101
4.5.3 The Final Sample	102
4.5.4 Sampling Error	102
4.6 Data Editing and Coding	102
4.7 Data Screening	103
4.7.1 Initial Data Screening	103
4.7.2 Missing Data	104
4.7.3 Data Outliers	104
4.7.4 Normality of the Data	105
4.7.5 Multicollinearity	106
4.8 Data Analysis	107
4.8.1 Factor Analysis	107
4.8.2 Hierarchical Multiple Regression Analysis	109
4.8.3 Testing for Mediation Effect	111
4.8.4 Hierarchical Multiple Regression Equation	113
4.9 Research Ethics	116
4.10 Summary	116
CHAPTER 5 Result	118
5.1 Introduction	118
5.2 Descriptive Analysis	118
5.2.1 The Respondents	118
5.2.2 Demographic Characteristics	118
5.2.3 Descriptive Statistics	124
5.3 Factor Analysis	132
5.3.1 Factor Analysis of EO Components	132
5.3.2 Factor Analysis of Psychological Ownership Components	133
5.3.3 Factor Analysis of Exit Contemplation Components	134
5.3.4 Factor Analysis of Exit Intention Components	135
5.4 Reliability Analysis	135
5.5 Bivariate Analysis	137
5.5.1 Correlation Matrix of the Research Variables	137
5.6 Hierarchical Multiple Regression	140
5.6.1 Testing the Assumptions of Hierarchical Multiple Regression Analysis	140
5.7 Hypothesis Testing Results	141
5.7.1 H1a: There is a positive relationship between SME owners' human capital and their contemplation to exit. Different degrees of SME owners' human capital will influence their exit contemplation.	142
5.7.2 H1b: Exit contemplation mediates the relationship between SME owner's human capital and exit intention.	143

5.7.3 H2a: There is a positive relationship between SME owners' EO and their exit contemplation. Different degrees of SME owners' EO will influence their contemplation to exit the business.	146
5.7.4 H2b: Exit contemplation mediates the relationship between SME owners' EO and their exit intention.	147
5.7.5 H3a: There is a positive relationship between firm performance and exit contemplation. Different levels of firm performance can influence a business owners' contemplation to exit their business.	150
5.7.6 H3b: Exit contemplation mediates the relationship between firm performance and business owners' exit intention.	152
5.7.7 H4a: There is a negative relationship between business owners' psychological ownership and exit contemplation. Different degrees of psychological ownership among business owners will influence their exit contemplation.	154
5.7.8 H4b: Exit contemplation mediates the relationship between psychological ownership with SME owners' intention to exit.	156
5.8 Summary	159
CHAPTER 6 Discussions of the Results.....	161
6.1 Introduction	161
6.2 Research Overview.....	161
6.3 Characteristics of Indonesian SME Owners'	162
6.4 Factors that Influence Exit Contemplation of the SME Owners.....	166
6.4.1 Human Capital	167
6.4.2 Entrepreneurial Orientation	170
6.4.3 Firm Performance	174
6.4.4 Psychological Ownership	175
6.5 Factors Influencing SME Owners' Exit Intentions.....	177
6.5.1 Human Capital	178
6.5.2 Entrepreneurial Orientation	181
6.5.3 Firm Performance	185
6.5.4 Psychological Ownership	186
6.6 The Relationship between Exit Contemplation and Exit Intention.....	188
6.7 Factors that Influence SME Owners' Exit Intentions Mediated by Exit Contemplation.....	190
6.7.1 Human Capital	192
6.7.2 Entrepreneurial Orientation	195
6.7.3 Firm Performance	197
6.7.4 Psychological Ownership	199
6.8 Summary	201
CHAPTER 7 Conclusions and Implications.....	204
7.1 Introduction	204
7.2 Conclusion of the Study	204
7.3 Research Implications.....	208
7.3.1 Theoretical Implications	208
7.3.2 Practical Implications	210
7.3.3 Limitations of the Study	212
7.4 Suggestions for Further Research	213
7.5 Concluding Statement.....	214
REFERENCES.....	215
APPENDIX I.....	229
Appendix II.....	230
Appendix III.....	225

List of Figures

Figure 1.1 Continuum of business exits studies	2
Figure 3.1 Behavioural change continuum.....	76
Figure 3.2 Conceptual framework	84
Figure 5.1 Path diagram of mediated and direct relationships for H1a and H1b	146
Figure 5.2 Path diagram of mediated and direct relationships for H2a and H2b	150
Figure 5.3 Path diagram of mediated and direct relationships for H3a and H3b	154
Figure 5.4 Path diagram of mediated and direct relationships for H4a and H4b	158
Figure 6.6.1 Factors influencing SME owners' exit contemplation.....	167
Figure 6.6.2 Factors influencing entrepreneurs' exit intention	178
Figure 6.6.3 Factors influencing exit intention mediated by exit contemplation	192
Figure 7.7.1 Summary of significant relationships.....	207

List of Tables

Table 2.1 Review of business exit studies.....	37
Table 2.2 Characteristics of micro, small and medium enterprises (MSMEs) in developing countries.....	45
Table 2.3 Characteristics of SMEs in developed countries	46
Table 3.1 Summary of constructs relevant to the present study	85
Table 5.1 Age group	119
Table 5.2 Gender	119
Table 5.3 Education background	120
Table 5.4 Length of business operation.....	121
Table 5.5 Previous business owned.....	121
Table 5.6 Route of ownership.....	122
Table 5.7 Family involvement.....	122
Table 5.8 Formal/professional training undertaken.....	122
Table 5.9 Motivations for starting the business.....	123
Table 5.10 Intended exit options	124
Table 5.11 Descriptive statistics of EO items.....	125
Table 5.12 Descriptive statistics of psychological ownership items	128
Table 5.13 Descriptive statistics of exit contemplation items	130
Table 5.14 Descriptive statistics of exit intention items.....	131
Table 5.15 Total variance of EO components	133
Table 5.16 KMO and Bartlett's Tests of Sphericity of EO components	133
Table 5.17 Total variance of psychological ownership components.....	134
Table 5.18 KMO and Bartlett's test for psychological ownership components.....	134
Table 5.19 Total variance of exit contemplation	134
Table 5.20 KMO and Bartlett's test for exit contemplation component	135
Table 5.21 Total variance of exit intention component.....	135
Table 5.22 KMO and Bartlett's test for exit intention component.....	135
Table 5.23 Cronbach's alpha (α) reliability coefficient.....	136
Table 5.24 Correlation matrix of the research variables	139
Table 5.25 Analysis of variance (ANOVA) for H1a.....	143
Table 5.26 Estimated regression coefficient for H1a	143

Table 5.27 Model summary of hierarchical multiple regression for H1b	145
Table 5.28 Summary of estimated hierarchical multiple regression coefficient and Sobel's test for H1b	145
Table 5.29 Analysis of variance (ANOVA) for H2a	147
Table 5.30 Estimated regression coefficients for H2a	147
Table 5.31 Model summary of hierarchical multiple regression for H2b	149
Table 5.32 Summary of estimated hierarchical multiple regression coefficient and Sobel's test for H2b	150
Table 5.33 Analysis of variance (ANOVA) for H3a	151
Table 5.34 Estimated regression coefficients for H3a	152
Table 5.35 Model summary of hierarchical multiple regression for H3b	153
Table 5.36 Summary of estimated hierarchical regression coefficient for H3b	154
Table 5.37 Analysis of variance (ANOVA) for H4a	155
Table 5.38 Estimated regression coefficients for H4a	155
Table 5.39 Model summary of hierarchical multiple regression for H4b	157
Table 5.40 Summary of estimated hierarchical multiple regression coefficients and Sobel's test for H4b	158

LIST OF ABBREVIATIONS

ABS	Australian Bureau of Statistics
ADB	Asian Development Bank
ANOVA	analysis of variance
APEC	Asia-Pacific Economic Cooperation
EO	entrepreneurial orientation
ESOP	employee stock ownership plan
GEM	Global Entrepreneurship Monitor
IFC	International Finance Corporation
IPO	initial public offering
KMO	Kaiser-Meyer-Olkin
LBO	leveraged buyout
LoB	length of business
MBO	management buyout
MCSME	Indonesian Ministry of Cooperatives and Small and Medium Enterprises (MCSME)
MIT	Ministry of Industry and Trade
MSA	measure of sampling adequacy
NCEO	National Centre for Employee Ownership
OECD	Organisation for Economic and Development
PCA	principal components analysis
SEE	Shapero's entrepreneurial event
SME	Small and Medium Enterprise
SMECDA	Small and Medium Enterprise and Cooperatives Development Agency
SPSS	Statistical Package for Social Science
TPB	theory of planned behaviour
VIF	variance inflation factor

CHAPTER 1 INTRODUCTION

1.1 Background to the Research

A business exit is an important stage in entrepreneurship activities. This stage is an integral part of the entrepreneurial process because it is through this stage that entrepreneurs leave the business they own and remove themselves from the ownership and decision structure of their business and hopefully generate a surplus for their efforts (DeTienne 2010). Understanding the business exit phenomenon is critical because it provides an important foundation from which entrepreneurs can begin to maximise the value of their investment (Petty 1997). Further, it can explain the overall picture of the entrepreneurship activities by providing knowledge of various processes, behaviours and trigger factors that may be involved.

A previous study by Con Foo (2010) explored the overall process of successful exits undertaken by owners of Small and Medium Enterprises (SMEs). In his study, Con Foo (2010) identified the process that owners undertake to execute a successful exit from preparation until the execution stage. Nevertheless, the early stage prior to the exit of business owners from their businesses has rarely been analysed in the literature and Con Foo (2010) highlighted it as a fertile area of future study. In expanding knowledge about business exit, this thesis focuses on the early stage by understanding the factors that drive a business owners' contemplation and examines whether these factors trigger one's intention to exit his or her business. As illustrated in figure 1.1, Con Foo's (2010) study looked more specifically at the action end of the continuum resulting in decisions made by owners of an actual harvest rather than focusing on the earlier stage in the exit continuum that may involve a planned behaviour such as contemplation and an intent to exit a business.

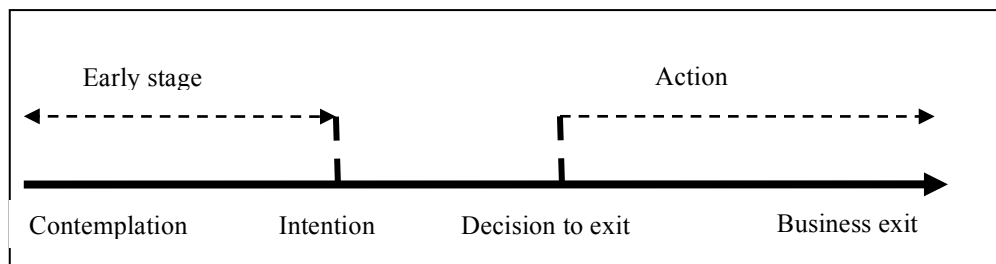


Figure 1.1 Continuum of business exits studies

Intention is perhaps one of the critical elements in the entrepreneurial process because it provides useful insight to the process of opportunity and threat identification that results in an action (Krueger, Reilly & Carsrud 2000). Several relevant studies have explored intentions from psychological (Ajzen 1991) and entrepreneurial perspectives (Kolvereid & Isaksen 2006; Krueger et al. 2000). Within the context of business exits, intentional behaviour is important to be explored because it helps to explain what critical factors might drive an entrepreneur's attention towards performing a particular behaviour such as business exits. Nevertheless, an individual's intention to perform a particular behaviour does not occur without a process of contemplation. It has been highlighted in the organisational and behavioural change literature that contemplation is seen as a phase when individuals put their awareness to a particular problem and seriously think to overcome it (Whelan-Berry, Gordon & Hinings 2003). When a business owner has been in his or her business for a certain period, he or she will eventually contemplate leaving the business and might (or might not) intend to exit based on various reasons. Therefore, by exploring factors that drive a business owner's contemplation and whether these factors influence one's intention to exit, a clearer picture of the business exit phenomenon within an entrepreneurial activity could be provided. In addition, with a better understanding of an individual's exits behaviour, entrepreneurs will be better placed to make strategic decisions that maximise the potential benefits upon exit.

In order to understand business exits from the conceptual and empirical perspectives, previous relevant literature that has reviewed exits focused on exit planning and timing (Ronstadt 1986), exit strategies (Holmberg 1991), exit options via succession

(Butler, Phan, Saxberg & Lee 2001; Rubenson & Gupta 1996), and exit intentions (DeTienne & Cardon 2010; Leroy, Meuleman & Manigart. 2007). However, no studies to date have provided clear insights into the degree of contemplation undertaken before business owners arrive at the intention to exit their businesses. Therefore, this study investigates the extent to which contemplation is considered as a preceding stage and whether or not it triggers an intentional behaviour to exit a business. Understanding the drivers of business owner's contemplation to exit his or her business could expand the business exit literature by providing empirical evidence of the factors that drives an entrepreneur's exit contemplation and examining whether these factors also influence one's intention to exit the business. Based on that reason, the originality of the present research involves extending the knowledge of the business exit literature and closing the gap in the existing literature around the early phase of business exits.

1.2 Research Problem

Previous studies have argued that business owner's individual traits (for example, human capital, EO and psychological ownership) and business-related variables such as firm performance are related to an owner's intention to exit the business. However, no previous studies have explicitly mentioned whether a prior sequence before an exit intention exists. Moreover, the extant literature on business exits has mainly been focused on utilising the theory of planned behaviour (TPB) approach to determine business owner's intention to exit the business (DeTienne & Cardon 2006; 2010; Leroy et al. 2007; 2010). Nevertheless, an owner's intention to exit might not occur all of a sudden but through a series of stages of contemplation. Hence, the present study argues that exit contemplation can be considered a prior stage to an intention to occur. Based on that reason, the research questions that arise from this issue are:

1. *What are the factors that drive an SME owner's contemplation to exit his or her business? Do those factors also influence an owner's intention to exit?*
2. *Is exit contemplation a prior stage to exit intention?*

1.3 Objectives of the Study

The aim of this research is to undertake an empirical study of SME exits with a focus on the degree to which SME owners undertake contemplation with regard to exiting their business and the trigger factors associated with it. In this way, an understanding of important aspects of the determinants that influence business owners to contemplate an exit will provide an enhanced awareness of SME management practices. Specifically, the objectives of this study are to:

1. Identify factors that influence the exit contemplation of SME owners
2. Identify factors that influence exit intentions of SME owners
3. Identify whether or not exit contemplation exists as a prior sequence to exit intention in the entrepreneurial continuum.

The key contributions of this thesis seek to fill the knowledge gap identified in the literature with a detailed analysis of the relationship between factors such as human capital, EO, firm performance and psychological ownership, and entrepreneurs exit contemplation and whether these factors influence entrepreneurs to exit their existing business.

1.4 Contribution to Knowledge

There is limited research on the theme of business exits and it mainly discusses exits at the action end of the continuum rather than at the early phase (for example, Butler et al. 2001; Petty, Bygrave & Shulman 1994; Ronstadt 1986; Wennberg et al. 2010). Further, there are other early stage decisions that have received little attention and need to be explored further (DeTienne 2010). While previous research on business exits have utilised TPB in identifying a business owner's intention to exit (for example, DeTienne & Cardon 2005 ; Leroy et al. 2006), the present study seeks other avenue to enrich the findings of previous research by including organisational change perspective in capturing the contemplation stage that an individual experiences prior to exit intention. Since there might be cross-cultural differences regarding business exits around the world, it has been recommended that it is necessary to explore business exits in a cross-cultural context to better understand the processes,

similarities and differences (DeTienne 2010). This study responds to that identified need and thereby provides a significant contribution to knowledge by providing a better understanding of the early phase of business exits including entrepreneurs' contemplation to exit their businesses; expanding knowledge in understanding entrepreneurs' characteristics, behaviour and trigger factors that might influence their contemplation and intention to exit their businesses.

1.5 Statement of Significance

SMEs are considered as a vital engine of growth in many nations' economy. In the context of Indonesia, SMEs play an important role in the economy where they account for more than 90 per cent of all firms outside the agricultural sector, and are considered the largest source of employment (Tambunan 2007b). According to the Indonesian Ministry of Cooperatives and Small and Medium Enterprise (MCSME), 46.01 per cent (805.47 trillion Rupiahs) of the total value of Indonesian investment was contributed by SMEs (www.depkop.go.id 2009). Based on those figures, there are large amounts of wealth involved within the SME sector of the economy. However, the fact that business environment can sometimes become uncertain and harmful in Indonesia, especially for SMES, may contribute to a 'collateral loss', which may result in a business wind up situation. This evidence have been reported in a previous study (ter Wengel & Rodriguez 2006) which reported that 35.7 percent of Indonesian SMEs has recorded the most closures and led to loss of jobs as an outcome of turbulent macro environment conditions. Hence, business owners should be aware to any environmental event that may affect the existence of their businesses. A business exit is therefore an essential issue to be explored as it provides not only a strategic mechanism for business owners to harvest their venture, but also as an entrepreneurial recycling event that leads to an accumulated wealth, experience and multiple entrepreneurial activities with clear economic benefits (DeTienne 2010). It is important that business operators contemplate to understand the importance of carefully considering business exits as a strategic choice that can assist them to avoid entrepreneurial hurdles such as business closures.

It is obvious that the business exit is not only important for business owners from the perspective of value creation but it also serves as an important issue for policy makers as well (Holmes & Schmitz 1990). There are significant amounts of money involved in business exit transactions. For example, Petty (1997) reported that it was estimated that there was US\$ 2.4 trillion invested in privately held firms in the US that were founded during 1950s and 1960s. Many of the operators of these firms will soon be contemplating a harvest or an exit. While this estimation was predicted in the late 1990s, it is likely that at present, those values will significantly increase based on its time value of money. A business exit is therefore an important strategy to be considered by a business owner in collecting a capital gain. However, the decision made by business owners to exit a business does not occur without a process of contemplation and intentions to do so. By contemplating an exit, a business owner can start to consider available and possible options for an exit.

Until present, no study has been undertaken in explaining business exits in an Indonesian context. Most of the literature available, have been published in the context of Indonesian SMEs and entrepreneurship studies lays the emphasis on SME development (Tambunan 2005; 2007a; 2007b; 2008; 2011); macro environment perspectives (Hill 2001; Berry, Rodriguez & Sandee 2001; Vial 2011); innovation in SMEs (Kristiansen, Furuholt & Wahid 2003; Indarti & Langenberg 2004; Indarti & van Geenhuizen 2005). Moreover, there is still no evidence that can explain business exits phenomenon in the Indonesian context in relation to the triggering factors associated to it. For instance, no studies to date have been undertaken in Indonesia by exploring how human capital, EO, firm performance and psychological ownership proceed as determinants of business exits.

Human capital has been an important variable that can explain business exits. Previous research have found that human capital can influence a business owner's intention to exit (DeTienne & Cardon 2006, 2010; Leroy et al. 2010) and opportunity discovery or potential exit options (Arenius & DeClerq 2005). In the context of

Indonesia, there is yet any evidence that can relate human capital to business exits studies; although, previous studies have highlighted that human capital may be associated to entrepreneurship participation (Vial 2011) and business success (Indarti & Langenberg 2004). In relation with EO, a previous study has indicated that the strategic postures among Indonesian SMEs were positively related to strategic alliance intention during economic crisis (Marino et al. 2008). However, that study was only intended to measure the effect of environmental shocks and the intention to form SME alliance from a macro outlook. Relating EO concepts to the study of business exits, especially in the scope of SME is useful because it might be able to identify and categorise types of business owners based on their strategic orientation that may trigger their competitiveness and innovative behaviour.

Another important aspect for an operating SME is firm performance. It is considered a valuable aspect for a firm since it may function as an indicator of its business success. Moreover, firm performance can symbolise an SME's viability and the effectiveness in employing the resources in its operational activities. Hence, a firm must be able to meet a certain threshold of performance in order to endure its entrepreneurial activities. A classical issue on the livelihood of SMEs in a developing country such as Indonesia is the capacity to grow and sustain as a business entity. In an exploratory study of Makassar¹ SME owners, Turner (2003) found that although most business owners' (58 per cent) has gained positive outcome (for example, profit) as a result from their entrepreneurial activity, there are still considerable amounts (24 per cent) of business owners that were still considered struggling to survive. This condition might explain why there are significant numbers² of SME closures in Indonesia during the economic turbulence (ter Wengel & Rodriguez 2006). It is imperative that business owners understand about the context of business exits in order to avoid any business cessation during their entrepreneurial careers. As

¹ Makassar is the capital city of South Sulawesi province, Indonesia

² Tambunan (2006) reported that there were approximately 3 million small enterprises (SEs) out of business as a result of economic crisis in Indonesia during 1997-2000. Another study by ter Wengel and Rodriguez (2006) also indicated that 35.7 per cent of Indonesian SMEs were forced to cease their operations

highlighted in previous research, firms could either exit from two conditions: well performed or financially distressed (Wennberg, Wiklund, DeTienne & Cardon 2010). Also, other previous studies have indicated that firm performance has an impact on the desire to undertake viable exit options (Butler et al 2001; Leroy et al 2007). Hence, in order to avoid any unexpected situation (for instance, business closure) business owners should contemplate to harvest their business and carefully consider exit options available.

Psychology of the business owner is another important aspect in the context of entrepreneurship. As an individual-related variable, psychological concept has been able to explain individual characteristics and behaviour in entrepreneurial activities. Furthermore, researches in entrepreneurship have included the concept of psychological ownership (PO) in capturing an individual's possessiveness over the ownership of one's business (Ikavalko, Pihkala & Jussila 2008). In the context of Indonesia, psychological profiles of Indonesian SME owners have rarely being discussed. Since Indonesian SMEs are commonly family-owned (Vial 2011), understanding the psychological nature of the individuals who run the company is important. Understanding perceived ownership of SME owners would be able to provide information about psychological traits that may influence an individual's behaviour in the conduct of one's entrepreneurial career. In its relevance to the context of business exits, psychology of a business owner towards his or her business can be a problematic issue especially when confronted with the decision whether or not to exit (DeTienne 2010). Since no information to date could explain psychological aspects of Indonesian SME owners, this study is being brought to the Indonesian context to understand whether or not SME owner's PO influence one's contemplation to exiting his or her business.

As the study is applied in nature, it will be able to contribute significantly by generating a better understanding and awareness among SME owners of the importance of business exits that benefits them, their enterprise and entrepreneurial career. Understanding SME owners' contemplation in exiting their business is

beneficial as it provides a useful insight about types of triggers that may be involved within the exit process and whether or not an exit is viable as an entrepreneurial choice. Further, this study provides a useful source of information for government as the policy maker, educators and business intermediaries such as financial institutions to support business operators to realise the potential value of their business through an exit.

1.6 Scope of the Research

The scope of the present study focuses on the SME owners in Indonesia. Further, the population of this study comprise of Indonesian SMEs owners that were listed in the Indonesian MCSME database and obtained between 2010 and 2011. The research focuses on business exits by applying the behavioural perspective, along with the investigation of individual traits and business-related variables that may influence entrepreneurs' contemplation to exit the business and whether these variables influence entrepreneurs' exit intention through an exit contemplation sequence.

1.7 The Organisation of the Thesis

The current thesis is structured to provide empirical evidence and recommendations with regard to entrepreneurial behaviour of Indonesian SME owners towards their contemplation and intention of exiting. This thesis consists of six chapters as follows.

Chapter 1 provides the background of the study, along with the research problem. It outlines the research objectives, the contribution to knowledge and practical significance, scope and structure of the thesis.

Chapter 2 reviews the literature in relation to the concept of entrepreneurship, business exits and SMEs. A brief overview of SMEs and entrepreneurial activities in the Indonesian context is provided.

Chapter 3 presents the research framework and the hypotheses development. The operationalisation of the research variables and survey instruments pertaining to this current study are described.

Chapter 4 explains the research methods undertaken in this study. A description of the survey method is provided, with a description of the data; the population; stages of instrument preparation and data collection procedures; and a summary of sample description. Analysis preparation and methods used to analyse the data are described. The research ethics in the present study is outlined.

Chapter 5 presents the empirical analysis of the results. It provides descriptive analysis of the samples used in the present study. This chapter provides the statistical approach utilised in the present study by applying hierarchical multiple regression to test the hypotheses pertaining to this present study.

Chapter 6 includes the discussions based on the empirical results of the study. The chapter contains four sections of discussions, based on the descriptives and hierarchical multiple regression analyses.

Chapter 7 presents the conclusion and implications of the study derived from the discussions of the findings. The limitations of the study and suggestions for future research are provided.

CHAPTER 2 LITERATURE REVIEW: ENTREPRENEURSHIP, BUSINESS EXITS AND SMALL AND MEDIUM ENTERPRISES (SMES)

2.1 Introduction

This chapter reviews the important elements of entrepreneurship concepts, business exits and SMEs. The literature reviewed in this chapter will provide various concepts of entrepreneurship, business exits and SMEs. In order to understand the nature of the present study, it is important to understand the general concepts of entrepreneurship and SMEs, and how both concepts are relevant to the study of business exits. To begin, the principal themes relating to entrepreneurship will be discussed. Further, the business exits concept will be reviewed to provide a clearer picture of this activity, which is regarded as one of the important focuses in entrepreneurship. In addition, the importance of SMEs, the definitions, characteristics as well as an overview of entrepreneurship activities within an Indonesian context will be highlighted. In this study, the terminology of small business and SMEs are used interchangeably because there is no consistent definition that can be used to distinguish both terms. It is important to note that the present study focuses more on the SMEs and the entrepreneurs that operates them because it has been argued that studies on small businesses or SMEs are needed since most academics have been overwhelmingly concentrated on large-scale businesses (Brock & Evans 1989).

2.2 Entrepreneurship Definitions and Concepts

2.2.1 Entrepreneurship Definition

For several decades, the study of entrepreneurship has gained a great deal of attention from academic researchers. Academics have considered that entrepreneurship has become an increasingly important issue in the globalising economy (Shane & Venkataraman 2000). Hence, entrepreneurship has been viewed as a vital activity in the process of economic growth and development (Schaper & Volery 2007). Further, Schaper and Volery (2007) acknowledged the statement of

The Organisation for Economic and Development (OECD) towards the importance of entrepreneurship activities and stated that:

Entrepreneurship is central to the functioning of market economies. Entrepreneurs are agents of change and growth in a market economy and they can act to accelerate the generation, dissemination and application of innovative ideas. In doing so, they not only ensure that efficient use is made of resources, but also expand the boundaries of economic activity (Schaper & Volery 2007, p. 3).

According to Shane and Venkartaraman (2000), the importance of entrepreneurship can be explained as a mechanism to explore the extent to which technical information is converted into products and services; inefficiencies are discovered and mitigated; and change processes are driven. Since the topics of entrepreneurship is very broad in nature, there are no consistent definitions or terminology that has been agreed upon and widely used by scholars (Schaper & Volery 2007).

Several definitions of entrepreneurship have been recognised in the entrepreneurship literature. Few academics who agree on the notion that entrepreneurship emphasises the 'founder' employ the definition as the creation of new venture or business (Gartner 2001) and as 'a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach and leadership balanced' (Timmons 2004, p. 27).³ Others define it as a process undertaken by individuals in identifying new opportunities (Barringer & Ireland 2006; Schaper & Volery 2007; Stevenson & Jarillo 1990) and a symbol of business persistence and achievement (Frederick & Kuratko 2006). Based on these definitions, it can be recognised that the definition of entrepreneurship has evolved over the last decade and is continuously being expanded. It is noteworthy that the definition of entrepreneurship provides scholars in this discipline with three important attributes that can explain entrepreneurship. These attributes are entrepreneurship as a process; opportunity identification; and symbols of achievement. However, there is lack of consensus to the definition of entrepreneurship and it remains difficult to define because it involves a multifaceted

³ This definition has evolved over the past two decades of research and commonly being used by academics at Babson College and Harvard Business School.

phenomenon that extends to various disciplinary boundaries (OECD 2004; Schaper & Volery 2007).

2.2.2 Entrepreneurship Concepts

Entrepreneurship is an important and continuously growing discipline that was developed from numerous fields that have been established. Debates and dialogues have been undertaken by academics in an attempt to develop and expand the concepts and theories on entrepreneurship. For instance, Carland, Hoy, Boulton and Carland (1984) have made an assumption in differentiating between entrepreneurs and small business owners. In their article, Carland et al. (1984) argue that small business owners should not be included in a sample of entrepreneurs. Further, these authors have provided definitions that distinguish entrepreneurs from small business owners:

Entrepreneur: An entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterised principally by innovative behaviour and will employ strategic management practices in the business.

Small business owner: A small business owner is an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be the primary source of income and will consume the majority of one's time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires. (Carland et al. 1984, p. 358).

Although both definitions were not intended to be conclusive or generalise the characteristics of an entrepreneur, these authors suggest that entrepreneurship scholars must be able to delineate entrepreneurs carefully from small business owners (Carland et al. 1984). In contrast, Gartner (1985) criticised Carland et al.'s (1984) concept by contending that the concept is deterred by trait views, emphasising solely on the entrepreneur as the primary level of analysis. In his critics, he argues that other approaches such as traits and behaviours should be used to distinguish between entrepreneurs and non-entrepreneurs. He noted:

When we view entrepreneurship from a behavioural perspective we do not artificially separate dancer from dance, we do not attempt to fashion a

reassuring simplicity. The entrepreneur is not a fixed state of existence; rather entrepreneurship is a role that individuals undertake to create organisations (Gartner 1985, p. 26).

Further, Gartner (1988) also contends that small business owners should not be excluded from entrepreneurship because entrepreneurship is a field that allows individuals to take a part in the venture creation. Therefore, in an attempt to enrich the concept of entrepreneurship, scholars have begun to address entrepreneurship concepts by utilising and combining them with other areas of study such as the process of venture creation (Gartner 1985), the sociological (Thornton 1999), the psychological (Bird 1988; Shaver & Scott 1991), and strategic entrepreneurship (Covin & Slevin 1989) rather than focusing solely on the entrepreneurship concept itself. Although there has been argument surrounding the definition on which term ‘entrepreneur’ or ‘small business owner’ should be used to define individuals that involve themselves in entrepreneurial activities, there have been no consensus on which definition is precisely used. Nevertheless, the definition by Carland et al (1984) has much more specific focus on attribution of individuals that distinguishes between entrepreneurs and small business owner-managers. Hence, the present study followed Carland et al’s (1984) definition of small business owner in order to specifically emphasise on the nature of the level on analysis employed in this study which is the owner of small businesses.

During the 1980s, the dynamics of entrepreneurship concepts was claimed to be a legitimate field of study that was supported by the advances of empirical knowledge (Bygrave & Hofer 1991). However, Bygrave and Hofer (1991) argue that entrepreneurship studies in this period lacked a substantial theoretical foundation because the concept was built upon a narrow focus; emphasising solely the ‘*entrepreneur*’ as the subject. Thus, it was necessary to change the focus in the field of entrepreneurship to focus more on the entrepreneurial process rather than the ‘*entrepreneur*’. Further, Bygrave and Hofer (1991) offered an ideal model for entrepreneurship that emphasised the need to develop a key criterion that supports the model’s ability to make predictions about specific outcomes rather than the

population of firms (Herron, Sapienza & Smith-Cook 1991). In addition, a sociological approach was also proposed to be included as a focus in the entrepreneurship discipline (Thornton 1999). Thornton (1999) suggests that various aspects of a sociological approach such as sociological frameworks, an embedded perspective, ecological and institutional theories, and multilevel models could be utilised to explain how, where and why new ventures are founded.

It is important to note that the entrepreneurship discipline has expanded into wide arrays of topics and can be viewed through different lenses. It can be viewed as an incremental innovation process (Pavitt 1991) that triggers an entrepreneurial event or '*a meaningful change and substantive redefinition or discovery of application*' (Brazeal & Herbert 1999, p. 34). Another way of viewing entrepreneurship is recognising it as enabled by innovation, creativity, environmental change, a change and the innovator (Brazeal & Herbert 1999). Timmons (2004) argues that entrepreneurship has evolved beyond the classic start-up notion to include companies and organisations of all types, therefore:

Entrepreneurship can occur—and fail to occur—in new firms and in old; in small firms and large; in fast and slow growing firms; in the private, not for profit and public sectors; in all geographic points; and all stages of a nation's development, regardless of politics (Timmons 2004, p. 27).

Further, it is noteworthy that key elements of entrepreneurship are understood to obtain a clear picture of the entrepreneurial process. Schaper and Volery (2007) provide the key elements of entrepreneurship that they believe can be classified into five dimensions: the entrepreneur, opportunity, resources, organisations, and environments. These elements are inter-related for several reasons. First, the entrepreneur is an individual who imposes all of the entrepreneurial process from perceiving an opportunity, managing resources in exploiting the opportunity and creating the venture (Gartner 1985). Second, opportunity is a situation where a gap exists in the market, left by those who currently serve it (Wickham 2001). It is the entrepreneur who is responsible to identify unexploited opportunities and turn them into products and services. Third, resources (either tangible or intangible) must be able to be assembled by the entrepreneur to pursue opportunity and transform his or

her ideas into the organisation. Fourth, business owners are responsible to coordinate people and supply innovations in organisations that they have created. The final element in entrepreneurship is environment. Environment plays an important role in entrepreneurship. Hence, business owners are urged to identify and screen the environment in which their business organisations operate.

While entrepreneurship can be viewed through different perspectives and involves a multidisciplinary approach, it is important to understand how other concepts such as behavioural concepts emerge in the entrepreneurship discipline. The understanding of the behavioural concept is imperative because it involves the interaction between individual characteristics and the organisation in the entrepreneurial process; hence, entrepreneurial behaviour should be considered (Low & MacMillan 1988). The next section reviews the emergence of the behavioural approach in the entrepreneurship literature.

2.2.3 The Emergence of Behavioural Concepts in the Entrepreneurship Domain

Several studies that combined behavioural theories with the central concept of entrepreneurship have been undertaken by researchers in this discipline (Bird 1988; Krueger et al. 2000; Naffziger, Hornsby & Kuratko 1994). Academics have argued that there is a need to expand and address the central concept of entrepreneurship more thoroughly; shifting from an individual focus and distinguishing between small business owners and entrepreneurs into a wider perspective of how entrepreneurial behaviour affects entrepreneurship.

It is believed that entrepreneurial behaviour can provide a more comprehensive explanation of the entrepreneurial process. Bird (1988) was one of the earliest academics to propose the use of intentional theories into entrepreneurial behaviour by suggesting that intention models are behaviourally driven. Further, this approach has contributed to entrepreneurship literature by placing more emphasis on explaining distinctions between entrepreneurship from a strategic management perspective rather than focusing on the outcome of successful business (Bird 1988).

In her conceptual paper, Bird (1988) argued that the intentional model could advance entrepreneurship studies in three ways: (1) it could provide the psychological basis of venture development; (2) it could shift existing theories of entrepreneurial behaviour beyond the correlational methods; and (3) it can examine the interaction of intra-physic and social organisation. In addition, the emergence of intentional theory into entrepreneurship is a milestone for entrepreneurship literature because intentions can exploit critical elements of the entrepreneurial process by providing useful insights into the process of opportunity and threat identification (Krueger et al. 2000).

While the intentional model was proposed to be the focus of research for entrepreneurship studies, other behavioural theory that such as motivational theory was also proposed to explain entrepreneurial behaviour. Referring to previous literature that exploits behavioural outcomes (Bird 1988; Gartner 1985), Naffziger et al. (1994) proposed an entrepreneurial motivation model that affects firm start-up, strategic implementation, and the entrepreneur's decision to sustain in entrepreneurship. Further, these authors (Naffziger et al. 1994) suggest that the model shifts beyond the issue of start-up in the entrepreneurial process dealing with motivation to stay in entrepreneurship as a career choice. Hence, the utilisation of motivational concept to the context of entrepreneurship has expanded the topic itself to a much wider focus that encompasses the question why individuals undertook entrepreneurial activities. It is important to note that apart from the motivational aspects of the individuals in determining entrepreneurship, psychological approach has also been acknowledged as a concept that explores a unique behaviour of the individuals.

Psychological theories have contributed to entrepreneurship literature in several ways. These include utilising entrepreneurship's central concept with a focus on individuals as unit of analysis (Herron et al. 1991), elaborating aspects of psychology such as person, process and choice; providing various ways in which psychology can be applied to improve entrepreneurship theory and research (Shaver & Scott 1991); and even utilising the psychological construct to distinguish personal characteristics

between entrepreneurs, small business owners and corporate managers (Stewart et al. 1999). One of the most influential psychological concepts in entrepreneurship is psychological ownership. Researchers in the entrepreneurship domain have employed psychological ownership concepts that are often used in the organisational behaviour literature (Miller, Steier & Le Breton-Miller 2003). Psychological ownership is referred to as possessive feelings experienced over a specific object by individuals (Pierce, Kostova & Dirks 2001). It has been hypothesised that psychological ownership emerges when (1) the owner controls the target, (2) comes to intimately know the target and (3) has invested in the target (Pierce et al. 2001). In the entrepreneurship context, the feeling of possessiveness can be regarded as one of the characteristics that influence entrepreneurs in their entrepreneurial activities. Entrepreneurial behaviour literature is relevant to the study of business exits because it helps scholars to understand and determine types of behaviour that entrepreneurs possess when they think about exiting.

2.2.4 The Emergence of Strategic Management Concepts in the Entrepreneurship Domain

For over three decades, entrepreneurship has received a great deal of attention by academics from diverse fields of study. Strategic management is one of the disciplines that have contributed to the growing body of knowledge of entrepreneurship. Since the emergence of strategic management in entrepreneurship, one concept has significantly been a central issue in entrepreneurship: EO. The EO concept has emerged and been applied in strategic management and entrepreneurship studies. In the entrepreneurship domain, this concept has been discussed from an individual level of analysis to an analysis of firm-level behaviour. This concept has become an important feature of entrepreneurship studies because it provides knowledge into entrepreneurs' strategic orientation and explains entrepreneurial decision-making styles (Lumpkin & Dess 1996). Covin, Green and Slevin (2006) define EO as '*a strategic construct whose conceptual domain includes certain firm-level outcomes and management-related preferences*' (p. 57).

Miller and Friesen (1982) were among the early contributors to the EO concept and have received significant attention from scholars in the entrepreneurship domain (for example, Covin & Slevin 1989; Lumpkin & Dess 1996). Since the concept was initially proposed, it has been given a great deal of attention in the entrepreneurship domain; being referenced and discussed by academics in numerous entrepreneurship studies. In theorising the concept, Miller and Friesen (1982) synthesised earlier conceptualisation of strategy making by Mintzberg (1973), which established EO as a managerial disposition rooted in decision making (cited in Covin & Wales 2011). Although the terminology of EO was never explicitly used in both studies (Miller 1983; Miller & Friesen 1982), these authors conceived EO as a manifestation of an entrepreneurial organisation that is determined by simultaneous interaction between three attributes: innovativeness, risk taking and proactiveness (Covin & Wales 2011). Based on that assumption, an entrepreneurially oriented firm should always have the ability to engage with the organisation's activities (for example, production and marketing) by proactively developing or enhancing innovation capability and cautiously considering the risks involved. It is important to note that dialogues and debates are still being undertaken by academics in entrepreneurship with reference to the dimensionality of the EO concept.

In the early development of this concept, it was proposed that entrepreneurially oriented firms should have the attributes of innovation and risk taking as a means of strategic orientation of the firm (Miller & Friesen 1982). Another attribute of EO, proactiveness, was introduced by Miller (1983) by assuming that '*an entrepreneurial firm is one that engages in product-market innovation, undertake somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch*' (Miller 1983, p. 771). Further, adding other dimensions with which EO can correlate expanded the concept. These dimensions include competitive aggressiveness and autonomy, which have been introduced by other entrepreneurship scholars (Lumpkin & Dess 1996). Thus, scholars have argued that the EO concept emerges through an organisation's exhibition of risk taking, innovativeness,

proactiveness, competitive aggressiveness and autonomy (Covin & Slevin 1989; Lumpkin & Dess 1996; Miller 1983).

As a concept that emerges in entrepreneurship from multidisciplinary approaches (for example, strategic management, economics, and behavioural theories), the EO concept has obtained a significant amount of attention. This concept has been significantly cited and acknowledged in numerous studies that have led to the wide acceptance of conceptual thinking and provided significant awareness to the concept (Rauch, Wiklund, Lumpkin & Frese 2009). Research on EO is continuously being conducted by entrepreneurship academics in exploring firm behaviour (Covin & Slevin 1991; Lumpkin, Cogliser & Schneider 2009). However, the EO concept, which was mainly derived from strategic management studies, was generally applied within a large organisation as a unit level of analysis and is a knowledge gap in small firm studies. This has been an issue that has caught the attention of other academics (Mazzarol 2005). According to Mazzarol (2005), strategic management is mainly associated with large organisations rather than small firms that usually lack strategic orientation. One important reason for this notion is because strategic orientation or decision making in small firms are largely centralised on the owner of the business, who may be too busy dealing with the daily operations, and therefore, lacked sufficient time to consider the strategic directions of the firm (Mazzarol 2005). Thus, other scholars have shifted the focus to utilise the EO and strategic management orientation phenomenon from large organisations to small business settings (Krauss et al. 2005; Leroy et al. 2007).

In their study, Kraus et al. (2005) applied the EO construct to a small business setting, which they contend is proven to be useful in predicting small business performance. Nonetheless, these authors (Krauss et al. 2005) argued because the concept of EO was established by western cultures for western business communities, researchers must thoroughly identify the concept as a unitary concept. Their argument was based on their research findings, suggesting that the dimension of competitive aggressiveness was found inapplicable to their locus of research.

These authors (Krauss et al. 2005) suggest that EO is influenced by either the culture and/or the business environment in which the business operates.

Combining EO as one of the concepts that is derived from strategic management with the other topics of entrepreneurship study, such as business exits, is important and relevant because it may be able to capture behavioural phenomenon such as the strategic orientation or thinking (Mazzarol 2005) of the entrepreneurs that operate the business. EO can be considered an entrepreneurs' individual orientation with regard to the running of their business. Since the theme of this study is related to an entrepreneur's exit contemplation, EO concepts can be used to encompass factors such as risk taking, innovativeness and proactiveness.

2.2.5 Family Business as the Boundary of the Entrepreneurship Domain

Since entrepreneurship is a relatively large discipline, it needs to be clarified whether the family business exists within the domain of entrepreneurship studies. Entrepreneurship is an area where interactions between individuals, environments and factors such as psychology, sociology and other behaviours occur resulting in the emergence and the exits of a venture. Dyer and Handler (1994) reported that some of the early research on entrepreneurship has indicated the important aspects that family business contributes in the development of certain entrepreneurial personality and characteristics. Scholars have attempted to raise the issues on entrepreneurship from family perspectives that affect entrepreneurial behaviour (Dyer 1994; Ronstadt 1986). While entrepreneurship has become an independent domain of study, family business is still struggling to be accepted as an independent area of research. Family business is reviewed in this part of the chapter because it is considered relevant to the context of this study.

A family business is an organisation that is managed and owned by family members (Hilburt-Davis & Dyer 2003). As an integral part of the entrepreneurship literature, Dyer and Handler (1994) identified the intersection between entrepreneurship and family business. These authors (Dyer & Handler 1994) identified four career nexuses

that reflect points in time where family and entrepreneurial dynamics intercept: (1) early experiences of in the entrepreneur's family of origin; (2) family involvement and support of early start-up activities; (3) employment of family members in the new venture; and (4) involvement of family members in ownership and management succession (p. 71). In contrast, Hoy and Verser (1994) proposed that entrepreneurship and family business consist of separate and distinct but overlapping domains. Their analogy in viewing the distinction between strategy, entrepreneurship and family business raised a question regarding whether those three fields of study can be considered an omelette or just three eggs. Their analogy can be interpreted as asking whether the three fields of study can be combined to address theory building in family business literature. Further, their examination was based on the entrepreneurship perspective that treated family business as an emerging subject of study. Further, extending an entrepreneurship framework by Gartner (1990), these authors (Hoy & Verser 1994) agree that Gartner's eight principal ideas that involve the entrepreneur, innovation, organisation creation, creating value, profit/non-profit, growth, uniqueness and the owner-manager, and can be used to describe areas of commonality of entrepreneurship and family business. Since strategic management literature documents the factors that are fundamental to an organisation's success in interacting with its environment, it provides the leaders of family businesses with elements that are fundamental to long-term survival and success (Hoy & Verser 1994). Therefore, this study gives explanation that entrepreneurship, strategic management and family business are not separate one to another, but rather, inter-related and provides further explanation of the phenomenon of entrepreneurship activities.

In his conceptual article, Brockhaus (1994) argues that entrepreneurship researchers have built a solid foundation into the developmental process of family business. He also mentioned that there are few reasons why family business research can be expanded and accepted among scholars. These include: (1) the nature of the early development of both entrepreneurship and family business as an independent domain of study; and (2) the nurturing nature of the entrepreneurship domain to family

business research that provides a solid research base to avoid the pitfalls being faced by entrepreneurship research during its early development. Although it is still unclear whether the family business exists within the domain of entrepreneurship literature, it has been agreed upon that both share the common attributes in their attempt to be recognised and accepted as an independent field of study (Bird et al. 2002)

Academics suggest that family business research should not be separate from the mainstream entrepreneurship research. This is because family business research is contributed mainly by academics from mainstream entrepreneurship research. As there is a growing body of knowledge in family business research, this relatively new discipline has begun to raise significant awareness regarding the issues that concern family businesses. Further, leading academic journals on entrepreneurship and small business studies have begun to acknowledge family firm research as an integral part of the study (Zahra & Sharma 2004). Thus, academics in the entrepreneurship domain have endeavoured to inter-relate the entrepreneurship domain with the family business phenomenon. For instance, Naldi, Nordqvist, Sjoberg and Wiklund (2007) address the issue of risk taking in the contexts of family firms and argue that family owned firms constitute relevant organisational contexts that are characterised by the nature of ownership and levels of risk taking that distinguish them from non-family owned ones.

Several entrepreneurship studies have focused on the emergence of new ventures, the entrepreneur as an individual and other influential aspects that may affect entrepreneurial behaviour. However, they have not been able to provide an explanation of how entrepreneurship and family business intersect. Three phases might be able to describe how entrepreneurship and family business research are inter-related. Firstly, family business to some extent can be regarded as a result of an entrepreneurial activity where ventures are created or established by an individual who called themselves an entrepreneur. Secondly, once the venture is established and operated by the entrepreneurs or by family members, it is likely that the venture will eventually become a family-owned business (Dyer & Handler 1994). Finally, the

continuity of the venture through a succession strategy will occur or fail to occur due to the dynamics that the succession process often involves (Scarborough & Zimmerer 2006). In addition, Dyer and Handler (1994) noted:

Rather than ignoring the connection between the entrepreneur and the family, future research and practice should marry the interests of the fields of entrepreneurship and family business to provide more robust theories, better research, and practical solutions to the dilemmas facing entrepreneurs (p. 80).

Based on that argument, it is almost certain that family business and entrepreneurship are inter-related and remain within a boundary of a common discipline due to similarities in the focus as well as theories that are built upon. Further, academics have explored the evolution of the family business discipline as an academic field (Bird et al. 2002; Sharma 2004; Zahra & Sharma 2004). In an attempt to explore the early establishment of family business as an independent field of study, Bird et al. (2002) argued that:

Family business has struggled for an identity in an effort to be recognised and accepted as an intellectually rigorous, independent domain (p. 338).

The argument was based on their review of a numbers of articles from various refereed journals that are associated with family business research and conclude that family business research has become increasingly rigorous and empirical with regard to larger sample sizes, more variables and statistical analysis being employed (Bird et al. 2002). Moreover, Zahra and Sharma (2004) identified several key trends in family business research by reviewing a wide range of academic conceptual papers that have shown the interests in discussing and expanding the family business discipline (for example, Handler 1989; Wortman 1994; Sharma, Chrisman and Shua 1996; 1997; Dyer and Sanchez, 1998; Bird et al., 2002; Chrisman, Chua, and Sharma, 2003; Sharma, 2004). Based on their review of family business-related articles, six trends in family business research were identified. As concluded by Zahra and Sharma (2004), these trends are: (1) regular stocktaking, (2) domain of the field, (3) topics studied, (4) common methods being used, and (5) borrowing theories of other disciplines but not contributing to them.

Despite the notion that family business literature has extensively borrowed theories from other disciplines (Zahra & Sharma 2004), academics went further to address the issues of family businesses from various perspectives that include: strategic management (Chrisman, Chua & Sharma 2005; Hoy & Verser 1994), succession strategy (Le Breton-Miller et al. 2004), ownership structure (Daily & Dollinger 1992) and agency theory (Schulze, Lubatkin & Dino 2002). Hoy and Verser (1994) suggest that entrepreneurship and strategic management fields were fortunate to have historians as the early contributors who were prominent in both fields. They noted:

Their examinations of the historical fields explained the contexts in which important concepts were developed. They also demonstrated that study and practice give such concepts organic qualities, leading to further change (p. 10).

2.3 Business Exits as an Important Focus in Entrepreneurship

In general, entrepreneurship literature has mainly been focused on business start-up, management, enterprise operations (Megginson, Byrd & Megginson 2003; Schaper & Volery 2007; Timmons 2004) and business failures or closures (Stokes & Blackburn 2002). There has been minor attention paid to business exits. This topic needs to be highlighted if the complete process of entrepreneurial activities is to be discovered. A business exit is an outcome of an entrepreneurial process that involves the process of identifying and discovering new opportunities. Thus, it is surprising that this concept has not gained awareness in the entrepreneurship discipline.

It has been argued that entrepreneurship research has paid considerable attention to reasons and methods people undertake to start their businesses but has paid minor attention to the methods people use to exit (Wennberg et al. 2010). For that reason, entrepreneurship scholars have attempted to raise more awareness of the issues of business exits as a distinctive field in the entrepreneurship literature (DeTienne 2010; DeTienne & Cardon 2006; 2010). It is important that the entrepreneurship discipline starts to acknowledge business exits due to its importance and the significant implications that it has not only for the entrepreneur as an individual but also, for the firm, the industry and the economy (DeTienne 2010).

Using a parenthood metaphor, Cardon, Zietsma, Saporito & Pistrui (2005) provide new insights into the entrepreneurship approach regarding the understanding and the relevance of different entrepreneurial stages and the extent to which entrepreneurship can be associated with the human procreation process that may involve parenting, nurturing and passionate nature towards entrepreneurship activities. These authors (Cardon et al. 2005) implicitly outline that business exit is a phenomenon that could be linked to the process of human procreation (for example, the adoption or foster care of a baby) that provides an easier understanding of entrepreneurial process. Therefore, the business exits concept is crucial in the explanation of entrepreneurship. Further, DeTienne and Cardon (2010) contends that the understanding of the business exit is critical to understanding a complete sequence of the entrepreneurial process.

Since business exit have not gained significant attention in the literature of entrepreneurship, it is challenging for researchers in this domain to understand an overall picture of an entrepreneurial activity (DeTienne & Cardon 2010). In an article, Sarasvathy (2004) contends that academics should pay more attention to entrepreneurship from the business owner's viewpoint, developing questions that emphasise how the firm serves as an instrument for owners to obtain a comprehensive understanding of entrepreneurship rather than positioning business owners as always in the service of a firm's survival. Moreover, to improve recognition of the business exits concept in the entrepreneurship discipline, academics have proposed to shift the focus of business exits to provide more explanation of a complete entrepreneurial phenomenon, which involves decisions made early in the life of the firm that impact business exit (DeTienne 2010); environmental factors (DeTienne & Cardon 2010); and the exit of business owners from their firm versus the exit of the firm itself (for example, closure or failure) (Wennberg et al. 2010). Based on these suggestions, scholars in the entrepreneurship discipline have start to realise the sense of urgency in expanding the study of business exit that encompasses factors that are related to the behaviours of business

owners and as an attempt to make business exit studies an important part of the distinctive domain of entrepreneurship research (DeTienne 2010). However, prior to expanding and acknowledging business exit as a distinctive area of study, it is important that definitions and the central concept of the exit phenomenon are clearly understood.

2.3.1 Business Exit Definitions

In the theme of business exit, scholars have established various definitions and employed different terminology to describe it. Holmes and Schmitz (1990) used the term '*business transfer*' to describe business exit from an economic perspective; whereas, business transfers correspond to, among other things, individuals changing jobs and sales of firms. Further, scholars employed the term '*harvesting*' (Schaper & Volery 2007; Timmons 2004) while others employ the term '*entrepreneurial exit*' to explain business exits (DeTienne 2010; DeTienne & Cardon 2010; Leroy et al. 2007; Wennberg et al. 2010). It is important that the terminology and definitions of business exit are understood. While there are several terms that are utilised by researchers to explain business exits, various definitions have also been provided to highlight the focus of the concept.

Petty (1997) defines business exit as an approach taken by owners and investors in extracting some or all of the economic value from the investment. In defining business exits, Schaper and Volery (2007) used the term '*harvesting*' to explain the concept as a process that is carried out by business owners or investors to exit a business and gain maximum value from their initial investment. Moreover, others define business exits as '*the process by which the founders leave the firm they have created; thereby removing themselves, in varying degree, from the primary ownership and decision making structure of the firm*' (DeTienne 2010, p. 203). Based on these definitions, business exits can be seen as a value-based mechanism, when entrepreneurs start to realise the added value and benefits of their investment while others emphasise the business owner's perspective and process involved in the entrepreneurial life of the firm. Although different terms are used, the term '*business*

exit' will be used in this study because it has been proven in previous studies. Furthermore, the definition of business exit employed in the present study follows DeTienne's (2010) definition of business exit, which emphasises on the transfer of ownership from business founders to other entity that includes family members⁴.

2.3.2 Understanding Options for Business Exits

In the current literature, scholars have identified various exit routes. It is argued that every business owner will exit his or her business either voluntarily or involuntarily (Prisciotta & Weber 2005). While many regard business exit as closely related to the selling of the firm, studies have revealed that it may not always be associated with a sale. A firm sale is only one option that an entrepreneur has when exiting their businesses (Leonetti 2008). It is important to note that exit paths or options that business owners undertake from the different paths available may have implications that are associated with levels of risks involved, complexity, and level of potential engagement after exit (DeTienne & Cardon 2010). It has been discussed in many studies that there are numerous types of business exits in the literature that are regarded as exit options (Brenner & Schroff 2004; Certo, Covin, Daily & Dalton 2001; Petty 1997; Prisciotta & Weber 2005; Wennberg et al. 2010). Different types of business exits options will be reviewed in the following section of this chapter.

2.3.2.1 Harvest Sale

Wennberg et al. (2010) referred to harvest sale as a situation in which the firm continues while the business owner exits as majority owner. Harvest sale occurs when entrepreneurs extract some or all of the economic value from their investment (Petty 1997). Although previous researchers have noted that entrepreneurs may have various unique motivations for creating new ventures, an individual's wealth creation is often viewed as an essential objective in entrepreneurship (Certo et al. 2001; Wennberg et al. 2010). Nevertheless, the wealth created by individuals in a particular

⁴ The present study limits the exiting options only in the forms of selling to other entities (non-family members) and family succession. The limitations occur as there was not enough information as to whether or not exiting through business harvest and market mechanisms to buy and sell a business are quite common in a particular developing economy such as Indonesia.

venture can remain embedded in the firm and may not be realised until the time of an actual harvest (DeTienne 2010). As an example, when an investor decided to purchase a new stock, the value of the current stock may not be realised until it has been sold. Similarly, in the business exit context, a business owner may not realise the maximum value of his or her business until they have exited their business. Thus, harvest sale could be an option for entrepreneurs in extracting the maximum value of their venture, especially exiting from viable ones (Wennberg et al. 2010).

2.3.2.2 Distress Sale

Previous research has identified firm sales that are associated with the buyer's characteristics (Birley & Westhead 1993; DeTienne & Cardon 2006). Further, Wennberg et al. (2010) argue that a distress sale may take place when a business encounters financial distress. It has implicitly been mentioned in the business exit literature that a firm sale is similar to harvesting its value (Wennberg et al. 2010). However, in reality, it may not always correlate with harvest. A sale of a firm may be an alternative to avoid a business from a bankruptcy or liquidation particularly the underperforming ones. DeTienne (2010) argue that businesses, especially those in the infancy stage are confronted with two involuntarily options, either to 'accept' (1) failure or (2) voluntary 'closure' in the event of the firm's 'poor' performance'. Nevertheless, these options would not be favourable for business owners and might not be the best resort to undertake due to economic loss and inability of the firm to extract economic value from the business as well as losing accumulated wealth from the business. If a business is starting to experience losses and the owner is unable to make the situation better, he or she has the option to sell the business before it accumulates more losses (Wennberg et al. 2010). Thus, a distress sale could be an option for business owners to minimise accumulative losses and is only suitable if businesses are underperforming.

2.3.2.3 Mergers and Acquisitions

Mergers and acquisitions emerge as an exit option when the assets and resources of two or more business firms are combined to achieve strategic and/or financial

objectives. It is similar to a partnership and is likely to lead to a staged exit with lifestyle benefits initially and then financial benefits at a later stage. Both options are still considered ways through which business owners realise the gain of a venture (Timmons 2004). Brenner and Schroff (2004) explored reverse mergers as an alternative to other exit options such as initial public offerings (IPO). According to Brenner and Schroff (2004), reverse merger strategy occurs when a privately-owned company gains the controlling interest in an inactive publicly traded company. This option usually involves the desire to raise additional capital. It often requires family-owned business to become publicly owned. A major consideration for a private company to go public is to provide better exit strategies. By doing so, the company will gain several benefits especially when family members decide to exit the existing business. These benefits could be: (1) more access to capital via stock and debt offerings or banks; or (2) potential for expansion via acquisitions (Brenner & Schroff 2004). Further, as a firm size and growth increases, exit options for the growth-oriented entrepreneur also increase (DeTienne 2010), considering the growing firms would be likely to be attractive targets for other business entities, particularly for venture capitalists and strategic buyers. According to DeTienne (2010), one of the most rapidly growing exit options is an acquisition by a managed pool of funds that comprises of qualified investors. In addition, firms may grow organically or via acquisitions. If done correctly, acquiring other firms might assist business owners to achieve growth goals more rapidly (Prisciotta & Weber 2005).

2.3.2.4 Business Recapitalisation

Business recapitalisation emerges as an exit option when equity capital is injected into the business organisation by a private equity fund, allowing the owner to convert their equity into cash for personal pursuits. Prisciotta and Webber (2005) argue this option as a private replacement of debt or equity. This approach can be done for either private or public companies. Private equity owners acquire the majority of equity and the owner retains a minor share but continues to manage the business and work with the equity fund to pursue the growth strategy. If the business owner has had difficulty raising capital through traditional banking channels, alternative

financing methods such as private placements or business recapitalisation should be considered (Prisciotta & Weber 2005).

2.3.2.5 Employee Stock Ownership Plan

The employee stock ownership plan (ESOP) is a way in which employees and/or managers purchase the business gradually and finance the venture's future growth (Scarborough & Zimmerer 2006). This option is also known as an employee buyout. The National Centre for Employee Ownership (NCEO) defines an employee buyout as the purchase of a majority interest of at least 50 per cent of a firm in which most or all employees of the firm are able to participate (DeTienne & Cardon 2010). This strategy has become popular among closely held companies as a valuation mechanism (Timmons 2004). An ESOP mechanism is exercised when employees contribute a portion of their earnings over time towards purchasing shares of the company's stock from the founder, until they own the company outright (DeTienne 2010). This type of option is gradually shifting the ownership structure and managerial roles within the firm over time, transitioning the ownership and authority from the founder to the employees (McCollom & Gillette 1993). Hence, allowing the founders to exit progressively, distribute his or her financial reward over a longer period and continuing one's involvement in the firm (DeTienne & Cardon 2010).

2.3.2.6 Management Buyout

Management buyout (MBO) could be considered a harvest strategy (Timmons 2004). It is defined as a way in which a business owner or founder of the firm realises the gain from his or her business by selling to managers or existing partners in the business (Schaper & Volery 2007; Timmons 2004). This option requires high levels of leverage. Hence, the new owner and/or manager must focus on the operating performance to meet debt payments and use assets effectively (Scarborough & Zimmerer 2006). MBO were formally referred to as leveraged buyouts (LBOs); however, the term was no longer seen as favourable because LBO was more associated with a large finance of debt (Prisciotta & Weber 2005). Under professional advice, Prisciotta and Webber (2005) suggest that in order to exercise an

MBO, there are a few considerations that must be taken into account by a business owner. These considerations include: (1) whether or not an internal or external management team are willing to buy the company; (2) whether or not an internal management team are willing to acquire or substantially increase an equity position; and (3) whether or not a minority shareholder(s) desires to buy out a majority (retiring) shareholder. In order to exercise this option as a path of exit, sufficient planning is required to structure the transfer properly so that problems that arise as a result of MBO or transfer of shares (for example, taxation) can be minimised (Prisciotta & Weber 2005).

2.3.2.7 Family Succession

In the entrepreneurship literature, succession is considered a form of business exit that often takes place in family-owned businesses. Succession is one way of transferring ownership by inheriting the venture to other members of the founder's family. DeTienne (2010) argues that this type of exit option can be considered as an exit alternative because it enhances the firm's value by preserving idiosyncratic knowledge retained by the founder's family members (Bjuggren & Sund 2005). However, it is not without risk when a business owner chooses this type of option. For instance, business exit literature has reported that only a few firms or businesses were able to continuously operate to third generations while others could not sustain and successfully pass on the business to the third generation (DeTienne 2010). Further, DeTienne (2010) added:

Family succession may be desirable to undertake because it allows the exiting entrepreneur to capture the financial value and remain engaged in the firm as the family ties remain (p. 5).

2.3.2.8 Initial Public Offering

IPO is the 'holy grail' of harvest strategies (Schaper & Volery 2007). IPO is a financing device whereby a company offers access of ownership to individuals or other entities via the trading of shares that are publicly available. For an entrepreneur, an IPO is considered a culmination of the exit plan and more than just a first public offering (Wang & Sim 2001). Schaper and Volery (2007) suggest that

this type of harvest strategy must be carefully prepared because the effect of this decision is to change the fundamental financial nature of the business. These authors (Schaper & Volery 2007) argue that the advantage between going public and being acquired depends on the argument that IPO provides a higher valuation that in turn provides a better return compared to other options such as a straight sale. Despite a higher return that an IPO provides, this option is risky to exercise (DeTienne 2010). It has been shown in previous studies that an IPO is a desirable option of exit from a traditional risk and reward relationship; however, it also has implications with reference to risk and complexity involved as compared to other exit strategies. Deeds, DeCarolus and Coombs (1998) have noted:

While entrepreneurs may create organisations for reasons other than economic gain, such as personal challenge or lifestyle choices, from an economic perspective, the goal of entrepreneurship remains the creation of wealth through innovative activity (p. 56).

However, not all wealth created by business owners can be retained by these individuals (Certo et al. 2001). Thus, when firm size increases, the exit option could differ for particular types of business owners; especially those who are growth oriented (DeTienne 2010). Potentially growing firms are attractive targets for public offerings. According to DeTienne (2010), despite the similarities it has with other exit options such as acquisition, an IPO is sometimes viewed as a way to generate funds. Hence, business owners are often retained in some capacity and are required to dilute their equity over a longer period (Daily et al. 2003). Although an IPO is available to be chosen as an exit option, not all business owners are able to exercise it because not all of them have the capacity to successfully operate their business, which in turn attracts public interest to takeover the business.

While there are several exit options that can be exercised by business owners, not all of the options available are suitable to be chosen especially in the context of small- and medium-sized businesses. Thus, the exit options available for business owners may be different due to the characteristic differences of the business such as ownership structure or size of the business. Business exit is not solely about selling

the business or undertaking a particular option, but it also involves other aspects (for example, family situation, individual traits, personal issues) that can influence a business owner's decision. Further, the business exit phenomenon is complex because it involves broad areas of study (for example, strategic management, psychology and sociology). In order to obtain a broader picture of the business exits concepts, it is important to review the current literature on business exits and how it involves multidisciplinary approaches. Hence, the next section will review the current literature on business exits as well as the relevance of multidisciplinary approaches to the study of business exits.

2.3.3 Business Exits in the Current Literature

For more than two decades, the concept of business exits has emerged in the entrepreneurship domain and has been extended by scholars through empirical, case studies and conceptual papers. However, until the present time, this concept remains an area of study that receives relatively minor attention (DeTienne & Cardon 2010). Attention towards the concept of business exits in the literature on entrepreneurship is very sparse. Despite the notion that all entrepreneurs will eventually exit their firm, there is very limited research explaining this phenomenon (DeTienne & Cardon 2010). As an important part of the entrepreneurial process, business exits must be clearly understood by business owners, particularly because exiting the business will be an ultimate sequence that every business individual will experience.⁵ Further, it is imperative to understand this concept not only because all business owners will exit their business, but also, as an avenue to understand the magnitude and different implications that this entrepreneurial phenomenon has from different lenses.

In the entrepreneurship discipline, business exit topics have been discussed in the literature, which are often presented under the context of professional advice and based on the author's professional experience (McKaskill 2010; Schaper & Volery 2007; Timmons 2004). These authors view business exits as a means of harvesting.

⁵ The term '*entrepreneurial process*' has been used to describe numerous sequential processes in entrepreneurship that vary from the start-up phase to harvesting the business (DeTienne 2010; Petty 1997)

Further, relevant topics on business exits have focused on exit options such as mergers and acquisitions (Brenner & Schroff 2004) and MBOs (Prisciotta & Weber 2005). Nevertheless, these studies generally lack empirical support. While various perspectives cover business exits in the context of professional advice, researchers have also conducted empirical studies on business exits.

Empirical-supported studies on business exits focus on exit timing (Ronstadt 1986) and exit intention (DeTienne & Cardon 2010; Leroy et al. 2007; 2010). Moreover, several studies have explored the exit option via succession in family business (Butler et al. 2001; Le Breton-Miller et al. 2004; Rubenson & Gupta 1996). In addition, different approaches have been undertaken to cover themes of business exits that utilise inter-organisational perspectives such as organisational sociology (Carroll 1984) and strategic management (Gimeno, Folta, Cooper & Wong 1997). Although diverse concepts have emerged in the domain of entrepreneurship, the business exits concept appears to be a distinctive focus of study that gains relatively minor attention. Thus, there has been a high level of reliance on underdeveloped methods rather than systematic analysis and theoretical rigor (DeTienne & Cardon 2010). For instance, literature of business exits are generally more focused on microeconomic issues that correspond to firm exit rates such as market threshold (Carree & Dejardin 2007) and industry growth (Johansson 2005). In a critical response to the approaches undertaken in the study of business exits, DeTienne and Cardon (2010) argue that these approaches solely emphasise performance as a firm's primary objective. Further, these authors (DeTienne & Cardon 2010) contend that the current exit literature has primarily utilised a single exit strategy that focuses on certain aspects of family succession (Bennedsen, Nielsen, Perez-Gonzales & Wolfenson 2007) or IPO, rather than considering multiple and diverse exit strategies (DeTienne 2010).

Based on their review as illustrated in table 2.1, DeTienne and Cardon (2010) argued that business exits should focus upon the use of business owners' exit strategies that maximises the value of their venture as well as different exit routes that are available

(Birley & Westhead 1993; Holmberg 1991; Petty 1997). Further, issues addressing business exits extend to much more specific exit routes or options such as succession (Rubenson & Gupta 1996; Wasserman 2003). However, most of these studies mainly explore business exit strategies by focusing on large organisations rather than smaller ones (DeTienne 2010). Further, DeTienne and Cardon (2010) contend that there are gaps in the literature because the emphasis of the current research is narrowly focused upon a single exit strategy and the impact between business exits and the firm's economic indicators (for example, stock price, sales, profit). Thus, the business exit literature remains uncertain because the phenomenon is only partially been investigated.

An example of the application of a singular focus is the family business literature on succession (Butler et al. 2001), which was primarily concerned with the selection and development of a successor. The singular approach is mainly undertaken because there is an indication that most business owners are expected to transfer their firm to a key employee or family members; however, there was a small percentage of business owners who implemented succession planning and it is insignificant as compared to those that had not (DeTienne & Cardon 2010). Thus, DeTienne and Cardon (2010) argue that the singular focus and levels of analysis undertaken have made the findings of previous business exit studies difficult to extrapolate. Nevertheless, as reviewed by DeTienne (2010),⁶ previous empirical research on business exits have utilised multiple factors that could help to explain business exits based on personal factors (for example, human capital and family situation) (DeTienne & Cardon 2006; Justo & DeTienne 2008); intentions to exit (DeTienne & Cardon 2010); firm resource characteristics and human capital (van Teefelen & Uhlaner 2013); and, failure avoidance (Wennberg et al. 2010) to the outcomes of business exits (Leroy et al. 2007; 2010). Further, these studies have expanded the focus to explain business exits from a wider point of view rather than merely focusing on succession issues (Butler et al. 2001; Wasserman 2003). Since business

⁶ The researcher has adopted DeTienne's (2010) review of business exits studies and has made some adjustments in the summary developed specifically for this study

exit studies are very limited, academics must expand this topic because it is important to highlight and understand the bigger picture of the entrepreneurial process. In a previous conceptual paper, DeTienne (2010) noted that *'our understanding of entrepreneurial process is incomplete without the inclusion of entrepreneurial exit'* (p. 203). Thus, business exit is a critical component for providing the complete picture of entrepreneurship activities because it captures the extent to which entrepreneurial activities starts to emerge until it ends (exiting).

Based on what has been discussed in the last two decades, the business exit literature at the present time does not only engage in issues that merely focus on harvesting value of the business or a singular focus that emphasises on a single exit option, but rather, shifting the emphasis on person-related and behavioural issues that could predict the outcome of an exit (see table 2.1). In their article, DeTienne and Cardon (2010) have argued that by exploring business exit concepts in a way that includes a much wider perspective, developed methods and multiple approaches of analysis that contributes to a richer and more complete story of business exits (DeTienne & Cardon 2010), a deeper understanding of entrepreneurship activities which are complex in nature could be determined. Moreover, because the concept of business exits involves a critical source of information on how entrepreneurial process occurs, it should always be revisited and be enhanced in order to gain newness of information and approach undertaken to address questions that still remains unanswered in the current literature.

Table 2.1 Review of business exit studies

Author	Sample/Data	Outcomes	Results
Ronstadt (1986)	Survey, 95 ex-entrepreneurs and 208 current entrepreneurs from Babson College alumni	Understanding the entrepreneurial process from different perspectives and explored why individuals exited and worked for someone else.	Earlier starts are better than late starts. Anticipated starts are better than unanticipated starts under certain conditions. Late starts that are unanticipated are particularly precarious.
Birley and Westhead (1993)	A list of 10,348 privately advertised sales, 2,030 MBOs, 748 mergers listed on		Privately advertised sales was the most frequently undertaken; however, the market was served poorly by professionals advisors

	the stock exchange and 689 public listings		
Petty (1997)	Conceptual	The opportunity to exit successfully from a venture is thought to be a significant factor in the entrepreneurial process	Harvesting firm value; the availability and effectiveness of the exit ultimately determines the value to be realised from the venture
Rubenson and Gupta (1996)	Conceptual	Understand and conceptualise the interplay between evolving organisation and unique characteristics of the founder	Initial succession is appropriate at different times in different organisations
Wasserman (2003)	202 Internet companies listed on the Venture One Database	Understand the factors that affects Founder-CEO succession in Internet start-up using survey and grounded theory building	Strong evidence of a linkage between Founder-CEO Succession and the completion of both product development and each round of financing
Prisciotta and Webber (2005)	Conceptual	The role of financial adviser is to assist business owners in defining options and finding experts to implement exit strategies based on their own terms and appropriate time	Details concerns of small to middle-market business owners including raising capital to support the growth of the business and deriving liquidity from the significant amount of wealth tied up in the business
DeTienne and Cardon (2007)	113 firm founders in two US industry sectors	Utilises the TPB to explore how the founders' human capital affects the intention to exit	Individuals who considered an exit strategy differ from those who had not. Human capital variables influences chosen exit routes in different degrees
Leroy et al. (2007)	Survey of 172 micro firms in Belgium as identified by the Belfirst Database	Explore exit outcomes based upon intention, entrepreneur, characteristics, business and industry variables	Human capital and intangible assets impacted on the intentions to exit. Company viability and intangible assets impacted on the realisation of an exit
Leroy et al. (2010)	198 respondents of Belgian entrepreneurs based on Belfirst Database	Explore exit outcomes utilising TPB to examine whether intention has an impact on transfer outcomes	The intention to transfer a business is mainly shaped by personal desirability and the perceived control
Justo and DeTienne (2007)	340 Spanish entrepreneurs—collected during the GEM 2006 and 2007 data collections	Explores the impact that family situation (gender, number of children, marital status and responsibility for aging parents) has on business exit	Females are more likely to exit voluntarily than males. While married individuals for both genders are more likely to voluntarily exit, the impact is stronger for married female entrepreneurs
DeTienne (2010)	Conceptual	Explores the development of exit strategies in each stage in the entrepreneurial	The understanding of entrepreneurial process is incomplete without

		process	demonstrating the importance of entrepreneurial exit
DeTienne and Cardon (2010)	Survey of 189 firm founders and executives	Utilised Gimeno et al's (1997) threshold theory to determine different intended exit paths chosen	Entrepreneurs intend to pursue different exit paths based on their human capital variables
Wennberg et al. (2010)	Utilised longitudinal database maintained by Statistics Sweden, with 1,735 sampled firms	Understanding entrepreneurial exit jointly as a career choice and a liquidation of an investment. Empirically test factors that affect chosen exit routes.	Entrepreneurs exit from both performing well and financial distress. Human capital factors and failure-avoidance strategies differ across four exit routes
Balcaen et al. (2011)	Utilised a sampling frame of 6,118 distress-related firms in Belgium	Analysing three types of exit to demonstrate that bankruptcy and voluntary liquidation are fundamentally different exit routes	Distressed firms follow a two-stage process. Compared to bankruptcy, out-of-court exit is more efficient for shareholders. Firms with a strong group relationship have a higher probability of exiting voluntarily when distressed.
van Teefelen et al. (2011)	Surveyed 112 Dutch small firm owners who exited between 2005 and 2006	The importance of specific human capital, succession planning and familiarity in exit situations.	Specific human capital predicts transfer performance better than generic human capital. Succession planning is strongly related to the subjective transfer performance indicator satisfaction. Familiarity between buyer and seller is a key predictor of transfer performance rather than kinship or family ties.
van Teefelen and Uhlaner	Surveyed 158 small firm owners in Netherland	The importance of firm resource characteristics and human capital in predicting exit choices among small firm owners	Certain firm resource and human capital variables affect an owner's decision to undertake a specific exit choice.

Source: Adapted from DeTienne (2010)

2.3.4 Management Succession as a Focus in Family Business and Business Exits Literature

In the field of entrepreneurship, management succession has been focused on by researchers investigating areas of family-owned businesses besides ownership (Dyer & Handler 1994). Based on their review of several conceptual papers, Dyer and Handler (1994) found that business owners often face difficulties in contemplating the transference of ownership and management to the next generation due to

psychosocial factors (Dyer & Handler 1994). Moreover, these authors (Dyer & Handler 1994) argued that much of the research in the entrepreneurship literature has focused on business start-up and has neglected the important issues that exist in the lifecycle of a venture, particularly when a business owner faces retirement. It is important that academics address the issue of business exits in the context of family business by adding succession as a common form of ownership transfer. Despite the fact that succession can be a critical issue for business owners, there is still limited systemic research to illuminate the dynamics of the succession process and the owners' role in succession. Other authors (Scarborough & Zimmerer 2006) provided stages of successful succession, which they regarded as a key determinant when owners exit their business and pass the torch of leadership to their successors, as well as attributes that must be fulfilled by successors. Thus, it is important to note that succession is a unique process that involves the decision-making and psychological factors of business owners, and it needs to be managed and planned. The relevance of management succession to business exit literature lies in the definition that succession is one of the options available to transfer/exit a business, especially in businesses that are owned and managed by families of the business founder. Furthermore, management succession as a concept intersects between the business exit and the family business literature. Therefore, it should not be eliminated from the business exit literature, although it may only be applicable in family-owned businesses.

Academics have explored the theme of business exit via succession in family businesses (Santiago 2000; Butler et al. 2001; Miller, Steier & Le Breton-Miller 2003; Rubenson & Gupta 1996). In a study, Santiago (2000) takes succession into an East Asian context, suggesting that issues of succession faced by family businesses are similar between Western and Eastern culture; however, the manner of approach taken towards the issue may differ between cultural contexts. Further, Butler et al. (2001) surveyed 294 business owners and asked about the likelihood of various succession options, strategy, performance and issues related to their family. The results of their study indicated that family members have contributed positively to

firms' performance, and business owners/founders were more likely to undertake succession as an exit outcome. In addition, research on succession had also been conducted focusing on soft factors that have an impact on intergenerational succession, change and failure (Miller et al. 2003) and personal characteristics of incumbents that might influence the process of business exit (Le Breton-Miller et al. 2004). Based on these studies, issues that arise in succession are usually similar for family businesses. Understanding succession as an element of a critical stage in a family business is important for business owners. Business owners must realise that the eventual success of their business will lead them into a decision concerning the continuity of their business (Frederick & Kuratko 2006).

To summarize, expanding the knowledge of management succession is critical since it is one of an exit option for business owners in transferring their ownership. Exiting via succession however, may only be applied especially when businesses are family-owned and when business owners'/founders inherits the business to their successors that may be triggered by personal factors (Le Breton-Miller et al. 2004) or firm-related factors (Miller et al. 2003). Furthermore, the management succession phenomenon especially in family-owned businesses is relatively similar whether it is being applied either in the Eastern or Western cultures (Santiago 2000).

Although it is imperative to see the intersection between the literature of family business and business exits, nevertheless, it is also important that other aspect in entrepreneurship studies such as SMEs is reviewed because as an integral part in the entrepreneurship context, SMEs are outcomes of entrepreneurial activities. Moreover, an overview of entrepreneurship in Indonesia is highlighted to provide deeper understanding of entrepreneurship activities across cultural context. Thus, the next section will review the literature on SMEs and overview of entrepreneurship activities in Indonesia, as the locus of the present study

2.4 SMEs: The Important Role

SMEs play a crucial role in enhancing economic growth in many countries. Thus, they are one of the main sources of jobs and significantly contribute to innovations and high-technology employment (OECD 2004). Scholars have argued that the role of SMEs can be regarded as important in enhancing national economic growth and as a major source of employment (Frederick & Kuratko 2006; Hill 2001; Schaper & Volery 2007). Further, Schaper and Volery (2007) highlighted some facts on SMEs' role in countries such as Australia, New Zealand, Hong Kong, Singapore and Malaysia, where the economic output is dominated by SMEs. SMEs clearly play a crucial role in the development of an economy; however, it is important to note some of the reasons supporting this argument.

Berry, Rodriguez and Sandy (2001) argued that SMEs are important, especially in developing countries, for several reasons: growth potential to a larger productive unit, ability to invest and adoption of new technologies as part of the SMEs' dynamics and flexible adaptability to certain economic changes compared to larger enterprises. Similar to Berry et al. (2001), the International Finance Corporation (IFC) (2004) reports that SMEs can function as the engine of growth from three different lenses: (1) enhancing entrepreneurship and competition, which affects economic efficiency, innovation and productivity growth; (2) in general, SMEs are productive and flexible in adapting to macro-environment change; and (3) they are relatively labour-intensive due to their dependency to manpower, which enhances employment opportunity by nature. Hence, the World Bank believes that SMEs can significantly improve economic growth and development in many countries (Tambunan 2007b). In developing countries such as Indonesia, SMEs are recognised as large providers of employment opportunities and as an important driver for the development and growth of exports, particularly in manufacturing industries. In the Asia Pacific region, Indonesian SMEs are considered one of the largest sections of the economy in terms of total numbers (Tambunan 2007b). The Asia Pacific Economic Cooperation (APEC) (2003) reported that 50 per cent of total non-farm SMEs in the region operates in Indonesia and China.

Apart from the importance and benefits of SMEs to the economy, these enterprises are exposed to a particular environmental issue (for example, financial crisis) that may jeopardise their existence (Marino et al. 2008). It is important to respond to such issues, as SMEs are the main drivers of the economy, especially as a form of wealth creation in developing countries. Therefore, institutional acknowledgement and support is needed to assist SMEs to cope with macro-environmental challenges. Major institutions such as the OECD have indicated awareness in dealing with these situations. Recently, the OECD proposed recommendations that address issues related to the post-financial crisis. In one of its recommendations for further work, the OECD (2010) stated that:

In view of expected post-crisis changes in the real economy and the financial landscape, the OECD should accelerate efforts to analyse and assess policies relevant to the financing of SMEs and entrepreneurs and to promote the sharing of best practices. The need to pursue this activity, which was recognised in 'the OECD Brasilia Action Statement for SME and Entrepreneurship Financing' has taken on new urgency in view of the difficulties of SME finance that emerged during the recent crisis and the expected challenges of the post-crisis environment (p. 7).

Therefore, it is believed that at the present time, issues and challenges faced by SMEs have gained major attention, given the significant and important role they play in many countries.

2.5 Definitions and Characteristics of SMEs

2.5.1 Definitions of SMEs

The definition of SMEs and small business are often employed in the literature of entrepreneurship. However because the definitions vary across countries there is no agreed consensus as to which definition should be used. As noted by Rodriguez (2004), '*comparable definitions of SMEs are seldom available, even though they are necessary to clearly describe the target of any SME policy*' (p. 67). In Australia, the term '*small business*' is often used. The Australian Bureau of Statistics (ABS)

defines it as a business employing less than 20 people, while micro businesses are those employing less than 5 (including non-employing businesses) and medium-sized businesses employ 20 or more people but less than 200 (ABS 2001). The terms 'SME' and 'small business' are sometimes used interchangeably by academic researchers because medium-sized enterprises share the same characteristics as their smaller counterparts (Schaper & Volery 2007)⁷. Based on these arguments, terminology of SMEs and small business can both be used, depending on quantitative measures such as number of employees, value of assets or annual sales.

In Indonesia, several definitions of SMEs are used by two relevant agencies that are responsible for the development of SMEs: the Ministry of Cooperatives and Small and Medium Enterprise (Kementerian KUKM/MCSME) and the Central Statistical Agency (BPS). Tambunan (2007b) reported that according to the Law on Micro, Small and Medium Enterprises, which was promulgated by Indonesian MCSME,⁸ the definition of small enterprise is a business unit with total initial assets of up to Rp 500 million (approximately AU\$56,000 at the current exchange rate⁹), excluding land and buildings, or with an annual sales value of a maximum Rp 1 billion (AU\$105,000), and a medium enterprise as a business unit with an annual sales value of more than Rp 1 billion but less than Rp 50 billion. Although the law does not explicitly define micro enterprises, but nevertheless, the Indonesian MCSME data on small enterprises have included micro enterprises in the definition with regard to annual sales value of the business (Tambunan 2007a). While this definition emphasises annual sales of the business, other agencies, such as BPS, emphasise the size of the business' establishment by number of full time employees to define SME. According to BPS—which regularly conducts surveys on SMEs— micro, small and medium enterprises are business units that comprises of 1–4, 5–19 and 20–99 workers, respectively (Tambunan 2007b). As the formal definition of SMEs carried

⁷ In the context of this study, the term small businesses and SMEs are both used interchangeably due to limitations of supporting data (based on SMECDA database), which lacked information regarding to the size or asset of each firms. The database available only indicated the name of the owners, the products and address of the firm.

⁸ Undang-undang (Law) No. 20/ 2008 regulates Micro, Small and Medium Enterprises in Indonesia

⁹ The current exchange rate of Australian Dollars (AUD), 1 AUD = Rp 9,500

out by relevant agencies varies in each country, there is no consensus on which term is best to be used. Moreover, numerous definitions as well as the classification across institutions and countries is an important constraint in analysing SMEs' development (Mourougane 2012). Nevertheless, as previously highlighted in several studies, the definition of SME might be based on the size, asset value or annual sales of the business.

Further, not only is it important to understand the definition of SME, it is also noteworthy to understand certain characteristics that distinguish them from other types of business.

2.5.2 Characteristics of SMEs

An SME does not only differ in characteristic to a large enterprise, there are also certain aspects that distinguish micro, small and medium enterprises. Those aspects include market orientation, profile of business owner, source of production and capital, and external linkage (Tambunan 2007b).

Table 2.2 Characteristics of micro, small and medium enterprises (MSMEs) in developing countries

Aspects	Micro Enterprise	Small Enterprise	Medium Enterprise
Legal	Mostly do not have legal aspects	Only few with no legal aspects	Mostly have legal aspects
Organisation & management	Operated by owners, no structural hierarchy	Operated by owners, no structural hierarchy	Operated by professional management, clear structural hierarchy
Nature of employment opportunity	Mostly employs own family members	Only some employ paid workers	All employ paid workers and apply formal recruitment of employees
Nature of production process	Very low degree of production mechanisms, low-tech	Some use new technology (machines)	Mostly have a high degree of mechanisms and access to high-tech production
Market orientation	Locally marketed for low-income consumers	Domestically marketed and exports for mid- to high-income consumers	Domestically marketed and exports for mid- to high-income consumers
Profile of business	Poorly educated,	Well educated,	Well educated,

owners	motivation to survive	profit/business orientation	motivated to gain wealth
Source of production and capital	Mostly use local materials, mainly own financing	Some use imported materials and have access to financing institutions	Many use imported materials and have access to financing institutions
External linkage	Mostly have limited access to government programs and no relations to larger enterprise	Access to government programs and have relations with larger enterprises (including foreign enterprise)	Access to government programs and have relations with larger enterprise (including foreign enterprise)

Source: Adapted from Tambunan (2007b)

The characteristics listed in table 2.2 mainly relate to SMEs that operate in Indonesia, which is considered an emerging country and classified in the manufacturing-based businesses. In a recent survey, Mourougane (2012) indicated that few specific characteristics of SMEs in Indonesia are that mostly these enterprises operate in informal sectors. The percentage of SMEs that are operated with formal registration is lower than their larger counterpart, and even, lower than for such firms that operates in Cambodia and Vietnam. Furthermore, the number of years spent in the informal sector is lower in Indonesia than in regional peers (Mourougane 2012). This fact is an indication that to become formal and legal, SMEs in Indonesia have lower incentives compared to other countries in the Southeast Asian region such as Cambodia and Vietnam. In terms of ownership, similar to most of the emerging economies in the Southeast Asian region, most SMEs in Indonesia are privately and domestically owned and have the status of sole proprietorships (Mourougane 2012). While most of these characteristics applies for enterprises in emerging economies, Schaper and Volery (2007) provided characteristics of small enterprises that may represent developed economies (for instance, Australia) which they (Schaper & Volery 2007) regard having several aspects that is depicted in table 2.3, as follows:

Table 2.3 Characteristics of SMEs in developed countries

Aspects	Small Enterprise
Ownership	Owned by one or two individuals, responsible for all business activities including ceasing activities; mainly family-based business

Finance	Capital is provided by the owner, limited access to external capital/investors
Market Share	Very limited due to lack of production/service capacity and resources
Business Life Span	Often has a relatively high business closure rate
Nature of operation	Often are run from home on a part-time basis, mainly a home-based business, multi-branch operation is often restricted, operates in private sector
Financial Performance	Low level of net profit resulting in insufficient earning for owners

Source: Adapted from Schaper and Volery (2007)

Based on both characteristics, either SME in emerging or developed economies may share some similarities with regards to the type of ownership and market share/orientation; however, since the size of the economy varies according to each country, certain characteristics and aspects of each business may also have some differences depending on each country's condition and SMEs dynamics. In the next section, an overview of entrepreneurship activities within the context of Indonesia will be discussed to provide awareness on the conditions of entrepreneurial activities.

2.6 An Overview of Entrepreneurship Activities: The Indonesian Context

As one of the largest economies in Southeast Asia, Indonesia has played an important role in the economic development of the region. As a country with the largest population in Southeast Asia and the largest archipelago in the world, Indonesia has been considered a '*potential*' country, not only due to its richness in natural resources but also its potential market for foreign enterprise due to the large size of its population. Further, because of the economic development that has for so long been experienced by Indonesia, the country was also known as one of the promising economies among other developing countries in Asia. However, the Asian economic crisis contributed to the country's economic downturn during 1998. In the aftermath of this crisis, the Indonesian government has undertaken significant transformation, and despite the problems remaining, the government has assisted the economy to survive the global financial crisis very well (Tambunan 2010).

SMEs play a critical role in the development of an economy, especially for developing countries such as Indonesia. The Indonesian Government has been very aware of the importance of the development of SMEs, especially in the period following the global economic crisis. Similar to other countries, SMEs are the main drivers of the Indonesian economy due to the contribution they have provided in enhancing the growth of the country. Furthermore, it has been reported in the Global Entrepreneurship Monitor (GEM) 2006 that Indonesia is considered as one of the middle income countries that has 15 percent growth in terms of the early-stage entrepreneurial activities (Bosma & Harding 2007). In general, Indonesian SMEs are widely dispersed and located in rural areas on the archipelago. Thus, they have the potential to exert favourable influence on rural and regional development and economic distribution (Thee 2006). In addition, Indonesian SMEs, especially those that are dynamic and modern, are able to provide a good training ground for developing managerial and organisational skills of SME owners; the technical skills for the workers; and also, they can contribute to manufacture export commodities. Another important aspect of Indonesian SMEs is the nature of ownership, which involves families. In the context of Indonesia, much of the SMEs operating combine the functions of the family and the institutional organisation of the firm into one structure (van Diermen 2007). Also, evidence shows that SMEs have significantly contributed to the country's economy with regard to their activity in creating job opportunities.

Based on the data from the Indonesian MCSME, there are approximately 49 million SMEs in Indonesia, which absorb 96.2 per cent of employment from the total workforce in the country (Tambunan 2009b). Further, these large numbers of SMEs are scattered widely from major cities to rural areas, employing a wide range of the workforce from various ages and educational backgrounds, suggesting that their role in running the country's economy is significant. The majority of SMEs that are scattered across rural areas are mainly self-employed; these are generally traditional enterprises with low levels of productivity and quality, serving small and localised markets (Tambunan 2007b).

There have been increasing levels of attention on the development of SMEs in developing countries, particularly Indonesia. Several scholars have conducted studies that emphasised SME development and policy (Hill 2001; Tambunan 2005, 2007b, 2009a), SME dynamics (Berry et al. 2001; Marino et al. 2008) and entrepreneurial intention (Kristiansen & Indarti 2004). These authors have contributed to exploring entrepreneurship activities in Indonesia from various perspectives. The next section will highlight studies that are relevant to Indonesian SMEs.

2.6.1 SMEs in Indonesia and Government Support

The role of government in providing assistance as well as policy support is undeniably important to the existence and establishment of SMEs in Indonesia. This is due to large amounts of wealth that has been contributed by SMEs to the country's economy and also, their persistency in coping to environmental challenges. Furthermore, the government realises the importance to support the livelihood of SMEs in Indonesia due to their growth potential in the entrepreneurial activities (GEM 2006), which will benefit the overall economic performance. As reported by Thee (2006), since the economic downturn in Indonesia, SMEs have received renewed attention, as many of these SMEs have proven their resilience in adapting to the crisis compared to their larger counterparts. Although many less viable SMEs experienced great difficulties and ceased their business, many SMEs also experienced survival during the crisis and were able to shift to export markets.

In a previous study, Tambunan (2005) highlighted some important facts on the development of SMEs and government attempts to run programs in assisting those enterprises. Numerous programs have been initiated by the government to support the development of SMEs: subsidised credit; human resource development and training to enhance production; management; marketing and promotion facilitation; partnership programs; and establishment of incubators for the development of new entrepreneurs. The Ministry of Industry and Trade (MIT) and the MCSME administer these types of programs, as these are the government departments

responsible for the development of SME policies. Despite the significance of government support in empowering the SME sector, the distribution of the support is dispersed between regions (Turner 2003).

Following a study on SME development in Indonesia, Tambunan (2005) highlighted some aspects that characterises the SME development and issues associated. Firstly, geographical conditions of the islands in Indonesia, which are located in the eastern part of the country, mean they are relatively isolated. Local governments are not always able to organise training programs, especially those in rural areas. Secondly, not all business owners are enthusiastic or willing to participate in attending formal training, such as management, marketing and entrepreneurship areas, because they perceive it as having no direct benefit to their businesses; they prefer to be supported by subsidised credit, access to cheap raw materials and marketing assistance. Lastly, poor infrastructure conditions often make it difficult, too expensive and time consuming for business owners in isolated areas to engage in training activities. Development disparities among regions are believed to contribute to the lack of human capital among small business owners in Indonesia, especially those who reside in rural areas.

While to some extent it is believed that government support is indeed needed to enhance the growth of SMEs, there is still a contradictory view in relation to this issue. Hill (2001) examined the role of government policies in nurturing SMEs in Indonesia and suggested that *'the key of promoting an efficient and dynamic SME sector is to create an environment in which these firms may prosper without long-term dependence on government support'* (p. 266). The intervention of government in the development of SMEs is believed crucial in empowering the existence of SMEs in Indonesia. However, a question that must be taken into account from such involvement is how effectively does the assistance provided by the government contribute to the development and livelihood of SMEs in Indonesia? To address this question, studies have been undertaken to evaluate the effectiveness of government assistance in the development of SMEs. In general, financial aids from the

government via capital support and start-up programs have been mainly for the benefit of small business owners in Indonesia. Hill (2001) referred to a previous study (Patten & Rosengard, 1991) and reported that financial innovation in Indonesia, initiated by the Indonesian government by giving capital access and flexibility, has benefited Indonesian SMEs by enhancing their growth. However, other benefits such as human capital development as a result of training and technical assistance were unknown (Tambunan 2005). Further, there is a lack of information regarding the effectiveness of the government's role in assisting those SMEs (Berry et al. 2001). For instance, Sato's (2000) findings in several clusters in the metalworking and machinery industry revealed that successful development of SMEs has been achieved without significant government support. This suggests that the effectiveness of government assistance and intervention in nurturing SMEs remains unclear. The Indonesian Government via MCSME has implemented several programs; one of which is the enhancement of business owners' human capital assistance (for example, training assistance). Nevertheless, this type of training has not always been effective. Despite the amount of training delivered to business owners, the success of such programs has not been proven. One main reason is that the training often did not match a particular skill needed by business owners. It has been highlighted by Sandee (1994) that:

In practice, direct assistance frequently concerns brief training sessions of one or two days for a selected group of producers. Such sessions are characterized by a great deal of theory and little attention paid to how to improve the actual running of the business of particular activities (p. 152).

Therefore, formal education programs must be tailored to meet the needs of small business owners (Mazzarol, Reboud & Soutar 2009). Based on that argument, it seems that relevant agencies (for example, Government) still need to provide particular focus and alternative strategies to empower Indonesian SMEs and ensure that the effectiveness and benefits of their support can improve the performance and livelihood of those SMEs. In addition, Hill (2001) concluded:

SMEs will continue to receive policy emphasis in Indonesia. The policy challenge is to ensure that government interventions focus on genuine market failure, which is, identifying areas where the government can

overcome market failures and thereby ensure that a more efficient SME sector can emerge, to facilitate the employment creation objectives and to provide a broad-based industrial sector (p. 268).

Hence, concern is narrowed to the role of the government in developing small enterprises having established to the nation's importance in the global economy (van Diermen 1997).

Despite the improvement undertaken by the Indonesian government to foster SME's growth, a business start-up is still a more burdensome issue to deal with as compared to other members of Asia-Pacific Economic Cooperation (APEC) (Mourougane 2012). To date, licensing issue have been one of the main obstacle on the establishment of new venture as small-sized businesses are obliged to an operating license—legal requirement—as well as minimum capital requirement being imposed when starting a limited liability company which operates in the formal sector (Mourougane 2012). The legal requirement is needed not only as a basis of operating activities but also as a legal requirement to establish a financial access to major financing institutions. Despite the legal requirement that is obtained by a newly established firm, access to financing is another critical issue that must be solved by SMEs as it becomes crucial in the wellbeing of these ventures. For small firms, obtaining credit access is a binding constraint that results in stricter bank lending terms and conditions compared to its larger counterparts (Mourougane 2012). This condition is often being caused by the lack of collateral that SMEs experience. Moreover, the characteristics of Indonesian banking system may be a barrier for SMEs to grow and sustain in entrepreneurial activities. While credit access to banks is not easily to acquire, there is a need for Indonesian SMEs to pursue other types financing alternatives beyond the mainstream (for instance, banks). Hence, the availability of venture capital and other means of financing such as leasing and micro-finance can fill the potential market (Mourougane 2012).

In terms of venture capital industry, a recent survey has reported that this industry can finance SMEs with a strong potential for growth, although it does not manage to

obtain financing through traditional channels, as these SMEs have not yet demonstrated favourable performance (Mourougane 2012). There are few important facts that highlight the existence of venture-capital industry in Indonesia. Firstly, the venture-capital industry is still underdeveloped and constitutes of small segment of financial sector. This was confirmed by a recent survey of business angel investing in Southeast Asia (Scheela, Isidro, Jittrapanun, Trang, Gunawan 2012), which suggests that limited number of venture capitalist exist in the market especially in Indonesia that is mainly caused by lack of leadership and institutional support for private investing. Moreover, corruptive behaviour and lack of professionalism on the part of investors, bankers, government officials and business owners contributes to the challenge faced by venture capitalists in the process of deal making and bank financing (Scheela et al 2012). These impediments are evident for SMEs as they are limited of options to gain access to other alternative of financing. Secondly, the government or large national companies own most venture capital companies and only a small portion in the economy are owned by private sectors. Regardless of the privilege that has been provided by the government for venture-capital companies in the form of tax exemption for investments made in some industries, not many have been attracted to engage to this industry. This is mainly due to restriction of foreign ownership; the shallowness of stock markets; and, small number of IPO's that provides an exit opportunity for venture capitalists (Jeng & Wells 2000) that has hampered the potential of such market to develop.

Alternative type of financing such as leasing is therefore, potential to grow as the market demand for such type of financing increases. Leasing as other means of financing can reduce the lack of access to resources that SMEs experience by providing leasing (rental) scheme of operating resources such as machinery or equipment whose ownership is kept in the hand of a financial institution. According to Mourougane (2012), leasing arrangements is suitable for firms that have no credit history or collateral. Nevertheless, leasing via multi-financing companies has played a limited role particularly for Indonesia during the Asian crisis. As a result, multi-financing companies that rely heavily on bank loans for their financing could not

provide competitive rates (World Bank 2006). This is a problematic issue that is faced by Indonesian SMEs, especially when they are less capable in determining adequate solution with regards to credit access. Thus, SMEs reliance on government support is inevitable since non-mainstream financial institution have also face obstacles themselves. This calls for policy improvement that benefits SME development that leads to the enhancement of macro-economic condition in Indonesia in the near future.

While a significant amount of research has been conducted by academics with regard to Indonesian SMEs from a macro and policy perspective, studies that involve the behaviour of Indonesian SMEs still needs more attention. Hence, the next section will review the literature on entrepreneurial behaviour in an Indonesian context.

2.6.2 Entrepreneurial Behaviour in the Indonesian Context

Although most of the previous studies of Indonesian SMEs focused on SME dynamics, there have been studies that examined Indonesian SMEs from an entrepreneurial behaviour perspective. For instance, Indarti and Langenberg (2004) undertook a study on factors that affect business success among SME owners in Indonesia. Their study addressed factors that may contribute to business success: business owners' characteristics, SMEs characteristics and contextual variables (for example, marketing, technology, information access and entrepreneurial readiness). Their study found that capital access, marketing and technology were the determinants of business success (Indarti & Langenberg 2004). Further, these authors (Indarti & Langenberg 2004) discovered the difference between business owners, who are supported by family investments and their business owner counterparts who employed the use of other financial sources as means of gaining capital (for example, bank loans). Their findings indicate that those with family supported investment mostly enjoyed a higher level of success compared to their owner counterparts (Indarti & Langenberg 2004). This finding is relevant to support studies that seek to understand the nature of small businesses ownership operating in Indonesia.

Another important characteristic that has been outlined in the Indonesian context is the strategic orientation amongst small business owners. In a previous study, Indarti and van Geenhuizen (2005) explored the innovation patterns among traditional small business owners in Indonesia that might be able to explain their strategic orientation. In general, it was found that there are low levels of innovativeness amongst small business owners in a particular industry such as household manufacturing industries that mainly relies upon the use of traditional methods and resources as means of producing their products (Indarti & van Geenhuizen 2005). The innovation amongst small business owners in Indonesia and other developing countries emphasises more on the 'newness' of products compared to process, organisational and logistics as means of being innovative (van Geenhuizen, Indarti & Soetanto 2010). Further, this empirical evidence was also supported by other research in a similar context. Budiretnowati (2008) indicated that Indonesian SME owners have insufficient knowledge in predicting risks involved in the business that can have a negative implication in the sustainability of a venture. Nevertheless, neither of these studies was related to the context business exits. In the context of business exit, level of innovativeness among business owners might trigger ones contemplation of exiting. This notion was based on the evidence from a previous study which found that the possibility of a strategic exit increases by enhancing innovation and when business owners contemplate the alternative between selling their business or emerging and competing in the market (Cefis & Marsili 2011). Therefore, certain level of innovativeness among business owners is a focal aspect that determines whether or not contemplating an exit would likely to occur, especially when exiting is regarded as a strategic option that allows business owners to extract the maximum value from their venture (Petty 1997).

Utilising a sociological approach another exploratory study was conducted by Turner (2003), who examined the Indonesian small business operators in Makassar,¹⁰ South Sulawesi. In her study, Turner (2003) revealed that there are certain behaviours of entrepreneurs with regard to their different orientation in their businesses. Further,

¹⁰ Makassar is the capital of South Sulawesi province of Indonesia

she utilised a sociological approach in discussing the conditions of small business owners in Makassar based on internal dynamics, inter-firm dynamics, constraints to small enterprise growth and shifting the fortunes of small enterprises. She found that the characteristics of certain ethnicities of small business operators are mainly influenced by embedded values and beliefs and are culturally oriented. It is noteworthy that being successful is the ultimate outcome of entrepreneurial or economic activities; nevertheless, it was not merely the case in Turner's (2003) study. The meaning of success for some Indonesian business owner is a multifaceted concept that includes factors beyond economic growth. The concept of successfulness for certain business owners often includes the ability to provide support for workers, family and members of the community, as well as to undertake philanthropic actions. Turner (2003) added:

Using entrepreneurial resources for these purposes, in effect directly draining profits from the enterprise or limiting growth, was in no way looked upon as a negative factor (p. 121).

Based on that statement, profits may not always be seen as a threshold of success for some business owners; rather social behaviour to nurture others (for example, employees) would appear to benefit them in the future. However, the meaning of success for those business individuals, as has been identified by Turner (2003), may only represent certain numbers of small business owners, especially those who can be regarded as traditional business owners in Indonesia. Other business owners would perceive success as an achievement associated with higher return on investment or other financial measures (Kristiansen, Furuholt & Wahid 2003). In relevance to the context of business exits, profits as a firm-related variable may determine an exit based on the threshold of performance (Gimeno et al. 1997) and business owners' desire in order to harvest the business, extract potential value of its investment (Petty 1997) and some portion of the business' wealth creation (Certo et al 2001). On the contrary, profits may not always regarded as a measure of success but rather as a social capital of business owners to conduct philanthropic actions for its stakeholders (for instance, family, employees, community), and hence, would be difficult to exit to this type of business owner due to psychological implications that

may subsist. These twofold perspectives indicate that business exit is not mainly a liquidity event but may encompass profound psychological implications as well (DeTienne 2010). In addition, different perceptions on economic outcome for businesses—which is mainly measured by profits—can influence whether or not an exit would be likely to be undertaken. Hence, it is important that economic outcomes such as firm performance—as a measure of success—and business exits are highlighted in the present study to understand the linkage between both as well as individual's perceptions to the issue of business exit given that there may be certain uniqueness of the characteristics of Indonesian small business owners that might be different across ethnic groups.

In the Indonesian context of entrepreneurial behaviour, Kristiansen and Indarti (2004) explored the determinants of entrepreneurial intentions among young people. Their study compared the impact of different cultural contexts of a group of Norwegian and Indonesian students on their intention to become a business owner as a career choice. The study revealed that the degree of entrepreneurial intention of the Indonesian students was significantly higher than Norwegian students (Kristiansen & Indarti 2004). Thus, they suggest that intention to become a business owner or self-employed as a career choice can be different between countries. The study was based on a comparison between Indonesia—less developed country— and Norway—developed country—. Kristiansen and Indarti (2004) argue that in a highly developed economy with a low unemployment rate (for example, Norway), much of the entrepreneurial and innovative process takes place within established and large-scale firms. This claim was due to the fact that Norway is one of the countries in Europe that has the lowest level of self-employment among OECD countries (Kristiansen & Indarti 2004; Reynolds et al. 2001). Conversely, in a less developed economy, which is characterised by a high unemployment rate (for example, Indonesia), much of the economic development process is based on individual business starters and small-scale enterprises. Nevertheless, perceived intentions differ between culture and economic conditions, as has been reported by that study (Kristiansen & Indarti 2004).

A study by Tambunan (2007a) explored the role of women small business owners in Indonesia. According to Tambunan (2007a), there is a relatively low representation of Indonesian women in entrepreneurial activities due to number of reasons. First, a low level of education and lack of training opportunities mean Indonesian women business owners are disadvantaged. Second, women are required to undertake dual responsibilities for household and family versus employment (Mazzarol 1999). Third, there may be legal, traditional, customary, cultural or religious constraints on the extent to which women can open their own businesses. Fourth, there is a lack of access to formal credit and financial institutions, which is mostly related to ownership rights; this deprives women of property ownership and the ability to provide collateral. These reasons suggest that the behaviour of women business owners in Indonesia is influenced by factors that are closely related to cultural or religious values that exist within the community. Further, Brenner (1998) highlighted some of the features of women small business owners from a particular ethnic group in Indonesia who are influenced by strong cultural traditions. Utilising an anthropological approach, she explored how women's centrality in the family and household relates to their key roles in managing the family's business and in conducting the social life of the community (Brenner, 1998). Hence, these studies provide the explanation of unique characteristics of women that engages in entrepreneurial activities in a developing country such as Indonesia.

While studies on entrepreneurial behaviour have been undertaken in Indonesia, they cover a very limited number of themes. Those themes mainly include business success, perceptions of becoming self-employed and attributes of women entrepreneurs. Since no research to date has emphasised the theme of business exits as an entrepreneurial process that an entrepreneur will eventually experience, it is important that business exit strategy is examined within an Indonesian context. Thus, the purpose of business exit study in Indonesia is to expand the literature on business exits, which may include the explanation of entrepreneurial behaviour. It is crucial that entrepreneurial behaviour is utilised in the context of this study because it

remains an important engine of innovation and growth for the economy and for individual firms, regardless of the level of development and firm size (Bosma & Harding 2007). Although there is a limited amount of literature that covers the theme of entrepreneurial behaviour in Indonesia, previous studies (Indarti & Langenberg 2004; Kristiansen et al. 2003; Kristiansen & Indarti 2004; Tambunan 2011; Turner 2003, 2005) can be useful and relevant to support the argument and findings to this study.

2.7 Summary

The review of entrepreneurship, business exits and SMEs literature indicates that these areas of study are very complex because each intersects with the others. Entrepreneurship as a discipline has been extended to a broader area of study because of the contribution of other disciplines (for example, management, sociology and psychology) that have emerged in explaining entrepreneurship concepts. Business exits are one of the most important areas of focus in entrepreneurship because they involve a complete process of an entrepreneurial activity and multidisciplinary approaches to explain the phenomenon. Nevertheless, business exits are still understudied (DeTienne 2010). The study of business exits needs more attention because it involves various approaches to understand and explain this phenomenon.

Previous research on business exit literature has concentrated on microeconomic issues that solely perceive that business exits are triggered by firm performance (Carree & Dejardin 2007; DeTienne 2010; Johansson 2005). In addition, the business exit literature is more focused on utilising a single exit strategy, such as family succession (Bennedsen et al. 2007), rather than considering multiple and diverse exit strategies (DeTienne 2010). Nevertheless, academics have realised the urgency to extend the focus of business exit literature to a wider perspective. Several studies have utilised the behavioural approach to uncover the interesting phenomenon of business exits (DeTienne & Cardon 2010; Leroy et al. 2007; 2010). However, these studies mainly focused on exploring business exits based on an actual exit.

The concept of SMEs has also been outlined in this study. SME have been recognised as playing a crucial role in the development of economic growth in many countries and contributes to innovations and employment creation (Frederick & Kuratko 2006; Hill 2001; OECD 2004; Schaper & Volery 2007). The characteristics of SMEs in a developing and a developed country have also been highlighted to provide an understanding that SMEs differ between national contexts. Further, an overview of SMEs' development and entrepreneurial activities in an Indonesian context was provided. The review indicates that there are few studies that consider the behavioural perspective of Indonesian SME owners. Most studies focus on the economic development aspects of Indonesian SMEs. Nevertheless, these studies can be useful for supporting the arguments and findings of the present study. In the next chapter, the research framework used to guide the research is outlined.

CHAPTER 3 RESEARCH FRAMEWORK

3.1 Introduction

In the previous chapter, the literature relating to entrepreneurship concepts, SMEs, an overview of entrepreneurship activities and SMEs in the Indonesian context, and business exits were reviewed. The aim of this research is to undertake an empirical examination of Indonesian SME owners into the factors that drive their exit contemplation and whether these factors influence their intention to exit the business. Since the concept of business exits is a fertile area of study and still receives minor attention among academics in the entrepreneurship discipline, the present study is being undertaken in the Indonesian context to fill in the gaps identified in the literature on entrepreneurship. Therefore, the conceptual framework employed as guidance for the present research will be outlined.

3.2 The Relevance of Human Capital to Business Exit

Human capital is an essential aspect of an organisation. An important component of human capital is the possession of knowledge that is specific in nature and yields competitive advantage (Dimov & Shepherd 2005). In the entrepreneurship literature, numerous studies have established that human capital is crucial in explaining organisation performance and entrepreneurial outcomes (Bates 1990; Dimov & Shepherd 2005; Gimeno et al. 1997). Further, human capital theory has been a fundamental focus in entrepreneurship research, as it provides a relevant theoretical framework for hypothesis development.

It is important to note that the growing body of literature with reference to entrepreneurship has begun to realise that human capital is the foremost essential component that controls an organisation. Researchers believe that the human capital of the entrepreneur is one of the critical elements in the emergence of an enterprise (Honig 2001; Korunka, Frank, Lueger & Mugler 2003). Critical components of human capital may include education, entrepreneurial experience, age and industry

experience (DeTienne & Cardon 2006). A business owner's human capital and demographic traits are closely related to the opportunity costs of small business ownership. According to Bates (2005), business owners' level of advantage can be identified by their level of human capital and demographic traits. For instance, human capital components such as education and skills acquired through prior work experience can be determinants of opportunity costs whether to remain or exit business (Bates 2005). The concept of opportunity costs in exiting according to Bates (2005) applies when the expected utility of alternative employment (for example, future career in entrepreneurship), minus the cost inherent in switching is greater than the expected utility of remaining in the venture. Business owners with a low level of education are assumed to have few attractive alternatives to self-employment, while those with better education have more alternatives in their entrepreneurial careers (Bates 1990; Gimeno et al. 1997). Thus, it has been hypothesised in the literature that business owners with more education have a higher performance threshold due to the presence of opportunity costs and exit options available (DeTienne 2010; Wennberg et al. 2010).

In the context of business exits, business owners with better education and skills are advantaged by a greater access to information in discovering opportunities or potential exit options (Arenius & DeClercq 2005). Further, Arenius and DeClercq (2005) argue that highly educated business owners might have more self-efficacy, which may lead them to be more confident in achieving a higher performance threshold (Gimeno et al. 1997). Since the levels of human capital can influence an owner's opportunity, discovery and self-confidence, it could be possible that it also influences the choice of undertaking a particular entrepreneurial activity such as exiting a business.

Previous research suggests that entrepreneurial intentions can be influenced by human capital factors such as education (Kolvereid & Moen 1997), career anchors (Lee & Wong 2004) and entrepreneurial experience (DeTienne & Cardon 2006; 2010). In addition, human capital theory was utilised to explore the impact of

intention on an exit outcome (DeTienne & Cardon 2010). These authors (DeTienne & Cardon 2010) found that entrepreneurial experience, age, education, area of educational study and industry experience have a strong influence on the exit options available. Adding to that, a recent study has confirmed that specific and generic human capital variables were significant predictors of a transfer performance in small firms (van Teeffelen et al. 2012). Hence, certain levels of entrepreneurs' human capital can influence the likelihood of realising a harvest as their strategic goal in determining the maximum value from their venture.

3.3 The Relevance of EO to Business Exit

EO has become a central focus of the entrepreneurship literature for more than three decades. EO gained significant awareness in the entrepreneurship and strategic management literature, evidenced by significant numbers of studies that have been published in leading journals. Researchers established the notion of EO as a manifestation of the importance of applying strategic orientation to entrepreneurship concepts. However, there are very limited studies that relate business exit studies with EO. The interaction between business exits and EO has been examined in an earlier study (Leroy et al. 2007).

It is imperative that the concept of EO is explored in the context of business exit study because entrepreneurially oriented business owners would be able to be identified by their willingness to execute exit as a strategic objective in their entrepreneurship careers. In a seminal work by Carland et al. (1984), characteristics that differentiate small business owners and entrepreneurs were highlighted. These authors (Carland et al. 1984) suggest that an entrepreneur is '*characterised principally by innovative behaviour and will employ strategic management practices in the business*' (p. 358). Further, following Carland et al.'s (1984) conceptual framework, other scholars (Stewart et al. 2003) found that entrepreneurs differed from small business owners in their need for achievement, risk-taking propensity and preference for innovation. Although previous studies have not explicitly used the term EO, these studies have characterised an entrepreneur as having two attributes:

innovation and risk-taking propensity. Based on an earlier findings by Carland et al. (1984) and Stewart et al. (2003), DeTienne and Cardon (2008) utilised the attributes of EO in the context of business exits. In their study, only one attribute that resonates with EO—the level of innovation—was used to examine the relationship to paths of exit undertaken by entrepreneurs (DeTienne & Cardon 2008).

While it has been discussed in previous studies that EO concepts capture the strategic orientation of an entrepreneurially oriented organisation from their decision-making styles, methods and practices (Lumpkin & Dess 1996), there are only a few studies that relate this concept with the business exit phenomenon. Previous work on business exits by Leroy et al. (2007) utilised EO to characterise the types of entrepreneurs that run organisations. It is believed that firms that are run by an entrepreneurially oriented owner would be able to determine the exit opportunity available (Leroy et al. 2007). Accordingly, Leroy et al. (2007) argue that because an entrepreneurially oriented firm has the ability to respond quickly to environmental changes, it would be expected that these type of firms should be more active in seeking exit routes and emerging opportunities. Further, entrepreneurially oriented firms could attract other firms as a takeover target; the level of innovativeness indicates this. Thus, if a firm is able to exhibit a high level of innovation it would be able to improve its financial performance (Leroy et al. 2007). In addition, Leroy et al. (2007) found that EO has an impact on intentions to transfer a business, although it does not have a direct impact on the realisation of an exit.

The attributes of EO, such as innovation, risk taking and proactiveness, are important determinants of entrepreneurs' strategic orientation. It is important that EO is being focused upon by academics in highlighting business exits because it is a strategic choice that can be undertaken by business owners in order to generate or maximise the value of their venture. Since most of small firm's owners can be strategically myopic by emphasising more on the operational aspects rather than strategic issues concerning their business (Mazzarol 2005), this concept is relevant to the understanding of business owners' strategic behaviour especially when confronted

with a strategic option such as business exit. Further, EO can be utilised to explore whether or not business owners might contemplate a planned behaviour such as a business exit. Since a business exit is a strategic choice, business owners with high levels of EO could be attracted to exit their business by strategically considering risks and benefits of a particular option.

3.4 The Relevance of Firm Performance to Business Exit

Previous studies have identified that firm performance is a crucial component that determines intentions to exit. For instance, Butler et al. (2001) identified historical performance as having an important impact on different exit options that are favoured by business owners. Increased financial incentives as an outcome of a firm's performance could increase an individual's (business owner) desire to plan and prepare an exit (Leroy et al. 2007). Moreover, firms with good performance will be more likely to attract other firms interested in a takeover. One particular reason for this is because firm performance can be regarded as an indicator of a firm's viability. As an example, other business entities might be attracted to businesses that are viable and have the ability to provide the owner with the ultimate performance outcome: profits. Hence, the example provided might be able to explain the importance and linkage between a firm's performance and business exits.

Several studies have attempted to draw the linkage between firm performance and business exit phenomenon. In an earlier study that examines the drivers of exits from an individual's (business owner) perspective, Wennberg et al. (2010) found that business owners could exit from well performing firms or those that experience financial distress. Further, they (Wennberg et al. 2010) argued that there are two main reasons that act as drivers for these types of exits: career choice and liquidation. As a career choice, business owners might consider to exit their business due to changes in lifestyle. Consistent to Wennberg et al's (2010) study, a recent study have found that certain firm resource increases the likelihood of a particular exit choice undertaken. These research have indicated that exits may not always be driven by the

lack of firm performance, but other factors such as a business owner who is facing retirement and thus exercises a business exit as an option (Harada 2007).

The choice of exiting a business is not necessarily rooted in failure or lack of a firm's performance. Departing from a current venture can take place if there is a superior option available for business owners (Bates 2005). Further, Gimeno et al.'s (1997) threshold theory proposes that a business exit is a function of the economic and entrepreneurial threshold of performance. In this perspective, exit is viewed as a voluntary choice: business owners either continue or exit their business based on comparison of actual firm performance with their own thresholds of performance. Further, scholars have indicated that firm performance can also be driven by a business owner's experience in running his or her business and may impact on the voluntary exit paths chosen (DeTienne & Cardon 2010). In contrast, business owners are sometimes left with a lack of options when forced to exit involuntarily, such as liquidation or closure of the business as the only means of exit. Exiting a business involuntarily is often associated with the inability of a firm to exhibit good performance. A study by Everett and Watson (1998) identified factors that contribute to an involuntary business exit. They argue that economic factors such as interest and unemployment rates affected a firm's performance, which can result in business failure. A recent study by Balcaen, Manigart, Buyze and Ooghe (2011) indicated that the probability of voluntary exit increases with higher levels of firm performance (for example, higher levels of cash or lower leverage). Hence, the higher the performance of a firm, the more likely it is that business owners have wider range of options available to avoid an involuntary exit.

Although understanding the relationship between firm performance and business exits is essential, there is very limited evidence that can explain the relationship between them. Previous studies have examined the association between performance and small firms, which were mostly focused upon the success, failure and closures, and survival of the firm (Bates 2005; van Praag 2003) rather than exploring the connections between firm performance with business exit phenomenon. However,

firm performance must not only be associated with those variables but also emphasise the context of business exits. A successful firm may trigger factors that are associated with the strategic thinking of an entrepreneur and impact on the exit outcomes of a particular option (Wennberg et al. 2010). In addition, firms that are performing poorly may lead to business failures or closures, which can also trigger an intention of exiting.

While previous studies have explored the interaction between firm performance and business exits, they mainly focused on the economic perspective (Everett & Watson 1998; Gimeno et al. 1997). Further, only a few studies focused on the behavioural aspects of the entrepreneur. Leroy et al.'s (2007) study was among the few studies in the business exit literature that emphasised the behavioural perspective of the entrepreneur and linking firm performance as business variables with the intention to exit. These authors (Leroy et al. 2007) argue that firm performance is an indicator of the firm's viability, and tangible and intangible assets are regarded as important factors that trigger an entrepreneur's decision to exit.

3.5 The Relevance of Psychological Ownership to Business Exits

In a conceptual paper, Zahra (2007) argued that studies on entrepreneurship have benefited from borrowing theories from other disciplines. Entrepreneurship research is a complex phenomenon and has successfully merged theories from sociology, psychology and economics. As one of the areas of research that focuses on the psychological domain, psychological ownership was introduced into management sciences in studies of the employee–organisation relationship (Pierce, Rubenfeld & Morgan 1991). Psychological ownership is referred to as '*the state in which an individual feels that an object is experienced possessively*' (Pierce et al. 2001). In the early stages of the development of this concept, it was more focused upon the legal ownership investigated by ESOP; however, it soon became obvious that it was the employees' feelings of ownership that explained the change in their attitudes and behaviours (Ikavalko et al. 2008). Since the theory of psychological ownership was originally developed to explain how employee ownership may produce behavioural

and attitudinal outcomes beneficial to organisations and employees, it does not clearly provide information on how psychological ownership affects behaviours of individual business owners. Thus, scholars have attempted to explore the psychological ownership concept in the entrepreneurship literature to explain specific behaviours of individuals with its relation to a particular phenomenon such as business exit.

Psychological ownership has been included in the business exits concept because it is considered an important caveat regarding individual or organisational concerns of the ownership of the venture (DeTienne 2010). Therefore, it is imperative that psychological factors of the business owners are examined to understand behaviours of individuals who operate the venture. Further, entrepreneurship scholars has endeavoured to enrich entrepreneurship studies from a cognitive perspective such as linking the concept of psychological ownership with the business exit literature (DeTienne & Cardon 2006). A previous study utilised psychological ownership as one of the variables that influence the process of a business exit (Leroy et al. 2007).

The degree of a business owner's psychological ownership might influence an individual's emotional ties to the venture as it becomes part of their identity. For business owners who are confronted with the option of whether to exit, it often requires moving beyond the denial stage (Leroy et al. 2007). In particular events such as business exits, business owners do not only remove themselves from primary legal or financial ownership but psychological ownership as well. Further, Pierce et al. (2001) identified that psychological ownership emerges from three factors: control of the organisation; intimate knowledge of the organisation; and self-investment. Thus, DeTienne (2010) noted:

The more that oneself an individual has invested into an organisation the higher degree of ownership that an individual will feel toward the organisation; thus, psychological ownership is a compelling and increasing force for entrepreneurs (p. 208).

It is evident that there is an important relationship between psychological ownership and business exits, and it may be one of the triggers that drive an intention to exit.

Based on a review of the literature, a few gaps have been identified that are associated with the concept of psychological ownership. Firstly, most of psychological ownership studies focus on the determination of behavioural and attitudinal outcomes from an employee perspective (Pierce et al. 2001; van Dyne & Pierce 2004). In response, Ikavalko et al. (2008) explored individual behaviour from a business owner perspective to explain the interaction between personal ownership and components related to the life of the business owners. Secondly, although researchers have made an effort to explore the relationship between psychological ownership of business owner and exits, it is still questionable whether they have adapted appropriate measures to explore the business exit phenomenon. Thus, it is one of the research gaps found pertaining to the present study of business exits. In response, this study attempts to explore determinants of exit contemplation, particularly psychological ownership, from an entrepreneur's point of view (Ikavalko et al. 2008).

3.6 The Relevance of Intentional Theories to Business Exit

Early studies have revealed that intentions are the single best predictor of any planned behaviour, including entrepreneurship (Krueger et al. 2000). Bird (1988) describes intention as '*a state of mind which drives a person's attention towards a specific goal*' (p. 442). Furthermore, psychological and entrepreneurial perspectives have been used in previous studies to determine business owner's intentional behaviour (Kolvereid & Isaksen 2006; Krueger et al. 2000). Nevertheless, not many studies that focus in examining the relationship between intentional behaviour and business exits have been undertaken. Compared to the bulk of what has been written in the entrepreneurship literature, only a small portion discusses business exits which lays the emphasis on exit strategies, intentions and actions taken by business owners prior to the exit or harvest of their business (DeTienne & Cardon 2007; 2010; Leroy et al. 2007). For instance, Leroy et al (2007) focuses on business owners' intentions to exit by utilising variables: EO; PO; human capital; and the TPB concept to explore business exits. In their study, these authors (Leroy et al. 2007) model business exits as a dual-stage process of intentions proceeding actions. Furthermore, these studies

(DeTienne & Cardon 2007; Leroy et al. 2007) focus on business owners' intentional behaviour that precedes exits by utilising variables such as human capital, EO and PO.

The TPB (Ajzen 1991) is one of the most common theory that has been applied in the domain entrepreneurial behaviour, and previous studies have confirmed its usefulness to the study of business exits (Krueger et al. 2000; Leroy et al. 2007; 2010). This concept was developed to model conscious, individual decision-making and behaviour based on careful consideration of information available (van Teefelen & Uhlaner 2013). According to Ajzen (1991), TPB postulates three determinants of intention: attitude towards behaviour, subjective norm and perceived behaviour control. To note, attitude towards behaviour refers to the degree to which an individual evaluates and comprehend to a certain questioned behaviour (Ajzen 1991). The second antecedent of TPB, subjective norm, is typically a social factor that refers to social pressure faced by an individual whether or not to perform a particular behaviour. Perceived behavioural control as the third antecedent of TPB is the perceived ease of difficulty by an individual to perform the behaviour and assumes to reflect past experience as well as anticipated obstacles (Ajzen 1991).

In the context of business exits, TPB resonates with three variables that predict exits: the owner's attitude that is relevant to one's personal desire for a type of exit choice (personal attitude), a social acceptability which correspond to a particular exit choice to a normative reference group (subjective norms) and perceived ease or difficulty that relates to feasibility in choosing a particular exit options (van Teefelen 2013). Thus, the concept of TPB as an intentional behaviour is relevant to business exit because it explains a complete story of business exits antecedents. Moreover, this concept is relevant to the study of business exits because: (1) it is a single best predictor of a planned behaviour; (2) it is able to explain why certain variables can influence entrepreneurship via key attitudes and motivation to act; and (3) it supports the broader use of comprehensive, theory-driven, testable process models in entrepreneurship research (Krueger et al. 2000). Since every business owners will

eventually experience exiting from their business, intentions or any plans of exiting may have taken place in the minds of these individuals. Although there are factors which may delay or postpone an actual exit, the initial intention will sooner or later be applied (Leroy et al. 2007; 2010). Further, Leroy et al. (2007) specified the central assumption of TPB to their study of business exit, they noted:

The proximal determinant of behaviour is a behavioural intention, which in turn is determined by attitudes, subjective norms and perceived behavioural control. For business transfers, this means that attitudes refer to a person's overall evaluation of transferring, subjective norms refers to the person's perception of the expectation of important other toward a transfer (p. 4).

Another approach that has the significance in explaining intentional behaviour is the Shapero's Entrepreneurial Event (SEE). This concept is basically an intentional behaviour model that specifically highlights the domain of entrepreneurship (Krueger et al. 2000). The SEE model assumes that human behaviour is directed by inertia and displacements. Displacement may sometimes be negative (for instance, job loss or divorce) or positive (for instance, getting an inheritance or winning lottery) which then triggers a change in behaviour whereby an individual as a decision maker seeks the most viable opportunity from a set of alternatives (Krueger et al. 2000). In their article, Krueger et al (2000) argued that the SEE model was based on the notion that an intention to start a business is derived from an individual's perception of desirability, feasibility and propensity to act upon opportunities. In operationalising the concept, three definitions of each antecedent were determined: perceived desirability refers to the personal attractiveness of starting a business that includes intrapersonal and extra-personal impacts; perceived feasibility is the degree of an individual's confidence over his/her capability in acting towards a certain phenomenon such as starting a business; and, propensity to act has been conceptualised as an individual's desire to undertake and intent to act to a certain phenomena (Krueger et al. 2000). Nevertheless, SEE's concept seems to be much focused on starting a business rather than perceiving exit as an entrepreneurial event as well. However, not only does this concept is feasible to be employed to determine an individual's intention to start a business, but also, one's intention to exit.

In an attempt to compare both intentional model: TPB and SEE, Krueger et al. (2000) identified that both models correspond one to another due to the similarity they have in employing an element which is conceptually related to self-efficacy. For instance, perceived behavioural control in TPB is associated to perceived feasibility in SEE. Furthermore, attitude measures of TPB are consistent to perceived desirability in SEE (Krueger et al. 2000). Based on their review of both models: TPB and SEE, Krueger et al (2000) concluded:

Promoting entrepreneurial intentions through public perceptions of feasibility and desirability is not just desirable, but also feasible. (p. 413).

Hence, intentional-based concepts are useful in gaining a richer understanding of entrepreneurship that can explain the antecedents of business exits. A business exit is an example of an intentional and a planned behaviour because it involves a series of intentions and planned actions that may be driven by certain variables. A recent study has highlighted the determinants of exit intentions that can be useful to a better understanding of a business owner's motivations in the exit process (Battisti & Okamuro 2011). Also, another study has been done exploring exit intentions and the impact of founders' experience on different exit strategies (DeTienne & Cardon 2010). It has been argued that business owners intend to pursue different exit paths based on their previous entrepreneurial experience, industry experience, age and educational level. Both studies are only of the few that highlight business exits and exit intentions of the individuals operating a business.

DeTienne & Cardon (2007;2010) identified the gaps that exist within the business exit literature by utilising the TPB as an intentional-based mechanism (Ajzen 1991) in exploring the impacts of personal related variables: entrepreneurial experience, industry experience, education and age to intended exit paths. Their (DeTienne & Cardon 2010) finding indicated that different intended exit paths are determined by different types of experience. Also, by utilising the threshold theory which was derived from Gimeno et al's (1997) study, the study revealed that different exit paths are driven by other factors beyond firm performance (DeTienne & Cardon 2010). This finding was based on the notion that business owners could either continue or

exit their business based on the comparisons of actual firm performance with their own thresholds of performance (DeTienne & Cardon 2010; Gimeno et al. 1997). In addition, Battisti and Okamuro (2010) have provided empirical evidence that strengthened the relevance of intentional theory with business exits studies by examining business owner's intended exit route. These authors (Battisti & Okamuro 2010) identified that certain characteristics (for example, firm and owner) are associated with different intentions on exit modes. In sum, these academics (Battisti & Okamuro 2010; DeTienne & Cardon 2010; Leroy et al. 2007; 2010) have contributed to the development of business exits literature, which involves the use of intentional-based concept.

Although it has been identified in previous business exit studies that intention is a significant predictor of different exit outcomes (DeTienne & Cardon 2006; 2010; Leroy et al. 2007; 2010), it has not been explicitly mentioned in the business exit literature that there may be a preceding stage to exit intention. Therefore, the next section will review the literature that may explain whether a prior stage of intentions exists and whether it can be used as one of the determinants in business exit studies.

3.7 Exit Contemplation: Linking the Organisational Change Concept to Business Exit

In previous studies, there have been various perspectives that used the term '*contemplation*', which has mainly been employed in health psychology and organisational study. The term '*contemplation*' can be referred to as an individual awareness towards a particular phenomenon, thinking to change but having no commitment to further actions (Weick & Quinn 1999). Further, in an organisational change study (Whelan-Berry et al. 2003), contemplation is seen as one of the steps in the sequence of change, and is defined as a phase when an individual is aware of the problem and seriously thinking of overcoming it.

A seminal study by Prochaska and DiClemente (1983) was the most important model in an attempt to understand human behavioural change process. These authors

(Prochaska & DiClemente 1983) contend that there are six stages that can influence human behavioural change: pre-contemplation, contemplation, preparation, action, maintenance and termination. The behavioural change concept was also used to extend the approach used in organisational leadership studies with reference to behavioural change (Bernal 2009).

It is possible that behavioural change resonates with one of the objectives of the present study, which is to determine whether exit contemplation can be regarded as a prior sequence in an entrepreneurial continuum subsequent to exit intention. Based on the sequence as depicted in figure 2.1, the relevance of each of the stages of change with the current business exit study is highlighted as follows:

- Pre-contemplation stage: In a pre-contemplation stage, individuals tend to deny having a problem and are not intending to take any action to change (Bernal 2009). In this case, a business owner is yet to realise any potential issue that may affect the existence of his or her firm and still runs business on a daily basis.
- Contemplation stage: In a contemplation stage, an individual starts to acknowledge and realise the need for a change due to problems or issues that arise. In the context of business exit, an owner of a business might contemplate exiting the business because he or she is aware of certain situations that may occur. This situation might be a condition whereby an owner feels that he or she is getting older and possibly because he or she decides that the business is not performing well and thus considers an exit. Further, once a business owner contemplates how to overcome these situations, such as by exiting the business, he or she will then enter the preparation stage, which focuses on the solution to a particular problem and having full commitment to perform a planned behaviour such as exiting.
- Preparation stage: This stage can be associated with intention because it contains key elements that are strongly linked to intention and may lead to further action. The preparation stage resonates with intention because within this stage there is a strong commitment by the individual before the action stage (for example, executing an exit) occurs. In the context of the business exit concept, it is at this

stage whereby a business owner comprehends whether or not to implement a particular option such as exiting his or her business.

- Action/Implementation stage: In this stage, an individual implements or executes a particular activity as a result of an intended behaviour. In the context of business exits, a business owner implements an exit based on his or her intentional behaviour.

While the stages of change lays the emphasis on the process by which individuals experience prior to act upon certain phenomena, this concept may correspond to intentional model as discussed earlier in this chapter (see section 3.6). Based on the stages of change, contemplation might be related to an individual's acknowledgement and conscious thought to change to a particular phenomenon (such as exits). It resonates with intentional models of TPB and SEE as it determines an individual's conscious thought which are driven by perceived desirability (such as attitude and subjective norms) and behavioural control (perceived feasibility). It is based on these attitudinal antecedents that an individual will think about and comprehend to a certain questioned behaviour (Ajzen 1991). Further, whether or not an individual intends to perform a particular behaviour is also based on perceived social pressure about an outcome of undertaking a particular behaviour (Krueger et al. 2000).

An individual will undertake series of contemplation to determine a strong intention, which will influence whether or not a particular action will be undertaken. This assumes that the approach undertaken by an individual to comprehend to a particular phenomenon can be triggered by one's perceived desirability (attitude and subjective norms) and perceived behavioural control (feasibility). Since perceived desirability and behavioural control acts as mediators in the intentional model, the concept of contemplation would also have similar function in determining intentionality. Moreover, it is through intentionality that behaviour of individuals can be predicted. An intention to act on a particular phenomenon is mediated by an individual's contemplation that corresponds to certain attitudes, subjective norms and feasibility.

Hence, contemplation can be regarded as a stage that might (not) trigger a full commitment (intention) prior to performing an action.

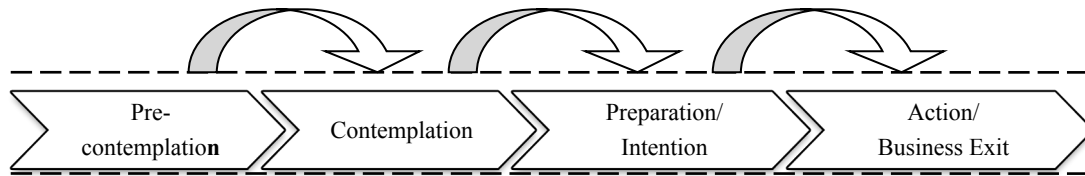


Figure 3.1 Behavioural change continuum

Source: Adapted from Prochaska and DiClemente (1983), developed specifically for the study of business exit contemplation

3.8 Hypotheses Development

The hypotheses development for this study focuses on variables that influence an SME owner's prior thinking to exiting, such as human capital, EO, psychological ownership and firm performance.

3.8.1 Human Capital

In the entrepreneurship literature, several studies have mentioned the importance of human capital in explaining the entrepreneurial process (Bates 1990; Dimov & Shepherd 2005; Gimeno et al. 1997). The importance of human capital in entrepreneurial activities derives from the notion that possession of knowledge allows an organisation to yield its own competitive advantage (Dimov & Shepherd 2005). Previous research that utilised human capital in entrepreneurship studies has been undertaken, focusing on performance thresholds (Gimeno et al. 1997), emergence of an enterprise (Honig 2001; Korunka et al. 2003) and small business ownership (Bates 2005).

In the context of business exits, previous studies have hypothesised that the levels of an entrepreneur's human capital can influence his or her decision to choose a particular type of exit option (DeTienne & Cardon 2010; Wennberg et al. 2010) and even, transfer performance (van Teefelen et al. 2012). Although human capital

variables have been utilised in previous business exits studies, no studies to date have empirically examined SME owners' contemplation to exiting their business. Age as one of the human capital components can be an antecedent of business exits. As a business owner ages, he or she begins to contemplate exiting the business. Another important component that can be influential in determining an exit is level of education. It has been found in a previous study that education plays an important role in determining a business owners' consideration to choose specific exit routes (DeTienne 2010). Length of business ownership—an indication of entrepreneurial experience—can be an important determinant of business exits. Entrepreneurial experience can be useful in entrepreneurship activities because experience can be associated with a learning process of a business owner (Kristiansen et al 2003). Experienced business owners might have learned much during their entrepreneurial careers. Hence, more experienced business owners might be able to determine suitable timing to exit their business in various forms. Although these reasons could be determinants of business exits, no research to date has explored the relationships between human capital variables and SME owners' contemplation to exit. Different levels of human capital of the SME owners can influence the way they contemplate a particular event such as exiting. Hence, it is hypothesised that:

H1a: There is a positive relationship between SME owners' human capital and their contemplation to exit. Different degrees of SME owners' human capital will influence their exit contemplation.

Previous researchers have argued that human capital can influence intentions among business owners (DeTienne & Cardon 2006; Kolvereid & Moen 1997; Lee & Wong 2004). Further, the relationship between business owners' intentions to exit and human capital has been addressed in previous studies (DeTienne & Cardon 2006; DeTienne & Cardon 2010). Human capital is an important determinant of SME owners' intention to exit their business because it is one of the attainments of an individual. The levels of human capital that an SME owner possesses can influence his or her intention to perform a particular behaviour such as exiting the business.

However, it has not been mentioned in the business exit literature that SME owners' intention to exit the business is determined by a prior stage—exit contemplation—in the entrepreneurial continuum. Human capital variables of the SME owners' might determine their exit intention. Nevertheless, a series of contemplation might take place prior to an exit intention because it has been argued in the behavioural change theory that at a certain stage, an individual might have a strong commitment to intend a particular behaviour (such as exiting) (Bernal 2009). Therefore, this study hypothesises that:

H1b: Exit contemplation mediates the relationship between SME owner's human capital and exit intention.

3.8.2 Entrepreneurial Orientation

EO is an important concept in entrepreneurship as it provides insight into business owners' strategic orientation and captures entrepreneurial decision-making styles (Lumpkin & Dess 1996). This concept has the significance of encompassing factors related to risk taking and innovation, such as an individual's entrepreneurial attributes (Covin et al. 2006). In the business exit context, only a few studies have utilised the EO concept (DeTienne & Cardon 2008; Leroy et al. 2007). These studies utilised the EO concept to examine the impact it has on exit intentions (Leroy et al. 2007) and exit paths chosen by business owners (DeTienne & Cardon 2008). Further, these studies utilised EO to characterise the types of business owners that run organisations and how it might be able to determine exit opportunities. Different types of enterprise might be characterised by different levels of EO because each owner might possess different attributes, such as innovativeness, risk-taking propensity and proactiveness. These individual attributes determines whether or not a business owner acts entrepreneurially (Leroy et al. 2007). Entrepreneurially oriented individuals would likely to pursue new opportunities in their entrepreneurial careers due to a possibility of achieving a potential capital gain. If there is a possibility to engage in a more lucrative entrepreneurial activity, a business owner might be driven to contemplate an exit. In addition, it is possible that the strategic orientations of business owners influence them to stand back from the daily routines and look

holistically at the business they are operating (Mazzarol et al. 2009) and therefore, scanning for new opportunities, engaging themselves to form a new business to become a habitual entrepreneur. The degree of EO that an individual possesses can influence his or her contemplation to exit, as EO varies among individuals. Nevertheless, no studies to date have addressed the relationship between EO and business owners' contemplation to exit a business. Taking this study to the context of SME owners as the primary unit of analyses, the present study hypothesises that:

H2a: There is a positive relationship between SME owners' EO and their exit contemplation. Different degrees of SME owners' EO will influence their contemplation to exit the business.

In a previous study, Leroy et al. (2007) found that EO has an impact on intentions to transfer a business. However, these authors also found that EO does not have a direct impact on the realisation of an exit. Despite the association between EO and exit intention in the business exit literature, the present study has a different objective in examining these relationships. While the previous study by Leroy et al. (2007) utilised intention as a mediating variable to capture the realisation of an exit from the TPB perspective, the present study utilises EO to predict whether or not it influences the SME owners' intentions to exit their businesses, and the extent to which exit contemplation might have an impact in mediating the relationship between EO and exit intention. It is based on the notion in the behavioural change theory that there is a process of thinking (contemplation) that might be undertaken by individuals prior to developing a commitment to change (intention) (Bernal 2009). Nevertheless, no studies to date have utilised EO, combined with the organisational and behavioural change concept to examine exit intention in the context of SME owners'. Thus, it is hypothesised that:

H2b: Exit contemplation mediates the relationship between SME owners' EO and their exit intention.

3.8.3 Firm Performance

Previous studies of business exits have found that firm viability plays an important role in an exit outcome (Leroy et al. 2007). Further, Butler et al. (2001) identified historical performance as having different effects on exit outcomes, and suggested that prior performance is important in determining exit options available for entrepreneurs. However, Wennberg et al. (2010) contend that business owners could either exit from financially distressed or well-performing firms depending on their career choice. Alternatively, firm performance should not be the only indicator for an entrepreneur to exit their business because exit may not always be associated with the success or failure of the firm (Gimeno et al. 1997). Hence, the choice of exiting a business is not necessarily rooted in failures or lack of performance of a firm but depends more on the business owners' choosing the option. A business owner might romanticise and contemplate the possibility of harvesting their business when the business is performing well because he or she might assume that the business's viability can attract other business parties as a takeover target or other reasons such as family reasons. Conversely, an owner might contemplate exiting his or her business because of desperate feeling due to the business's poor performance. Hence, it is apparent that firm performance might trigger an owner's contemplation of whether or not to exit the business. As no studies have explored the relationship between firm performance and the contemplation of the owners' to exit, the hypothesis for this study will be:

H3a: There is a positive relationship between firm performance and exit contemplation. Different levels of firm performance can influence a business owners' contemplation to exit their business.

Although understanding the relationships between firm performance and business exits is essential, there is a limited body of literature that can provide a wider picture of the relationship between them. Previous studies that examine the relationship between firm performance and business exits mainly focused on explaining that relationship from an economic perspective (Everett & Watson 1998; Gimeno et al. 1997). A previous study on business exits utilised firm performance to determine exit

intention (Leroy et al. 2007). However, that study did not explicitly mention whether or not there is a preceding sequence that can influence whether or not an exit intention occurs. An exit intention is more than just romanticising an exit (Con Foo 2010) because it involves a series of contemplation undertaken by an owner of a business. Once an owner romanticises the possibilities of harvesting his or her business, especially ones who perceive that firm's performance could be one of the reasons to exit, it is likely that he or she will be interested and have a strong intention to exit through a sequence of contemplation. Since no studies to date have covered this issue, the present study hypothesises that:

H3b: Exit contemplation mediates the relationship between firm performance and business owners' exit intention.

3.8.4 Psychological Ownership

Entrepreneurship research is a complex discipline when considered in the context of various theories such as sociology, psychology and economics. As one of the areas of focus that emerged from the psychology domain, psychological ownership is important to be utilised in the study of business exits. Psychological ownership is defined as 'the state in which an individual feels as though the target of ownership or a piece of that target is "theirs"' (Pierce et al. 2001). Further, psychological ownership reflects the degree of emotional relations between business owners and their firms, and how they may build their entrepreneurial identity via ownership of a venture. The notion that business exits can be a compelling force for business owners due to their possessive feelings over the business is one of the reasons why this concept is utilised in business exit studies (DeTienne 2010; DeTienne & Cardon 2010; Leroy et al. 2007). Hence, business exits could be an important caveat regarding individuals' concerns over the ownership of the venture. Some business owners might experience anxiety over losing the possession of the business that they have owned; thus, they are confronted with the factors affecting their willingness to undertake an exit (Leroy et al. 2007). The degree of an individual's possessiveness might influence his or her contemplation to exit the business. To date, there is yet any empirical evidence on business exits that associates PO with the contemplation

of business owners to undertake an exit. There is very limited empirical evidence that has highlighted the degree of PO and exit intention (for example, Leroy et al. 2007). Nevertheless, the evidence was based on a retrospective basis; by explaining the actual outcome of the phenomenon on firms that have exited. Since the present study applies prospective design to predict a particular behaviour from existing firms that are still in operation and no previous studies have explored the relationship between PO and the contemplation of business owners to exit their business, the present study hypothesises that:

H4a: There is a negative relationship between business owners' psychological ownership and exit contemplation. Different degrees of psychological ownership among business owners will influence their exit contemplation.

The degree of an individual's possessiveness reflects in the level of psychological ownership towards his or her business; this can influence the emotional tie to the business, as it becomes a part of one's identity. Previous research on business exits has found that psychological ownership has a relatively small impact on intention to exit (Leroy et al. 2007). In contrast, DeTienne (2010) argues that psychological ownership is important and has an impact on the development of an exit strategy; nevertheless, she has not provided any empirical evidence regarding her argument. Further, there is a limited amount of literature on business exits that has provided the evidence of the relationship between psychological ownership and exit intention. Since intention is one of the strongest predictors of a planned behaviour (Krueger et al. 2000) such as a business exit, it is important that the relationship between this concept and psychological ownership is explored. Business exits can be a conflicting issue for business owners to deal with because they often treat their companies as their babies (Cardon et al. 2005), and thus attach their personal feelings of possessiveness to the company (Pierce et al. 2003). As psychological ownership is an important caveat of a business exit activity (DeTienne 2010), the present study seeks to explore whether psychological ownership can influence an SME owners' intention to exit through series of exit contemplation. Therefore, the hypothesis of the present

study will be:

H4b: Exit contemplation mediates the relationship between psychological ownership with SME owners' intention to exit.

3.9 Conceptual Framework

The development of the theoretical framework for this study is based upon the gaps identified in the literature, particularly those related to the understanding of business exits. A review of the literature on entrepreneurship suggests that business exits can be triggered by several factors: human capital, which may comprise age, education and entrepreneurial experience; EO, which might be associated with proactiveness, innovation and risk taking; firm performance, which is related to business owners' perception of the level of performance they achieve (such as changes or growth in the size of the firm, sales and profit); and PO, which might comprise the degree of control of the company, goal achievement, social status and intimate knowledge of the company. However, no research to date has been able to explain whether or not business owners' contemplation plays a role in mediating the relationship between those factors and exit intention. Hence, the present research contributes to knowledge by providing empirical evidence to explain business exit from a behavioural perspective by examining the interaction between factors (human capital, EO, firm performance and PO) that may trigger a business owner's contemplation, and whether or not these factors influence one's intention to exit.

As depicted in the conceptual framework for this study (see Figure 3.2), human capital, EO, firm performance and PO are considered variables that can influence the exit contemplation of entrepreneurs. Further, these variables may influence the intention of an entrepreneur to exit his or her business via exit contemplation.

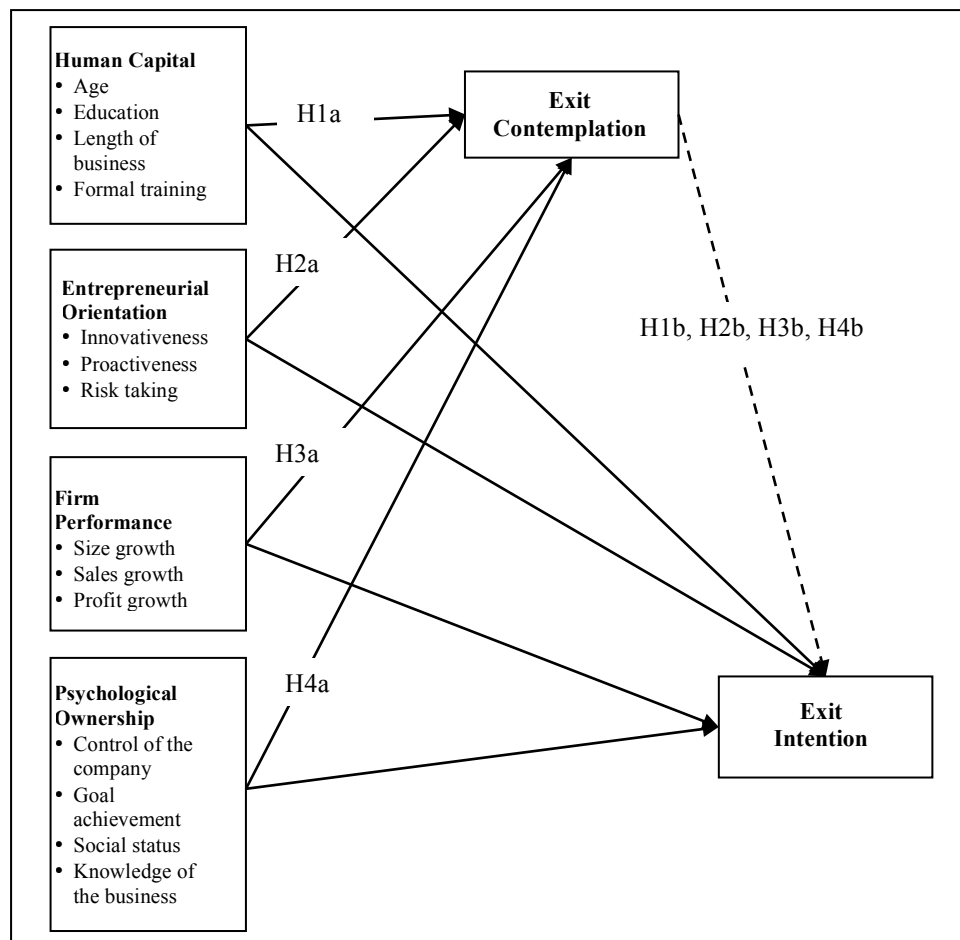


Figure 3.2 Conceptual framework

3.10 The Operationalisation of Variables

The next step following the development of the hypotheses and research framework is the operationalisation of variables used in the present study. Operationalisation of variables is an important aspect in a study because it can provide a clear explanation of how a conceptual construct or variable is measured (Sekaran & Bougie 2010; Veal 2005). In the current study, most of the constructs are operationalised using a seven-point Likert-type scale. The development of the items in this study is based on instruments that were used by researchers in previous studies and/or developed by the researcher based on the extensive literature review.

To ascertain the relationship between human capital, EO, firm performance and business owner's psychology, and his or her contemplation to exit, the study used

items developed and employed in previous studies (Covin & Slevin 1989; Davidsson 1995; DeTienne & Cardon 2006; Ikavalko et al. 2008; Leroy et al. 2007; van Dyne & Pierce 2004) as summarized in table 3.1. The details and justification of each item used in the study have been discussed in the previous sections. This section will discuss the questions developed for the survey. Employed in this study are six sections in the survey instrument that cover six constructs: human capital, EO, firm performance, PO, exit contemplation and exit intention. The justification and operationalisation of each of the variables in the survey instrument will be provided in the next section.

Table 3.1 Summary of constructs relevant to the present study

Variable	Dimension	Scale
Human Capital	Measures of an individual's experience (age, length of business operation), and capability (education)	Seven demographic items in measuring human capital (Chandler 1996; DeTienne & Cardon 2006; 2010; Leroy et al 2007)
Entrepreneurial Orientation	Innovativeness	Nine items originally derived from Covin and Slevin (1989)
	Risk Taking	
	Proactiveness	
Firm Performance	Individual measure of self performance	Three categorical items derived from Chandler (1996); Covin et al (2006)
Psychological Ownership	Goal achievement	13 items adapted from previous empirical studies of Ikavalko et al (2008) and psychological ownership concept of van Dyne and Pierce (2004)
	Control of the company	
	Social status	
	Status in the company	
	Knowledge of the business	
Exit contemplation	Contemplate to sell	Six items developed specifically for the present study based on previous concepts (DeTienne & Cardon 2006; DeTienne 2010)
	Frequencies of thoughts	
Exit Intention	Intention to exit	Three items employed in previous studies (Davidsson 1995; Leroy et al 2007)

3.10.1 Demographics and Human Capital

Human capital is defined as the knowledge and skills obtained by an individual that are useful in more than one job or firm, such as education, age or entrepreneurial experience (DeTienne & Cardon 2006). The measures of human capital were derived from the study by DeTienne and Cardon (2006), which was later followed by Leroy et al. (2007), to relate the human capital variables with exit intention. Seven categorical items were employed in the present study. Items such as age and education (Q1,6) were used for both descriptive analysis of the demographics and as predictors, as was employed by DeTienne and Cardon (2006; 2010) in their previous study of business exits. A question indicating the gender of the business owner (Q2) was provided as general information which is commonly being used in survey studies. The length of business operation (Q3) is derived from Chandler (1996) as an indication of the business owner's experience in the operation of the business. Further, other items asked the respondents to indicate their route of ownership of their current business (Q4). This item was adopted from Littunen and Hyrski (2000) to indicate the routes by which they owned their business with three answering options available: founded, inherited or bought the business. A yes/no item were also provided to respondents to confirm whether any family member was involved in the business (Q5). This is related with the previous item that seeks to identify whether the business is typically a family-owned business, as there are different characteristics between family and non-family businesses. Further, two items were provided to indicate whether or not a business owner had owned a business prior to the current one operating. The items consist of a yes/no item and an indication of number of years in operation of the previous business (Q7, 8). In addition, one item was provided to indicate the types of professional training that the respondents have undertaken (Q9). This item consists of four categorical scales that must be chosen by the respondents: '*management*', '*technical*', '*both*' and '*none*'. The complete instrument is presented in Appendix I (Section A).

3.10.2 Entrepreneurial Orientation

EO is defined as a manifestation of an entrepreneurial organisation that is determined by simultaneous interaction between three attributes: innovativeness, risk taking and proactiveness (Covin & Wales 2011). The EO concept was employed in this study because only a few studies of business exits have identified the impact of EO on entrepreneurs' intention to exit. However, this concept is employed to explore the effect it has on the contemplation of business owners to exit their business. Most of the scales were adopted from a previous study of Covin and Slevin (1989), which were also used in other studies (for example, Covin et al. 2006; Kreiser et al. 2010; Naldi et al. 2007). At the first item (Q1), a categorical continuous response was provided to indicate the initial motivation of the business owner when he or she first started the business. This item was not intended to measure EO; however, it may be useful to understand the reasons why individuals are motivated to participate in entrepreneurial activities. This item consists of three possible motivations when business owners' commence their businesses. These are: necessity to make an income to meet basic needs, opportunity to earn additional income and opportunity to increase the wealth and sell it in the future. In terms of EO, the construct consists of nine items of the strategic posture scale to measure EO (Section B). The EO consists of three unique dimensions: innovation (Q2,3,4), proactiveness (Q5,6,7) and risk-taking propensity (Q8,9,10) (Kreiser et al. 2010). Although most of the EO construct was applied in strategic management and entrepreneurship studies, there are limited studies that utilise this concept in the business exit perspective (Leroy et al. 2007). Thus, the EO concept was employed in the present study in exploring the relationship it has with entrepreneurs' exit contemplation and whether it influences their intention to exit. The complete instrument is presented in Appendix I (Section B).

3.10.3 Firm Performance

In this study, firm performance is measured by the owner manager's perception of the company in terms of number of employees, sales and profit. A previous study of business exits utilised firm performance variables to indicate the viability of the firm

(Leroy et al. 2007). Further, Butler et al. (2001) utilised historical performance measures to indicate past performance of the firm. In this study, the measure of firm performance utilised the self-perceptions of respondents towards their perceived firm performance, which has been validated in previous studies (Chandler 1996; Covin et al. 2006). The items used in this study contain three categorical items (Section C), which were adapted from previous studies (Chandler 1996; Covin et al. 2006). This item has been used in previous studies of business exits (for example, DeTienne & Cardon 2010). The perceived growth of the firm, which measures sales and profit growth (Q2,3), was derived from Chandler's (1996) constructs and change in employees (Q1), as indicators of the size of a business were derived from DeTienne and Cardon (2006). In measuring firm performance, self-reported measurements were employed because small businesses, especially those emerging and privately held ones, have no legally mandated requirement to disclose their performance (Chandler 1996). Similar to the human capital items, the firm performance construct contains three categorical items, which are designed as continuous interval variables and categorised into a small number of categories (Agresti 1990). Further, the three variables were standardised into numerical variables to be included in the hierarchical multiple regression analysis. The complete instrument is presented in Appendix I (Section C).

3.10.4 Psychological Ownership

In the present study, PO refers to the psychological perception of individuals regarding feelings of possessiveness towards the company based on their goal achievement, social status, knowledge of the business and control over the company. The scale of entrepreneurial psychology, which was established by Ikavalko et al. (2008), is employed with a slight adaptation in the wording to adapt to a different cultural context. In a previous business exit study, Leroy et al. (2007) employed the PO construct by Pierce et al. (2001); however, Pierce et al.'s (2001) construct emphasises the employee as the unit of analysis rather than the owner. In order to determine the psychological attachments and attributes of the business owners', Ikavalko et al. (2008) extended previous studies on psychological ownership (Pierce

et al. 2001; van Dyne & Pierce 2004) by adding family dimensions to measure owner-manager's ownership profiles. This scale was adopted in this current study because it is suitable to be adapted to the context of business owners, particularly when family members own and run the business themselves. Since the previous scale of PO (Pierce et al. 2001) was based on perceived ownership from an employee perspective, it is not considered suitable for the purpose of this study.

The construct for PO was modified and simplified because there were a few items that had similar meanings and were considered less suitable to be applied in the context of the present study. For instance, the original item of 'I use the accountant as a partner in decision making' had to be removed because using an accountant in an SME in which family members operate the business is relatively uncommon in an Indonesian context. In order to avoid some bias and the tendency not to respond to this question, this item was removed. Further, items such as '*No one knows the operations ... the people and ... the equipment as well as I do*' were simplified into a single item rather than using three separate items as originally developed by Ikavalko et al. (2008). Finally, the construct used in the present study consists of 13 items instead of the original 18, measured using a seven-point Likert-type scale, which measures goal achievement (Q1,2), control of the company (Q3,4,5), outside social status (Q6,7,8), status in the company (Q9,10,11) and knowledge of the business (Q12,13).

3.10.5 Exit Contemplation

Exit contemplation refers to an individual's awareness, which triggers comprehensive thoughts to perform an exit. To measure exit contemplation, six items were developed to measure the extent to which respondents often thought about exiting the business. Measures employed included scales that had been used by previous research that relate to the theme of business exit (DeTienne & Cardon 2006) and scales that were developed specifically for this study. As there are very limited numbers of business exit studies that can be adopted to be used in this study, a few scales have been added to measure the exit contemplation. To measure exit

contemplation, a seven-point Likert-type scale has been used. This construct consists of six items. In the first item of the construct, respondents were asked how frequently they think or have thought of selling the business (Q1). Further, two items asked the respondents to indicate whether they have been approached or have approached someone to sell the business (Q2, 3). In addition, respondents were asked to indicate how frequent they have thought of passing the business to their children (Q4). The last two items were used to measure how often the respondents have thought of exiting the business during the start-up phase and the last three years (Q5, 6). Since there is limited literature that could indicate exit contemplation, this construct was developed based on extensive reviews of previous studies that focus on business exits. The complete instrument is presented in Appendix I (Section E).

3.10.6 Exit Intention

Exit intention is defined in the present study as an individual's likelihood to intend a particular action (a business exit) based on a series of comprehensive thoughts. The measurement of exit intention adopts scales that have been used in previous studies (Davidsson 1995; Leroy et al. 2007) and scales developed specifically for this study. The scale consists of three items using a seven-point Likert-type scale to measure the entrepreneurial exit intention. Only two options of business exit are asked to respondents to indicate the likelihood of certain options to occur (for example, sell the business or succession), as this study is specifically being applied in a less-developed economy and these options were commonly used. However, other exit options, such as IPO, transfer to employee or transfer to management (Birley & Westhead 1993; Petty 1997), were not considered because they would not be likely to fit SMEs in developed economies. The complete instrument is presented in Appendix I (Section F).

3.11 Summary

In this chapter, detailed discussion of the research framework to direct the research was highlighted. Also, the theoretical mapping of each of the variables employed in the present study was reviewed by the relevance of each of the variables (for

example, human capital; EO; firm performance; PO; the concept of contemplation; and, intentional theories) on business exits. Moreover, the development of the hypotheses relevant to the present study was formalised based on the literature reviewed in the previous chapter. In addition, the operationalisation of the research variables and the survey instruments used in this study was provided. In the next chapter, the research methods employed in the present study are highlighted. This includes the procedures undertaken in the present study and some justifications of the methods used to analyse the data relevant to this study.

CHAPTER 4 RESEARCH METHODS

4.1 Introduction

In the previous chapter, the research framework and hypotheses development pertaining to the present study were discussed. This study seeks to examine business exits from a behavioural perspective by addressing the extent to which SME owners in Indonesia contemplate exiting and whether this influences their intention to exit. In achieving the objectives of the study, a survey was conducted as a means of enquiry with the participation of SME owners in Indonesia to test the conceptual framework as well as hypotheses that have been developed for the purpose of this study. This chapter presents the procedures undertaken in this study and the methodology used. The initial stage of the research instruments development will also be presented as the first step prior to conducting this research, which consists of the development of questionnaires construct and scales of measurements used in this study.

4.2 The Mail Survey

When designing research, identifying and setting out a research question are considered important stages of a study. Problem identification is the most influential part of a study because it is set out as an introduction to the study and establishes a framework that leads other people to understand the study's context (Wilkinson 1991). Albert Einstein (cited in Cooper & Schindler 2006) noted that:

The formulation of a problem is far more often essential than its solution, which may be merely a matter of mathematical or experimental skills. To raise new questions, new possibilities, to regard old problems from a new angle require creative imagination and marks real advance in science (p. 55).

Based on that statement, determining the problem can be regarded as an initial step in the process in conducting research. In the present study, the process of conducting the research was undertaken from the initial step of performing the literature review to the data collection and analysis being used. This study uses a mail survey as a

mechanism for data collection. The use of a mail questionnaire as a means of data collection has been criticised because of the possibility of generating insufficient responses and the inability to verify the responses given (Kerlinger & Lee 2000). Regardless of the criticism of this method, Dillman (2007) argued that the number of surveys conducted by self-administered mail questionnaires can exceed the number of responses obtained using other survey methods such as interview surveys. Therefore, a mail questionnaire can be regarded as a common approach applied in research. A survey method was employed for this study because a *'survey provides quick, inexpensive, efficient and accurate means of assessing information about the population'* (Zikmund 2003, p. 175). It is believed that applying this method can measure certain attitudes and/or behaviours of a population construct or a sample (Cooper & Schindler 2006). In addition, a mail survey is appropriate to use for any kind of quantitative studies, including exploratory or confirmatory studies (Cooper & Schindler 2006). One of the most important attributes of the survey method is the adequacy to collect data needed by minimising the direct interaction between researcher and respondents as well as minimising bias potential (de Vaus 1995). In addition, mail surveys are perceived as more impersonal and having more anonymity than other communication modes, including other methods for distributing self-administered questionnaires (Cooper & Schindler 2006). Thus, based on the reasons provided, the present research applies the use of a mail survey as the means of data collection.

4.3 The Population and Sample

The survey for the present study was based on the population of SME owners in Indonesia. There are 2,455 SME owners available in the SMECDA database, which are widely spread across Indonesia. The owner of the existing business has been chosen as the unit of analysis because the present study seeks to explore the contemplation of SME owners regarding exiting their business. Further, the present study utilises single responses from the owner of the business that have been used in the study of business exits (for example, DeTienne & Cardon 2006; DeTienne & Cardon 2010; Leroy et al. 2007; 2010; Wennberg et al. 2010).

4.3.1 The Sample

4.3.1.1 Sample Selection

Two relevant issues must be considered in determining the sample selection: the sampling frame and sampling method. These are highlighted in the following sections.

4.3.1.2 The Sampling Frame

The sampling frame is the list of elements from which the sample may be drawn (Cooper & Schindler 2006; Zikmund 2003). The sampling frame used for this study is the database of Indonesian SMEs that are listed in the SMECDA¹¹ directory. The database comprises lists of 2,455 Indonesian SMEs. The database provides general information of SMEs, such as the name of the owner, the products, address and contact details. The available information was used to send out mailed questionnaires for this study.

4.3.1.3 The Sampling Method

The present study utilises unrestricted random sampling as a means of selecting the samples for the study. This sampling approach allows every person in the population to have a known and equal chance to be selected as a subject (Sekaran & Bougie 2010). According to Sekaran and Bougie (2010), this type of sampling has the least bias and offers the most generalisability. Thus, the present study utilises this method for its sample selection. With regard to this study, the identification of SME owners in Indonesia was conducted through the SMECDA database. Firstly, lists of information in the database were divided according to the Province where they operate as well as their contact details and address. Another important aspect of the database is that the SMEs were divided according to their industries and products, which consist of furniture, garments, handcrafts and accessories, and food processing. There is sufficient information in the database that is suitable to conduct

¹¹ SMECDA (Small and Medium Enterprise and Cooperative Development Agency) is administered by the Deputy VII, Deputy of Micro and Small to Medium Enterprise (MSME) Resource Studies, under the Indonesian Ministry of Cooperatives and SME

the survey; however, in order to gain appropriate information the lists were checked. The most important information in the database is that the list contained the names of SME owners. The information is valuable because it minimises the risks of bias responses that can occur in a survey. Since the present study seeks to explore the perceptions of SME owners in Indonesia with regard to their perception on business exit contemplation and intention, the SME owner's identity were determined to ensure that the respondents who participate in the survey are the business owners themselves. Further, the approach did not include stratification of province and industrial sector as the present study aims to determine the holistic nature of the perceptions of every business owner on their contemplation to exiting the business, regardless of their province and industry sectors where they operate. Therefore, lists of names of the SME owners in the database were examined thoroughly in order to gain representative sample for the survey.

Secondly, to confirm that the information in the main database was appropriate, the list of SMEs in the database was explored and verified to reduce possibilities of multiple data in the database. From the 2,455 SMEs listed in the database, 320 SMEs appeared in multiple sections in the database in accordance with the types of industries and products. Some changes were made as a result of database verification and exploration. The final list of SMEs consists of 2,135 SME owners who were determined and 900 who were randomly selected to be included in the mail-out survey. Only 900 Indonesian SME owners were selected from the database due to limitations of budget allocation and time frame for the survey being conducted. Therefore, utilising the population frame of the Indonesian MCSME database, the researcher mailed out 900 questionnaires as means of data collection. From the 900 questionnaires mailed out to respondents, 397 questionnaires were received. However, 87 questionnaires were excluded from the data coding and analysis purpose. The reason for excluding those returned questionnaires was the incomplete responses given by the respondents. Those incomplete questionnaires were considered unusable. Thus, the number of usable questionnaires was 310; these included in the data editing processes such as coding and analysis.

4.3.2 Sample Size and Statistical Power

The size of the sample has a direct impact on the appropriateness of and the statistical power of the regression analysis (Hair et al. 2010). Statistical power refers to the probability of correctly finding hypothesised relationships among variables. According to Hair et al. (2010), statistical power is determined by three factors: effect size, alpha (α) and sample size. The relationships between these three factors are quite complicated. A large size can improve statistical power and the chance of finding the relationship that exists in the population. Although it also allows for small effect sizes, there is no specific guide provided for researchers in justifying how many samples are required to be regarded as sufficiently large. Further, Hair et al. (2010) employed Cohen's (1988) guidelines, suggesting that in order to achieve acceptable levels of power, the study should be designed to achieve alpha levels of at least 0.05 with power levels of 80 per cent. Therefore, considering the response rate, statistical power and manageability of administering the survey, the present study utilises the sample of 310 SME owners in Indonesia. The process of obtaining the sample in this study is presented in Section 4.8.2 and 4.8.3 of the thesis. The sample used in this study ($N=310$) is considered sufficient for the hierarchical regression analysis. This is based on the formula $(50+8m)$ where m = the number of predictors (Tabachnik & Fidell 2007). The minimum number of respondents required to be obtained from the formula was 154; therefore, the sample size for this study can be considered acceptable.

4.4 Pilot Test

A pilot study was undertaken to identify the suitability of the survey instrument to be adapted in the Indonesian context. The participants for the pilot study included business incubators, academics and SME owners. Thirty-nine people relevant to the area of entrepreneurship participated in this activity. They were chosen based on their knowledge on Indonesian SMEs. The pilot study was intended to collect valuable feedback from actual targeted respondents and to test whether the questions that were constructed in the survey instrument could be easily understood and answered, especially by business owners who lack formal education. The pilot study

focused on the wording and understandability of the questions and the covering letter, the setting out of the questionnaire, and time estimation to complete the answers. The pilot study generated some feedback on a few questions that are considered confusing by respondents. Since the instruments were translated into Indonesian (bahasa Indonesia), adjustments had to be made prior to the mail-out survey. Some questions needed slight changes to be understood by respondents.

The survey was administered employing the guidelines from Dillman (2007), based on his book *Mail and the Internet Surveys: The Tailored Design Method* in relation to the format and style of the questionnaire as well as the covering letter, techniques to personalise the survey, distribution of the survey and follow-up procedures. In general, the steps that were undertaken during the survey period followed guidelines provided by Dillman (2007). The purpose in following the guidelines was to minimise the non-response rate to adequate levels. Although the survey experienced the risk of a non-response, such as unwillingness of respondents to participate or other reasons that are caused by events such as natural disasters, which are very difficult to cope with, the methods undertaken in this survey were aimed to minimise those risk. The methods will be discussed in the next section as well as the followed procedures and their effect on the response rate.

4.5 Questionnaire Design and Administration

Data quality is an important feature of a research. Poor data quality can lead to misinterpretation of the true value of the analysis that is proposed in the research framework. One of the sources of an error in a survey study is a measurement error.

A measurement error is defined as '*the degree to which the observed values are not representative of the "true" values that can be caused by imprecision of measurement (response scales), response errors by respondents, and data entry errors*' (Hair, Black, Babin & Anderson 2010, p. 7). When observed value is utilised to compute correlations or means, the true effect is partially covered by the measurement error, thus causing the correlations to be weak and means computation

to be less precise. Further, two characteristics are important for addressing measurement error: validity and reliability.

Validity, or construct validity, is the extent to which the results obtained from the use of a measure fit the theories around which the test is designed. (Sekaran & Bougie 2010). Further, in order to obtain construct validity, a thorough understanding of what is to be measured is needed and the appropriate measurement needs to be decided upon accurately (Hair et al. 2010). Reliability is the degree to which the observed variables measure the true value regardless of errors; it is the opposite of measurement error (Hair et al. 2010). Thus, it ensures consistent measurement across time and various items in the instrument (Sekaran & Bougie 2010). Reliability of a measurement is an indication of the stability and consistency with which the instrument measures the concept. Further, a more reliable measure can determine an instrument's consistency, especially when it is used repeatedly (Hair et al. 2010).

In order to avoid measurement error, the development of the questionnaire should be considered carefully. Measurement error can result from either poor wording of a question or faulty questionnaire construction (Dillman 2007). The current study relies on Dillman's (2007) procedures to develop the questionnaire for survey studies. Previous research instruments that have been externally validated in prior studies have been used in this study because they can increase the reliability of the data (Hair et al. 2010). Nevertheless, appropriate modification has also been undertaken to gain an appropriate fit of the research objectives in the context of the study.

4.5.1 The Initial Mail-Out

The lists of SMEs that were determined from the database were sent a questionnaire, a covering letter and a pre-paid return envelope. The following sections discuss the procedures used in the first mail-out in order to achieve an adequate response rate level.

4.5.1.1 Ensuring the Questionnaire Reaches the Targeted Respondents

There were three steps undertaken to ensure the questionnaire reached targeted respondents in this study. First, the addresses of targeted respondents were double checked from the database to ensure that no multiple addresses occurred during the mail-out process. Second, questionnaires were sent in envelopes that included pre-paid envelopes with a return address printed on the front. Third, the researcher provided the address of Brawijaya University¹² in Indonesia to ensure that respondents understood that an academic staff member of the university was conducting the research. Further, 73 mailed letters were returned with reasons such as unknown address and closure of existing businesses. Owners stating that they were unwilling to participate in the research returned some letters.

4.5.1.2 Minimising the Possibility of the Questionnaire Being Ignored

All questionnaires were sent in university logo envelopes, anticipating that the logo would signal the importance of the content. Although it is unclear whether this method is effective, some of the SME owners who participated in the study were alumni of the researcher's University and indicated their interests in participating in the survey by directly calling the researcher personally. This step suggests that using envelopes with a printed university logo was beneficial for the mail-out survey because it encourages trust among business owners that the questionnaire is important (Dillman 2007).

4.5.1.3 Increasing the Probability of the Questionnaire Reaching the Right Person

To increase the probability of the questionnaire reaching the right person, the envelope and the covering letter inside were personally addressed to the SME owners as their names were listed in the database. According to Dillman (2007) personalisation from the researcher to the business owner might be best approach to be undertaken in a survey because it provides the look and feel of being from a real

¹² Brawijaya University is a State University in Indonesia, an Institution where the researcher is currently employed as an academic staff; have been selected as an official address for this survey in Indonesia.

person, rather than a carefully programmed computer. Further, the name of the business owner was printed in front of the envelope to minimise the possibility of employees of the business answering the questionnaire without the owner's permission.

4.5.1.4 Increasing the Probability of Completed and Returned Questionnaire

To increase the probability of the questionnaire being completed and returned by targeted respondents, this study adopted Dillman's (2007) suggestions of appropriate strategies that should be undertaken to ensure its effectiveness. These strategies consist of the following:

- The covering letter was carefully worded and addressed personally to the SME owner. This letter indicated what the study was about, its usefulness and significant importance it has for the community and academics. The letter also emphasised the respondent's confidentiality and included contact details for any queries relevant to the study.
- In order to attract the interest of SME owners in participating, Dillman's (2007) suggestion was followed: the questionnaires were printed in a booklet style providing a university logo in the letterhead.
- A pre-paid addressed envelope was included with the questionnaire to make it easy for the SME owners to return the completed questionnaire.
- The package, including the covering letter, the return envelope and the questionnaire, was folded carefully so that all of the three enclosures came out of the envelopes at once. This was achieved by inserting the return envelope inside the questionnaire and the cover letter at the front of the booklet. The package was then inserted into the mail-out envelope. The mail was posted using express mail, as suggested by Dillman (2007), because it is relatively fast to reach targeted addresses. Since the survey is being conducted widely across different provinces in Indonesia, the use of express mail delivery was sufficient in reaching targeted respondents.

4.5.2 Follow-Up Procedure

The initial 200 questionnaires from the total of 900 were mailed out in the first week. This step was conducted in order to minimise the uncertainty of the mail reaching targeted respondents and to determine whether postal services were adequate in delivering mail to designated addresses. Several completed questionnaires were received a few weeks after the mail-out. In the first week, no questionnaires were received because the mail normally reaches the destination three to five working days or more, especially in areas located outside the main island of Java. In the second week after the mail-out was executed, a few phone calls were received from respondents. Some of them enquired about the appropriateness of answering those questionnaires, as not all respondents had been involved in a study before.

In the third week, more responses were received from respondents, with more than 50 questionnaires being returned from the initial 200 questionnaires that were mailed. Further, as responses of the mail-out were slightly insignificant, a second mail-out was undertaken to send the remaining questionnaires to targeted respondents from the database. During the process of mailing and receiving the questionnaires, significant numbers of questionnaires did not reach designated addresses and were returned, especially those who were affected by catastrophic events such as volcanic eruptions.¹³ Respondents who were affected by that event were excluded from the survey; other respondents from other areas that were not affected by the event were randomly selected as replacements. An additional 200 questionnaires were sent to respondents. In the fourth week, 167 questionnaires were received from the total 400 questionnaires mailed to respondents. The remainder of the questionnaires were mailed during January 2010 with a total of 397 questionnaires received and finalised by March 2010.

¹³ Yogyakarta and the surrounding were affected by the eruption of Mount Merapi during October 2010.

4.5.3 The Final Sample

Based on the usable data, the response rate of 34 per cent can be regarded as sufficient, as it has been suggested that the standard response rate to be used in a survey should at least reach the minimum of 20 per cent to be considered sufficient (Creswell 2009). All of the analyses in this study were based on the responses from 310 usable responses from the SME owners. These responses were then used for the statistical analysis of the research model. Descriptive analysis of the final samples used in the data analysis will be described further in Chapter 5.

4.5.4 Sampling Error

It would be unlikely in a study that a sample can perfectly represent the population of the study. The major difference between the sample and the population, due to sampling, is referred to as sampling error. Sampling error is *'the cause for variation in any estimated parameter that is due to the use of a sample rather than the population'* (Hair et al. 2006, p. 174). For small sample sizes, the sampling error would be likely to be higher and the estimated coefficients would be most likely to vary widely between samples. The occurrence of sampling error can be minimised as the sample size increases and used to test statistically whether the estimated parameters differ from zero. It was estimated that there was no significant issue regarding sampling error for this study because the sample size used in this study was considered sufficient, as previously highlighted in Section 4.3.2. Although there is a chance that the present study can experience sampling error; nevertheless, as the sample selection utilised in the study can be considered appropriate (see Section 4.3.1.3), the present study has made an effort to minimise the risks of sampling errors.

4.6 Data Editing and Coding

After the data are obtained through questionnaires, they need to be coded to be transcribed from the questionnaire before processing them into the database (Sekaran & Bougie 2010). Coding is a term used to describe assigning a numerical character to be entered into the database. In this study, the data editing and coding process follow

the guidelines provided by Sekaran and Bougie (2010). First, the data were coded by assigning numerical characters, for instance, demographic variables such as gender, family involvement (coded as 0,1), age, education, length of business and formal training (coded as 0, 1, 2, 3, 4). This approach was undertaken because it is by far the most popular and recommended approach, as it is easier to be analysed (Sekaran & Bougie 2010). The remaining variables were assigned in the same manner, referring to the suggestion of Sekaran and Bougie (2010). In this study, the questionnaire consists of six sections (A–F). Each of the sections represents constructs that were adopted from previous studies and developed specifically for this study (for example, demographic, human capital, EO, firm performance, entrepreneurs' psychology, exit contemplation and exit intention). Further, the categorical continuous variables utilised in the present study were transformed and standardised to a new set of variables so that they can provide consistent results when analysed further in the statistical equation.

4.7 Data Screening

4.7.1 Initial Data Screening

Initial data screening is an important stage in statistical analysis because it critically determines the output of the study. Data errors can mislead the interpretation and the overall output of the study; thus, data screening must be conducted to minimise potential errors. At this stage, the data need to be thoroughly edited to ensure that the data are minimised of any errors as well as the completeness prior to keying data. This process can be conducted using descriptive statistics in SPSS. Each variable must be checked to identify whether the scores are out of range based on the frequencies, minimum, maximum, mean and standard deviation. When an error occurs, it is necessary to go back to the questionnaires and confirm the accuracy of those data. Once the data have been finalised, they will be ready to be analysed. To reduce the number of errors in the data, descriptive statistics were applied as an initial step to determine errors that might have occurred during data entry and coding.

4.7.2 Missing Data

The occurrence of missing data is inevitable during multivariate analyses (Hair et al. 2006). Missing data is when valid values on one or more variables are not available for analysis. According to Hair et al. (2006), there are a few causes that result in missing data values. Missing data can be caused by data entry errors, data collection problems or any action on the part of the respondents (such as refusal to answer). The presence of missing data can influence the generalisability of the results of a study. Further, the missing data can become problematic, as it reduces the sample size (Hair et al. 2010). Therefore, it is important for the researcher to address this issue. Since there were cases of missing data in the present study, the researcher applied one of the approaches provided by Hair et al. (2010), which is by deletion of individual cases or variables. The approach was undertaken because most of the missing data were the most important attribute of the study. Although the sample size was reduced, the number of samples for the factor analysis, which was later followed by hierarchical regression analysis, was still considered sufficient to be analysed using SPSS.

4.7.3 Data Outliers

After the data have been examined, the next sequence is to examine the data before further statistical analysis involving the detection of data outliers. An outlier is '*an observation with a unique combination of characteristics identifiable as distinctly different from the other observations*' (Hair et al. 2010, p. 64). Further, these authors argue that an outlier cannot be categorically characterised as either beneficial or problematic, rather it must be viewed within the context of the analysis and should be evaluated by the types of information provided. The SPSS provides ways of which outlier data can be detected. Following the steps from Garson (2011), the present study conducted statistical analysis to detect data outliers. To detect the presence of outlier data, the partial regression plots approach was utilised. Based on visual inspection of the data through the histograms and scatterplot obtained from the SPSS, the present study assumed that there was no problematic issues related to data outliers'.

4.7.4 Normality of the Data

The earlier steps of handling missing data and outliers were undertaken to clean the data to a format most suitable for statistical analysis. Another step in dealing with data testing is the compliance of the data with the statistical assumptions underlying the multivariate technique. Normality is the most fundamental assumption in multivariate analysis (Hair et al. 2010). Normality assumes that the normal distribution of the data can affect the validity of the statistical tests undertaken. Hence, it is important that the issue of normality is assessed to avoid the violation of the statistical assumption undertaken in the present research. There are two dimensions that can assess the severity of non-normality: the shape of the offending distribution and the sample size.

According to Hair et al. (2010), the shape of a normal distribution can be assessed using two measures: kurtosis and skewness. Kurtosis is referred to as the peakedness or the flatness of the distribution compared to the normal distribution. Distributions that have taller peaks than the normal distribution are called leptokurtic, whereas distributions that are flatter are termed platykurtic. Another measure of normality is skewness. Skewness refers to the balance of the distributions; they can be unbalanced, shifted to one side, centred or symmetrical (with approximately the same shape on both sides). As a rule of thumb, the normal distribution is based on values of zero. The values beyond (higher or lower) zero indicate departing from normality (Hair et al. 2010). Nevertheless, other academics (Newsom 2012) suggest that absolute values of skewness and kurtosis that are less than or equal to 2 are acceptable limits of normality.

Although it is important to understand how the distribution departs from a normal basis, researchers must also consider the effects of sample size. While the sample size has the effect of increasing statistical power by reducing sampling error, it also has a similar effect on non-normality data by reducing the detrimental effects of non-normality (Hair et al. 2010). As a rule of thumb, in small samples of 50 or fewer

observations, significant departures from normality can have a substantial impact on interpreted results (Hair et al 2010). Further, it is likely that large sample sizes (200 or more observations) do not have a serious effect on the results. In the present research, most of the univariate distributions are normal because the absolute values of kurtosis and skewness were not greater than 2, as suggested by Newsom (2012). Based on the visual inspection, the distribution is not highly skewed or kurtotic. Further, there might not be a serious effect on the results of the present study because the sample size of the present study can be considered quite large (N=310).

4.7.5 Multicollinearity

A key issue in interpreting the regression variates is the correlation among independent variables, which is often known as multicollinearity. Multicollinearity is defined as *'the extent to which a construct can be explained by other constructs in the analysis'* (Hair et al. 2006, p. 709). The presence of multicollinearity takes place when separate variables indicate a measurement of a similar aspect. One of the methods for detecting multicollinearity in existing data is by determining the value of correlations. As a rule of thumb, a correlation value of more than 90 per cent can be an indication of multicollinearity (Hair et al. 2006). Further, other methods, such as variance inflation factor (VIF), could be used to detect multicollinearity. When VIF is high, there is an indication of high multicollinearity and instability of 'b' and 'beta' coefficients. As a rule of thumb, a VIF of greater than 4.0 indicates multicollinearity. Although there is no definite guide in determining which approach should be chosen, Garson (2011) argues that VIF is more preferable than the correlation approach because it tests for multivariate rather than simply bivariate multicollinearity. Therefore, the present study follows the guideline of Garson (2012) and utilises the VIF approach to detect any multicollinearity problems that may affect the explanation of the regression analysis.

4.8 Data Analysis

Data analysis for this study is separated into two stages. The first stage involved testing the reliability and validity of the measurement. Using SPSS employs the use of descriptive statistics such as minimum–maximum, frequency, per cent and mean. The descriptive statistics are also employed to describe the demographic data. This analysis will be presented in Chapter 5. The second stage involves hypothesis testing, as proposed for this study and employs the use of factor analysis. The factor analysis is conducted using SPSS. Further, the justification of statistical analysis used in the present study will be highlighted in the next section.

4.8.1 Factor Analysis

The main objective of this research is to investigate factors that contribute to the contemplation of SME owners about exiting their business, and whether these factors can influence an entrepreneur's intention to exit. The underlying assumptions and arguments in the present study were presented in the conceptual framework that was developed for this study (see Chapter 3). In this study, factor analysis was applied before other statistical analyses to extract the data from total original variance into smaller number of factors, or derive a new composite factor for further analysis and hypothesis testing, using the principal components analysis method (PCA) provided in SPSS.

Factor analysis is a multivariate technique that seeks to identify the interdependency between variables. The factor analysis is a general term for specific computational techniques with the objective of reducing many variables to a manageable number of variables that belong together and have measurement characteristics (Cooper & Schindler 2006). The purpose of factor analysis is to summarise the information contained in a large number of variables into smaller number of factors (Zikmund 2003). The approach begins with the construction of a new set of variables based on the relationships in the correlation matrix. In order to obtain new sets of variables, the present study utilises the PCA approach. While the PCA approach is a commonly used method to transform a set of variables into a new set of principal components,

but also, it has been indicated that this approach is useful to determine minimum numbers of factors needed to account the maximum proportion of the total variance which are represented in the original sets of variable (Hair et al. 2010).

The present study utilised factor analysis because it has the ability to detect patterns in latent variables, discover new concepts and reduce data (Cooper & Schindler 2006). In order to determine the latent variables, latent root criterion technique is utilised. This approach is undertaken because the objective of latent root criterion is to determine the variance of any individual factor of at least a single variable to be retained for interpretation. In order to do so, only latent roots of an Eigenvalue greater than 1 is considered significant (Hair et al. 2010). A part from that, the present study also utilised factor rotation to obtain the most adequate sets of variables under examination (Hair et al. 2010).

Although unrotated factor solutions achieve the objective of data reduction, in most cases it does not provide information required for adequate interpretation (Hair et al. 2010). Hence, Hair et al (2010) argue that factor rotation should simplify the factor structure to achieve a simpler and more meaningful theoretical interpretation for the researcher. Moreover, factor rotation improves interpretation by reducing some of the ambiguities that often accompany initial unrotated factor solution (Hair et al. 2010). Despite the various approaches available for factor rotation, the present study employs the varimax approach to obtain the most adequate interpretation of variables used in the factor analysis. The varimax rotation allows the maximum possible simplification and therefore, maximises the sum of variances of required loadings. Not only does this method is utilised in the present study since it has been proven successful as an analytic approach compared to other factor rotation methods—quartimax and equimax rotation— but also, because varimax rotation provides much clearer separation than the other techniques (Hair et al. 2010). Moreover, as indicated by Hair et al (2010) that the factor pattern obtained by varimax rotation technique tends to be more invariant when different subsets of variables are analysed than what has been obtained by the quartimax and equimax rotation techniques. Therefore,

following the guideline of Hair et al (2010) the varimax approach is undertaken in the present study as means in obtaining the most adequate interpretation and data reduction to a particular number of factors for subsequent use of multivariate techniques.

In addition, it is important to determine the appropriateness of the factor analysis. Hence, Bartlett's test of sphericity is used to determine the presence of correlation among the variables (Hair et al. 2010). Another measure to test the degree of inter-correlations among the variables is the measure of sampling adequacy (MSA). The measure of adequacy follows the guidelines provided by Hair et al. (2010), who suggest that the value of 0.50 is the minimum requirement of obtaining adequate measure.

4.8.2 Hierarchical Multiple Regression Analysis

The main statistical tool used in this study to explore the relationship between independent and dependent variables is the hierarchical multiple regression technique. Hierarchical multiple regression is a general statistical technique used to analyse the relationship between a single dependent variable and several independent variables; it may involve one or several intermediate variables. Hence, hierarchical multiple regression might involve a series of regression for the intermediate as well as for the ultimate dependent variable. This technique is also known as block regression and shares the common characteristics with stepwise regression (Garson 2011). In this approach, the researcher determines the order of entry of the variables by entering them into successive blocks. While regression analysis is frequently used by researchers because it is simple and a straightforward method and dependence technique that provides prediction and explanation of a phenomenon (Hair et al. 2006), the hierarchical multiple regression technique shares all of the commonality of a regression technique because it originates from the same statistical basis as regression analysis. The hierarchical multiple regression approach is utilised in the present study because it could predict and explain the relationship between independent, mediating and dependent variables used in this study. It is important to

note that besides providing researchers with results relating to regression, this technique also provides other means of statistical results, such as analysis of variance (ANOVA). ANOVA is useful for detecting any significant difference in the relationship between categorical independent and dependent variables (Hair et al. 2006). Moreover, several statistical tests were undertaken in order to assess the regression results of the present study. These include: R-Square; F and t-statistics; and, beta coefficients.

Following the suggestion from Garson (2011) the F-test is undertaken to test the significance of R, which is the same as testing the significance of R^2 , and also similar to test the significance of the regression model as a whole. Although there is no definite guide on which is the most appropriate significant level to apply, Garson (2011) indicated that if an F-test is to be statistically significant at the confidence level below 5 percent ($\text{sig}(F) < .05$), then the model is considered to be linear and can be used to accept or reject a hypothesis.

Another statistical test to assess the regression result is multiple correlation (R). As an output of a regression equation, the multiple correlation (R) can be found in the model summary of the regression analysis in the SPSS. It represents the association among sets of predictor (independent variables) with the criterion (dependent variable). In other words, multiple correlation is the percent of variance in the dependent variable explained collectively by all of the independent variables (Garson 2011). Because correlations between individual predictors and the criterion can either be positive or negative the multiple correlation (R) is always reported positive (Pierce 2006).

Associated to the multiple correlation (R) is the coefficient of determination which is also known as R-Square. The R-Square (R^2) is the squared multiple correlation between multiple predictors (independent variable) and the criterion (dependent variable) (Pierce 2006). It indicates a measure of a portion of the total variance of a variable that is accounted for by knowing the value of another variable (Zikmund

2003). In the case of multiple regression analysis, R-Square (R^2) is also known as multiple determinations as it demonstrates the ability of the independent variables in explaining percentage of variations shown by the dependent variable.

Another approach that is useful in regression analysis is the t-statistics (t-value). In a regression analysis t-statistics is used to assess the significance of individual 'b' coefficients well as the significance of partial correlations of the variables reflected in the regression coefficient (Garson 2011). In other words, the measure of t-value indicates whether the researcher can confidently say, with a stated level of error, that the coefficient is not equal to a (Hair et al 2010).

Finally, the most important assessment in regression equation is the beta coefficient. According to Hair et al (2010) the beta coefficient (β) is a standardised regression coefficient which reflects the change in the dependent measure for each unit change in the independent variable. In addition, the beta coefficient indicates the magnitude of each of the individual variable that provides a substantial contribution to the explanation of the regression model as well as to its predictive ability (Hair et al 2010)

4.8.3 Testing for Mediation Effect

A mediating variable is a third variable that influences the relationship between the variable method is based on the notion that behaviours are mediated by various transformation processes (Baron & Kenny 1986). The mediational concept has been widely cited in previous studies as it does not only involve the prediction of independent and dependent variables but also, mediating variable that can explain certain outcome of a particular phenomenon. This concept has been widely applied in the context of social psychology (Baron & Kenny 1986), health behaviour (Di Noia & Prochaska 2010), organisational change (Avey, Wernsing & Luthans 2008) and management (Shaver 2005) to explain a particular behavioural outcome. Hence, the present study utilises this method because it involves a mediational variable that explains exit contemplation of the individuals. Further, the present study argues that

there could be a prior stage before individuals intend to exit the business. Therefore, this study employs exit contemplation that could influence whether or not an individual intends to exit his or her business. The present study employs Baron and Kenny's (1986) statistical approach to determine the relationships between the independent, dependent and mediating variables. According to these authors (Baron & Kenny 1986, p. 1177), there are four conditions that must be fulfilled in order to establish mediation:

1. The independent variable must affect the mediator in the first equation (path a).
2. The independent variable must be shown to affect the dependent variable in the second equation (path b).
3. The mediator variable must affect the dependent variable in the third equation (path c).
4. The effect of the independent variable on the dependent variable must be less in the third equation (that is, no longer significant).

Another approach is also used to test the indirect effect. This approach is called Sobel's test, which can be utilised to provide an approximate significance test for the indirect effect of the independent variable on the dependent variable via the mediator (Baron & Kenny 1986). Thus, the present study used the Sobel's test to test the significance of the mediating variable. In order to obtain the statistical results for this test, the present study utilised Preacher and Leonardelli's (2012) calculation method.¹⁴

¹⁴ The Sobel's test is based on the assumptions that there is no measurement error in the mediator. Preacher and Leonardelli provided calculation for Sobel test which is based on the unstandardised regression coefficients and standard errors of the relationships between the independent and the mediator; and, between the mediator and the dependent variable. This calculation method is available online at <http://quantpsy.org/sobel/sobel.htm>

4.8.4 Hierarchical Multiple Regression Equation

The present study utilises multivariate analysis to test the hypotheses related to the present study. The hierarchical multiple regression analysis is utilised in this study because this statistical method is useful to two types of relationship. First, hierarchical multiple regression analysis is able to predict the relationship between the independent variables and the dependent variable of this study. Second, not only is this direct relationship able to be determined, but the indirect relationship in the presence of a mediating variable can also be provided. In line with previous studies of business exits (DeTienne and Cardon 2007; Leroy et al. 2007; DeTienne 2010), the present study utilised hierarchical multiple regression approach because it involves the examination of the relationships between independent, mediating and dependent variables. In the first step, the present study uses univariate analysis to provide descriptive information based on the responses obtained from the survey study. Further, this study employed multivariate analysis based on the hypotheses developed.

The multivariate analysis in this study consists of four partial models (PMs), of which the relationships between each of the variables of human capital (age, education, length of business and formal training), EO (proactiveness, innovativeness and risk taking), firm performance (growth in size, sales and profit) and psychological ownership (control of the company, goal achievement and social status) were measured with the mediating variable, exit contemplation (Excont), in the first equation. In the second equation, each of these independent variables was measured with the dependent variable, exit intention (Exint). In the third equation, the independent variables were measured with exit intention (Exint) and the mediating variable, exit contemplation (Excont), was included in the block of independent variables. The empirical equation of the present study is provided as follows:

In PM1, the present study seeks to identify the relationships between human capital variables, such as age, education, length of business and formal training, and the

influence they have on an SME owner's contemplation to exit his or her business. Further, equation 2 aims to explore the direct relationship between an SME owner's human capital and exit intention. This equation is one of the requirements for satisfying the condition prior to testing the mediating variable as suggested by Baron and Kenny (1986). In the third equation, the study seeks to explore whether exit contemplation mediates the relationship between human capital and exit intention of the SME owners. For that reason, the exit contemplation, which was entered in the dependent variable block (in equation 1), was then entered in the blocks of independent variables as suggested by Garson (2011). Thus, the empirical equations are:

- (1) $Excont = \alpha_0 + \beta_1 Age_i + \beta_2 Edu_i + \beta_3 LoB_i + \beta_4 Ftrain_i + \varepsilon_0$
- (2) $Exint = \alpha_1 + \beta_1 Age_i + \beta_2 Edu_i + \beta_3 LoB_i + \beta_4 Ftrain_i + \varepsilon_1$
- (3) $Exint = \alpha_2 + \beta_1 Age_i + \beta_2 Edu_i + \beta_3 LoB_i + \beta_4 Ftrain_i + \beta_5 Excont_i + \varepsilon_2$

In PM2, the study seeks to explore the influence that EO variables have on the contemplation of Indonesian SME owners. As reviewed in Chapter 2, EO consists of three unique dimensions: proactiveness, innovativeness and risk-taking propensity (Covin & Slevin 1989; Kreiser et al. 2010). In equation 4, the influence of EO on SME owners' exit contemplation is explored. Further, the direct relationship between exit intention and EO is predicted in equation 5. In equation 6, the relationships between EO, exit intention and the mediating variable (exit contemplation) are examined. Therefore, the empirical equations for PM2 are:

- (4) $Excont = \alpha_0 + \beta_1 Proactive_i + \beta_2 Innov_i + \beta_3 Risk_i + \varepsilon_0$
- (5) $Exint = \alpha_1 + \beta_1 Proact_i + \beta_2 Innov_i + \beta_3 Risk_i + \varepsilon_1$
- (6) $Exint = \alpha_2 + \beta_1 Proact_i + \beta_2 Innov_i + \beta_3 Risk_i + \beta_4 Excont_i + \varepsilon_2$

The PM3 investigates the influence of firm performance variables on the contemplation of Indonesian SME owners. Firm performance, which is an indicator of a firm's viability, might trigger an SME owner's contemplation to exit the business (Leroy et al. 2007). In equation 7, exit contemplation was used as a dependent variable and was predicted by growth in size, sales and profit as the

independent variables in this study. Further, the direct relationship between exit intention with the independent variables was investigated based on Baron and Kenny's (1986) suggestion to test the mediating variable (exit contemplation). The mediating variable was then entered in the blocks of independent variables in equation 9. This step was undertaken to investigate whether firm performance influences SME owners' intention to exit through a series of exit contemplations. Based on that reason, the empirical equations for PM3 are:

$$(7) Excont = \alpha_0 + \beta_1 Size_i + \beta_2 Sales_i + \beta_3 Profit_i + \varepsilon_0$$

$$(8) Exint = \alpha_1 + \beta_1 Size_i + \beta_2 Sales_i + \beta_3 Profit_i + \varepsilon_1$$

$$(9) Exint = \alpha_2 + \beta_1 Size_i + \beta_2 Sales_i + \beta_3 Profit_i + \beta_4 Excont_i + \varepsilon_2$$

The last partial model (PM4) investigates the relationship between psychological ownership of the SME owners and exit contemplation (equation 10). Psychological ownership is a multi-faceted concept that consists of psychological traits of an individual (Ikavalko et al. 2008). Hence, the psychological traits, such as control of the company, goal achievement and social status, are utilised to predict the influence they have on an SME owner's exit contemplation (equation 10). Further, SME owners' psychological ownership variables are also investigated to seek whether these variables have a direct relationship with the intention to exit. Finally, equation 12 examines whether psychological ownership variables influence SME owners' intention to exit through exit contemplation. Therefore, the empirical equations of PM4 are:

$$(10) Excont = \alpha_0 + \beta_1 ControlComp_i + \beta_2 GoalAch_i + \beta_3 SocStat_i + \varepsilon_0$$

$$(11) Exint = \alpha_1 + \beta_1 ControlComp_i + \beta_2 GoalAch_i + \beta_3 SocStat_i + \varepsilon_1$$

$$(12) Exint = \alpha_2 + \beta_1 ControlComp_i + \beta_2 GoalAch_i + \beta_3 SocStat_i + \beta_4 Excont_i + \varepsilon_2$$

4.9 Research Ethics

Ethics in business research refer to a code of conduct of behaviour while conducting research (Sekaran 2003). This conduct applies to the organisation that sponsored the research, the researcher and the respondents who provided the data (Sekaran & Bougie 2010). Such conduct is guided by the Principles of Human Research Ethics, which consists of: research merit and integrity, respect for human beings, beneficence and justice. The present research obtained approval from the Victoria University Human Research Ethics Committee. The conditions of approval included a guarantee of confidentiality, an outlined procedure for safeguarding the data and an emphasis on the voluntary nature of the responses to complete the questionnaires. During the data collection phase, all of the outlined ethics guidelines have been followed.

Maintaining confidentiality of the respondents was one important aspect of ethical conduct. The identity of the respondents was kept discrete during the research phase; no names of respondents were recorded. Further, in order to safeguard the data and ensure anonymity, access to the computer that contains the data is limited. Only the researchers are able to access the data stored in the computer. A covering letter was provided, which emphasised the word '*voluntary*' to explain that the participation of those respondents would occur on a voluntarily basis. Respondents were asked to participate in answering the questionnaire and to return it to the researcher voluntarily. They were also informed that they might withdraw anytime from the survey. In addition, the contact details of the researchers responsible for the study were provided in case of an ethical breach or any enquiries in relation to this study.

4.10 Summary

This chapter explained the research design and methods used to test the hypotheses in order to answer the research questions of the present study. The research design and methods discussed are: justification of the research method, the data, the population and the pilot test of the study; the survey methods and data editing

process; methods of data analysis; and the research ethics of the present study. In the next chapter, detailed empirical results of hypothesis testing based on the statistical analysis relevant to this study are provided. The detailed empirical results contains of descriptive analyses pertaining to this study of business exit contemplation and statistical analyses in the form of factor, reliability and bivariate analysis; and, multiple hierarchical regression approach as means of hypothesis testing of the current study.

CHAPTER 5 RESULT

5.1 Introduction

In Chapter 4, the detailed research methods, along with some justifications for the present study, were discussed. The purpose of this chapter is to present the empirical results from the questionnaire survey and analyse the data obtained. In the first two sections, the descriptive analysis consisting of the demographics and descriptive statistics of the constructs used in this study are described (see Section 5.1–5.2). The subsequent three sections cover the factor analysis, reliability of the research variables and bivariate correlation used in the present study respectively (see Section 5.3–5.5). The last section of this chapter reports the hypothesis testing relevant to the present study, utilising the statistical analysis as a means of determining the empirical results.

5.2 Descriptive Analysis

5.2.1 The Respondents

As previously highlighted in Chapter 4, the respondents in this research were SME owners in Indonesia. The data set used here comprises 310 usable responses from a total of 397 collected from participating respondents.

5.2.2 Demographic Characteristics

In a survey study, demographic variables such as age, gender, and individual attributes such as education and employment experience are important in outlining the characteristics of the population of the study. It has been demonstrated in entrepreneurial behaviour studies that demographic characteristics such as gender could explain behavioural outcomes in entrepreneurs. For instance, Mazzarol et al. (1999) found that males were generally more likely to be founders of new businesses as compared to females. Further, another study concluded that females have a significantly lower entrepreneurial intention when compared to males (Kolvereid 1996). Based on these studies, demographic characteristics can be seen as useful in

providing information that relates to the general characteristics of the population. For the purpose of this study, demographic characteristics of individual variables such as age, gender, education background, length of business operation, previous business owned, route of business ownership and family involvement in the business will be presented in the following sections.

5.2.2.1 Age Group

Table 5.1 indicates the age distribution of SME owners.

Table 5.1 Age group

Age	Frequency	Valid Per cent
21–30	25	8.1
31–40	95	30.6
41–50	133	42.9
51–60	46	14.8
> 60	11	3.5
Total	310	100.0

It can be seen in Table 5.1 that the largest percentage of respondents were in the 41–50 year old age group (42.9 per cent), the second largest percentage (30.6 per cent) consisted of SME owners age ranging between 31 and 40 years. SME owners aged between 51 and 60 years old totalled 46 respondents (14.8 per cent) and only 25 respondents were aged between 21 and 30 years old. The age group comprising the smallest percentage, with only 3.5 per cent (11 people), were those SME owners aged more than 60 years old. In summary, 73.5 per cent of respondents belonged to the 31–50 year old age group.

5.2.2.2 Gender

Table 5.2 illustrates the gender distribution of the SME owners that participated in this study.

Table 5.2 Gender

Gender	Frequency	Valid Per cent
Male	215	69.4
Female	95	30.6
Total	310	100.0

Based on these frequencies, most of the respondents were male (69.4 per cent), with only 30.6 per cent of participating SME owners being female. Taking the demographic details from Table 5.1 and Table 5.2 together, SME owners are more likely to be male and aged between 31 and 50 years old.

5.2.2.3 Education Background

Table 5.3 outlines the educational background of each of the respondents.

Table 5.3 Education background

Education	Frequency	Valid Per cent
Primary School	14	4.5
High School	91	29.4
Diploma	74	23.9
Undergraduate	116	37.4
Postgraduate	15	4.8
Total	310	100.0

The results in Table 5.3 revealed that many of the respondents had obtained an undergraduate degree qualification (37.4 per cent). SME owners who completed up to high school are the second largest group with 29.4 per cent. A further 74 respondents held a diploma qualification and 15 respondents had a postgraduate education background. Only 4.5 per cent of the total respondents gave primary school as their highest level of education. Based on this, most of the SME owners (66.1 per cent) hold some type of higher education qualification, thus representing a significant repository of human capital.

5.2.2.4 Length of Business Operation

Table 5.4 indicates the length of operation of the respondents' existing businesses.

Table 5.4 Length of business operation

LoB	Frequency	Valid Per cent
1-5 yrs	43	13.9
6-10 yrs	104	33.5
11-15 yrs	95	30.6
16-20 yrs	38	12.3
> 21 yrs	30	9.7
Total	310	100.0

The data indicates that most of the SME owners had operated their existing businesses for between 6 and 10 years (33.5 per cent) or 11 and 15 years (30.6 per cent). Only 68 respondents (22 per cent) had run their businesses for more than 16 years, and only 13.9 per cent of the respondents have been in business for less than six years. Based on these figures, 78 per cent of SME owners' businesses had been in operation for less than 16 years, while 22 per cent had been in operation for longer periods.

5.2.2.5 Previous Business Owned

Table 5.5 indicates the percentages of SME owners that had owned a previous business.

Table 5.5 Previous business owned

	Frequency	Valid Per cent
Yes	99	31.9
No	211	68.1
Total	310	100.0

From Table 5.5 it can be seen that most of the respondents indicated that they had not owned any business previously (68.1 per cent). However, 99 respondents (31.9 per cent) indicated that they had owned a business previously.

5.2.2.6 Route of Ownership

Table 5.6 indicates the route of business ownership of SME owners.

Table 5.6 Route of ownership

	Frequency	Valid Per cent
Founded	221	71.3
Inherited	78	25.2
Bought	11	3.5
Total	310	100.0

Based on the descriptive data from the above table, most of the respondents (71.3 per cent) indicated that they had founded their business. Seventy-eight respondents (25.2 per cent) had inherited their business, and only 3.5 per cent of the total respondents had bought their business.

5.2.2.7 Family Involvement in the Business

Table 5.7 outlines family involvement in the current businesses of the respondents.

Table 5.7 Family involvement

	Frequency	Valid Per cent
Yes	259	83.5
No	51	16.5
Total	310	100.0

The data indicates that most of the businesses (83.5 per cent) are family-owned; that is, that there is family involvement in the business. Only 51 respondents indicated no family involvement in their businesses.

5.2.2.8 Formal/Professional Training Undertaken

Table 5.8 details whether or not SME owners had undertaken any formal or professional training.

Table 5.8 Formal/professional training undertaken

	Frequency	Valid Per cent
Management	155	50.0

Technical	93	30.0
Both	27	8.7
None	35	11.3
Total	310	100.0

From Table 5.8 it can be seen that 50 per cent of respondents had undertaken professional managerial training. Another 30 per cent of the respondents had undertaken technical training. The smallest percentage, 8.7 per cent, represents those who had managerial and technical training. Thirty-five respondents had not undertaken any kind of formal training.

5.2.2.9 Motivation for Starting the Business

Table 5.9 outlines the motivations reported by SME owners when commencing their business.

Table 5.9 Motivations for starting the business

	Frequency	Valid Per cent
Necessity to make an income	143	46.1
Opportunity to earn an additional income	102	32.9
Increase wealth and sell for profit	65	21.0
Total	310	100.0

As highlighted in Table 5.9, the main motivation (46.1 per cent) for starting a business was the necessity to make an income. The second largest percentage (32.9 per cent) gave their motivation as the opportunity to earn an additional income. Only 65 respondents indicated that they were motivated by the idea of increasing their wealth and selling their business for a profit in the future.

5.2.2.10 Intended Exit Options

Table 5.10 outlines the exit options likely to be undertaken by SME owners upon deciding to exit their businesses.

Table 5.10 Intended exit options

	Frequency	Valid Per cent
Pass on to family members	243	78.4
Sell to others	67	21.6
Total	310	100.0

The data revealed that most of the respondents were planning to pass their business on to family members (78.4 per cent), with only 21.6 per cent of the respondents answering that they would sell their business as a means of exiting.

5.2.3 Descriptive Statistics

In this section, the descriptive statistics of the EO, psychological ownership, exit contemplation and exit intention items are presented.

5.2.3.1 Descriptive Statistics of EO Items

Table 5.11 presents the SME owners' perceptions relating to their EO. Respondents were asked to give their agreement on items related to the dimensions of EO using a seven-point Likert-type scale, ranging from 1 to 7 (very strongly disagree to very strongly agree). This measurement was used to obtain respondent's agreement or disagreement to a particular statement. Since few of the items in the present study were negatively worded, to minimise interpretation errors of the descriptive analysis, the items were reverse-worded to obtain a meaningful interpretation.

Table 5.11 Descriptive statistics of EO items

No	Items	N	Minimum	Maximum	Mean
1	My firm concentrates on the marketing of the current products rather than innovation and new products	310	1	7	3.48
2	In my firm, there have been no new products introduced in the last 3 years	310	1	7	3.34
3	In my firm, changes in products have mainly been of a minor nature	310	1	7	3.21
4	My firm typically responds to actions that competitors initiate rather than initiating an action	310	1	7	2.95
5	In dealing with the competition, my firm seeks to avoid competitive clashes with competitors	310	1	7	3.27
6	My firm is very seldom to introduce new products, services and operating technologies	310	1	7	4.39
7	In general, my firm has a strong preference for low-risk projects with normal and certain rates of return	310	1	7	3.68
8	Owing to the nature of the environment, my firm explores opportunities gradually rather than rapidly	310	1	7	3.51
9	My firm typically adopts a cautious posture rather than an aggressive posture to minimise the probability of making costly decisions	310	1	7	4.24

For the first item, respondents were asked to indicate their agreement on the statement, which inquires as to whether their business concentrates more on the marketing of current products as compared to innovation. Based on the mean scores ($\mu=3.48$), respondents indicated a neutral response to the statement '*my firm concentrates on the marketing of the current products rather than innovation and new products*' and hence, perceive themselves having moderate level of innovation in producing new products. Similar response was given following the second item to which respondents were asked to indicate their agreement on the statement, inquiring as to whether their business has introduced new products in the last three years. Following the statement '*there have been no new products in the last three years*' ($\mu=3.34$), respondents indicated a neutral response to the statement and perceive

themselves quite modest in terms of innovation in introducing new products to their customers. In the third item, respondents disagreed to the statement that '*only minor changes in products were introduced to the customer*' ($\mu=3.21$). To minimise the bias of interpreting the descriptive statistics, the responses were reversed with no purpose of changing the previous interpretation. Based on the reversed items, the respondents indicated that they were relatively innovative in terms of innovating new products ($\mu=4.52$), newly introduced products ($\mu=4.66$) and significant changes in new products ($\mu=5.01$). Thus, respondents in this study perceive themselves innovative in terms of maintaining the innovation and newness of their products to the customers as indicated by the mean score.

The degree to which an SME owner is proactive is another dimension in the EO concept. This involves initiative action of entrepreneurs in adapting to competitive external environments. Items 4, 5 and 6 measures proactiveness dimension. In item 4, the respondents showed disagreement ($\mu=2.95$) over the statement '*my firm typically responds to actions that competitors initiate rather than initiating an action*'. It is an indication of perceived initiative actions undertaken by the respondents rather than being reactive and following actions that is undertaken by their competitors. Furthermore, disagreement was also indicated by the respondents to the statement '*...my firm seeks to avoid competitive clashes with competitors*' ($\mu=3.27$). This is an indication that respondents perceive themselves quite valiant to compete with their competitors rather than avoiding the competition. Nonetheless, a '*neutral*' response was given in relation as to whether SME owners are very seldom or very often in introducing new products, services or technologies as a means of '*newness*' in their business. The statement '*my firm is very seldom to introduce new products, services and operating technologies*' indicated a neutral response as shown by the mean score ($\mu=4.39$). This indicates that respondents at times proactively introduce newness of products, services and operating technologies.

Based on the reversed items, the respondents indicated that they were reasonably 'proactive' in terms of initiating actions ($\mu=4.73$) and relatively confident in engaging in competition with competitors ($\mu=4.29$). On average, respondents reported occasionally introducing means of 'newness' into their businesses ($\mu=3.61$)

The state as to whether or not an SME owner is a risk taker is the third dimension in the EO concept. In responding to the statement '*my firm has a strong preference for low-risk projects with normal and certain rates of return*', the respondents showed a 'neutral' response ($\mu=3.68$). This could be an indication that SME owners perceives themselves uncertain regarding to the preference that they are willing to undertake; either to undertake low-risk projects with certain rates of return or vice versa. Similarly, the respondents indicated a 'neutral' response when confronted with the statement '*...my firm explores opportunities gradually rather than rapidly*' ($\mu=3.51$). This is an indication that respondents are uncertain as to whether or not they are risk takers in identifying opportunities. Moreover, the third item of risk taking dimension also provided similar response by the SME owners. A 'neutral' ($\mu=4.24$) response was given to the statement '*My firm typically adopts a cautious posture rather than an aggressive posture to minimise the probability of making costly decisions*'. This is an indication that respondents are uncertain as to how their business adopts type of risk taking actions; either being cautious or aggressive. Hence, in terms of perceived risk taking, SME owners in this study seem to be uncertain as to whether or not their business adopts risk-taking posture.

5.2.3.2 Descriptive Statistics of PO Items

Table 5.12 outlines respondents' perception regarding their psychological ownership. Respondents were asked to give their agreement on items related to the psychological ownership of their business. Again, a seven-point Likert-type scale ranging from 1 to 7 (very strongly disagree to very strongly agree) was used.

Table 5.12 Descriptive statistics of psychological ownership items

No	Items	N	Minimum	Maximum	Mean
1	Business success helps me fulfil other dreams in life	310	1	7	6.28
2	My family respects me because of the business I own	310	1	7	6.32
3	I have a great responsibility for future generations	310	1	7	6.10
4	The business has a psychological value to me	310	1	7	5.33
5	There are valuable things to pass on	310	1	7	5.25
6	Other people's interests in the success of the business	310	1	7	5.06
7	The business is my largest accomplishment so far	310	1	7	5.78
8	People know me because of the business I own	310	1	7	4.96
9	I could easily find myself a job outside my current business	310	1	7	3.18
10	My owner status is important	310	1	7	3.26
11	The business can easily be sold	310	1	7	4.83
12	No one else knows this business more than I do	310	1	7	5.42
13	Other people's influence in the business is small	310	1	7	4.08

The first two items (item 1, 2) are indicators whether the company is an instrument for achieving goals as a business owner. In the first item, the respondents were asked to indicate their agreement on the statement '*business success helps me fulfil other dreams in life*'. Based on the mean score as highlighted in Table 5.12, respondents in this study indicated a '*strong agreement*' ($\mu=6.28$) to the statement. In the second item, respondents were asked to indicate their agreement on the statement, which inquires whether family respect is one of the important triggers to achieve personal goals outside the business. The statement '*my family respects me because of the business I own*' indicated a '*strongly agree*' ($\mu=6.32$) response from the respondents. Thus, respondents perceive that business success and family respect are important determinants for them in engaging into entrepreneurial activity, and also, as an instrument for achieving personal goals outside their business.

While the previous items are indicator of business owners' goals achievement outside the company, the next three items (items 3, 4 and 5) in the PO concept are related to the owner's control to his or her company, which is triggered by ones responsibility to future generations and a longer perspective of time as mentioned in previous studies (Ikavalko et al. 2008; Pierce et al. 2001). Responding to the statement '*I have a great responsibility for future generations*' (item 3), the respondents indicated a '*strong agreement*' ($\mu=6.10$). In item 4, agreement were given by the respondents to the statement '*the business has a psychological value to me*' indicated by the mean score ($\mu=5.33$). Similar response was also obtained for item 5 to the statement '*there are valuable things to pass on*' ($\mu=5.25$). Based on the responses to these items, it indicates that business owners perceive their business valuable that it becomes their responsibility to ensure the continuation of the business that benefits future generations. Moreover, business owners' perceives their business important because there is valuable aspect of the business that may become a legacy for future generations.

The third sets of items in the PO concept is related to self-investment that has been provided by individuals to obtain social recognition outside the company (Pierce et al. 2003). In item 6, respondents were inquired to give their agreement to the statement '*other people are interested in the success of the business*'. Respondents indicated an '*agreement*' to the statement ($\mu=5.06$). Similarly, respondents '*strongly agree*' that their business was by far their largest accomplishment ($\mu=5.78$). In item 8, respondents '*agree*' to the statement '*people know me because of the business I own*' ($\mu=4.96$). The mean score indicates that business owners have made an effort to place psychological ties to their company in order to attain a higher social status outside the company.

Items 9, 10 and 11 investigate the respondents' perceived degree of personal freedom in the ownership of their businesses. Based on the descriptive statistics, respondents disagreed that they would easily be able to find a job outside their business ($\mu=3.18$). They also disagreed that their business owner status was important to them

($\mu = 3.26$). In item 11, the respondents indicated that they agreed that their business could easily be sold ($\mu = 4.83$).

In addition, the descriptive statistics revealed that the respondents agreed that no one else knew the business as well as they did ($\mu = 5.42$). The last item obtained a relatively neutral response in relation to whether respondents agreed with the statement that '*other people's influence in the business is small*'. This is shown by a moderate mean score of 4.08. Both items reflect the internal logic of the business operation, which influences the degree of an entrepreneur's intimate knowledge on his or her business (Ikavalko et al. 2008; Pierce et al. 2001).

5.2.3.3 Descriptive Statistics of Exit Contemplation Items

Table 5.13 presents the descriptive analysis of the respondents' exit contemplations. Respondents were asked to indicate the frequency of their contemplation to a particular question being asked using a seven-point Likert-type scale ranging from never to very frequent. Higher mean scores indicate higher levels of frequency to a particular phenomenon.

Table 5.13 Descriptive statistics of exit contemplation items

No	Items	N	Minimum	Maximum	Mean
1	Thought of selling	310	1	7	2.25
2	Being approached to sell	310	1	7	3.12
3	Approach selling	310	1	7	2.55
4	Thought of passing on the business	310	1	7	3.51
5	Thought of exiting in the first 3 years of operation	310	1	7	2.37
6	Thought of exiting in the last 3 years of operation	310	1	7	2.44

Based on the descriptive statistics, respondents indicated that they very seldom ($\mu = 2.25$) contemplated selling their business. Further, they were '*occasionally*' being approached by someone interested in taking over their business ($\mu = 3.12$) and infrequently approaching other individuals regarding selling their current business ($\mu = 2.55$). On the fourth item, the respondents' responses were averaged as '*seldom*'

when asked about their frequency of thinking about passing on the business, with a mean score of 3.51. In addition, the two last items (item 5 and 6) had a similar response, indicating '*infrequent*' contemplation to exiting in the first three years ($\mu=2.37$) of operation and in the last three years ($\mu=2.44$).

5.2.3.4 Descriptive Statistics of Exit Intention Items

Table 5.14 outlines the descriptive statistics of the exit intention construct, which is employed as a dependent variable in this study. The seven-point Likert-type scale (very low likelihood to very high likelihood) was used to measure the respondents' indication on their likelihood to intend an exit.

Table 5.14 Descriptive statistics of exit intention items

No	Items	N	Minimum	Maximum	Mean
1	Likelihood to exit based on contemplation	310	1	7	2.32
2	Likelihood to exit in the next 3 years	310	1	7	2.42
3	Likelihood to exit in the next 10 years	310	1	7	3.11

The data indicates that respondents have a low likelihood to exit their business based on the contemplations they have made ($\mu= 2.32$). Further, respondents also indicated a low likelihood of exiting in the next three years. The mean score of 2.42 showed this. On the third item, the response were '*fairly low*' ($\mu=3.11$) when the respondents were asked about their likelihood to exit the business in the next 10 years. Overall, the descriptive statistics suggests that there is a low intention among the respondents to exit their business, confirmed by a moderate mean score across the three items asked.

While the first analysis was to obtain general information from the data obtained via the descriptive analysis utilising frequency, mean and valid percentage; next step of the statistical analysis is needed to obtain new sets of information that is useful to provide variables that may influence the outcome of this study. Therefore, factor analysis is presented in the next section of this thesis.

5.3 Factor Analysis

The objective of factor analysis is to find means of compressing the information available in a number of original variables (factors) with the least loss of information. Factor analysis provides the researcher with an apparent understanding of which variables may act in concert and the number of variables expected to have an impact on the analysis (Hair et al. 2006).

5.3.1 Factor Analysis of EO Components

There were nine questionnaire items used in this study that were designed to measure elements of EO, including product innovation, proactiveness and risk-taking propensity (Covin & Slevin 1989; Covin & Wales 2011). The PCA revealed the presence of three components with Eigenvalues above 1. The three components solution explained a total of 77.96 per cent of the variance in the observed values. Based on the recommendation of Hair et al. (2006) that variables with higher loadings influence the name or label selected to represent a factor, the first factor was labelled as proactiveness. This factor accounted for 53.18 per cent of the variance in the observed values. Factor two, innovativeness, accounted for 12.56 per cent; and factor three, risk taking, accounted for 12.21 per cent of the variance in the observed value. Further, the rotation method was applied to simplify the factor structure and achieve theoretically more meaningful factor solutions (Hair et al. 2006). Hence, the varimax rotation method was used to maximise the sum of variances of required loadings in the matrix. According to Hair et al. (2006), there is no absolute threshold adopted for all applications where component analysis for each variable contributes a value of 1 to the total Eigenvalues. Thus, only factors having latent roots or Eigenvalues greater than 1 were considered significant and used in this study. Further, other indications of the factorability were considered appropriate with the Kaiser-Meyer-Olkin (KMO) MSA greater than 0.60 as suggested by (Kaiser, 1976 cited in Hair et al. 2006). Bartlett's tests of sphericity indicated a significant level of $p\text{-value} < 0.001$.

Table 5.15 Total variance of EO components

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.787	53.186	53.186	2.640	29.331	29.331
2	1.131	12.563	65.749	2.277	25.296	54.627
3	1.099	12.215	77.963	2.100	23.336	77.963

Table 5.16 KMO and Bartlett's Tests of Sphericity of EO components

Kaiser-Meyer-Olkin MSA		.792
Bartlett's Test of Sphericity	Approx. Chi-Square	1828.999
	Df	36
	Sig.	.000

5.3.2 Factor Analysis of Psychological Ownership Components

A similar approach was followed for the psychological ownership items. The 13 items of the psychological ownership construct were modified and simplified in the context of this study to comprise four dimensions; namely, control of the business, goals achievement, social status and knowledge of the business (Ikavalko et al. 2008). These were subjected to principal component analysis. Principal component analysis revealed the presence of four components with Eigenvalues greater than 1. The four factors solution explained 62.71 per cent of the variance. Based on Hair et al.'s (2006) suggestion, variables with higher loadings influence the name or label selected to represent a factor. Items loaded on factor one, control of the company, accounted for 28.44 per cent of the variance in the observed values. Factor two, labelled as goal achievement, accounted for 15.42 per cent of the variance; and, factor three, social status, accounted for 10.47 per cent of the total variance. The fourth factor—knowledge of the business—accounted for 8.42 per cent of the total variance in the observed values. Again, the varimax rotation method was used to maximise the sum of variance of required loadings and therefore provide a more meaningful factor solution (Hair et al. 2006). Further, the results of KMO and Bartlett's tests indicate a sufficient factorability of 0.75 and a significant level of $p\text{-value} < 0.001$.

Table 5.17 Total variance of psychological ownership components

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.698	28.443	28.443	3.034	23.335	23.335
2	2.005	15.421	43.864	2.328	17.911	41.246
3	1.357	10.436	54.299	1.482	11.402	52.648
4	1.094	8.418	62.717	1.309	10.069	62.717

Table 5.18 KMO and Bartlett's test for psychological ownership components

Kaiser-Meyer-Olkin MSA		.749
Bartlett's Test of Sphericity	Approx. Chi-Square	1167.658
	Df	78
	Sig.	.000

5.3.3 Factor Analysis of Exit Contemplation Components

The variables indicating exit contemplation were measured by using 6 items in the questionnaire survey asking the respondents about their frequencies in contemplating exiting their businesses on a seven-point scale, ranging from 1= never to 7= very frequent. Based on the principal component analysis, one factor was extracted with an Eigenvalues of 3.135 and explained 52.24 per cent of the total variance in the observation. This factor was labelled as exit contemplation. The rotation factor solution was not needed because the principal solution only provided single factor extraction. The factorability of the variable was ascertained by inspecting the KMO, which was 0.783, and the Bartlett's test of sphericity reached statistical significance, with a p-value<0.001, supporting the factorability of the correlation matrix component analysis.

Table 5.19 Total variance of exit contemplation

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.135	52.243	52.243	3.135	52.243	52.243

Table 5.20 KMO and Bartlett's test for exit contemplation component

Kaiser-Meyer-Olkin MSA.				.783
Bartlett's Test of Sphericity	Approx. Chi-Square		659.147	
	Df		15	
	Sig.			.000

5.3.4 Factor Analysis of Exit Intention Components

The variables indicating exit contemplation were measured by using 3 items in the questionnaire survey asking the respondents about their likelihood of intent to exiting their businesses on a seven-point scale, ranging from 1= very low likelihood to 7= very high likelihood. The factorability of the variable was inspected by the KMO approach, which was 0.608, and the Bartlett's test of sphericity reached statistical significance of $p\text{-value} < 0.001$, supporting the factorability of the correlation matrix. Further, only one factor with an Eigenvalue of 2.364 was extracted from the principal component analysis. This factor accounted for 78.79 per cent of the total variance and was labelled as exit intention. Thus, no rotation method was applied due to the single factor extraction produced. This factor was later used as the ultimate dependent variable for this study and was subjected to further analysis.

Table 5.21 Total variance of exit intention component

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.364	78.795	78.795	2.364	78.795	78.795

Table 5.22 KMO and Bartlett's test for exit intention component

Kaiser-Meyer-Olkin MSA.			.608
Bartlett's Test of Sphericity	Approx. Chi-Square		1058.767
	df		3
	Sig.		.000

5.4 Reliability Analysis

There are several different reliability coefficients that can be used in quantitative studies (Coakes & Ong 2011). There is considerable debate about which of the

reliability indicators is the most appropriate to use (Baron & Kenny 1986) Cronbach's alpha is one of the most commonly used in reliability analysis (Hair et al. 2006). (Hair et al. 2006) suggest that the rule of thumb for a good reliability estimate is 0.7 or higher. A reliability estimate between 0.6 and 0.7 may be acceptable if other indicators of model construct validity are good. Further, according to Hair et al. (2006), high construct reliability values indicate the existence of internal consistency. This means that the measures all consistently represent the same latent construct. Table 5.23 demonstrates the analytical results for the reliability analysis of each of the constructs.

Table 5.23 Cronbach's alpha (α) reliability coefficient

Constructs	The number of items	Cronbach's alpha(α)
Proactiveness	3	0.72
Innovativeness	3	0.78
Risk taking	3	0.74
Control of the company	3	0.69
Goal achievement	2	0.61
Social status	3	0.57
Knowledge of the business	2	0.41
Exit contemplation	6	0.81
Exit intention	3	0.84

Based on the reliability test, two of the reliability coefficients are higher than 0.8, while the reliability of two constructs is below 0.6. However, following one of the criteria by Nunally (1978), who considers that the Cronbach alpha (α) value of higher than 0.5 is still acceptable, one of the lower scoring constructs (that is, social status) can still be included for further analysis. This approach had been taken in a previous study of entrepreneurship (Kristiansen & Indarti 2004). However, the construct reliability of knowledge of the business was considered unreliable for further analysis, and was therefore excluded. Those constructs with Cronbach alpha (α) values ranging between 0.5 and 0.7 were considered acceptable for use in further analysis.

5.5 Bivariate Analysis

Bivariate correlation analysis was conducted to examine the relationship among independent and dependent variables in this study. According to Tabachnick and Fidell (2007), correlation is used to measure the association between variables. The Pearson's correlation coefficient (r) is the most frequently used measure of association and the basis of many multivariate calculations. The correlation analysis is provided to specify the significance of the association between each of the variables in the present study, and the correlations among all study variables are presented in the correlation matrix (see Table 5.24).

5.5.1 Correlation Matrix of the Research Variables

The bivariate correlation analysis examines the relationship between the independent and dependent variables used in this study. All the possible correlations between the research variables were measured. Based on the correlation matrix (see Table 5.24), the analysis suggests that there are significant relationships between human capital variables; namely, age, education, length of business (LoB) and professional training with exit contemplation (Excont). Significant correlations were also identified in examining the relationship between human capital variables with exit intention (Exint). Most of the independent variables were positively associated with exit contemplation and exit intention, except for one variable: age ($r=-0.028$; $r=-0.013$, $p\text{-value}>0.1$).

The association between EO variables with exit contemplation and exit intention were also measured. The association between EO and exit contemplation provides the correlation coefficients of $r=0.125$ (proactiveness), $r=0.363$ (innovativeness) and $r=0.035$ (risk taking), respectively. All of the correlation coefficients show positive signs. However, risk taking was not statistically significant. Further, the association between EOs and exit intention was investigated with the same approach. The associations between these variables produce correlation coefficients of $r=0.089$ (proactiveness), $r=0.306$ (innovativeness) and $r=0.111$ (risk taking). The results show that all of the correlation coefficients showed a positive association, indicating

a positive association between these three variables with exit intention. However, proactiveness was not statistically significant ($r=0.089$; $p\text{-value}>0.1$)

The correlation between firm performance variables, such as growth in size, sales and profit, showed only three significant relationships with both exit contemplation and exit intention. Although only three significant correlations were found, all of the correlations between the research variables showed positive signs ($r=0.110$; $r=0.116$; $r=0.113$, $p\text{-value}<0.1$). Moreover, the correlation analysis examined the relationship between the psychological ownership variables (control of the company, goal achievement and social status) with exit contemplation and exit intention. The correlation coefficient showed that control of the company ($r=-0.095$) and goal achievement ($r=-0.016$) were negatively associated with exit contemplation. Further, goal achievement was not statistically significant. Based on the objectives of this study, there were 26 possible correlations between human capital, EO, firm performance and psychological ownership variables with exit contemplation and exit intention. Based on the correlation matrix, 16 relationships among the research variables were found to be statistically significant. Nine research variables for this study had significant association with exit contemplation, while a further seven variables were significantly associated with exit intention.

While the bivariate correlation was intended to examine the associations among the research variables of the present study, it could not provide appropriate justification of the relationships between the independent, dependent and mediating variables of this study because the correlation coefficient does not distinguish different types of variables and treats the variables symmetrical (Cooper & Schindler 2006). Thus, more appropriate statistical analysis is needed to examine the relationships between independent, mediating and dependent variables in one equation. In the next section (see Section 5.6), hierarchical regression analysis is used to test the hypotheses of the present study. The regression statistical method provides a more robust prediction compared to the bivariate correlation method because it determines the total effect of the independent variables on the dependent variable.